

BUSINESS

Investment Trends: REITS still Strong elsewhere in world, 1D

REITs still strong elsewhere in world

By KATHLEEN GALLAGHER
kgallagher@journalsentinel.com



Don't rule out real estate investing.

The U.S. housing market may be faltering, but real estate markets in some other parts of the world are going strong, says Ed

McIlveen, director of performance analytics and research at Francis Investment Counsel LLC, an investment consulting firm in Pewaukee.

"Even with recent concerns about subprime loans, the credit crunch and the question of whether things are slowing, there's still the emergence and strengthening of the middle class globally," McIlveen said.

Take China, for example. That country is experiencing a huge movement of rural residents to urban areas - and those people are searching for new places to live, work and vacation, McIlveen said.

Not only are countries like China experiencing tremendous growth, interest rates in many parts of the world are relatively low, making it more affordable to finance real estate transactions, he said.

U.S. investors have for many years put money into real estate through real estate investment trusts. REITs trade like stocks and use investor money to build portfolios of real estate property or mortgages. They avoid paying corporate taxes as long as they distribute 90% of earnings to investors, and they don't have to pay corporate tax on built-in gains when they sell assets.

Countries like the U.S., Canada, Thailand, Malaysia, Japan and Singapore have some kind of REIT structure in place.

A host of others, including Brazil, Finland, India and the Philippines, are considering legislation to allow REIT structures, McIlveen said.

"We've got a growth story here - a strengthening middle-class and now a structure that is more open. . . . When there's

more openness and transparency, investors are interested and will reward that," McIlveen said.

Domestic REITs are expected to turn in average annual earnings of 8% to 9% during the next few years, according to UBS and other sources. Publicly traded international real estate organizations are expected to have earnings between 11% and 15%, with some of the highest rates in developing countries. Latin American real estate, for example, is expected to earn 33% a year; Thailand, 20%; and Malaysia, 18%, according to those sources.

McIlveen says he wouldn't buy individual REITs in other countries. Navigating international real estate markets is too risky for that. Individual investors are much better off buying mutual funds that invest in REITs around the world, he said.

Here are three international REIT funds McIlveen says he's been recommending:

- **Alpine International Real Estate Equity Fund** (EGLRX, \$43.53) is managed by Alpine Management and Research LLC in Purchase, N.Y.

This fund has one of the longest international real estate investing track records in the industry, McIlveen said. It has a value orientation and has historically invested more in small and mid-cap stocks, he said.

- **Cohen & Steers International Realty Fund Inc.** (IRFAX, \$18.11) is managed by Cohen & Steers Capital Management Inc., New York.

This fund's managers have deep experience in real estate investing and a solid understanding of valuations and the nuances of real estate, McIlveen said. The fund hasn't dipped as much into emerging market investments as the other two, he said.

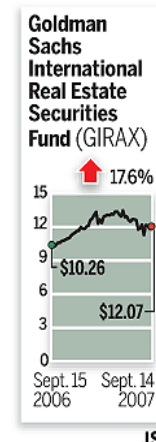
- **Goldman Sachs International Real Estate Securities Fund** (GIRAX, \$12.07) is managed by Goldman Sachs Asset Management LP in Chicago.

Although it is only about a year old, this fund has an experienced management team that understands the ins and outs of international investing, McIlveen said. The team also has a

"robust research engine" in selected markets around the globe, he said.

"In Hong Kong, what's important to investors is different from what's important in Europe. Having teams around the globe is really important," McIlveen said.

This Goldman Sachs fund has a 1.53% expense ratio and charges a 5.5% load. But it's possible to get that load waived if your financial adviser has a good relationship with Goldman, McIlveen said.



JS

International real estate investing is a new concept, but this category is much more diverse than it was, say, 10 years ago. The FTSE EPRA/NAREIT Global ex US Total Return Index, which contains

real estate stocks outside the U.S., includes securities from 22 countries, compared with just a handful of countries 10 years ago, McIlveen said.

There are possible scenarios that could dramatically slow global growth. Terrorist attacks or government policies to staunch growth could seriously hurt international real estate, as could rising interest rates, he said.

Returns in this category have been very strong, and at some point, there will be a correction, McIlveen said. Real estate management teams might also fail to execute correctly, and a period of stagflation where inflation rose and growth slowed, would result in higher vacancy rates and lower rents, he said.

McIlveen is recommending the Goldman Sachs fund to clients and says it could provide an annual total return of as much as 12% during the next five years.