

Direct and Indirect Investment for International Diversification



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Zurich - 24th March 2006

Agenda

- The need for cross border diversification
- The diversification challenge
- How to diversify direct / indirect



Traditional Institutional Property Investment

- Home region/country
- Offices
- Act as a portfolio diversifier for International equities/bonds

“Cross border investment has traditionally been a mistake”



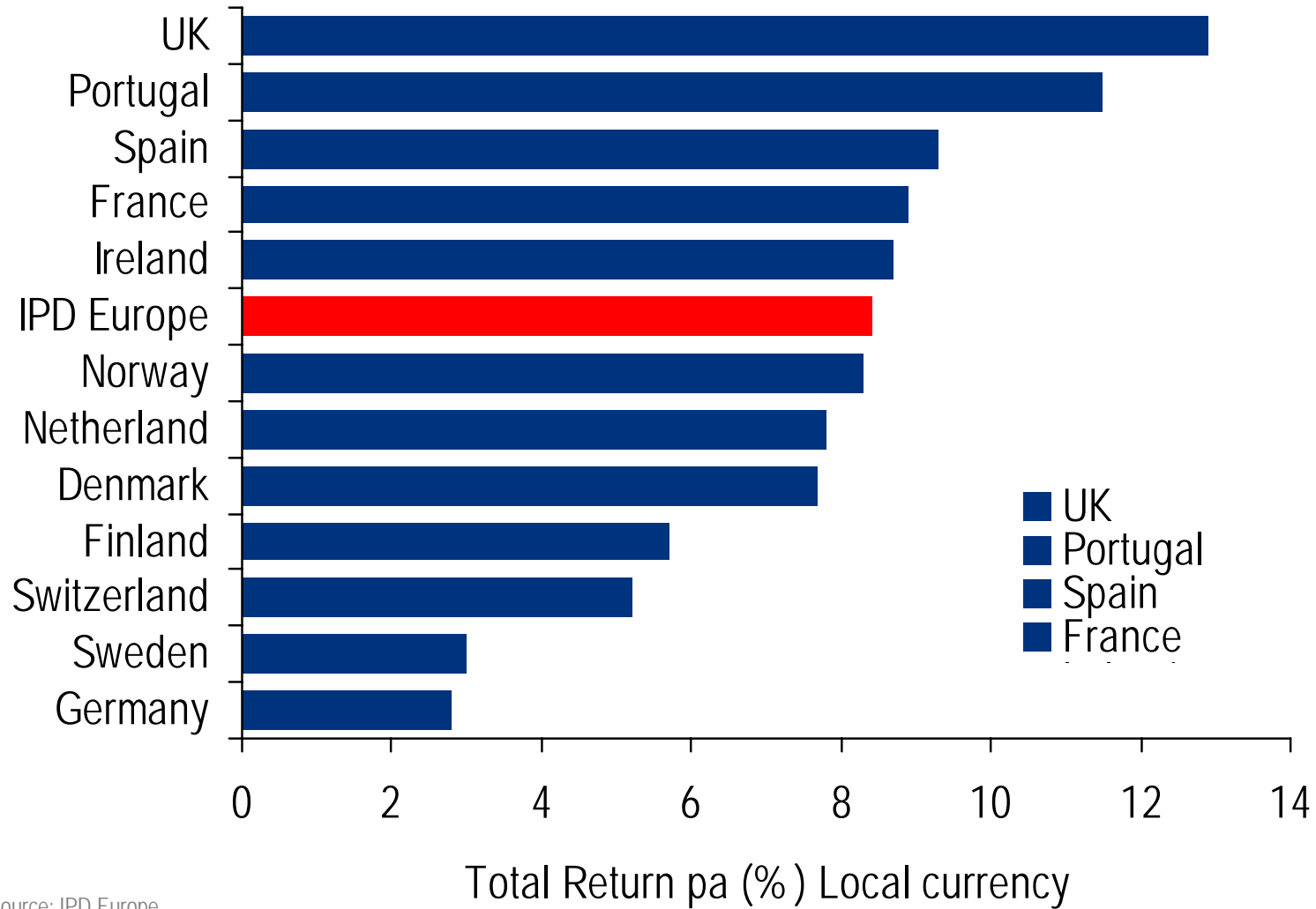
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Why cross border?

- Higher returns
- Diversification
- Safe haven
- Lack of domestic opportunity
- Matching liabilities
- Environmental / Altitude



IPD Returns

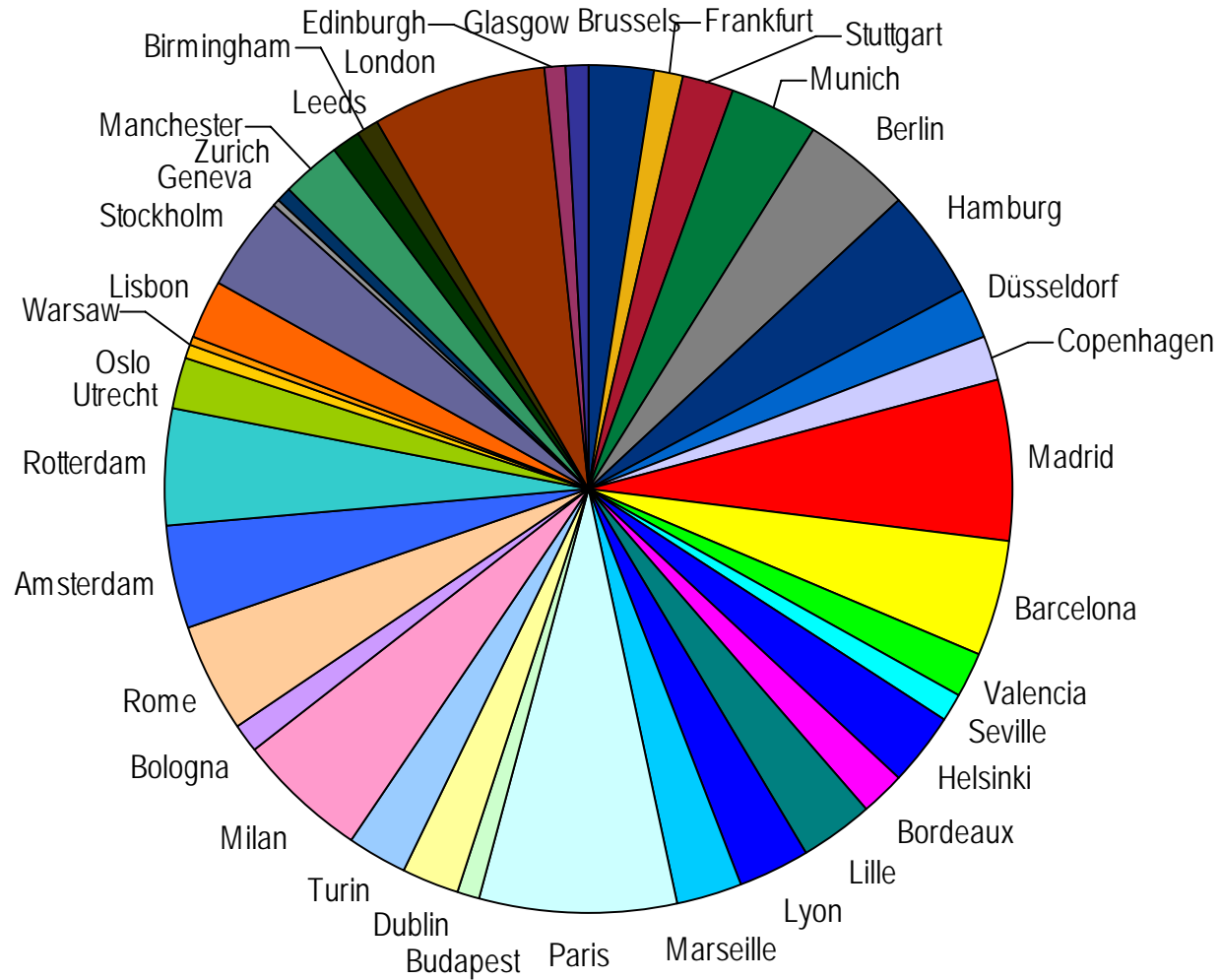


Source: IPD Europe



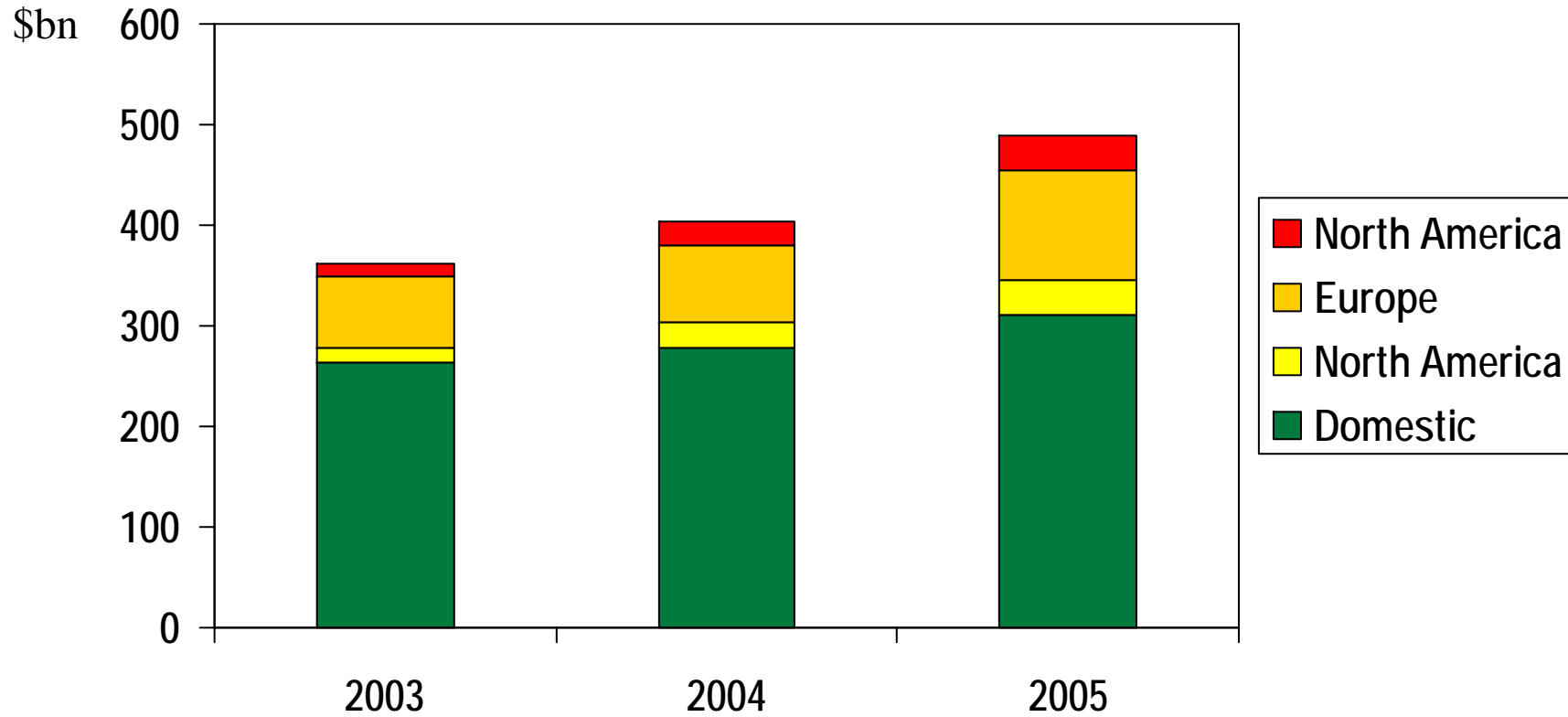
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Greater Choice : Major European Cities by GVA



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Property Investment : Increasingly Cross Border



Source: Jones Lang LaSalle



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Challenges

- Finding trustworthy local partners/operators
- Currency and political risk
- Tax drag (in some markets)
- Many countries have lower transparency
- Lack of global benchmarks (except securities)
- Communicating across time zones and cultures
- Volatility of returns

Cross-border real estate can compensate investors for these costs and risks



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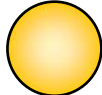


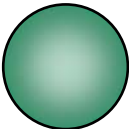





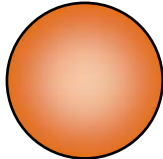



How to invest globally for diversification

Take a step-by-step approach to international:

1. Tax
2. Fund of Funds / International global real estate securities
3. Add private, indirect funds
4. Add JVs and partnerships in transparent markets
5. The ultimate goal is NOT a direct cross-border portfolio of buildings
6. Put real estate into a currency overlay program



Global framework: style criteria for selecting markets

International Objective	Target Return	Relative Importance				Costs (Tax, currency & legal)
		Fundamentals	Capital Market Gap	Transparency	Diversification	
Core	6% - 9%					
Value Added	10% - 15%					
Opportunistic	15%+					

Source: LaSalle Investment Management



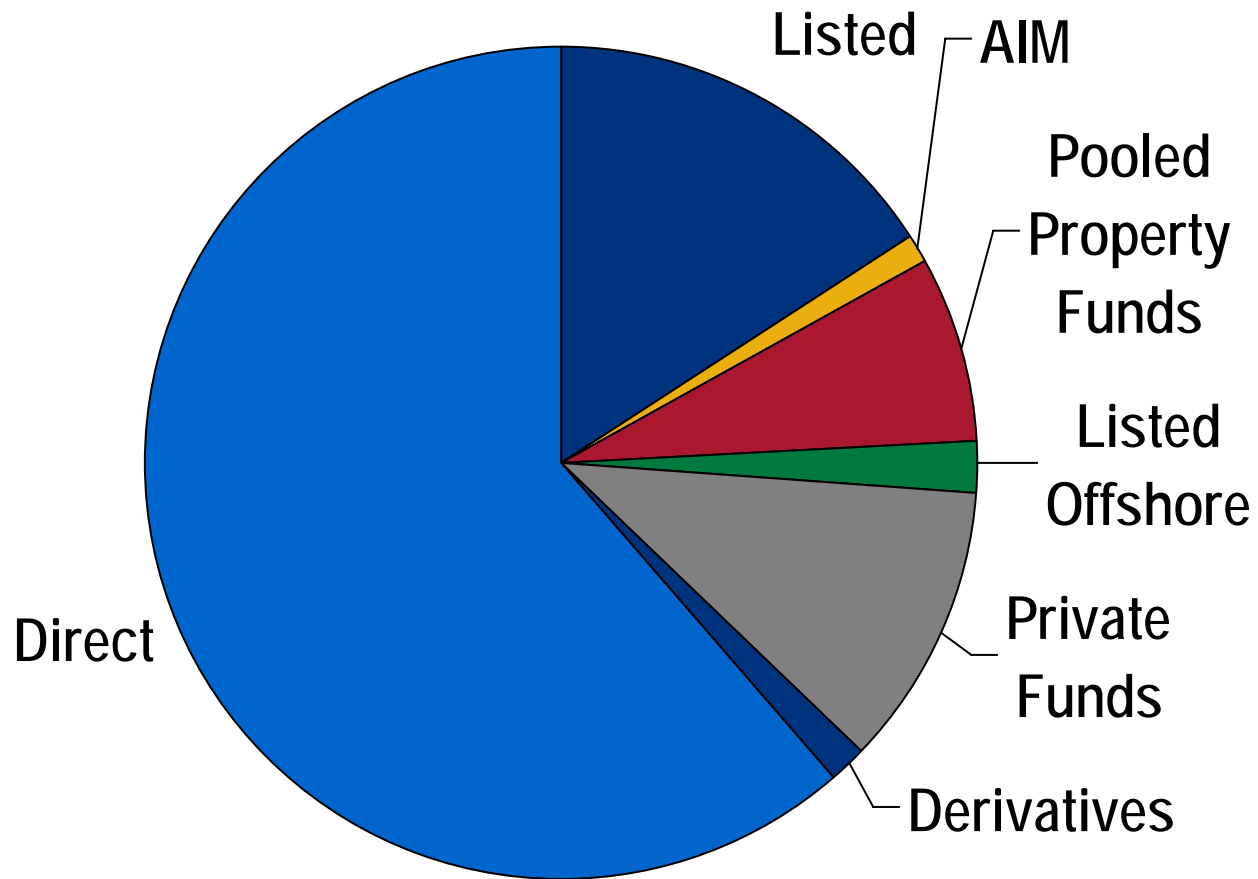
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Direct vs. Indirect



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The UK Property Market Universe

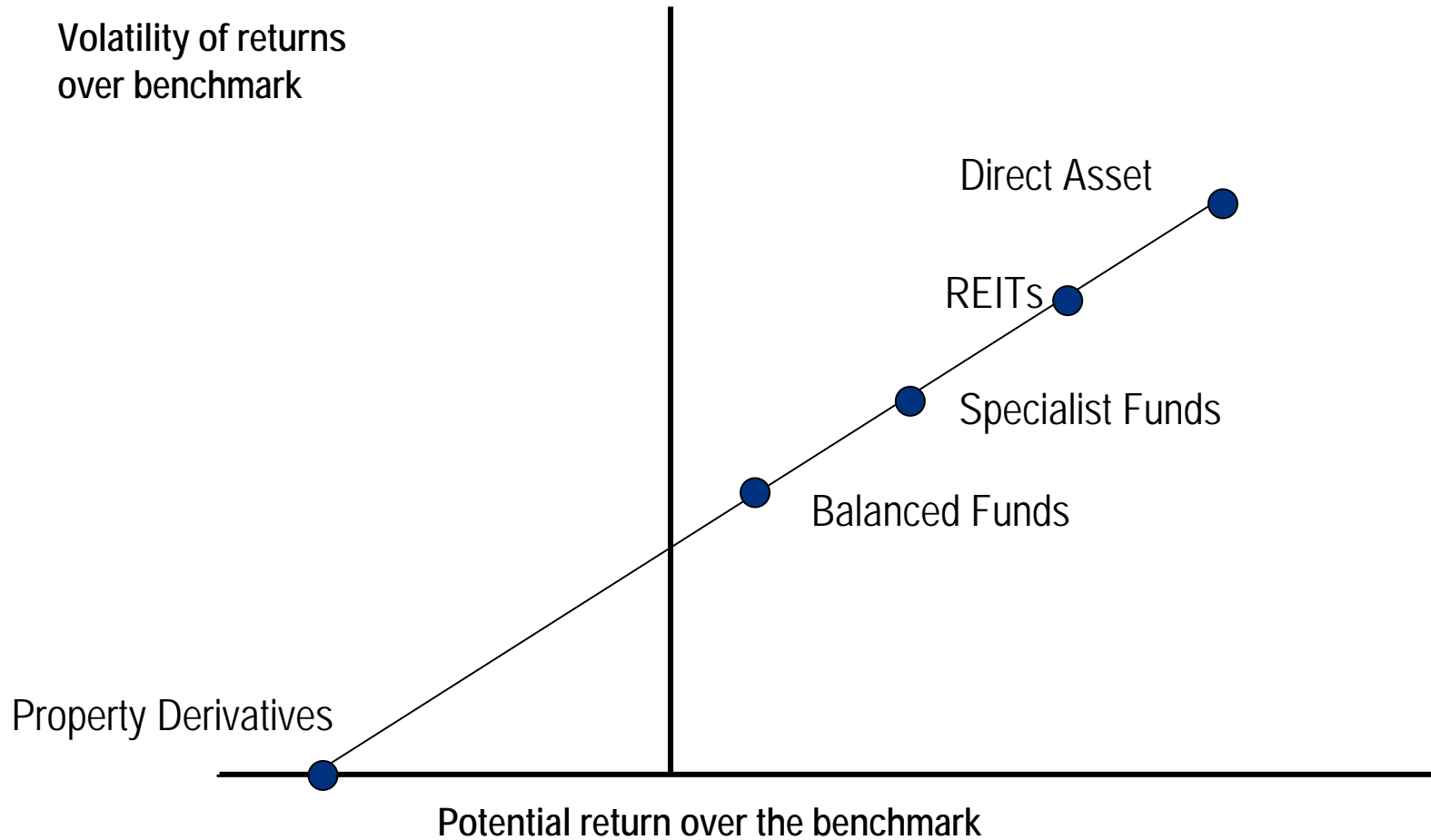


Source: LaSalle Investment Management



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Property Risk/Return profile

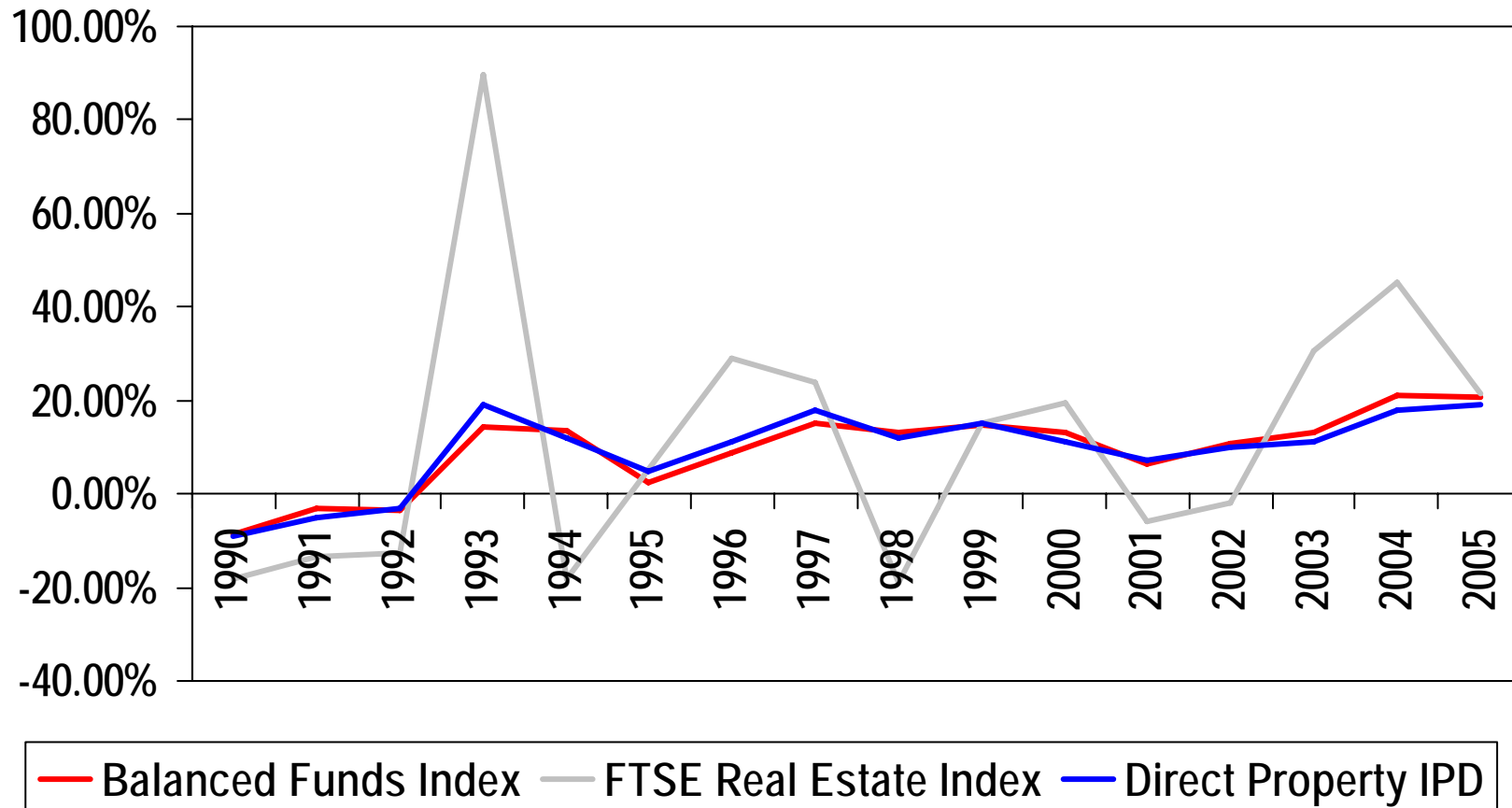


Source: LaSalle Investment Management



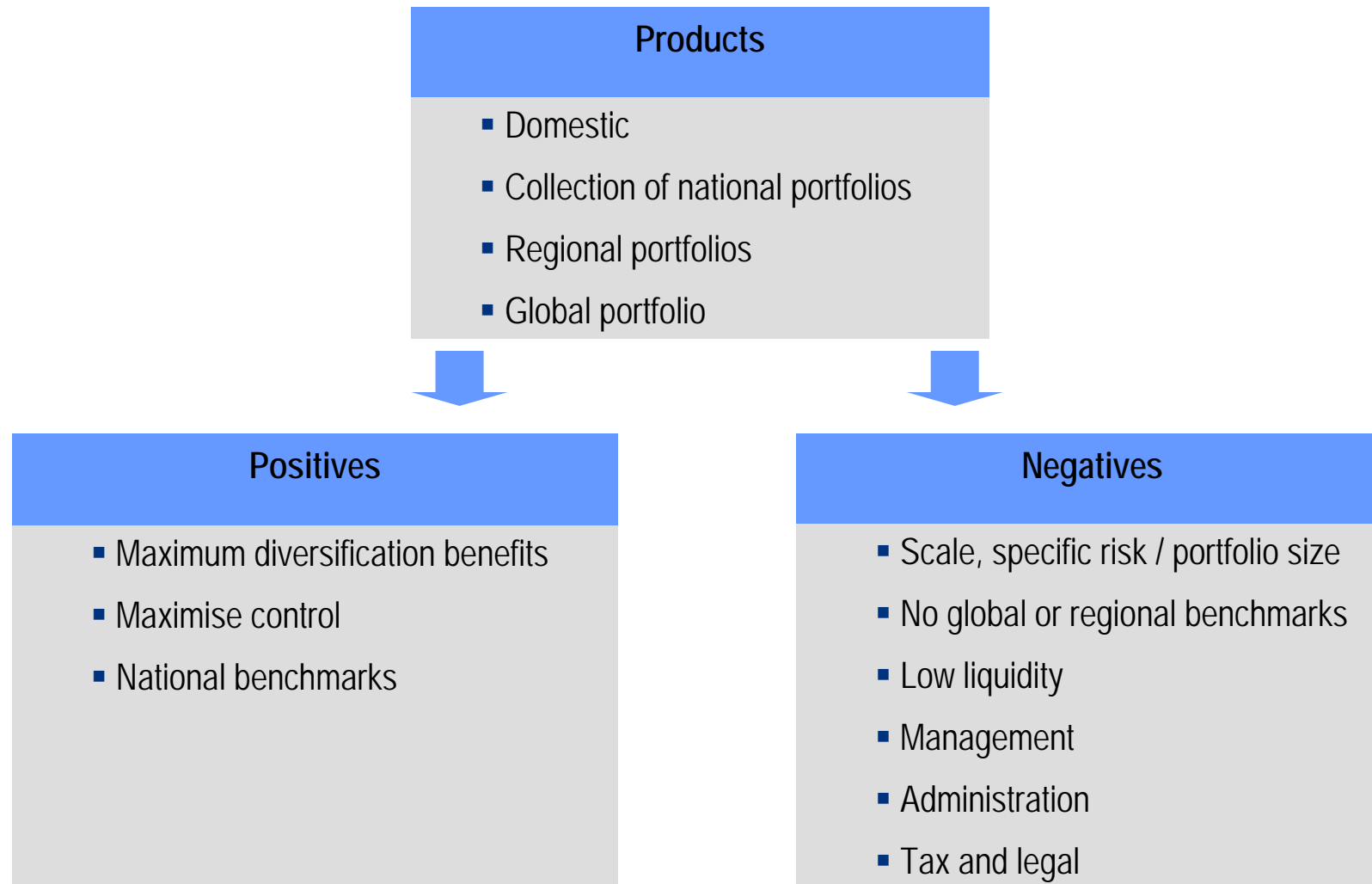
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Past Performance – Alternative forms of Real Estate



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Option 1: Direct property ownership



Option 2: Unlisted/private indirect property funds

Global funds	Targeted funds	JVs/ Clubs
<ul style="list-style-type: none">▪ Investment banks▪ Opportunistic▪ Highly leveraged▪ No control over regional weights	<ul style="list-style-type: none">▪ Specialist managers/ Investment banks▪ Open or closed end▪ Sector/country/regions▪ Varying risk profiles▪ Availability?	<ul style="list-style-type: none">▪ Specialist managers▪ Usually closed end▪ Varying risk profiles



Positives	Negatives
<ul style="list-style-type: none">▪ Diversification retained▪ Utilise expert management▪ Private equity model	<ul style="list-style-type: none">▪ Low liquidity and control▪ Lack of benchmarks▪ Global funds rarely balanced by region

Fund of funds or individual investments



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Option 3: Listed/public property company securities

"REITs"

Real Estate Investment Trusts

- Property owning vehicle
- Distributes 80% - 100% of taxable income
- High dividend yield
- Limited ability to generate reserves for investment
- Country opportunities
 - North America – US and Canada
 - Europe – Belgium, Netherlands, France, shortly UK and Germany?
 - Australasia – Australia, Singapore, Japan, Hong Kong

Conventional listed corporations

- Lower dividend yield
- Higher correlation with general equities



Positives

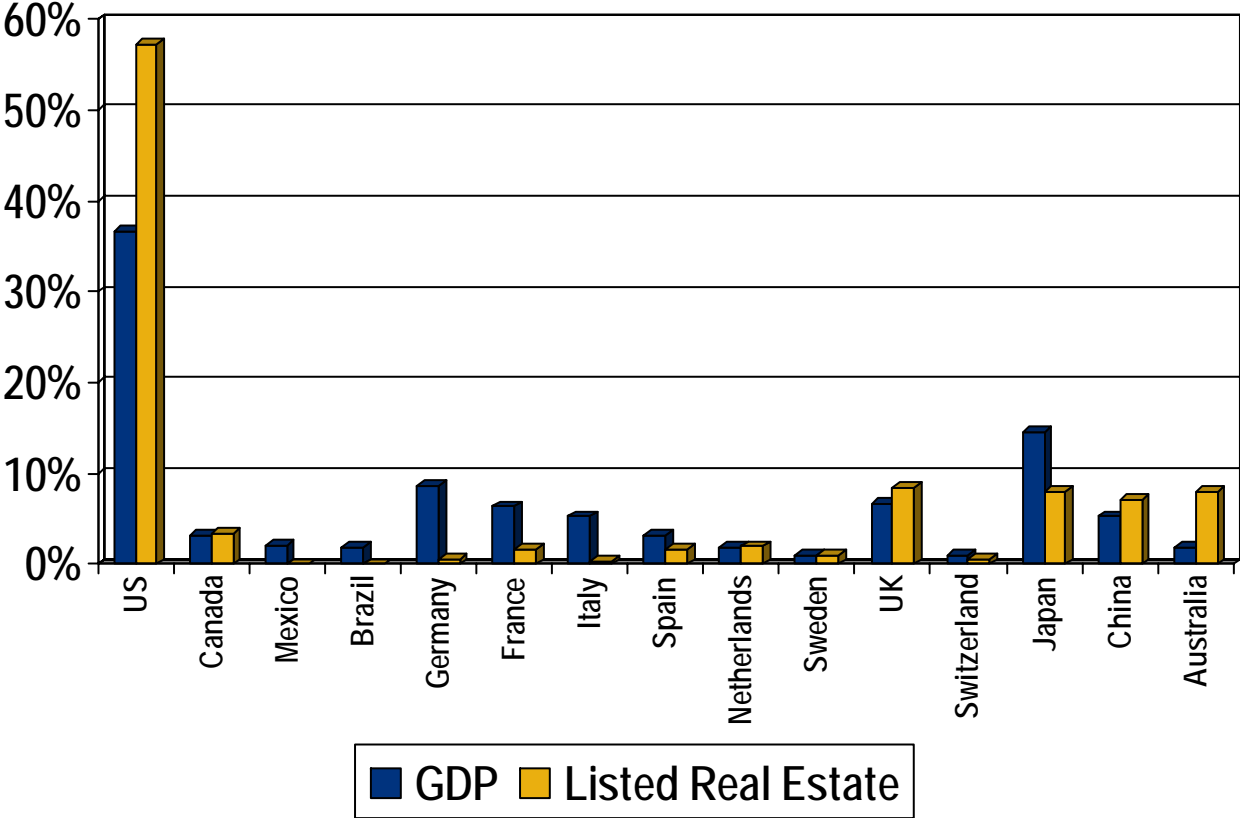
- Established benchmarks
- Liquidity
- Transparency
- Investment period: immediate

Negatives

- Influence of general equity markets
- Relatively immature market in some countries



Benchmark Weightings



Correlation of Global Asset Class Returns

Correlation of Total Returns (1986-2004), US Dollar

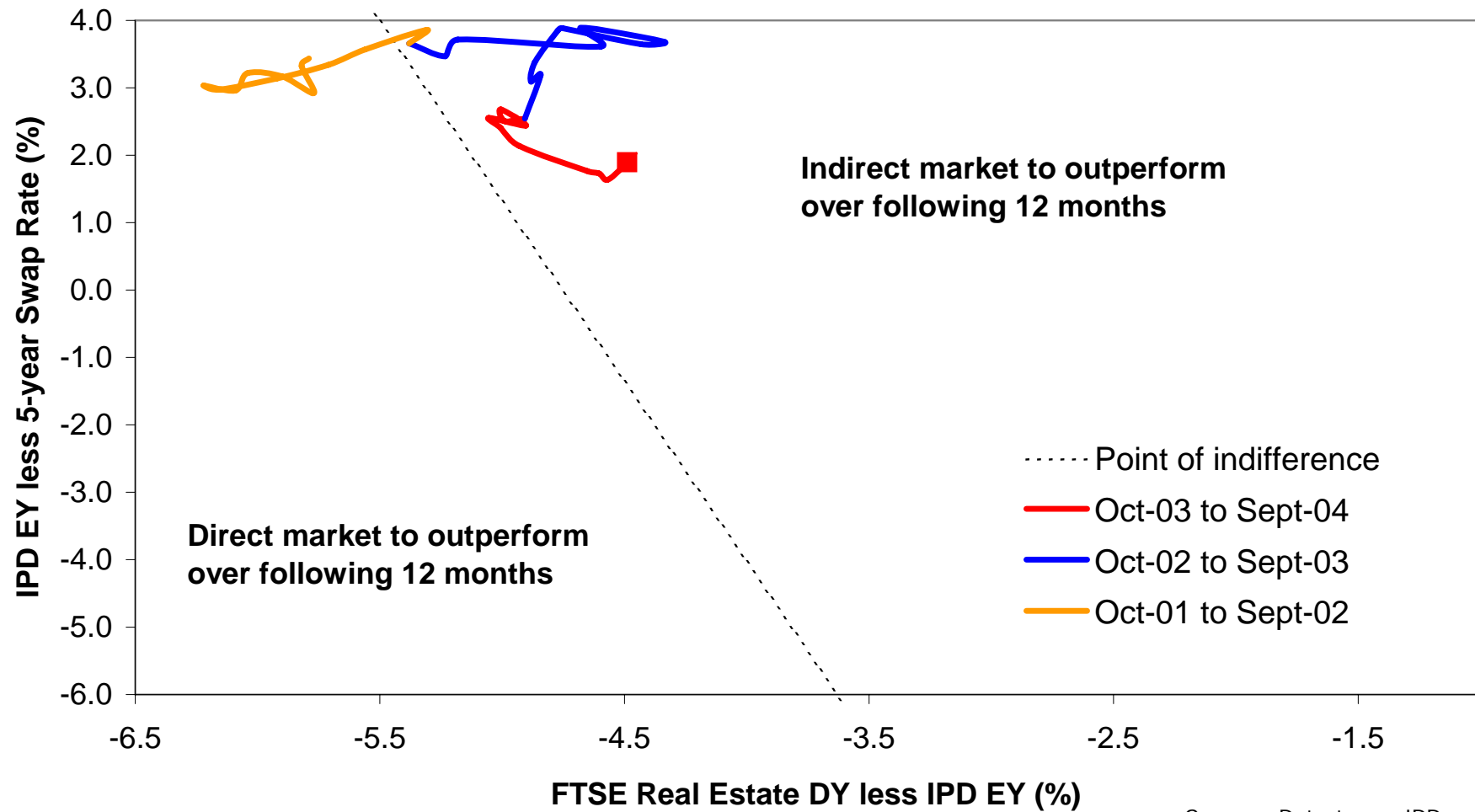
	Global Stocks	Global Bonds	Global Indirect Real Estate	Global Direct Real Estate
Global Stocks	1.00			
Global Bonds	0.19	1.00		
Global Indirect Real Estate	0.47	0.30	1.00	
Global Direct Real Estate	0.10	-0.35	0.15	1.00

Sources: GPR Index, UBS Global Property Investors Index; MSCI Global Equity, JP Morgan Global Bond Index, LaSalle Investment Management



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Switching Model – Indirect or Direct



Sources: Datastream, IPD



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Option 4: Derivatives

"Available" today

- Direct Property – UK and US only
- Property equities- ETF's on EPRA/NAREIT



Positives

- Quick/easy/cheap to trade
- Instantaneous exposure
- Price transparency
- Strategic or tactical use

Negatives

- Currently small size/ limited supply
- Very limited coverage of property markets
- No guarantee of roll-over
- Negative performance relative to market after costs



Cost of Currency: Swiss Example

Investors' gain/loss of investing abroad (capital only) per annum

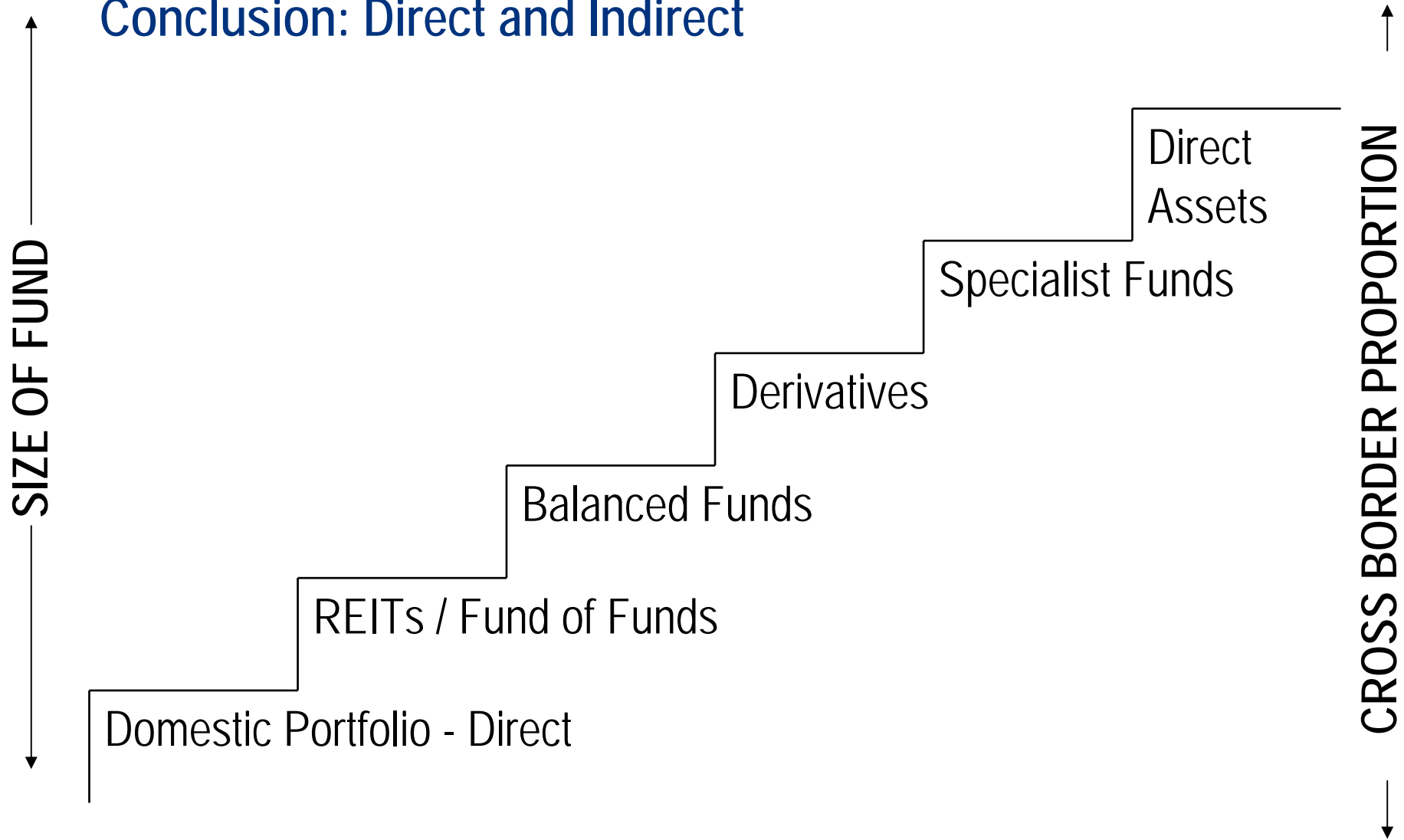
<i>Country of Investment / Number of Years</i>	1	3	5	10	15
Euroland	0.2%	-0.4%	0.8%	0.4%	1.0%
USA	-11.3%	-9.3%	-3.6%	-0.2%	-1.9%
UK	-2.9%	1.6%	1.3%	-1.4%	1.0%

Source: LaSalle Investment Management; DataStream. As at 25th August 2004.



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Conclusion: Direct and Indirect



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Cross-border investing – the Swiss perspective

- Switzerland has an important real estate market but returns have been low
- Investors can enhance returns as well as enjoy diversification benefits by going cross-border
- Real estate securities are a low risk option for diversified global exposure
- Consider:
 - Opportunistic – Asia
 - Value-add – Canada, US, France
 - Core – global securities, UK, Germany, Netherlands and Sweden

