

Asia emerges as global leader for reits returns

Mark Cobley

As the UK moves closer to its real estate investment trust structure, with legislation expected to be presented to the House of Commons next month, property investment around the world goes from strength to strength.

The best investment vehicles have seen total share returns of over 100% in the year to March 31, according to real estate analysis group AME Capital. Seven of the top 10 largest property investment companies in the world are Asian.

The global listed property sector's market capitalisation is more than £837bn (£1.21 trillion), of which £307bn are reits, according to AME's research and Bloomberg. Over a year, the best performing was Colonia Real Estate, a German property group that invests in high-yield residential and commercial real estate in Europe. The company, with a capitalisation of €489m, achieved 1,187% in shareholder returns over 12 months and is confident about completing new investments worth €500m this year.

Alex Moss, co-author of the AME report, said: "The figures reflect the investment appetite and growth prospects in two emerging markets, China and India, and one developed market, Japan, where rental growth has finally shown evidence of recovery. Further liquidity is expected to be added to the Indian market next month with the flotation of DFL Universal. Some commentators have suggested it could raise up to \$3bn (£2.3bn)."

China's surging real estate market has led Asia to dominate the top of AME's rankings among property companies and reits with a market capitalisation of more than £1bn. The top three companies operate in mainland China. Two smaller Indian groups, Ansal Properties & Infrastructure and Mahindra Gescro Developers, occupied the third and fifth spots in the rankings for groups with a market capitalisation between £100m and £1bn.

Hong Kong-listed group Hopson Development Holdings led the pack, with total share returns of 374% for the year. It invests in the development of large-scale residential properties in cities such as Guangzhou, Beijing, Tianjin and Shanghai.

China Overseas Land & Investment, the country's largest devel-

Schroders' chief warns on trust performance

Mike Foster

William Hill, head of property at Schroders, has warned that the launch of UK real estate investment trusts next year may lead to disappointment.

Hill is concerned that the market could peak by next year, as the yield premium enjoyed by real estate over bond returns evaporates.

He said: "The market could peak next year. I am concerned that a lot of people could end up buying badly structured reits worth less than £100m (£145m) and see their shares go to a discount."

Hill believes reit issuance will be substantial because the UK government is imposing only a 2% charge on property companies that want to convert. He said:

"Through that charge, property companies will enjoy the biggest free lunch they will ever have."

By turning themselves into reits, companies will no longer pay capital gains tax on their real estate portfolios. Instead, reits pay the rental income they generate by way of dividends, which are taxed.

Hill notes investors are keen to invest in specialist sectors led by shops, offices and industrial space. Property companies are likely to carve specialist sectors out of their own portfolios to boost the value of their reits. One analyst said: "Some of the UK's largest companies, such as British Land and Land Securities, will largely be broken up."

oper, which invests in properties in Hong Kong, Macau and other regions, came second in the rankings. It returned 239.3% over the year to May 31 and in March revealed a 43% jump in profit for 2005. It expects to make \$1.3bn of real estate sales in China this year. The third-best performer was Shenzhen-based China Vanke, which develops residential properties in 18 cities in the country.

Four of the top 10 groups are Japanese, including the office and condominium-focused Sumitomo Realty & Development, which returned 129%. CB Richard Ellis group, one of the world's largest property companies with a market capitalisation of \$6bn, was in seventh place with returns of 105%.

Barclays Capital launched its first sterling Asian real estate income fund last week. The fund is targeted at professional investors and aims for a gross yield of 9% a year. Alex Robinson, director of Barclays Investor Solutions, said: "We have investors keen to maintain exposure to Asia due to strong macro-economic fundamentals but that are concerned valuations in Asian equities have become high.

We also have clients who want to diversify from UK property where the yield premium over gilts has become fairly small."

China topped AME's country rankings for markets with a capitalisation above £5bn, with property returning 61.5% on average. Japan came second, with returns of 57.6%, closely followed by Spain and Germany. At the bottom of the table, Union Properties, a United Arab Emirates-based real estate investor, turned in a return of -43.3% over the year, while the US's St Joe Company posted a -39.8% return. Middle Eastern real estate markets suffered in general, with the United Arab Emirates, at -4.8%, the worst-performing large market, and Oman, Qatar and Bahrain, the worst three smaller markets.

The \$8.9bn sale of Trizec, one of the biggest US reits, to rival Brookfield and private equity group Blackstone last week, suggests there are mixed views of the property market in the US.

Of the bottom 10 worst-performing large groups in AME's survey, five are US-based, as are six of the bottom 10 small groups.

Top five market caps above £5bn

| Country | 1 year return (%) | Global weight |
|-----------|-------------------|---------------|
| China | 61.5 | 2.0 |
| Japan | 57.6 | 10.0 |
| Spain | 49.4 | 1.9 |
| Germany | 45.6 | 1.3 |
| Singapore | 41.5 | 2.9 |

Source: AME Capital

Bottom five market caps above £5bn

| Country | 1 year return (%) | Global weight |
|---------|-------------------|---------------|
| Austria | 12.8 | 0.9 |
| Belgium | 7.6 | 1.4 |
| Sweden | 5.4 | 1.0 |
| Kuwait | 2.1 | 1.0 |
| UAE | (4.88) | 2.0 |

Source: AME Capital