

## The Investment Opportunity in Overseas Real Estate

by Trevor Callan, CEO, Callan Capital

With sub-prime lenders hitting rock bottom and residential housing in decline, real estate is fast becoming the asset of concern for many high net worth investors. However, there are still investment opportunities in the sector, particularly overseas where real estate is becoming a larger allocation for institutional investors.

Luckily for U.S. residents the investment vehicles in overseas real estate are becoming more available. REITs, which are traditionally scarce outside the United States, have gained a foothold abroad. In fact, the German government has formally approved a REIT structure and this should be a catalyst for the recapitalization of this large property market. In addition, there are several solid funds and creative investment vehicles available that focus on the two largest and potentially profitable overseas markets: Europe and Asia.

The challenge for investors is navigating the complexity that comes with investing in international real estate. Europe and Asia have a dearth of analyst coverage and lack uniform reporting from companies. In addition, there is a great deal of complexity in company types (example, multi-regional and multi-sector properties) and the nascent REIT structure in most countries is without mandatory income pass-through.

For the high net worth investor, these complexities create the inefficiencies that make this asset class particularly attractive. Highlighted below are examples of investment themes to consider for a diversified portfolio.

### Market: Singapore

Singapore has become the financial capital of the East and most global financial companies are looking to establish a beachhead there or expand an existing presence. There is also an influx of European and American ex-patriots flooding the area, increasing luxury retail and multi-family residential properties. It is common to have all three (commercial, retail, residential) in the same building in the city center. These buildings are situated with shopping centers on the lowest floors, office space above and residential quarters on the top floors.

The shortage of supply and excessive demand continues to make Singapore a very attractive market for investment even though publicly traded property companies are up 40 – 60 percent on average year-to-date and office rents have increased 100 percent year over year. Keppel Land is a key player in this market. The company owns several of the highest quality office buildings in Singapore, including One Raffles Quay – in the “new downtown” on the waterfront, with tenants such as UBS, Deutsche Bank, Credit Suisse and Barclays. Keppel Land’s stock price has nearly doubled since the beginning of the year and tripled over a 12-month period.

### International Property Fund

The European Investors International Property Fund from James Rehlaender provides parity by investing in 35-40 companies and is diversified across regions, countries and property sectors. Recently, Asia has provided the engine of growth for this fund.

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According to the International Herald Tribune, office vacancies are at a 6-year low in Tokyo. Hong Kong office rents, the highest in Asia, rose 28 percent last year, and some analysts are predicting residential prices in Hong Kong to climb more than 50 percent by the end of 2007 due to a shortage of apartments and a mortgage battle among banks. Rehlaender is ahead of this trend investing in Hong Kong and Tokyo, in addition to China and the Philippines, Singapore and Thailand. At the same time, he has been trimming his holdings in Britain and Sweden as his holdings have strengthened and reached his target prices.

The European Investors International Property Fund targets a 12 percent annualized return over a market cycle and returned 60 percent last year, the biggest gain among 15 real estate funds worldwide that invest outside of their home markets. This year the fund is up 11.5 percent through May 2007.

### **Hedge U.S. Commercial Real Estate**

Investors who may own commercial real estate in the United States and have concern over low cap rates and rising interest rates may be interested in a customized solution through BNP Paribas. Working with local investment advisors, BNP Paribas will structure a note that can serve as a hedge against declining values in commercial real estate. The note has a two-year maturity, is 100% Principal Protected and provides the ability to profit from a falling commercial market.

Essentially, the note is short the NCREIF index (commercial real estate index) and offers an approximate 850 percent participation rate (subject to final pricing). That means if the index is down 1% the note will be up approximately 8.5%. If the index is down 3% the note will be up approximately 25.5%. If the index goes up, investors will receive their principal back on the 24th month, backed by BNP Paribas.

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