UNDERSTANDING THE BARRIERS TO REAL ESTATE INVESTMENT IN DEVELOPING ECONOMIES

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Abstract

The investor's appetite for global investment has accelerated since the mid 1990s. International or cross border property investment has boomed, and indirect property investment (investing through securities such as REITs, and through unlisted funds) has become commonplace. International real estate investment through unlisted funds has become the approach of choice, and has included 'core' strategies, through which capital has been allocated largely to developed markets, and 'opportunity funds', which have also allocated capital to developing and emerging markets.

In a previous paper presented at IRERS 2008, Baum (2008a) related the number of unlisted real estate funds investing in developing economies to simple economic and demographic variables. Using all markets outside north America and Europe as an imperfect proxy for the developing world, we showed that the popularity of markets was explained largely by population and GDP per capita, but that there were interesting outlier observations - countries receiving much more, or much less, investment than the model predicted.

In this second paper in a series of three, we show that academic literature suggests that distortions in international capital flows may be explained by a combination of formal and informal barriers. Through a limited survey of investors, we have further refined our understanding of these barriers in the real estate context. This is the first such examination of the inhibitions to a free flow of cross-border real estate capital.

In a third paper we will use a more extensive survey of investors and fund managers to examine how these theories explain current practice, and will suggest specific reasons for certain countries receiving more, or less, investment than their fair share. The implications of this third paper will be relevant for investors in their choice of target markets and for governments wishing to attract more cross-border capital.

THE SIGNIFICANCE OF REAL ESTATE IN SOVEREIGN WEALTH FUNDS IN ASIA

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Abstract

Sovereign wealth funds have taken on increased importance in global investment markets in recent years. Real estate has recently taken on increased importance as an asset class for many sovereign wealth funds, with several sovereign wealth funds having significant global real estate portfolios. This paper assesses the stature of sovereign wealth funds and highlights the significance of real estate in sovereign wealth funds. It particularly highlights the significance of real estate in sovereign wealth funds in Asia and the real estate investment strategies used by sovereign wealth funds in the current global financial crisis.

Keywords: Sovereign wealth funds, real estate, Asia, disclosure, transparency, real estate activity

THE ASIAN REAL ESTATE TSUNAMI AND THE TECTONIC AFTERSHOCKS: A CASE FOR ASIAN MACRO REAL ESTATE POLICIES TO ERECT ECONOMIC BREAKWATERS BASED ON THE CHINA PROMETHEAN MODEL

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Abstract

Yiu et al (2009) seminal study undertook a historical analysis comparing the previous three asset bubble implosions namely (1) the "Lost Decade" of Japan in the 1980s; (2) the Asian Financial Crisis in Hong Kong in 1997; and (3) the Financial Tsunami in the USA in 2008, which found that the three bubble bursts coincided with periods of negative interest rates and argued that there is a strong and negative relationship between housing return and real interest rate in the three economies examined. The emergence of China post the Western Financial Crisis provided a bulwark defence against the Western Financial Tsunami that hit the shore of the Asian Pacific economies in 2009. Whilst China was affected to some degree, her economic breakwaters provided some degree of protection for the other East Asian economies. This paper will focus on systemic Western financial crises leading to cascading financial aftershocks across the Asian Real Estate markets from 2008 – 2009 with the intention to shed light where the Tectonic plates diverged and gave rise to an Asian Real Estate Tsunami. A case is made for Macro-economic policies to erect Economic breakwaters to mitigate future financial tremors based from the lessons of the Yiu study and the Promethean China model.

REVIEWING THE IMPACT OF THE 2008/2009 GLOBAL FINANCIAL CRISIS (GFC) ON INTERNATIONAL PROPERTY MARKETS AND PROPERTY PROFESSIONS

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Abstract

The global financial crisis that impacted on all world economies in 2008 has had a continuing impact on all world economies throughout 2008 and 2009. This impact has not been confined to the finance industries but has had a direct and indirect impact on the property industry worldwide from both an ownership and investment perspective.

Property markets have experienced various levels of impact from this event, but universally the greatest impact has been on the traditional commercial and industrial property sectors from the investor perspective, with investment and superannuation funds reporting significant declines in the reported values of their investments.

Despite the very direct impact of these declining property markets, the GFC has also had a very significant indirect impact on the various property professions and how these professions are now operating in this declining property market. Of particular interest is the comparison of the property market forecasts in late 2007 to the actual results in 2008/2009.

Keywords: Global Financial Crisis, property markets, property professions, commercial property, industrial property, residential property

IMPLICATIONS OF THE GLOBAL FINANCIAL CRISIS FOR PROPERTY INVESTMENT

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Abstract

The global financial crisis has had a major impact on international property markets with a sharper focus on prime income producing properties at the expense of secondary locations and the prospects for capital value uplift.

The paper assesses the impact of the global financial crisis on commercial property investment decision making. Macroeconomic and property data (NCRIEF for US and IPD for UK) are utilised to analyse trends in the general economy and property returns in order to demonstrate the impact of the financial crisis.

The implications for returns and also for risk are considered in relation to the new financial climate for investment. The financial crisis has adverse implications for investment strategies for both prime and secondary property with the latter in terms of major urban renewal projects being most highly impacted in the short run period.

SURVIVING THE ECONOMIC CRISIS:
CAN CREATING 'ECO-TOWNS' HELP THE REAL ESTATE SECTOR?

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Abstract

Like most major economies aiming to attract knowledge based industries, the UK has sought (prior to the onset of the global economic crisis) to address chronic real estate shortages by planning for more housing, built to modern environmental standards. In June 2008, the UK Government's National Housing and Planning Advice Unit called for 297,700 new homes delivered per annum. However, the credit crunch has thwarted this ambition, at least in the short term. With a mere 75,000 new homes built in 2008, and a lower number in 2009, this target will almost certainly be missed for the 2016 finish line.

The UK Government's eco-town programme has invited considerable controversy. Advocates argue that this programme is a necessary step to help kick-start an economy where one-fifth of the GDP is tied to Real Estate activities; and to lead the way towards low-carbon sustainable living. In contrast, opponents see eco-towns as another socio-economic experiment with uncertain outcomes.

Drawing comparisons with the legacy of the post-war 'new towns' programme in the UK, this paper will examine the organisation and finance structure of the current eco-town programme. The paper concludes that, whilst the eco-towns programme may eventually succeed, the UK has missed an opportunity to maximise the projected benefits from the programme, by opting entirely for new settlements, and not including existing housing stock.

A more serious concern raised in this paper focuses on the low level of public sector involvement in financing eco-town developments. How realistic is it to facilitate private sector engagement in the development of new settlements, without significant public co-funding, especially when trying to achieve sustainable communities? A private sector led development will naturally seek to vary the scale and pace of development to suit market conditions; and the profit margins of the bidding developers will be the most decisive determinant in the development process especially under limited credit availability. In the current economic climate, raising capital will be a massive challenge to developers because no matter how buoyant the eventual market might be, both banks and the Real Estate sector are still afraid that a repeat disaster may not be far away.

There is little dispute that the financial cost of developing an eco-town will be enormous for the Real Estate sector, so there must be sufficient public financial backing. Higher levels of public-private partnership, similar to those employed in the past (following the Town Development Act 1952, for example, in the UK) may be the best way forward. Experience from Singapore, Malaysia, and other countries, points to this model of investment as potentially the best way forward for the Real Estate industry, especially where social and environmental agendas are also involved.