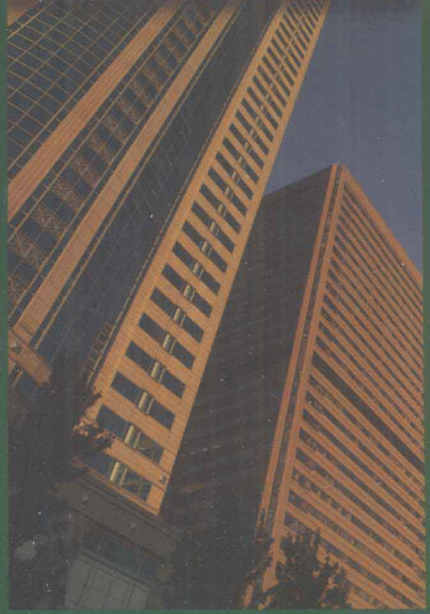


REAL ESTATE ISSUES



Global Trends in Real Estate Finance

Edited by

Graeme Newell & Karen Sieracki

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Preface

Recent years have seen international property emerge as an increasingly important element in a property portfolio for a wide range of property investors, both in terms of nationality and type. This is reflected in 32% of the \$1 trillion in global commercial property transactions in 2007 being cross-border, as well as global REIT markets now established in over 20 countries in the USA, Europe and Asia-Pacific. International property investment has clearly transformed the property landscape in terms of property players, products, markets and structures. The details below give a snapshot of these exciting international property investment developments, as well as a context for this book.

All major property players now have a diverse range of both listed and unlisted property products with different risk profiles to meet the global mandate for many property investors. The capital flows to property from pension funds, managed funds, both public and private property companies, private equity and syndicated vehicles in recent years have been significant; particularly as many investors saw themselves as underexposed to property. Private equity funds and sovereign wealth funds (SWFs) have also taken on an increasingly significant role, with SWFs such as Abu Dhabi Investment Corporation and GIC having substantial global property portfolios. As the avenues for property investment have increased, investment in property has been made more accessible to the individual.

Similarly, REIT markets have truly become global markets in the last 6 years. This has seen the traditional major REIT markets of the USA and Australia now accounting for only 64% of global REIT market capitalisation. This now sees over 500 REITs globally in 20 countries, with a market capitalisation of over £330 billion. Importantly, major REIT markets have now been established in France, UK, Japan, Singapore and Hong Kong, providing investors with extra listed property investment opportunities compared with only listed property companies previously. This has also driven the rapid growth in over 250 global property securities funds with strong international agendas. This diversity of property products has been further evidenced by the development of property derivatives and the use of sophisticated property financing products, including commercial mortgage backed securities.

Fundamental to this growth in international property investment has been the emergence of new property investment markets, as these emerging property markets have improved their economic competitiveness, market transparency, legal frameworks and financial structures. This has seen these emerging property markets become increasingly important to

international investors, as they seek portfolio diversification and expected higher returns, resulting from the strong growth in available funds needing to be invested in property globally and the lack of local property investment opportunities. Property markets in China and India have become a high priority for global property investors, as well as the property markets in Eastern Europe, Russia, South America, Latin America and the Middle East. This sophistication is reflected in property investors now subclassifying China, India and Russia into Tier 1, 2 and 3 property markets, as well as core, value-add and opportunistic property funds being established to reflect the different risk appetites for global property investors.

International property investment decision-making has been further enhanced by professional associations such as EPRA, INREV and APREA providing enhanced professional property developments and property networks in Europe and Asia. Similarly, the level of property performance information has improved considerably in recent years; for example, IPD now report direct property performance in over 20 countries. Property has now come of age after waiting on the sidelines for over 30 years. It is on the global investment table now and has the necessary infrastructure for its continued support and maintenance. These important developments have also resulted in property career opportunities in many of these property markets in key areas such as property fund management, investment banking, asset consulting and property research.

Overall, these exciting developments in international property investment and finance have seen a vibrant international property investment scene in recent years. However, the global credit crisis in 2007–2008 has clearly impacted on property at a global level and has seen significant reductions in property investment activity in 2008, as well as a significant deterioration in REIT markets at a global level. Property is an asset class which is capital intensive and which is inextricably linked to the capital markets. In particular, commercial property transactions are down 49% in the first half of 2008 compared to the first half of 2007, and REIT market returns for the last year (to August 2008) have seen significant underperformance in all REIT markets (e.g. Australia, Japan, UK, Singapore, France). Similarly, the debt markets for property (e.g. CMBS) have quickly stalled.

It is in this dynamic, but challenging, context of international property investment that we have put this book together on international property investment and finance. The key objective is to enhance our understanding of these global property investment and finance initiatives and issues that have shaped global property in recent years and that will continue to do so.

To achieve this goal, we have drawn upon the collective knowledge and wisdom of a diversified international portfolio of leading property academics and leading property professionals with extensive expertise in these key areas of global property investment and finance. They have each provided

incisive chapters on a diverse range of the key ingredients in global property investment and finance that have helped shape global property investment now and into the future.

In putting this book together, we have not only focused on the various property products in these different markets, but we have also identified the key property processes that will continue to shape international property investment. Key areas include sustainability, corporate governance, Shariah finance and the challenges of preparing the next generation of property professionals in these property markets. It is a changing world, and property has kept pace with the challenging macro and micro conditions with innovation and adaptability.

We hope that this book provides an exciting context for the increasingly important role of international property in property portfolios; particularly as we move forward in resolving many of the property issues flowing from the current global credit crisis.

We would like to thank the authors who have kindly contributed to this important text; their insights into the key areas of international property investment and finance have added a real richness to this text. We give our special thanks to Stephen Brown, Head of Research at the RICS, who helped and encouraged us from the inception of the idea for this book to its final manifestation. Also, our thanks to Blackwell and IRES for facilitating this text.

We hope you enjoy reading this book and using it to inform property students, academics and the property industry and the investment community from institutions, advisors to the general public about the increasingly important role of international property investment and finance.

Graeme Newell and Karen Sieracki

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