GLOBAL PERSPECTIVES ON PROPERTY BENCHMARKING

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ABSTRACT

The recent increase in international property investment has seen an increased need for global property benchmarking to ensure more informed property investment decision-making. This paper will review a range of global property benchmarks in both the direct and indirect property sectors. Given the increasing focus on property investment in Asia, the need for more extensive and relevant property benchmarks for Asia is discussed, with priority areas for new Asia property benchmarks identified.

Keywords: Property benchmarking, international, direct property, indirect property, Asia

INTRODUCTION

With global investible property estimated to be over $17 trillion, there has been increased emphasis on international property investment in recent years. Key indicators of this increased global property context include:

- of the $759 billion in global commercial property transactions in 2007, 46% were cross-border; an increase of 21% on 2006 cross-border levels (JLL, 2008)
- significant growth in global REIT markets; this saw over 490 REITs with a market cap of £323 billion at January 2008 (AME Capital, 2008)
- over 250 global property securities funds with over $81 billion in funds under management
- major property players with increasingly global mandates; eg: ING ($115 billion), Prudential ($62 billion), RREEF ($44 billion)
- significant growth in pension fund assets (>$10.4 trillion); eg: Government Pension Investment (Japan) @ $936 billion, Government Pension (Norway) @ $294 billion, ABP (Netherlands) @ $274 billion
- significant growth in funds under management (>$64 trillion); eg: UBS ($2.5 trillion), Barclay ($1.8 trillion), State Street ($1.7 trillion)
- expanding role by sovereign wealth funds; eg: Abu Dhabi Investment Authority, GIC (Singapore), Government Petroleum Fund (Norway).

Importantly, Asia has taken on a more significant role amongst international property investors. This reflects issues including portfolio diversification, lack of local opportunities, growth in funds, potential higher returns and under-performance in local mature markets. Key indicators of this increasing Asia focus include:

- Asia accounting for 20% of the world's investible property
- expanding range of property investment vehicles in Asia, including listed property companies, REITs, unlisted funds, property securities funds, hybrid funds
- development of professional associations in Asia representing listed property (Asian Public Real Estate Association: APREA) and unlisted property (Asian Real Estate Association: AREA)
- improved property market transparency in Asia
- rapid growth in Asia REIT market, with over 100 Asia REITs now available, with the major REIT markets in Japan, Singapore, Hong Kong and Malaysia etc accounting for 11% of global REIT market cap
- rapid growth in Asia listed property company market, with over 757 listed Asia property companies, accounting for 45% of global market cap; similarly, listed property companies in the emerging Asia countries account for 14% of this global market cap
- Asia accounting for 28% of the FTSE EPRA/NAREIT global property securities index, compared to US (37%), Australia (13%) and UK (8%)
- recent research showing the added-value benefits of Asia property investment and different dynamics compared to the traditional mature markets (eg: US, UK).

With this increased focus on international property investment, the availability of global property benchmarks is essential for more informed property investment decision-making. This sees investors able to compare the performance of property investments with other asset classes, compare the performance of property across countries, examine investment performance (eg: risk, portfolio diversification) and trends, optimise performance of property portfolios and market funds to potential investors (eg: pension funds).

This paper will review the range of global property benchmarks in both the direct and indirect property sectors. Given the increased focus on property investment in Asia, the need for more extensive and relevant property benchmarks for Asia is discussed, with priority areas for new Asia property benchmarks identified.

DIRECT PROPERTY BENCHMARKS

Property Performance

A number of direct property performance benchmarks are now available; largely produced by IPD, with NCREIF producing the US index (see Table 1). In particular, this sees direct property benchmarks produced for over 22 individual countries, as well as regional benchmark indices (Nordic, Pan-European, global) (see Table 2).

Key factors in these direct property benchmarks are:

- short timeframe for most direct property benchmarks, compared to other asset classes in these countries
- varying frequency of reporting, ranging from monthly, quarterly, six-monthly and annual; most are annual
- typically 2-4 month lag before release
- valuation-based performance, with potential impact on performance analysis; eg: market lags, appraisal-smoothing

- varying levels of market coverage; eg: UK (42%), Australia (39%), France (59%), Sweden (34%), Germany (21%), Japan (19%)

- specialist property benchmarks also available in some countries; eg: farmland, timberland, residential, regeneration

- significant under-representation in Asia, with only Japan (2002+) and Korea (2007+) included; this largely reflects market size, investor concentration, development-focus, lack of longer-term institutional investor involvement in these Asian markets

- use of these direct property benchmarks in property derivative products; eg: UK, US, Australia, Japan.

Table 1: International direct property benchmarks

Country	Start date	Number of Properties	Capital Value
US	1978	5,711	$309B
UK	1971	12,137	€285B
Australia	1984	749	€ 56B
Austria	2004	908	€ 8B
Belgium	2005	227	€ 5B
Canada	1986	2,050	€ 48B
Denmark	2000	1,222	€ 12B
Finland	1998	2,830	€ 17B
France	1998	7,518	€100B
Germany	1996	2,938	€ 54B
Italy	2004	840	€ 14B
Ireland	1984	325	€ 6B
Japan	2002	1,048	€ 28B
Korea	2007	70	€ 2B
Netherlands	1995	5,669	€ 45B
New Zealand	1989	292	€ 4B
Norway	2000	497	€ 11B
Portugal	2001	587	€ 8B
South Africa	1995	2,478	€ 12B
Spain	2001	549	€ 16B
Sweden	1997	1,027	€ 22B
Switzerland	2002	3,478	€ 29B

Source: IPD (www.ipindex.co.uk), NCREIF (www.ncreif.com)

Table 2: Regional direct property benchmarks

Region	Start date	Number of Properties	Capital Value
Nordic	2000	5,576	$ 62B
Pan-European	2001	40,234	€625B
Global	2001	52,493	€964B

Source: IPD (www.ipdindex.co.uk)

Property Market Transparency

Assessing property market transparency is important in the broader investment context for international property investors. The Jones Lang LaSalle Real Estate Transparency Index assesses property market transparency across 56 countries, based on availability of investment performance indices, availability of market fundamentals data, listed vehicle financial disclosure and governance, regulatory and legal factors, and professional and ethical standards.

The resulting property market transparency index (scored 1 to 5) comprises the five categories of:

- highly transparent: 1.00 to 1.49 (10 countries)
- transparent: 1.50 to 2.49 (14 countries)
- semi-transparent: 2.50 to 3.49 (17 countries)
- low transparency: 3.50 to 4.24 (10 countries)
- opaque: 4.25 to 5.00 (3 countries).

Table 3 presents the property market transparency index for the 56 countries assessed. Australia is the world's most transparent property market, with significant improvements in transparency evident for many countries in Asia. In particular, Hong Kong (#6) and Singapore (#10) are now classified as highly transparent property markets, partly reflecting the recent introduction of REIT markets in Hong Kong and Singapore. Similarly, Malaysia, Japan, Taiwan, Korea and India all improved their property market transparency. Several of the emerging property markets in Asia still have low levels of property market transparency, including China and Indonesia (low transparency) and Vietnam (opaque).

Table 3: JLL global real estate transparency index

Highly transparent:
Australia, US, New Zealand, Canada, UK, Hong Kong, Netherlands, Sweden, France, Singapore

Transparent:
Finland, Germany, South Africa, Denmark, Austria, Ireland, Belgium, Spain, Switzerland, Norway, Italy, Malaysia, Japan, Portugal

Semi-transparent:
Mexico, Czech Republic, Hungary, Poland, Israel, Taiwan, South Korea, Slovakia, Chile, Greece, Russia, Philippines, Brazil, Slovenia, Thailand, Argentina, India

Low transparency:
China, Macau, UAE, Costa Rica, Indonesia, Turkey, Peru, Romania, Colombia, Uruguay, Saudi Arabia, Panama

Opaque:
Egypt, Venezuela, Vietnam

Source: JLL (2006)

LISTED PROPERTY BENCHMARKS

The ready availability of REIT and listed property company performance information sees a wide range of listed property benchmarks, both at a local and global level. These include:

- US REITs: NAREIT
- Australian LPTs: UBS
- European REITs: EPRA,

with global REIT benchmarking reports also produced by S&P and AME Capital. In particular, AME Capital produce a monthly global REIT report, with detailed performance analyses done at a local, regional and global level; see Table 4. Equivalent monthly reports are also produced by AME Capital for global property companies (see Table 5) and global property securities funds, with sophisticated benchmarking analytics available (see Table 6).

(investment phase, mature phase, wind-down phase) and gearing level (low @ < 50% NAV, medium @ 50-150% NAV, high @ > 150% NAV) are available.

Similarly, IPD produce a quarterly UK pooled property fund index, based on 62 property funds with NAV of £39 billion at December 2007.

With the growth in unlisted property funds in Asia (currently 170 funds with $93 billion in assets), the establishment of the Asian Real Estate Association in 2005 will see the future development of unlisted property fund performance benchmarks for Asia.

SUSTAINABILITY BENCHMARKS

Sustainability has taken on increased importance in recent years within the property industry; eg: property companies. With the development of a range of international sustainability performance measures, many property companies are international leaders in sustainability and have been included in these international sustainability benchmarks to highlight their strong leadership role in the sustainability agenda at a global level.

These international sustainability benchmarks include:

FTSE4Good Index

710 companies are included in the FTSE4Good index, of which 46 are property companies (6.5% of companies included). These property companies are largely UK (50%), Australia (14%) and US (14%). 11% are Asian property companies, comprising:

- Japan (4): Aeon Land, Mitsubishi Estate, Mitsui Fudosan, Tokyu Land
- Singapore (1): CapitaMall Trust

Dow Jones World Sustainability Index

316 companies are included in the DJWSI, of which 13 are property companies (4.1% of companies included). These property companies are largely from Australia (38%) and UK (31%); only Mitsubishi Estate (Japan) is included from amongst the Asian property companies. Land Securities (UK property company/REIT) is the property sub-sector leader, as well as being the financial services sector leader.

Global 100

4 property companies are included in the 2007 most sustainable corporations globally; UK (2), France (1) and Australia (1). No property companies from Asia are included in the Global 100.

Carbon Disclosure Project "Climate Leadership" Index

The Carbon Disclosure Project (CDP) assesses corporations regarding climate change. Companies provide on-line data on climate change strategies, greenhouse gas emissions levels and management, and climate change governance. The CDP Climate Leadership Index represents the top third of companies regarding their responses. Regional CDP reports are prepared (eg: Australia, UK, Japan, India, Asia ex-Japan). Australian LPTs are well presented in the Australia CDP report, comprising 4 out of the 20 companies (20%) in the CDP Climate Leadership benchmark for Australia. Asian property companies (Malaysia, Singapore, Hong Kong) were not well presented in the CDP Asia report.

OTHER PROPERTY BENCHMARKS

In addition to the various quantitative benchmarks for property performance, a range of qualitative benchmarks are also available; particularly concerning international best practice in various aspects of property and the investment rating of property funds.

Best Practice Benchmarks

The European Public Real Estate Association (EPRA) produces best practices policy recommendations for listed property companies in the areas of:

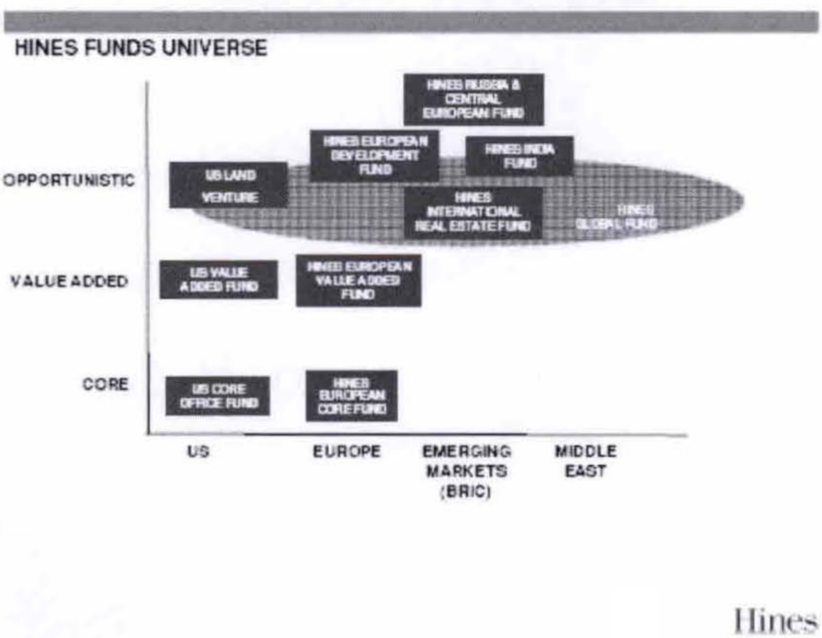
- general items
- accounting and valuation principles
- presentation of accounts
- disclosure
- performance reporting
- NAV and EPS calculations.

International. This includes Hines Canada (27 staff), Hines Europe/MENA (236), Hines Eurasia (276), Hines Asia (296), Hines South America (132), and Hines Mexico and Central America (192). Hines focuses on applying Western best practice on a global scale, and cites construction techniques, accounting standards, operating partner transparency and sustainability as the key issues. Citing expected world population growth as a key driver of business development strategy, Hines has put a lot of effort into accessing emerging markets, with operations in Mexico, Brazil, Abu Dhabi, India, Russia, Turkey, Ukraine, Poland and China.

The Hines preferred model for accessing new markets is to operate as a for-fee property manager and asset manager, and (possibly later) a development manager. These activities enable Hines to grow a significant local staff base before offering development and asset management expertise to joint venture partners and/or launching a private fund. Only very rarely does Hines use family capital to enter a new market through speculative development, preferring (as in Abu Dhabi) to be invited in by a prospective partner requiring development expertise.

New funds are now launched regularly across the risk spectrum and across the globe. Hines co-investment capital is strictly restricted and 10% is a likely maximum equity provision by the company. The Hines funds universe is shown in Figure 8. It is notable that the funds are mostly in the higher return range, and are closed ended structures. The initial equity capital was provided by US investors familiar with the US business, but has since extended to European capital.

Figure 8: the Hines funds universe



Corruption
To assess corruption in the various countries, the Transparency International Corruption Perception Index is available (TI, 2007). This corruption index is assessed annually for 163 countries by TI on a 1 to 10 basis.

The TI corruption ratings for selected countries were:

#1: Finland	#5: Singapore
#6: Sweden	#9: Australia
#11: UK	#15: Hong Kong
#16: Germany	#17: Japan
#18: France	#20: US
#44: Malaysia	#63: Thailand
#70: China	#111: Vietnam
#121: Russia	#130: Indonesia.

EXPANDED PROPERTY BENCHMARKING IN ASIA

The increased role of international property investment has seen the need for more relevant and comprehensive property benchmarks in Asia. This sees the need for:

- direct property benchmarks for developed markets in Asia, including Hong Kong and Singapore; eventually expanding to other major Asia property markets such as Kuala Lumpur. These would be important additions to the IPD portfolio of global property indices

- indirect property benchmarks for REIT markets in Asia, including Hong Kong, Singapore and Malaysia. This will include the future development of specialist REIT benchmark indices, such as Islamic REITs in Malaysia and pan-Asia REITs

- an expanded role by the professional property associations in Asia, including APREA (Asian Public Real Estate Association; www.aprea.biz) and AREA (Asian Real Estate Association; www.asian-real-estate.org). This will see expanded performance information available for Asia comparable to that seen produced by NAREIT, EPRA and INREV

- "value-added" analysis of Asian REIT markets with advanced analytics and investment ratings by local players; equivalent to that currently done by AME Capital (UK) and PIR (Australia).

All of the above benchmarking initiatives will further improve the depth and quality of the information available to local and international property investors to enhance their decision-making regarding investing in the property markets in Asia.

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