



# International Real Estate Investments

Real estate investment was traditionally a local business with investors focused on nearby markets they knew well. Today, cross-border capital flows have increased in all asset markets, with real estate following suit.

This presentation explores markets, strategies, and implementation of international real estate investments.

# The Global Real Estate Capital Market

## Growing International Market

The global real estate market is expanding through increased capital flows and market institutions.

## Top Destinations

China, United Kingdom, and United States are the main recipients of international capital flows.

## Regional vs. Global

UK and US attract truly global flows, while China's capital is almost exclusively regional.

## GLOBAL INVESTMENT FLOWS





# Institutions of Globalization



## Public Markets

Growth of REITs and property shares makes international investment easier.



## Data Providers

Research consultants supply local data and performance



## Professional Organizations

Establishing standards in information quality, governance, and professionalism.



## Transparency

Increasing transparency in mature markets, though emerging markets still lag behind.



# Rationales for Going International

## Return Opportunities

Better returns outside home country, especially from emerging markets with high growth.



## Diversification

Markets move in non-synchronized ways, providing risk reduction benefits.

## Managerial Expertise

Exporting superior portfolio management or development expertise to emerging markets.



# Structural Return Opportunities

## Economic Development

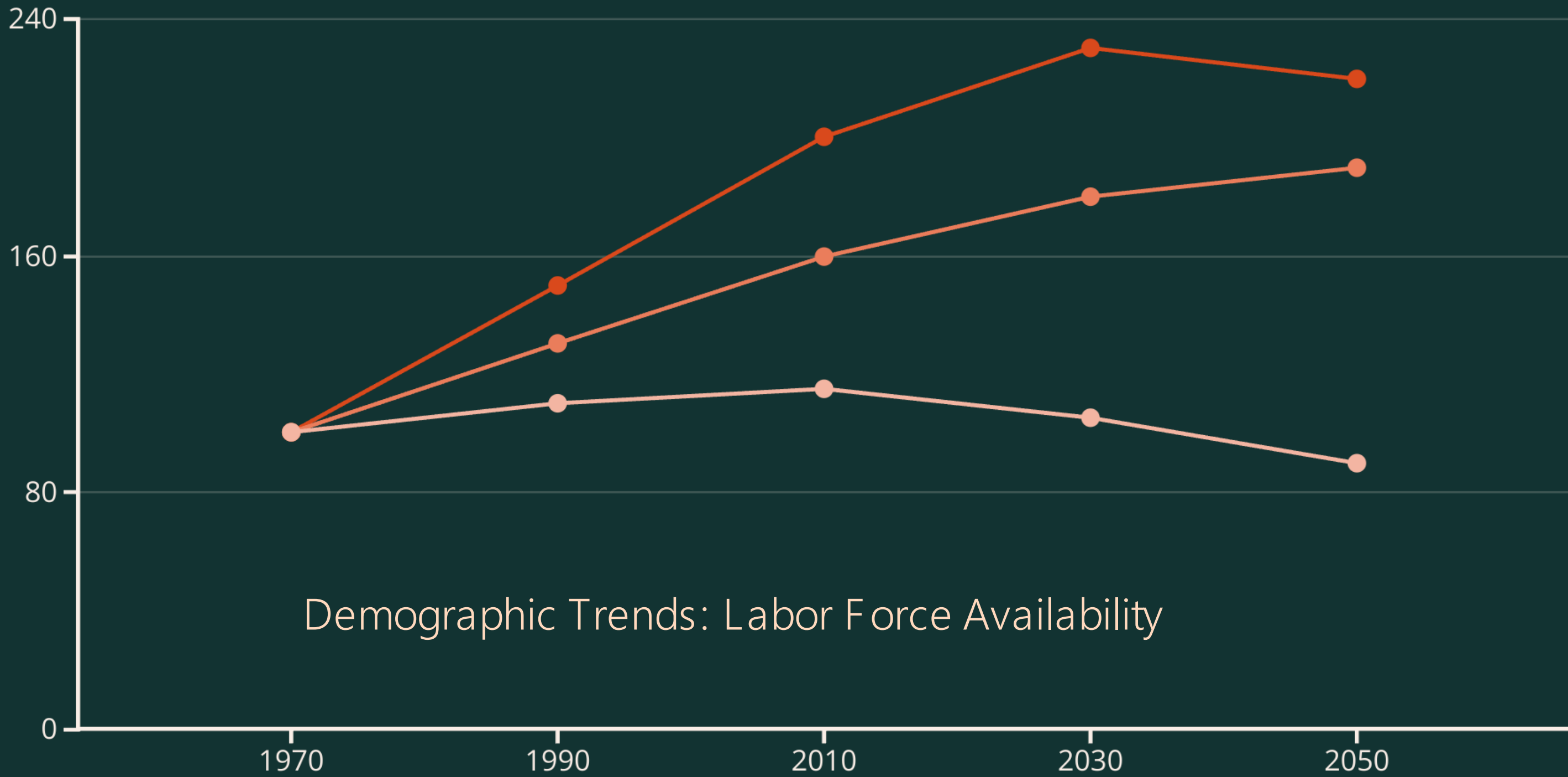
Emerging markets show higher economic growth, spurring demand for commercial property.

China, India, and Central Europe have shown stronger growth than mature economies.

## Urbanization

Rapid urbanization creates huge investment opportunities in housing, industrial, and office space.

Cities attract migration, requiring warehouses, factories, and housing for new urban populations.



Demographic Trends: Labor Force Availability

■ Asia      ■ North America      ■ Europe

# Population Growth Projections

15%

US Growth by 2070

Continued but slower population growth, depending on immigration policies

-28%

Japan Decline by 2070

Peaked in 2009

-13%

China Decline by 2070

Peaking around 2031

34%

Global Growth by 2070

Uneven distribution across regions

## GLOBAL DEMOGRAPHIC SHIFTS





# Property Type Exposure to Demographics

## Office Space

Depends on working-age population. Already affected by demographic decline in Europe and parts of Asia. Work-from-home trends accelerated by COVID further reduce demand.

## Retail Space

Driven by population size and purchasing power. E-commerce capturing increasing share of sales, limiting growth in physical retail space needs.

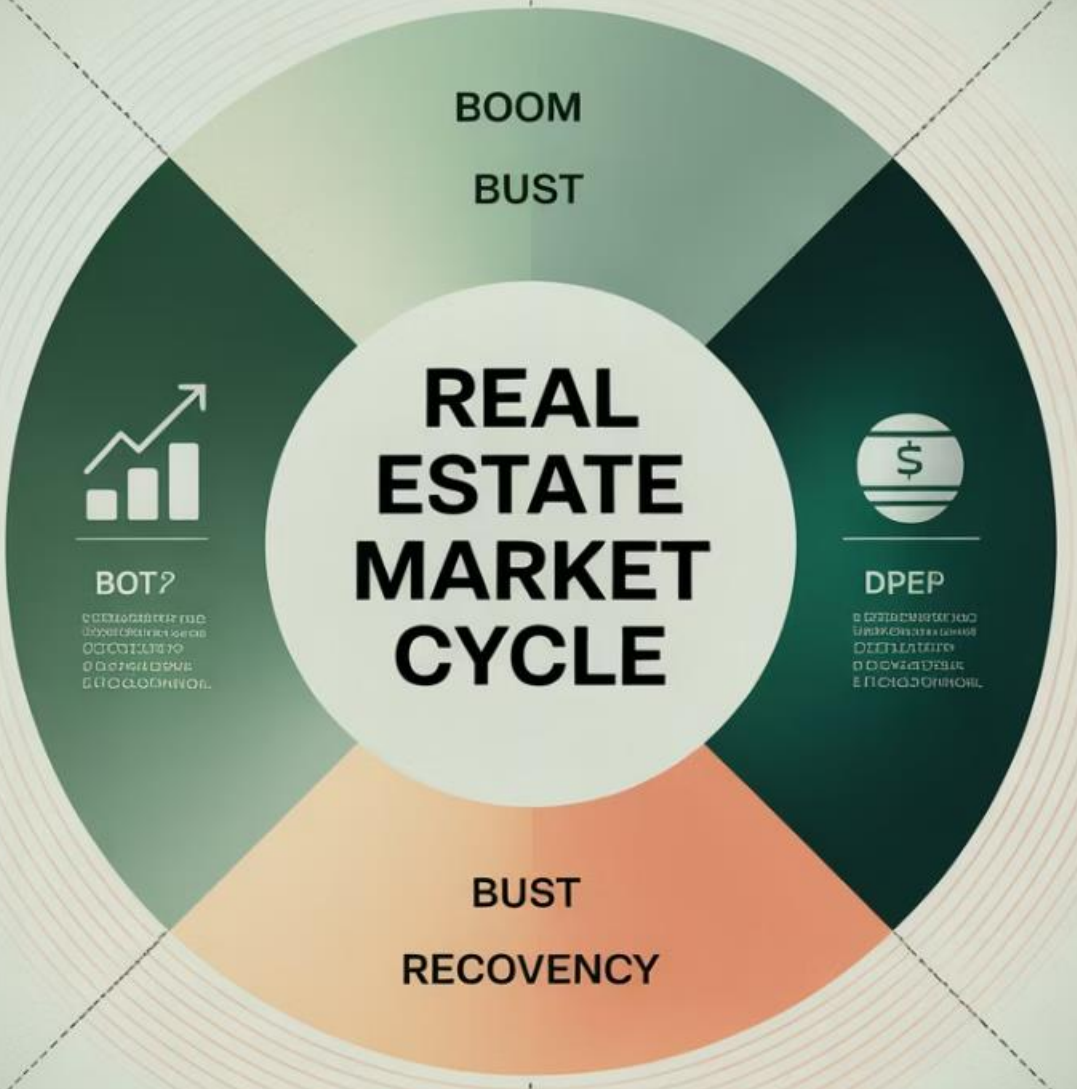
## Housing

Driven by household formation. Smaller household sizes can offset population decline. Emerging economies show strong potential as family sizes decrease.



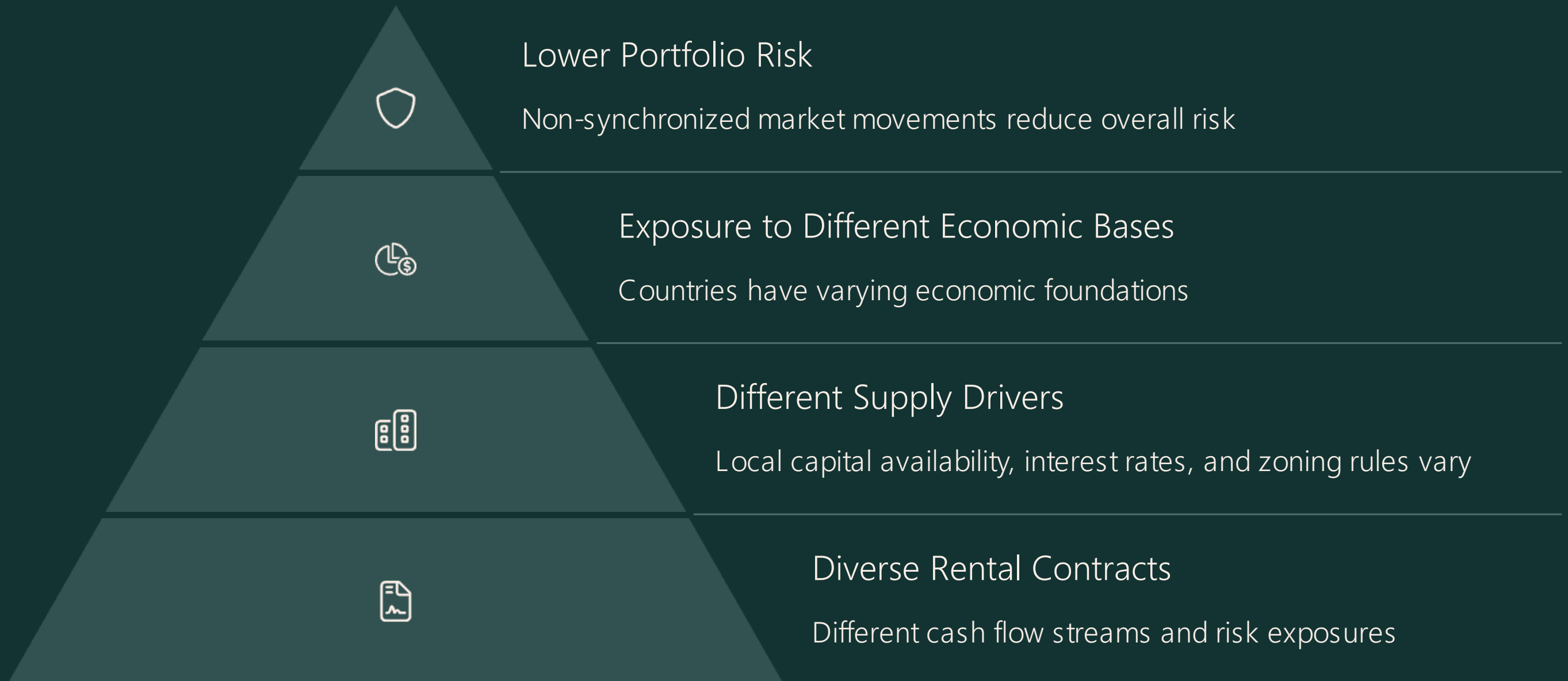


# Cyclical Return Opportunities



- 1** — **Market Timing**  
Property markets around the world are at different phases of their cycles at any given time.
- 2** — **Challenges**  
Cycles need to be predictable to implement tactical allocation policies.
- 3** — **Information Disadvantage**  
Foreign investors face difficulties making accurate predictions from afar.
- 4** — **Local Partnerships**  
Finding local partners can help align interests and navigate market cycles.

# International Diversification Benefits



## Lower Portfolio Risk

Non-synchronized market movements reduce overall risk



## Exposure to Different Economic Bases

Countries have varying economic foundations



## Different Supply Drivers

Local capital availability, interest rates, and zoning rules vary

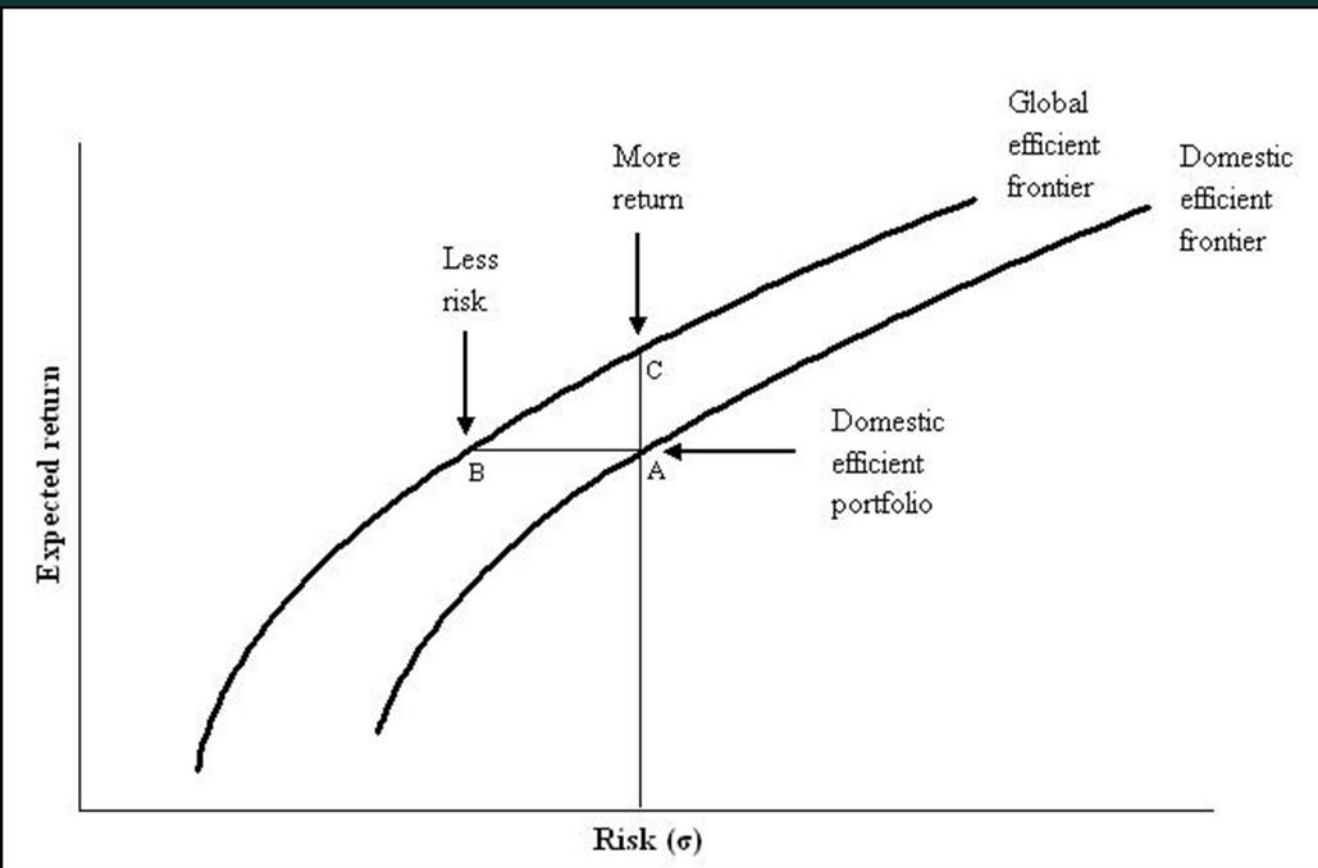


## Diverse Rental Contracts

Different cash flow streams and risk exposures



# International Correlations



GDP Growth Correlations

Generally Low

Within Europe

Higher Correlations

Across Continents

Lower Correlations

During Crises

Correlations Increase

Long-term Trend

Regional Integration

Low correlations between international markets provide strong diversification potential and this may lower risk at a given return target as show above to the left. Continental factors are becoming more important, with correlations increasing within regional blocks but not between regions.



# Managerial Considerations



## Exporting Expertise

Value of investment management know-how in emerging markets

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## Following Customers

Servicing global corporate clients across markets

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## Sector Dependence

Logistics and distribution more global than retail or residential



# Obstacles to International Investment



## Transaction Costs

Higher transfer taxes, agents' fees, and legal fees in many foreign markets.



## Information Costs

Foreign investors at an informational disadvantage relative to local competition.



## Currency Risk

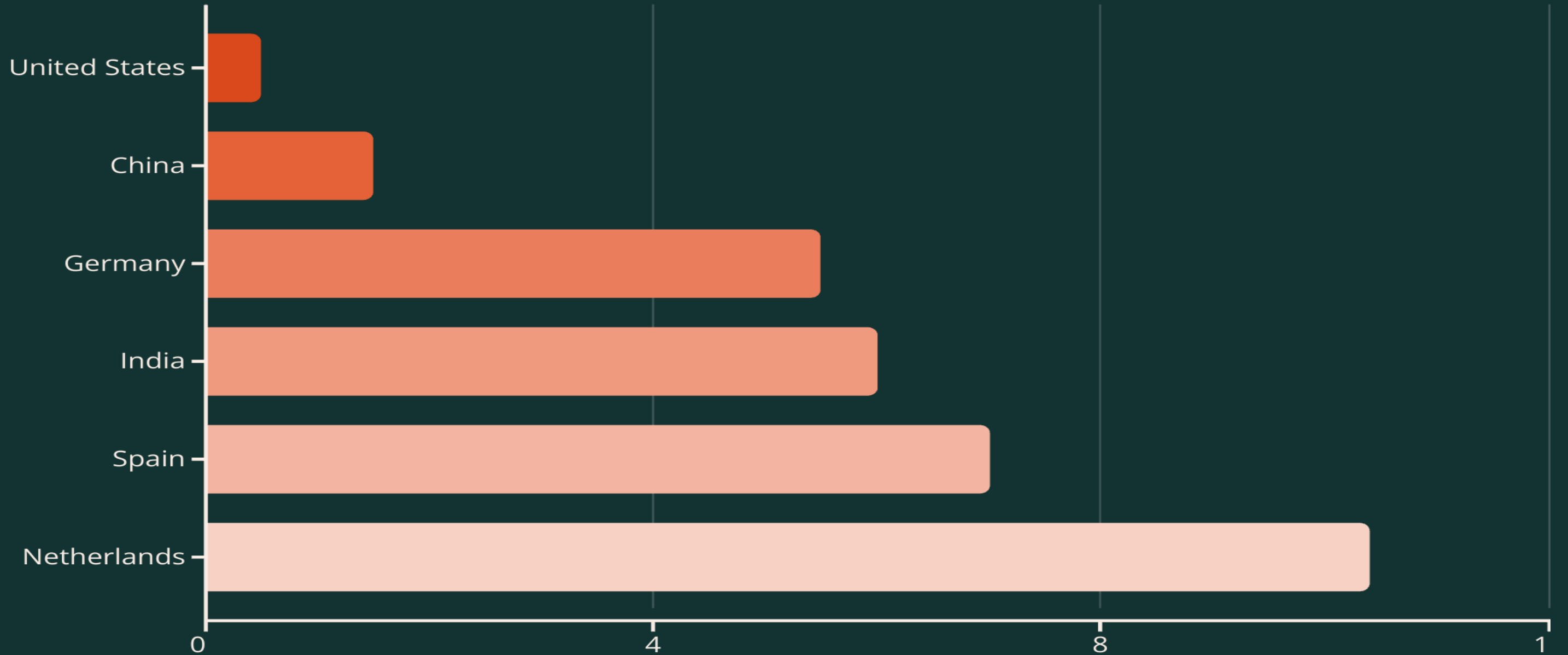
Exchange rate volatility can exceed property market volatility.



## Political Risk

Foreign investors vulnerable to regulatory changes and ownership

# Transaction Costs Comparison (% of Purchase Price)





# Foreign Investing Information Disadvantage

## Lack of Information

Foreign investors often lack critical local market knowledge

## Local Solutions

Establishing local offices or **partnerships** can help but adds costs



## Performance Impact

International property companies underperform local investors by 2.7% 2.7% annually

## Property Issues

Far-away investors often pay too much and face higher vacancy rates



# Currency Risk Management



## Unpredictable Movements

Currency movements follow a random walk and are difficult to predict.



## Natural Hedges

Local borrowing can reduce currency exposure to just the equity position.



## Currency

Analyze portfolio as a whole, including diversification effects.



## Liquid Markets

Focus hedging on liquid currency pairs to minimize costs.

# Public Real Estate Investment

## Lower Transaction Costs

REITs and property shares have much lower transaction costs than direct

## Reduced Information Asymmetry

Public markets are more efficient, allowing uninformed investors to make well-informed bets.

## Better Liquidity

Easier entry and exit, especially important during market downturns.

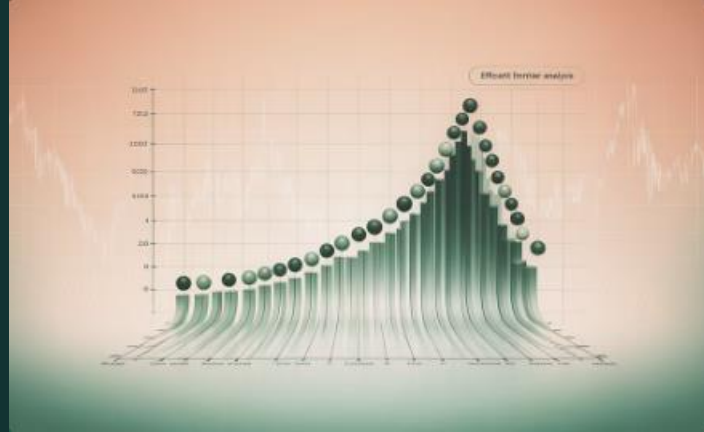
## Fewer Ownership Restrictions

Share ownership typically faces fewer barriers than direct property ownership.





# Determining Country Allocation



## Modern Portfolio Theory

Using Markowitz framework to find optimal diversification, though results can be period-specific with corner solutions.



## Index Tracking

Following global indices like FTSE EPRA/NAREIT, though market weights may not reflect economic importance.



## GDP Weighting

Allocating based on economic size, often combined with market index weights for balanced approach.

# The Home Market Concept

## Information Advantage

Investors typically have better information in their home markets, enabling outperformance in direct real estate.

The "home market" can be defined by geography or property type where the investor has expertise.

## Strategic Approach

Concentrate direct property investments in markets where you have an information advantage.

Use REITs and property shares for international exposure outside home markets.

Different optimal strategies exist for intermediary investors versus end-investors.

# Implementation Strategies



Intermediary investors (like REITs) should focus on their home markets where they have information advantages. End- (like pension funds) should combine direct investment in home markets with global REIT exposure for diversification.