



Top Real Estate Fund Managers go Global

By Fraser Hughes & Jorrit Arissen, EPRA

Introduction

The appetite for Global Real Estate is not a new phenomenon. Let's face it; the first global fund was introduced in 1989. However, the real growth in the number and size of global funds has occurred in the last couple of years. The aim of this article is to provide a broad picture of the global funds available, their managers and the size of assets under management and the focus/strategy of the funds. Bloomberg ticker codes are highlighted to allow further analysis. The article takes into account open-ended mutual funds investing in stock exchange quoted real estate securities listed around the world. It is important to note, that the list does not include total assets under management of each of the asset managers.

Global funds available

Figure 1 highlights the number of funds launched over a selection of periods. At the end of the last decade only nine global funds existed; by the end of 2003, this number had more than doubled to 19. In 2004 the total number doubled again to 40. So far, in 2005, momentum has continued: as at November, the total number has extended a further 18, making a current total of 58. In addition, we are aware of a number of funds to come to the market in the near future.

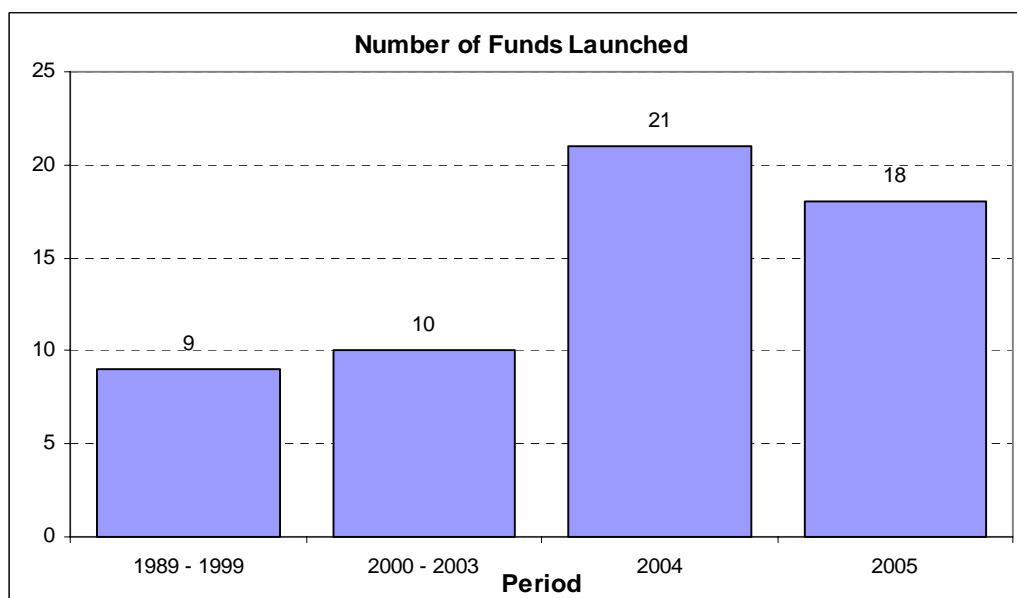


Figure 1: Number of fund launched by period
Source: EPRA

The Grandfather of the global real estate fund family is the Alpine International Real Estate Equity Fund (introduced in February 1989). Sam Lieber, manager of the Alpine fund explains: "In pioneering the REIT investment effort at my previous firm, the Evergreen Funds, I found that with only \$250 million in real estate equities (second at the time only to Fidelity) we were pushing prices due to the limited liquidity of the REIT market in 1987. As a result, we began to study international opportunities for both yield and appreciation. We learned that many of the world's most dynamic public real estate companies were abroad, so we started the Evergreen Global Real Estate Equity Fund in 1989¹". Following the pioneering Alpine fund, six years passed before further global funds were listed. In 1995, Netherlands based OHRA and ABN AMRO launched global funds.

¹ The Evergreen Global Real Estate Equity Fund was renamed Alpine International Real Estate Equity Fund in 1998.



Figure 2 shows the list of global funds currently offered to investors². Taking a snapshot as at the end of September 2005, 58 funds had total AUM close to \$14 billion with the top five funds already contributing half of this. The average AUM per fund is \$245 million. Using the average as a hurdle rate, 44 Funds have AUM that fall short of \$245 million, conversely, the top 14 funds jump over the average, illustrating there is a heavy weighting at the top end. At the top, three funds have AUM of over \$1 billion and more than half of the funds, 33 to be exact, have AUM of less than \$100 million.

Fund Name	Bloomberg Ticker	AUM (USD)		Inception Date	Focus	% Asia	% Europe	% North America	Fund Manager
		2005	Listed						
ING Clarion Global Real Estate Income Fund	IGR US	\$2,701	US	18-Feb-04	Global	12.9%	16.6%	70.5%	T Ritson Ferguson
Nikko AMP Global REIT Fund	02311041 JP	\$1,263	Japan	27-Jan-04	Global REITs	44.0%	9.0%	47.0%	-NA-
ABN AMRO Global Properties Securities Fund	AAPFGL NA	\$1,253	Netherlands	29-Sep-95	Global	-NA-	-NA-	-NA-	Nancy Holland
Sumitomo Mitsui Global REIT	79311041 JP	\$874	Japan	30-Jan-04	Global REITs	43.9%	11.9%	44.3%	-NA-
AMP Capital Investors - Global Property Securities Fund	AMPWGPS AU	\$808	Australia	30-Sep-02	Global	17.0%	27.0%	52.0%	Brett Ward
DLIB DIAM World REIT Income Open	47311044 JP	\$768	Japan	23-Apr-04	GI ex Japan	27.4%	16.1%	52.8%	-NA-
Nomura Global REIT Fund	01312052 JP	\$738	Japan	21-Feb-05	Global REITs	29.0%	6.3%	56.0%	-NA-
Kokusai World REIT Fund	11311047 JP	\$630	Japan	2-Jul-04	Global REITs	35.5%	15.5%	45.9%	-NA-
ABN AMRO High Income Property Fund	AAHIP NA	\$518	Netherlands	27-May-02	Global	-NA-	-NA-	-NA-	Nancy Holland
Cohen & Steers Worldwide Realty Income Fund	RWF US	\$456	US	31-Mar-05	Global	30.0%	27.0%	43.0%	Martin Cohen
Primerica Worldwide Investors - WIP Global Real Estate Sec Fund	WIPGREA LX	\$428	Luxembourg	31-Jan-05	Global	33.4%	16.3%	50.3%	Marc Lieber
Alpine International Real Estate Equity Fund	EGLRX US	\$353	US	1-Feb-89	Global	31.2%	46.4%	21.3%	Sam Lieber
Nippon Global REIT Selection	09311051 JP	\$265	Japan	27-Jan-05	Global REITs	45.4%	11.6%	43.0%	DB RREEF Team
Nikko Lasalle Global REIT Fund	02313043 JP	\$254	Japan	26-Mar-04	Global REITs	15.0%	11.3%	73.7%	-NA-
EII Global Property Fund	GLBPRO ID	\$180	Ireland	31-Dec-98	GI ex US	40.0%	60.0%	0.0%	James Rehlaender
ING Global Real Estate Fund	I180 US	\$180	US	5-Nov-01	Global	29.9%	21.0%	49.1%	Steven Burton
Fidelity International Real Estate Fund	FIREX US	\$172	US	8-Sep-04	GI ex Nth America	60.0%	40.0%	0.0%	Steven Buller
Cohen & Steers International Realty Fund	IRFAX US	\$157	US	31-Mar-05	Global	47.0%	41.0%	12.0%	Martin Cohen
Fubon Global REIT Fund	FUBREIT TT	\$141	Taiwan	25-Apr-05	Global REITs	-NA-	-NA-	-NA-	-NA-
Robeco Group - CGF Property Equities	RCCGPEP BB	\$133	Luxembourg	22-Apr-98	Global	-NA-	-NA-	-NA-	Bas Eestermans
KBC Privileged Portfolio - Real Estate	KPR9023 LX	\$133	Belgium	20-Dec-01	Global	10.0%	70.0%	20.0%	Yves Dalemans
AMP Capital Investors NZ Global Property Securities Fund	-NA-	\$123	New Zealand	20-Sep-04	Global	-NA-	-NA-	-NA-	Brett Ward
Sarasin Real Estate Equity (EUR) - A/B	SARREEA LX	\$110	Luxembourg	6-Dec-04	Global	36.1%	26.5%	37.4%	Simon Rivett-Carnac
F&C Global Real Estate Securities	FOCGLRE LX	\$102	Luxembourg	25-Nov-02	Global	15.0%	30.0%	55.0%	D Molenaar, B van Loen
KBC Select Immo - World Plus	KBS2677 BB	\$96	Belgium	13-Mar-98	Global	32.0%	20.0%	48.0%	Yves Dalemans
OHRA Onroerend Goed Fonds	OHOG NA	\$91	Netherlands	2-Jan-95	Global	34.8%	28.2%	37.0%	Grazia Mariani
Postbank Vastgoed Fonds	POSTVRE NA	\$84	Netherlands	13-Jul-98	Global	30.0%	20.0%	50.0%	Michael Lipsch
Sarasin CI Global Property Fund	SARPRYA GU	\$83	Guernsey	3-Dec-04	Global	35.1%	33.7%	30.9%	Simon Rivett-Carnac
Henderson Horizon - Global Property Equities Fund	HHGPEA1 LX	\$81	Luxembourg	3-Jan-05	Global	25.0%	29.0%	45.0%	Patrick Sumner
Nomura Japan US REIT Fund	01311044 JP	\$74	Japan	30-Apr-04	US & Japan	28.5%	0.0%	65.8%	-NA-
ING Onroerend Goed Aandelen Fonds	NMRE NA	\$71	Netherlands	1-May-98	Global	30.0%	20.0%	50.0%	Michael Lipsch
EII International Property Fund	EIIPX US	\$63	US	1-Jul-04	GI ex US	40.0%	60.0%	0.0%	James Rehlaender
AIM Global Real Estate Fund	AGREX US	\$57	US	29-Apr-05	Global	28.9%	14.5%	50.4%	Joseph Rodriguez Jr
DB RREEF Global Real Estate Securities	DBGLES LX	\$49	Luxembourg	26-Aug-05	Global	28.2%	24.3%	47.5%	DB RREEF Team
DBS Global Property Securities Fund	DBSGLP SP	\$49	Singapore	11-Apr-05	Global	43.3%	14.9%	36.6%	-NA-
CFST Global Property Securities	CFSGPS AU	\$39	Australia	12-Oct-04	Global	27.6%	17.3%	55.1%	Stephen Hayes
First State Global Growth Funds - Global Property Investments	FSIGPRI SP	\$37	Singapore	1-Apr-05	Global	16.3%	19.7%	55.4%	Stephen Hayes
Henderson Global Property Equities Fund	HENPRPE SP	\$36	Singapore	1-Mar-05	Global	-NA-	-NA-	-NA-	Patrick Sumner
Celeres Global REIT	-NA-	\$35	Finland	7-Feb-05	Global	20.0%	30.0%	50.0%	Aki Kostander
United Global Real Estate Securities Fund	UOBUGRS SP	\$32	Singapore	3-May-05	Global	24.9%	12.2%	45.1%	-NA-
Robeco Hoog Dividend Onroerend Goed NV	RBHOG NA	\$30	Netherlands	12-Oct-04	Global	-NA-	-NA-	-NA-	Bas Eestermans
Nikko World REIT Fund	02311045 JP	\$25	Japan	11-May-04	Global REITs	15.0%	11.3%	73.7%	-NA-
Euromobiliare Real Estate Equity Fund	EURREQ IM	\$24	Italy	5-Jun-00	Global	32.7%	36.7%	30.6%	Alberto Segafredo
Marriott Global Real Estate Fund	MARGRES SJ	\$21	South Africa	1-Oct-00	Global	3.7%	25.5%	60.5%	Russell Colliester
STANLIB International Property Fund	STINPRA SJ	\$20	South Africa	24-Dec-04	Global	22.9%	17.1%	51.2%	Paul Hansen
Marriott International Real Estate Fund	MARINRE SJ	\$16	South Africa	2-Jan-01	Global	4.6%	29.6%	65.8%	Russell Colliester
Fidelity Global Properties Securities Fund	-NA-	\$16	Australia	5-Sep-05	GI ex Australia	20.0%	21.0%	59.0%	Steven Buller
Nikko ING Global Income REIT Fund	02311046 JP	\$16	Japan	30-Jun-04	Global REITs	17.8%	13.1%	69.1%	-NA-
Mackenzie Universal World Real Estate Capital Class	MUWRECL CN	\$14	Canada	26-Oct-00	Global	10.6%	37.4%	43.1%	Nancy Holland
APN International Property for Income Fund	-NA-	\$13	Australia	28-Jun-04	Global	19.0%	36.0%	45.0%	Michael Doble
FIM Real Estate Fund	FIMREST FH	\$10	Finland	30-May-05	Global	45.0%	20.0%	35.0%	Juhana Virkkunen
ABN AMRO High Income Global Property Security Fund	ABNHGIP AU	\$10	Australia	31-Jan-05	Global	-NA-	-NA-	-NA-	Nancy Holland
AGF Global Real Estate Equity Class	AGFGREEQ CN	\$9	Canada	5-Jun-98	Global	11.9%	36.7%	36.6%	Steve Way
Nikko Global REIT Portfolio	02314054 JP	\$9	Japan	22-Apr-05	Global REITs	42.9%	9.1%	47.9%	-NA-
Deutsche Global ex Australia Property Securities Fund	DEUGAP AU	\$9	Australia	18-Oct-04	GI ex Australia	7.9%	28.7%	63.4%	DB RREEF Team
Deutsche Global Property Securities Fund	DEUGLPS AU	\$5	Australia	18-Oct-04	Global	18.0%	25.6%	56.5%	DB RREEF Team
Aegon Wereldwijd Vastgoed Fonds	AEGVAIN NA	\$2	Netherlands	28-Aug-01	Global	23.0%	37.0%	40.0%	Mr Eggens
IXIS AEW Global Real Estate Securities	-NA-	\$0	Luxembourg	2-Jan-06	Global	18.0%	22.0%	60.0%	Matthew Troxell
Schroders/European Investors ISF Global Property Securities	SCHGPEA LX	\$0	Luxembourg	31-Oct-05	Global	30.0%	30.0%	40.0%	James Rehlaender
Total		\$13,963				27.5%	25.1%	45.4%	

Figure 2: Global funds available ranked by Assets under Management
Source: EPRA/Company Reports/Bloomberg/Morning Star

Of all funds, 11 are domiciled in Japan illustrating the enormous demand from Japanese investors seeking premiums over the bond rate. Luxembourg (8) is a popular country to domicile a fund for tax reasons. Other countries where funds are registered are United States (8), Australia (7), Netherlands (7), Singapore (4), South Africa (3), Belgium (2), Canada (2), Finland (2), Guernsey (1), Ireland (1), Italy (1), New Zealand (1) and Taiwan (1).

The Japanese market

The first fund to hit the Japanese market was the Nikko AMP Global REIT Fund which listed 27 January 2004, closely followed by the Sumitomo Mitsui Global REIT Fund three days later. Nikko is the lead manager of the Nikko AMP Global REIT fund with AMP advising Nikko. AMP leans on the expertise of Henderson Global Investors and KG Redding & Associates for the European and North American part of the portfolio. Nikko

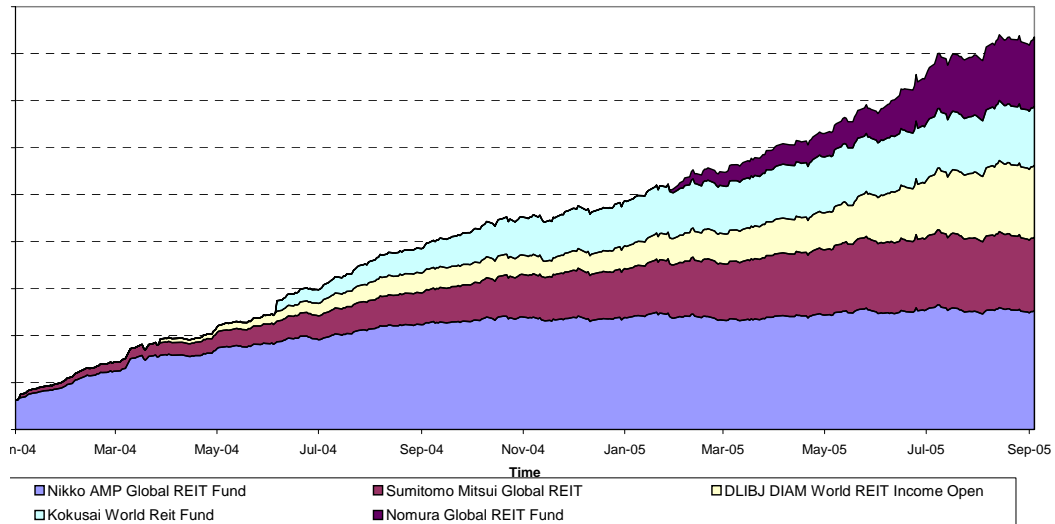
² Based on searches on Bloomberg, Morningstar and company information. There is a possibility that other global funds exist, but as yet, have not hit our radar. We recognise that this list is not all-embracing.



Cordial Securities is the distributor of the fund. This kind of structure is typical for all Japanese funds.

Figure 3 shows the development of AUM for the five largest global funds domiciled in Japan. It is evident that demand in Japan is enormous. Note the time span displayed is only 20 months! In this short period, AUM has grown rapidly from \$314 million in January 2004 to \$4.2 billion at the end of September 2005. Growth is mainly driven by retail

AUM Development - Top 5 Global Funds listed in Japan



investors.

Figure 3: Development of AUM for top five funds domiciled in Japan
Source: EPRA

According to Patrick Sumner at Henderson Global Investors, the main driver for the tremendous interest from Japan is yield. "The 10 year bond yield in Japan is less than 1.5%. Putting your cash on deposit gives you next to nothing. The net yield from a global property securities fund is between 3.5 and 4 percent, with growth. With a rapidly ageing population, no wonder there is a huge demand for property securities in Japan!" Sumner continues: "It took a long time for the Japanese Ministry of Finance to approve global REIT funds, because they needed to have detailed information on every type of vehicle. I think we (Henderson GI) were working on the project for three years before the fund got off the ground."

Fund strategies

Of all funds analysed, 88% focus on Global Real Estate Securities, or Global REITs. The other 12% of the funds exclude specific regions, or countries (see Figure 4a). The rationale for excluding the domestic real estate market of investors is related to the diversification benefits of investing globally. Investors are typically biased to their home country. To fully gain from the diversification benefits of investing globally, investors do not need any additional exposure to their home country since they are already weighted in this market.

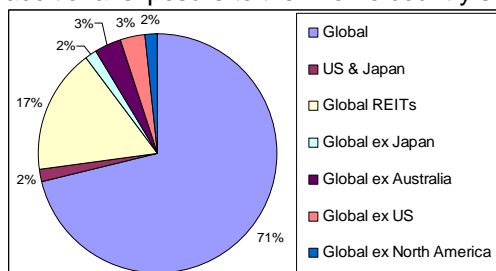


Figure 4a: Global funds by strategy (percentage of fund)
Source: EPRA

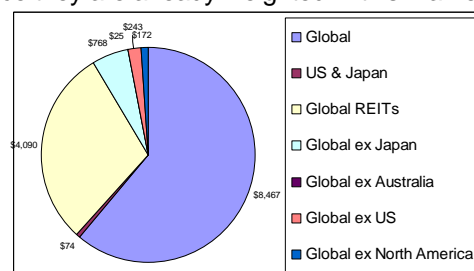


Figure 4b: Global funds by strategy (AUM)



Another rationale relates to the products Fund Managers currently offer. For example, American parties might see a too big overlap with current US-focused products they offer. By offering a Global ex North America fund, customers can easily replicate the global index and weight up or down North America in accordance with what they believe as being appropriate.

Regional allocations

Due to the characteristics of the local market, countries tend to be in different phases of the property cycle. To optimally benefit from the opportunities this offers, fund managers weight up or down countries that they expect to over- or underperform in the future. Figure 5 puts this into perspective and shows the average allocation of funds with a broad-based global strategy (71% of the funds) versus the FTSE EPRA/NAREIT Global Real Estate Index. Those funds with a Global “ex” and a REIT strategy are excluded from Figure 5 as not to distort the broad global results.

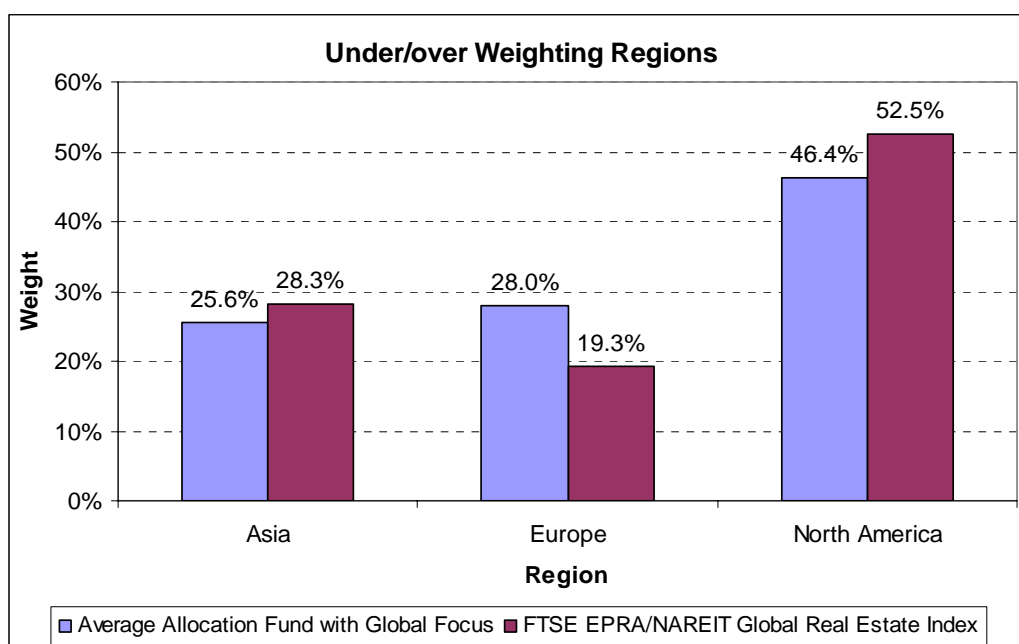


Figure 5: Average regional allocation of Global Funds versus the FTSE EPRA/NAREIT Global Real Estate Index

Source: EPRA

Funds have an average allocation to Europe of 28 percent in contrast to the weight of 19.3 percent for Europe in the FTSE EPRA/NAREIT Global Index. This average European overweighting of 8.7 percent is offset by underweighting Asia 2.7 percent (25.6 versus 28.3 percent) and North America by 6.1 percent (46.4 versus 52.5 percent).

One reason for strategic regional overweighting is the opportunity to take advantage of developing REIT markets. Countries such as the United States, the Netherlands and Australia all have well established REIT regimes. On the other hand, there are a number of countries which recently adopted, or are seeking to embrace REIT legislation in both Asia and Europe, and these countries may provide investors with a new set of opportunities. If REIT legislation is passed in the UK and Germany in the next 24 months, we can expect to see increased levels of activity and growth in the European market. Steve Burton at ING Clarion comments: "The capital formation stage of global real estate securities reminds us in some ways of US REITs in the mid-90's. Real estate was going through the critical stage of transforming to a publicly owned format with all the associate responsibilities, transparent communications, more frequent contact with the analytical community, improved corporate governance measures and more conservative balance sheets. US-based investors see the opportunity to take advantage globally in a stage of the capital formation cycle which they have already seen at home."



Going global – the rationale

Ritson Ferguson at ING Clarion explains what he sees as the reason for US-based investors to go global: "The reason US investors and others are looking abroad is two-fold: a global approach offers a much expanded universe of potential investments which offers 1) diversification benefits and 2) more total return potential. Many countries in the Asia Pacific region are experiencing higher levels of economic growth which leads to more demand for real estate and more dynamic rent growth potential. In Europe, the opportunities are driven in part by the underdeveloped public market for real estate companies which we see changing aided, in part, by the proliferation of REIT-type vehicles in many countries. Germany and the UK represent two large economies and real estate markets that are actively considering REIT-enabling legislation. Andrew Parsons at Resolution Capital in Australia sees similar incentives for Australian investors: "An increasing number of Australian investors are broadening their mandates to invest in international real estate. This capital migration is motivated by a number of factors including the ability to achieve greater diversification and prospect of superior risk adjusted returns. Consistent with their preference for investments with efficient pricing, liquidity and transparency, as well as access to some of the world's leading management, Australian institutional investors are opting to gain exposure to global real estate through securities listed on the world's leading exchanges. The emergence of the REIT structure in an increasing number of countries will serve to accelerate this trend."

Michael Acton, a Principal and Director of Research at AEW in Boston, touches on another reason why their US clients are looking at investment opportunities in Europe and APAC, "With respect to the real estate allocation itself, most US institutional investors have increased their target allocations to real estate in recent years and are finding it difficult to reach these new targets purely through direct property market investment. As a result, many have added US REIT portfolios to their real estate allocations as a way to get capital invested in a timely manner (it has been a difficult period to remain in cash). US REIT performance over the past five years has been very strong, far in excess of anything that was expected when these investments were made. As a result, many investors now find themselves in a situation where they are over-allocated to US REITs, but below allocation target in real estate generally. The European and APAC listed markets provide them with another investment option where they can deploy capital in the real estate asset class".

How are fund managers doing it?

In general, global property securities funds tend to be managed by regional teams. A good example of this is ABN AMRO. They manage the Global Property Securities Fund and the High Income Property Fund through teams in Amsterdam, Chicago, Sydney and Hong Kong. The four regional teams feed into Nancy Holland who has end responsibility.

Ritson Ferguson at ING Clarion explains how ING Clarion has organized the management of the Global Property Securities fund: "ING Clarion Real Estate Securities has the benefit of being part of a large global real estate firm with a presence in virtually every major market in which public real estate companies exist. Our portfolio management team benefits from the local presence of the ING Real Estate firm in those markets to help our portfolio managers stay abreast of changing market conditions. Our analysts (in the US, Japan and the UK) also benefit from close interaction with the local teams as they develop earnings models and NAV estimates."

As an alternative to the in-house approach used by ABN AMRO and ING Clarion, European Investors and Schroders teamed up to manage the Schroder ISF Global Property Securities Fund. Neil Turner, Head of International Property Investment and Research at Schroders, said in a statement in November: "Schroders alliance with EII allows us to leverage their research capabilities as well as drawing upon their depth of experience of investing in the international property securities market. Coupled with Schroders in-house research of the wider property market and economic cycles, we are confident that this fund will provide the means for investors to diversify their portfolio and gain exposure to the global property market."



Russell Investment Group, the largest multi-manager worldwide with AUM of \$150 billion, manages a multi-manager property securities fund with AUM of \$220m³. Russell uses a research driven approach in selecting its managers. Derek Williams, Senior Research Analyst at Russell comments: "There are approximately 70 managers worldwide offering all different types of real estate securities products. Through a rigorous selection process we narrow this down to approximately 15 managers that are currently recommended by Russell. Russell's portfolio manager can only pick from our buy-ranked managers and a portfolio is constructed based on factors including investment style, diversification and investment processes. We feel our approach to be successful in reducing tracking error and enhancing out performance."

Future developments

"The fundamental forces driving the growth in global real estate securities we expect to remain in place for years if not decades" says Steve Burton. "Property is an enormous asset class with only a 7% penetration rate of public companies versus the size of the market. From a macro standpoint, property companies remain in the early stages of development as an asset class. Investors in the US and elsewhere increasingly want to take part in the opportunities that naturally arise from an expanding asset class."

John Hyland at Towerhouse Capital sees more US Investors go global in the next years: "Two powerful trends over the last 5+ years for US investors and US investment managers have been the interest in investing in domestic REIT investments, and the interest in investing in stocks on a global basis. Flow of funds to these two areas has been exceptional strong. Investing in real estate stocks on a global basis is a logical outcome of these trends. Investment managers who remain focused exclusively on US REITs and real estate companies will find themselves lagging their more forward looking competitors, particularly in the institutional arena."

Scott Crowe at UBS is also positive about the prospects for the sector: "Dedicated real estate investment has grown by over \$14bn from UBS estimates in the last 1.5 years and will continue to be the biggest growth area of funds under management for real estate investors. The opportunities to expand the investment horizon and increase diversification are significant. This will continue to attract increasing amounts of smart monetary and human capital toward the growing opportunity provided by the proliferation of REIT markets globally."

Summary

In the last two years, the growth in the number of property securities mutual funds has been phenomenal. Total Assets under Management of the current total of 58 funds analysed reached almost \$14 billion in September 2005. Growth in both number and size of the global funds is driven by a number of reasons. However, the most publicised driver is the diversification benefits offered by a global real estate portfolio. Real estate is a strong diversifier within the mixed-asset portfolio generally and a global real estate investment programme provides attractive diversification characteristics within the real estate allocation. From a US standpoint, the addition of Europe and Asia to your investment universe doubles the size of your investment pool. In market capitalisation terms, the investment pool increases from approximately \$320 to \$610 billion. In addition, current REIT developments in Europe and Asia offer investors a new level opportunities. It is estimated that the size of the institutional quality Global listed real estate market will hit \$1 trillion within the next five years.

³ The Russell International Property Securities Fund is not included in Figure 2 to avoid double counting.