ATCHISON
CONSULTANTS

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Institutional Real Estate Portfolios

Assessing global dimensions of real estate investments

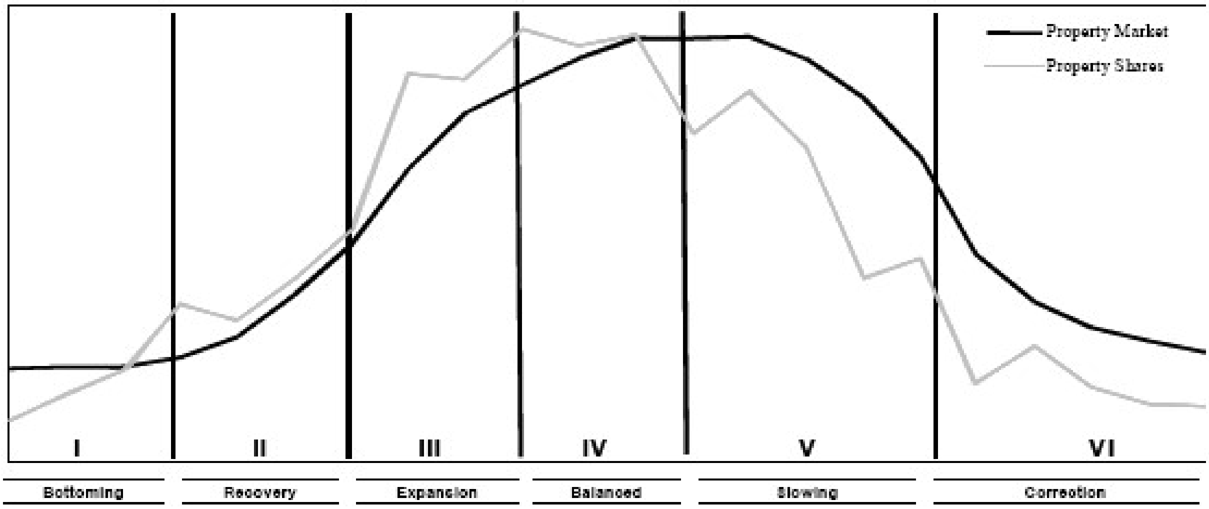
In construction of a global property portfolio, there are multiple dimensions that require assessment. These include the extent of international versus domestic investment, real estate types, geographic profile, real estate sectors and risk profile. Management is required of these five dimensions.

1. Management

Management of the multiple dimensions of real global portfolios requires extensive information, knowledge, analysis and local knowledge. A management structure which embraces all factors is required.

Chart 1 below illustrates various stages in life cycle of property markets around the world.

Chart 1 - Global Cycle Chart



Source: Morgan Stanley Investment Management

Determination of the status of the cycles by region, country, sectors and spectrum of opportunities requires constant research and analysis and management skills.

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2. Extent of international versus domestic investment

Distinction between domestic and overseas investments has long been recognised in equities and fixed interest. This distinction has more recently been recognised in property.

Many investors have invested solely in domestic property. This domestic focus is common in many countries. Nonetheless, interest in overseas property investment has risen as investors becoming more aware of the benefits of inclusion of global property in portfolios. Distinctive investment characteristics of property include relatively high, stable income which is subject to less influence by events outside the local economy than in other asset classes. When replicated in the global environment, these attributes are additional incentives for investors.

2.2 Diversification benefits

Through investment in global property, investors enhance diversification benefits as individual countries follow different economic cycles or are at different stages of similar cycles. Since real estate cycles do not evolve in tandem across the globe, investing on a global basis expands the investment scope from purely domestic to include international markets. While this applies for equities and fixed interest, it is even stronger for property.

Increased diversification can be achieved through incorporating international exposure within a real estate allocation for the following reasons:

- Real estate, by its very physical nature, is more dependent on local conditions and is less subject to influence by events outside the local economy than other asset classes. Real estate supply and tenant demand characteristics within each market is driven by local market fundamentals.
- Integration of overseas property markets through cross border capital flows is still marginal compared with overseas equity and fixed interest so that greater opportunities for added value are offered.
- A broader range of real estate investments are available. Composition of domestic real estate markets vary by sectors. Opportunities for exposure to residential, healthcare, hotels and tourism are available.

3. Real estate types

Global listed property has gained wide acceptance as an asset class. Diversification benefits resulting from the geographic spread of assets and the low correlation of returns with returns from other major asset classes have fuelled a shift towards a separate and distinct global listed property allocation.

Global direct property is still developing. There are a significant number of investment management issues which include size, taxation, legal structures, governance and management capability.

Property requires intensive management. Local management is needed as it is not efficient or effective to operate from a global centre. More importantly, it requires political attention as countries change the rules for investment including controls on capital flows. In many countries there are restrictions on ownership of property by foreigners. While this applies, joint ventures may be permitted, but this may require local management which would control a joint venture.

Market value of global property is estimated at $US30.3 trillion. Value by region is shown in Table 1.

Table 1 – Global Property Value

	$US trillion	%
North America	9.6	31.6
Latin America	1.2	3.9
EMEA	10.1	33.5
APAC	9.4	31.0

Source: Statista 2021

4. Geography

Investment universe

Part of investment process is the examination of universe of prospective investable countries. The investment universe can be determined through a range of filters.

Analysis of property requires transparency. JLL Global Real Estate Transparency Index is compiled from a transparency survey that assesses key attributes of real estate transparency - legal factors, regulatory burden, availability of market fundamentals, listed vehicle financial disclosure and governance and availability of investment performance indexes.

Within countries a key determinate of property returns are the immediate or imminent rental yields available. These differ widely across countries.

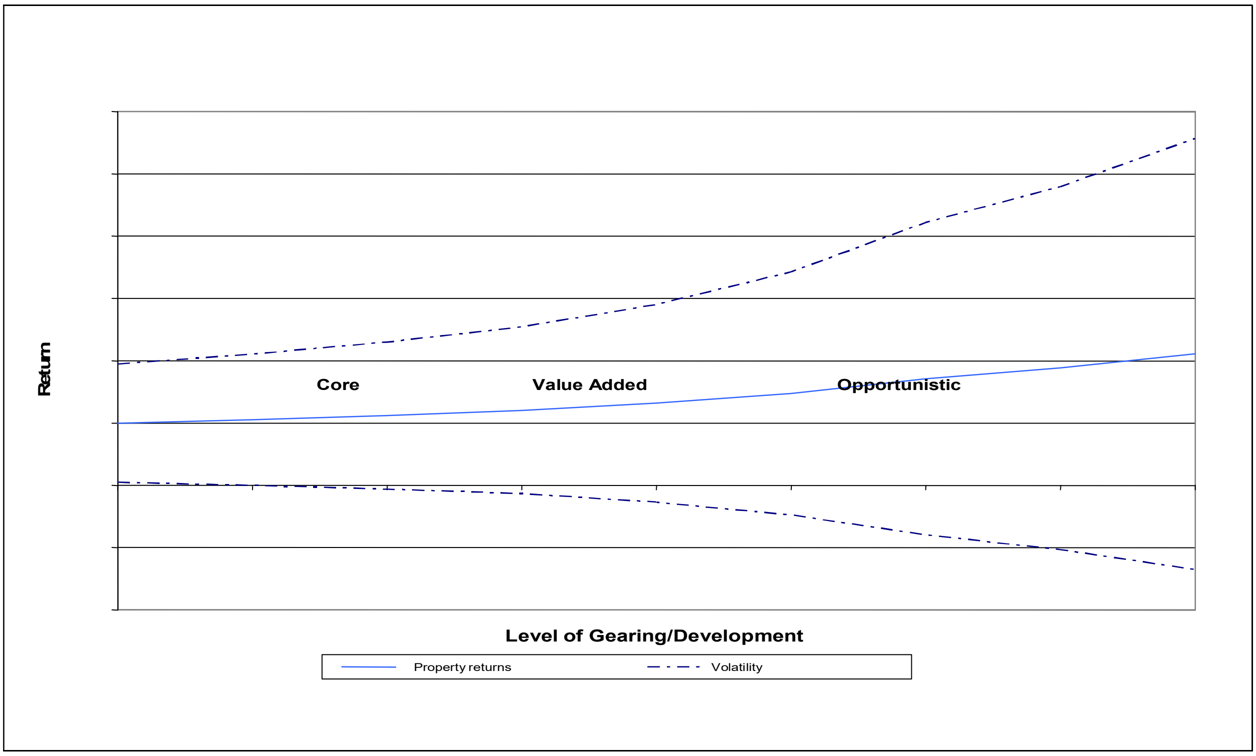
5. Real estate sectors

The major real estate investment sectors are commercial office, industrial, retail and residential. Other sectors include healthcare, self-storage, parking. senior living, hotels and leisure. Country economic factors impacting demand and supply within a local property cycle will determine the relative attractions of real estate sectors.

6. Risk Profile

Chart 2 illustrates the spectrum of the property investment range including the target returns and volatility of returns. Return targets increase across the spectrum as compensation for the higher risk. Implicit volatility indicates the range of outcomes which might occur and an indication of the prospect of loss of value.

Chart 2 - Risk Profile



Source: Atchison Consultants

Gearing and development magnify returns but will also significantly increase variability of returns.