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Real estate experience. Investment expertise.

# Lessons within Financial Distress: Public or Private?

ERES Industry Seminar  
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# Real estate investment characteristics

- Long duration asset – typical hold period 5 to 10 years
- Income earning power tied to local market dynamics, depreciation and replacement costs
- Valuation and pricing tied to global capital markets
- Unlevered returns of leased buildings: between Bonds and Equities.
- Deep debt markets
- Asset class status acknowledged by most asset allocation studies.

## Significant asset class

- Size of market
- Diverse owner base
- Institutional and Retail depth

## Active management

- Asset selection and asset management are both sources of “alpha”
- Vintage Year matters
- Derivatives markets are not mature

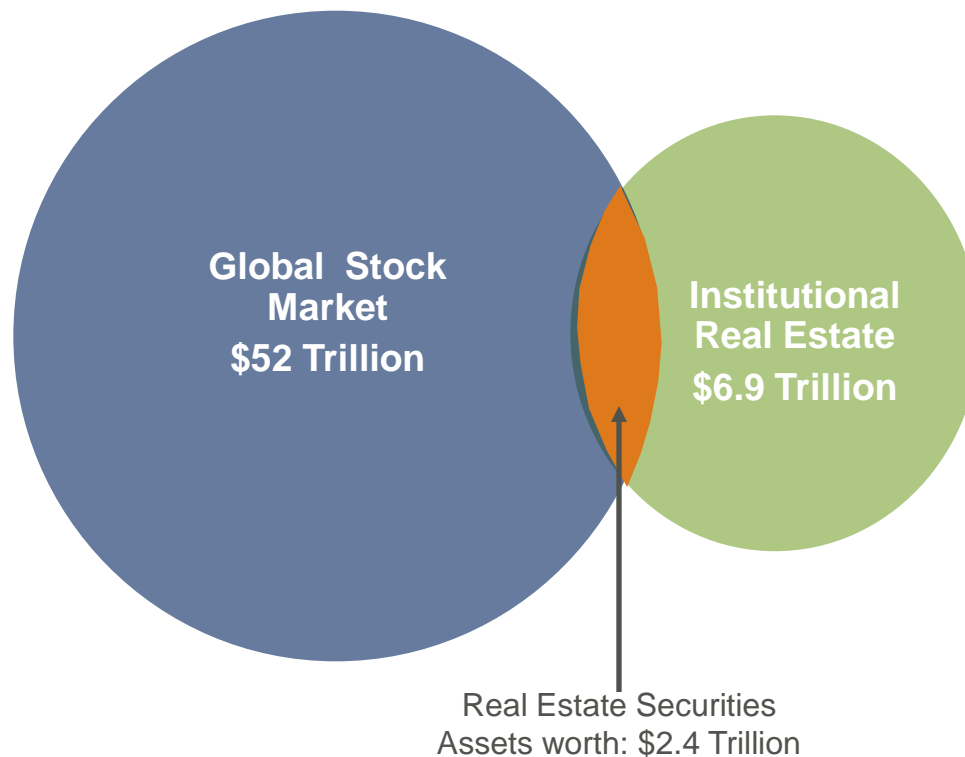
## Unique risk-return characteristics

- Hybrid of a bond (contractual income)...
- ... And a Stock (non-contractual residual)
- Returns exhibit low correlations with other asset classes

## Risks

- Direct investing: High levels of specific risk & transaction costs
- Listed Real Estate: Track broader stock market over the short run.

# Real Estate – A Significant Asset Class

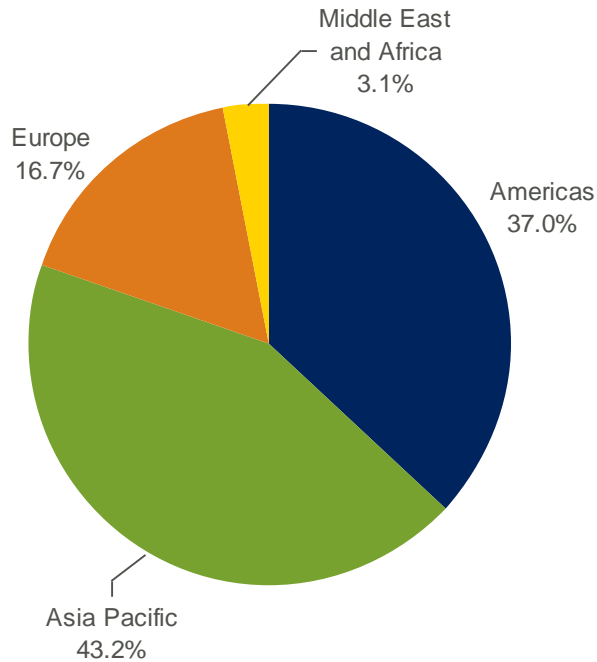


- ***Investable real estate universe is estimated at \$6.9 trillion***

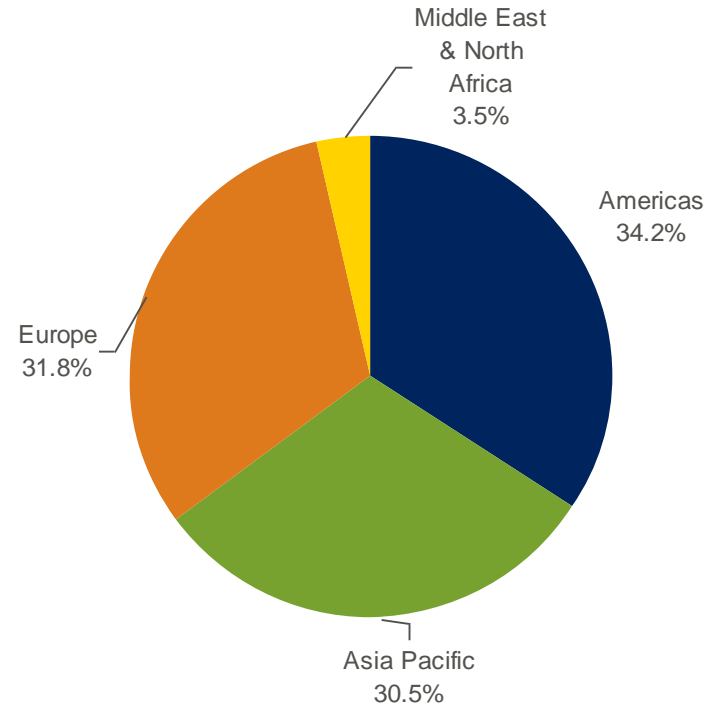
Source: Bloomberg, EPRA/NAREIT, LaSalle Investment Management Research As of 3Q 2011

# Global Real Estate Universes by Region 2012

**Listed Real Estate**  
Total = \$2.4 trillion



**Institutional Real Estate**  
Total = \$6.9 trillion



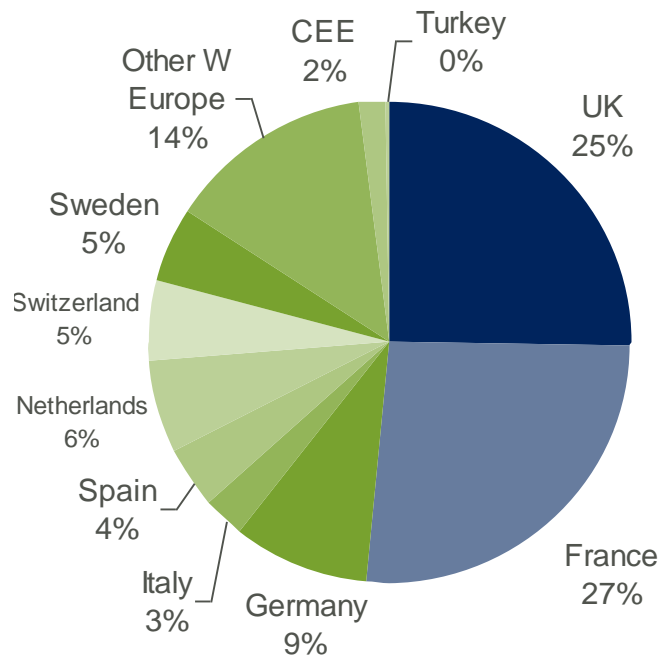
Source: Investment Property Databank, LaSalle Investment Management

As of 3Q 2011

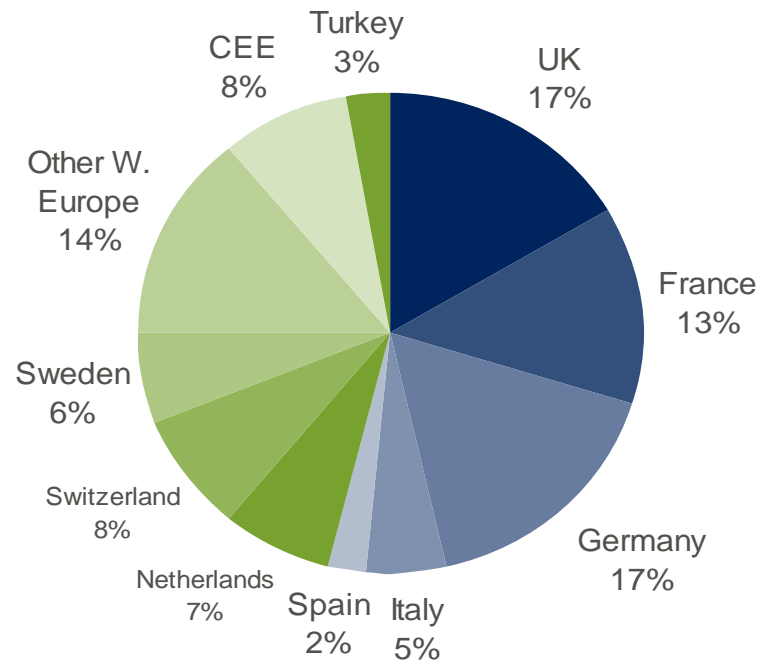
Note: The Listed Real Estate Universe includes all publicly listed property companies, primarily REITs and REOCs. Diversified development companies are included in emerging markets, but homebuilders are excluded. The Institutional Real Estate Universe includes all institutional investor-owned property, public and private.

# European Real Estate Universes by Country 2012

**Listed Real Estate**  
Total = \$0.4 trillion



**Institutional Real Estate**  
Total = \$2.2 trillion

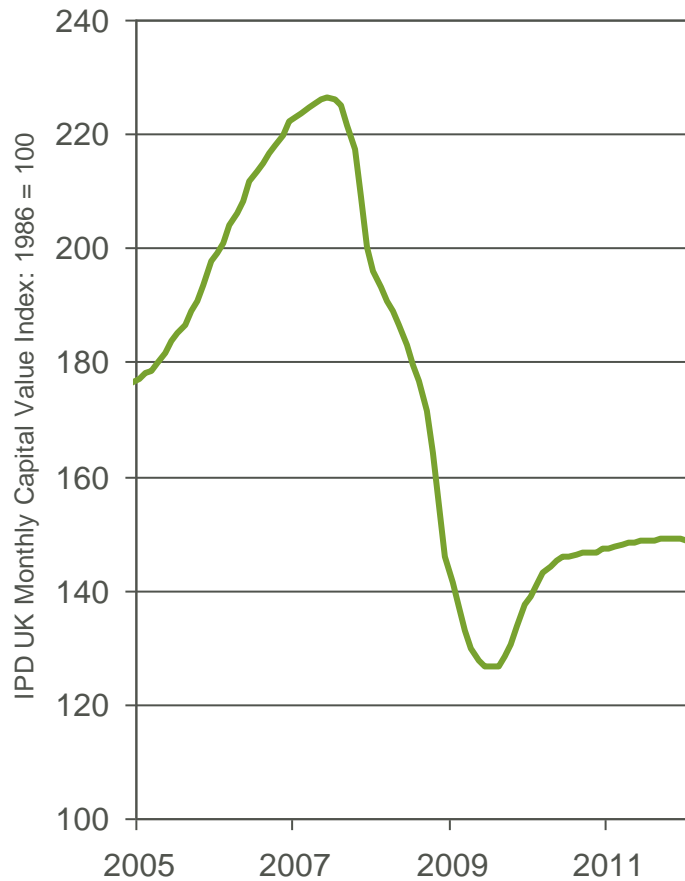


Source: Investment Property Databank, LaSalle Investment Management As of 3Q 2011

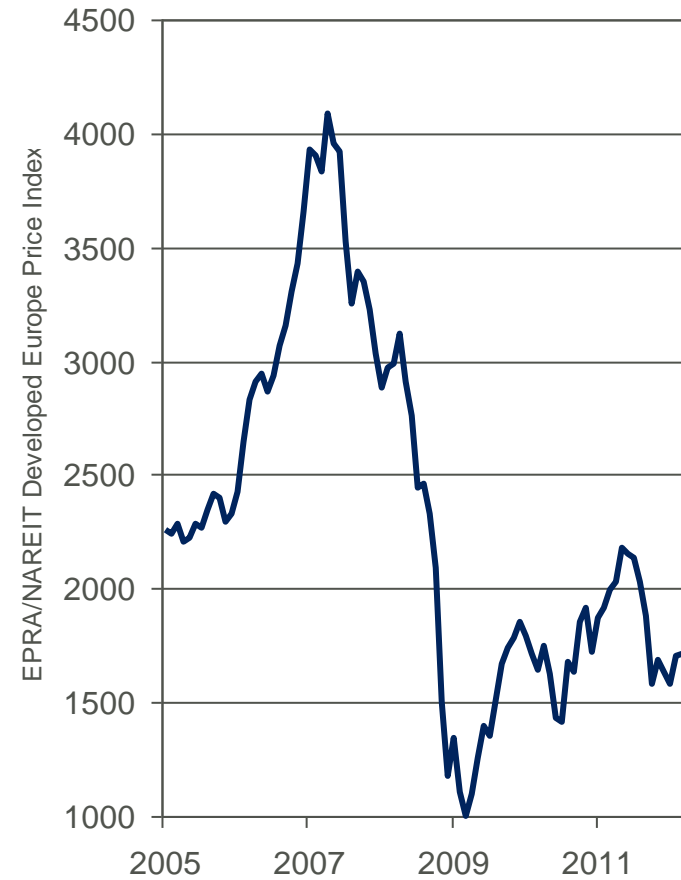
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# Two Tales of A Financial Crisis

## Private Markets



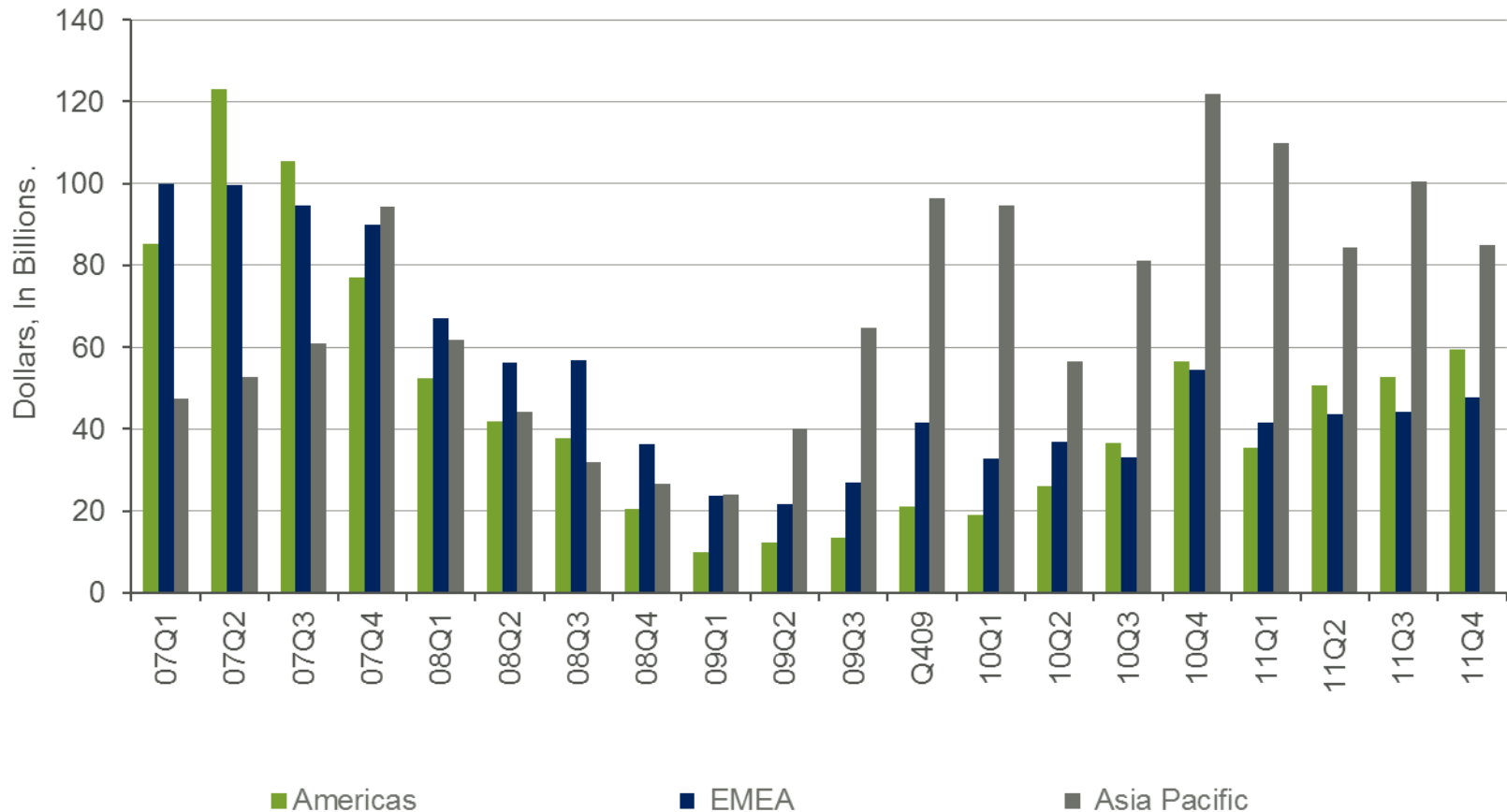
## Public Markets



Sources: IPD, EPRA/NAREIT

# 2011 RE Transaction Volume Up Across All Regions

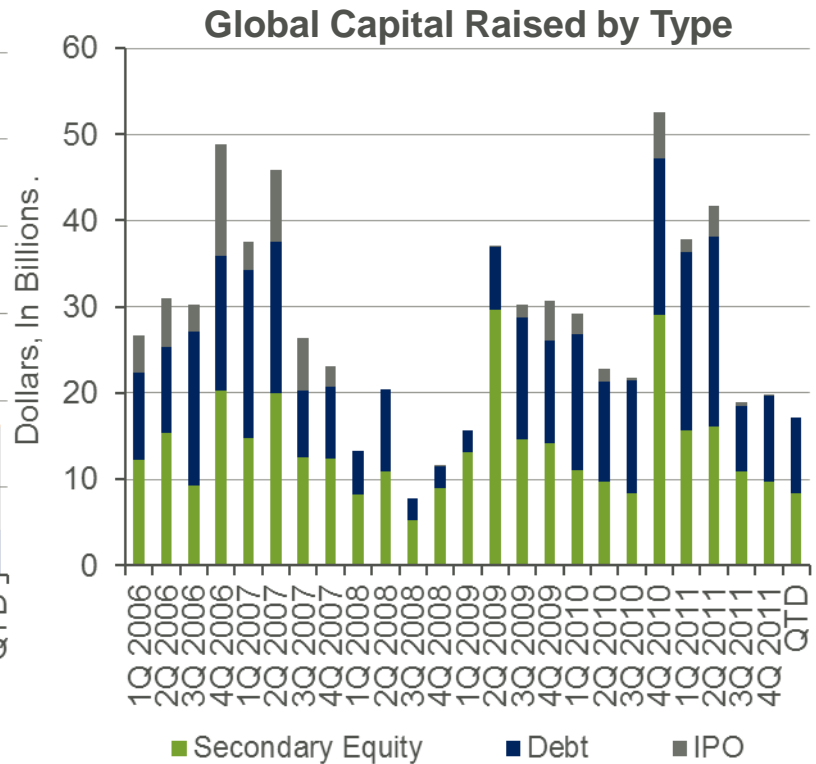
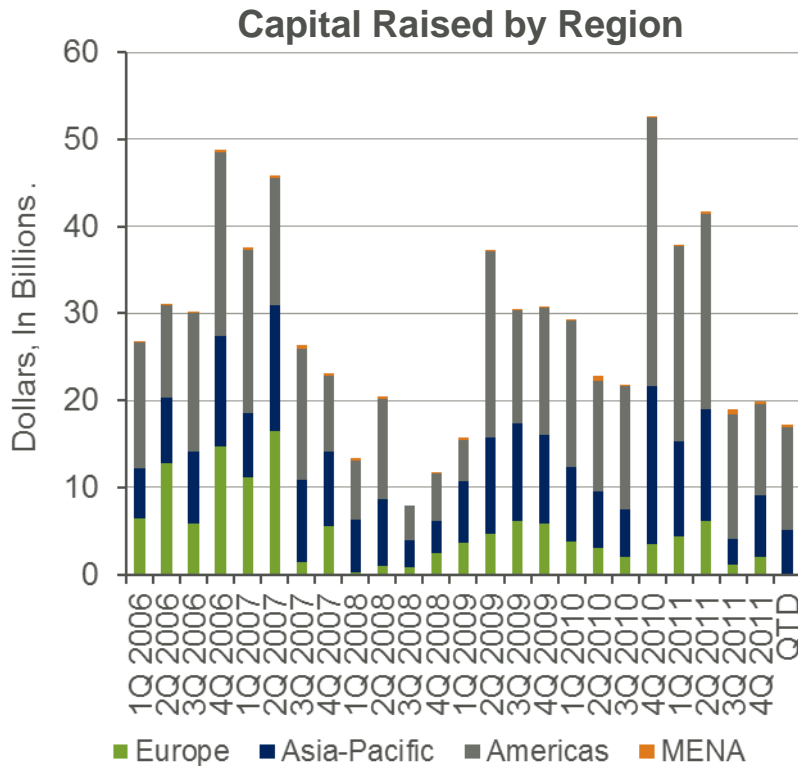
## \$750 Billion Traded in 2011, with Americas Showing the Most Growth



Source: Real Capital Analytics, includes land sales, which comprise about 75% of transactions in Asia-Pacific but less than 10% in Europe and the Americas  
 Latest data as of 29 February 2012

# YTD Capital Raising Picks Up

Nearly As Much Raised YTD as in all of 4Q 2011

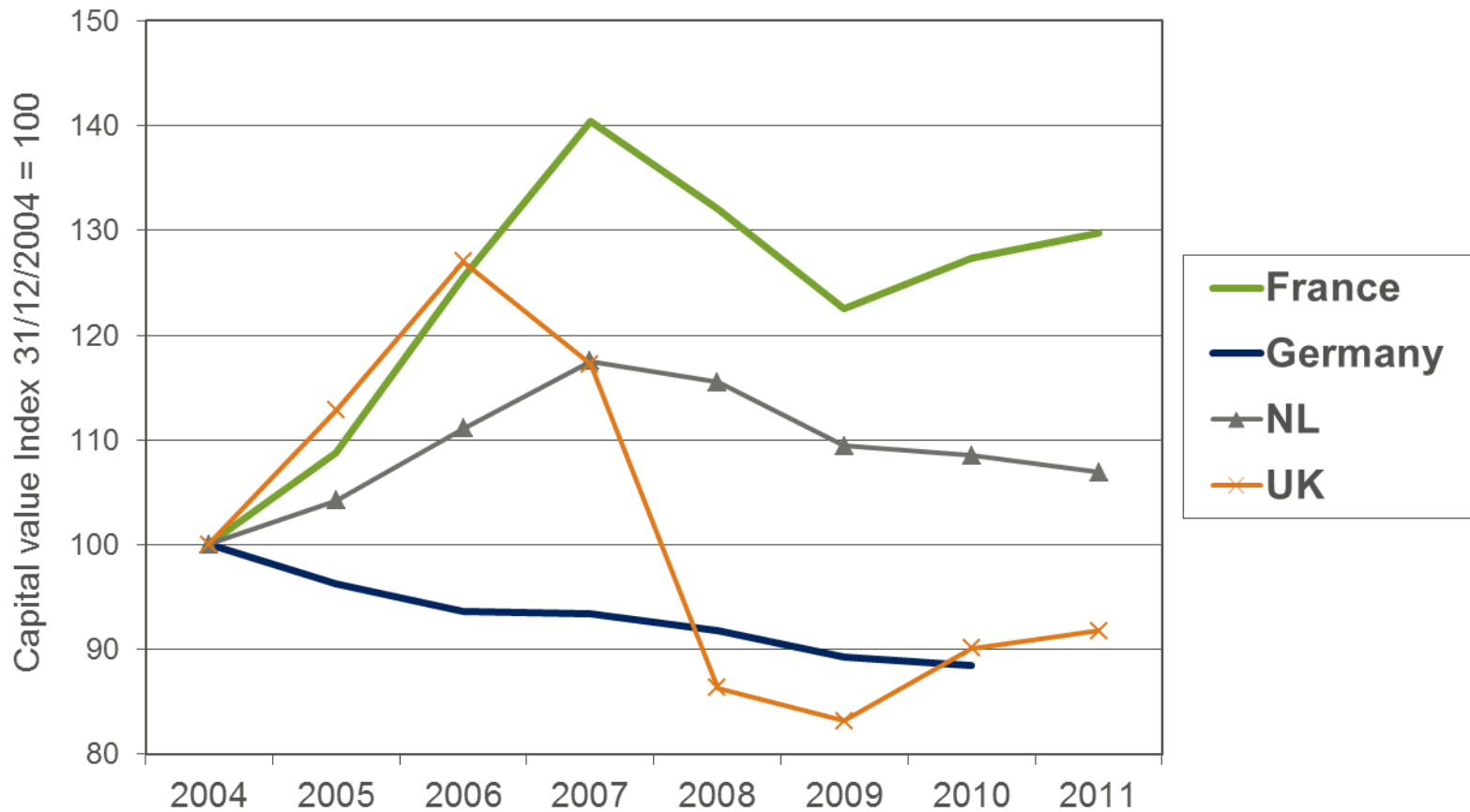


Source: SNL Financial. Data includes public and private REITs and non-REIT real estate operating companies.

As of 24 February 2012



# Private RE in Europe: 4 stories of a 'different' crisis



Source: IPD

# RE Characteristics and Valuation, Liquidity & Volatility

- Low correlation of RE with other asset classes is based on private market data
- Private market returns are smoothed by appraisals (though extent varies)
- Trade-off between liquidity and price volatility:
  - obvious in public markets
  - also in private markets, cf. Germany & UK
- Debt always increases volatility.....
  - Optimum level up to 40% LTV?
- .... and affects correlations
  - Returns from higher risk strategies more highly correlated with stocks than private unlevered RE

# Option One: Direct Property Ownership

## Products

- Domestic
- Collection of national portfolios
- Regional portfolios
- Global portfolio

## Positives

- Maximum diversification benefits
- Maximize control
- Flexibility on leverage levels including none
- National & regional benchmarks

## Negatives

- Scale, specific risk / portfolio size
- Low liquidity
- Management
- Administration
- Tax and legal

# Option Two: Unlisted/Private Indirect Property Funds

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

Positives
<ul style="list-style-type: none"> <li>▪ Diversification retained</li> <li>▪ Utilize expert management</li> <li>▪ Range of styles and higher returns</li> <li>▪ Defined strategies</li> <li>▪ Improving benchmarks</li> </ul>

Negatives
<ul style="list-style-type: none"> <li>▪ Low liquidity and control</li> <li>▪ Availability?</li> <li>▪ Administration of draw downs</li> <li>▪ Management of employing capital</li> </ul>

## Fund of funds or individual investments

# Option Three: Listed/Public Property Company Securities

## Real Estate Investment Trusts (REITs)

- Property owning vehicle
- Distributes 80% to 100% of taxable income
- Limited ability to generate reserves for investment
- Country opportunities
  - Americas: US, Canada, Brazil, Mexico
  - Europe: Belgium, Netherlands, France, UK, Germany, Greece, Bulgaria, Finland, Spain, Italy, Lux., Lithuania
  - Australasia: Australia, Singapore, Japan, Hong Kong, Philippines, South Korea, New Zealand, Malaysia, Taiwan, India, and Pakistan
  - Other: Dubai, Turkey, Israel, and South Africa

## Positives

- Established benchmarks
- Liquidity and transparency
- Utilize expert management
- Investment period: immediate

## Conventional Listed Real Estate Operating Companies (REOCs)

- Lower income/dividend yield
- Higher correlation with general equities
- Often development focus. Real estate may be one of several businesses.

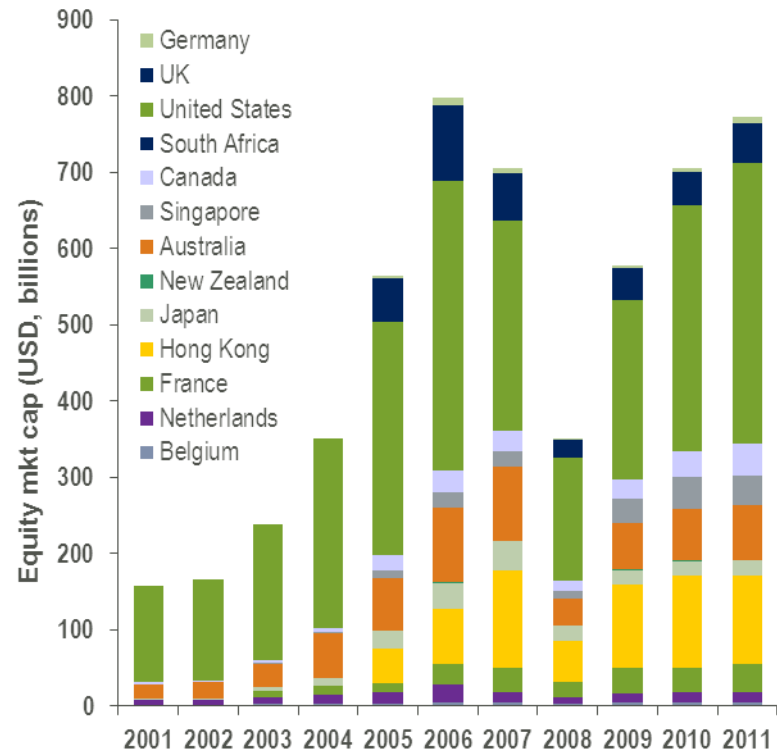
## Negatives

- Volatility - influence of general equity markets
- Relatively immature market in some countries

# Real estate securities – REITs are a global market

- The tax transparent Real Estate Investment Trust (REITs) vehicle exists in many countries
- Much of the highest quality commercial property in Australia, USA and Europe is owned by REITs
- The requirement to distribute about 90% of earnings encourages a high dividend yield; returns are more direct property like than equities
- Public market liquidity gives ready exposure and management of allocation
- Regional and global benchmarks, e.g. EPRA/NAREIT, UBS & GPR
- \$100 bn in global REIT portfolios through specialist managers

## Growth of global REITs

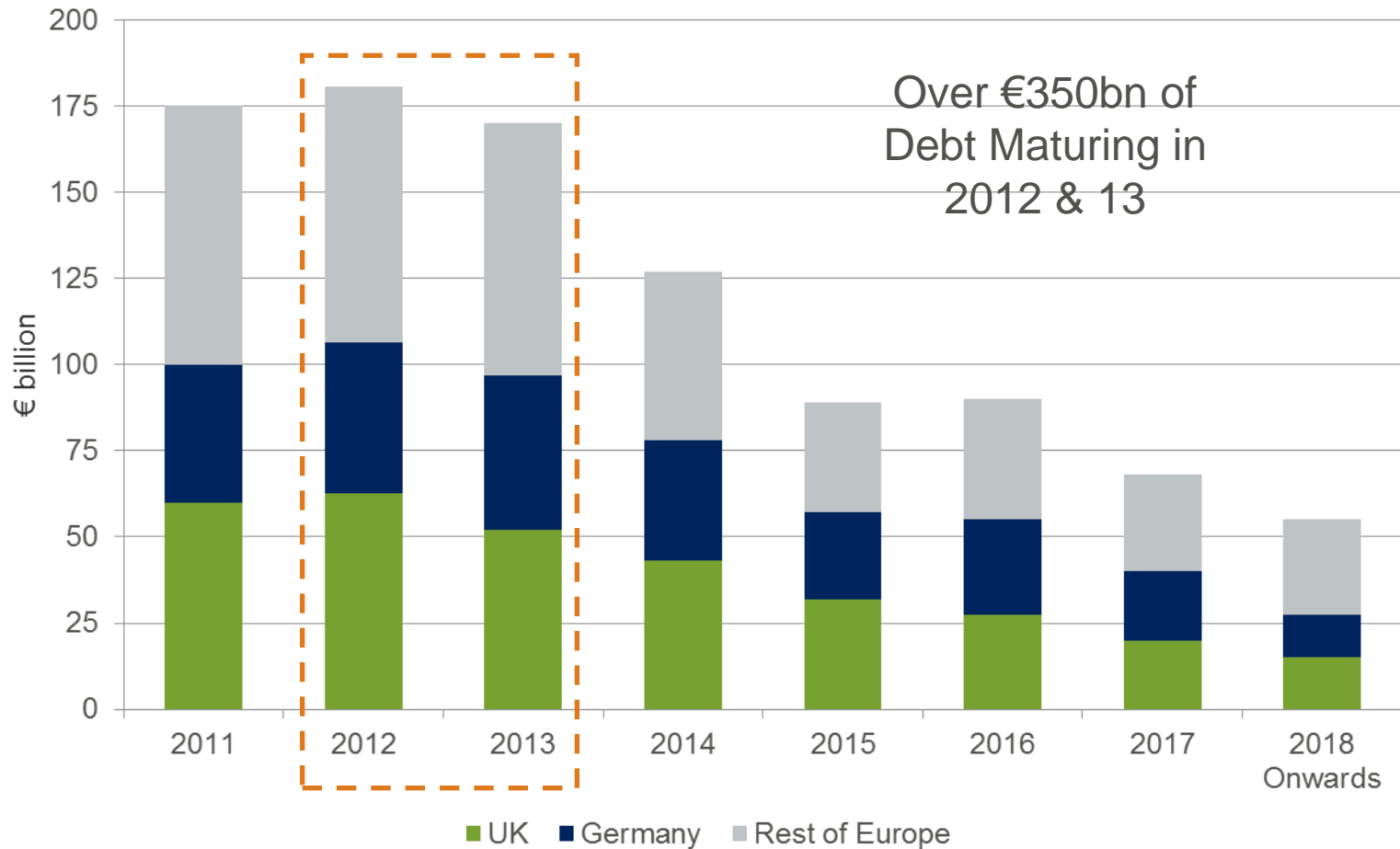


Source: EPRA/NAREIT

Data as of 20 January 2012

# Dealing with the Debt Overhang – Threat & Opportunity

## European commercial real estate debt maturity profile



Source: De Montfort University, CBRE (Q4 2010)

# Sources of Capital in the 'Teens' for Real Estate

## Expanding

### Private Markets

- Sovereign wealth funds

### Public markets

- Global managers
- DC pension plans
- Private savers

## Contracting

### Private markets

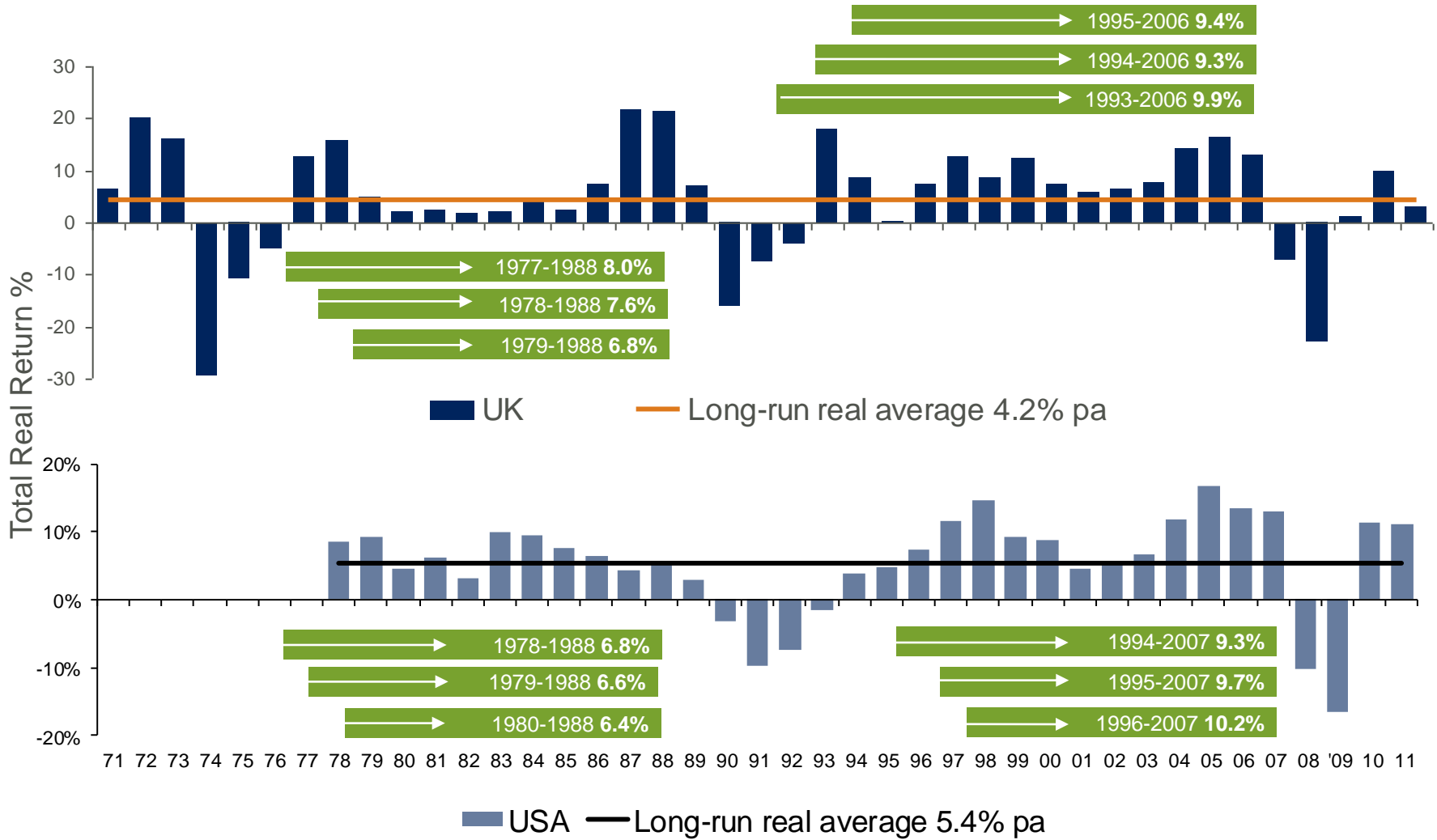
- Insurance companies
- DB pension plans (as they mature)

### Public Markets

- Discontent with volatility of stocks



# The benefit of investing between big cycles



Source: IPD, NCREIF, LaSalle Investment Management

# The GFC & RE: Lessons learned, forgotten, learned again

- RE is part of the volatile global capital markets
  - Greed & Fear rule
- Debt availability: the most important influence on RE equity pricing
- Disciplined investors adhere to:
  - Required Return
  - Cost of Capital
  - Mean Reversion concepts
- Public markets tend to lead in pricing; private markets tend to lag
- The value of communicative, reliable partners become most evident in a down-market
- Real estate remains a cyclical business
- Buying after a steep price correction is almost always a winning strategy

## LaSalle Investment Management Research & Strategy

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