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Global Real Estate: Is There Still Opportunity Ahead?

A *Research Insights* White Paper from Janus
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Following is an Executive Summary from Janus' Global Real Estate White Paper. Read full white paper.

The emergence of real estate as a relatively mainstream asset class has given fresh meaning to the adage that "all real estate is local." Many institutional investors have included an allocation to real estate for quite some time, but the real growth in the global real estate asset class has occurred more recently. This growth has been largely due to funds flowing from both institutional investors and private equity concerns.

Snapshot of the Asset Class

Total non-U.S. institutional and retail real estate assets under management excluding direct real estate investments rose from $126 billion in 2003 to $193 billion in 2006.[1] In the U.S., institutional real estate assets under management rose from $175 billion to $279 billion during the same period,[2] while retail assets under management nearly tripled over that time.[3] The global real estate fund market has also experienced growth, with the number of mutual funds increasing from 68 at the beginning of 2006 to 153 as of March 2007.[4]

Potential Benefits and Risks

Global real estate holdings[5] offer portfolio diversification, and have historically increased total return or lowered overall risk as measured by standard deviation across both equity and fixed income holdings.[6] The asset class may also provide cash flow stability, which is largely attributable to the long duration of the majority of tenant leases.

However, there are a number of challenges to navigate, one of the most significant being the sizeable capitalization rate compression that has resulted from escalating amounts of capital flowing into the sector. Despite these challenges, we believe there are numerous compelling reasons to consider an allocation to global real estate. In our view, a number of current global structural drivers—including increased market access, liquidity and transparency—suggest there are still attractive opportunities around the globe.

Ways to Invest in Global Real Estate

REITs can present an attractive way to hold real estate because the structure allows property owners to avoid paying corporate taxes as long as they distribute at least 90% of their taxable income to investors. In addition to REITs, there are a number of subsectors within the asset class and multiple types of companies that take on real estate characteristics. There are also special situations that may have unrecognized or embedded real estate value. The white paper discusses companies under these umbrellas within three primary geographic regions of potential opportunity—Asia, Europe and the Americas.

At the end of the day, all real estate is local, and we believe an understanding of regional drivers coupled with a continued commitment to disciplined, bottom-up research and a focus on companies that have a clear ability to create value can yield attractive global real estate opportunities.

Read the full white paper from Janus, *Global Real Estate: Is There Still Opportunity Ahead?* For more information about Janus' thought papers and market perspectives, visit janus.com.

[1] FERI
[2] Greenwich
[3] Strategic Insight
[4] European Public Real Estate Association (EPRA)
[5] As measured by the FTSE EPRA/NAREIT Global Real Estate Index from 10/31/02 to 10/31/07.
[6] As measured by the S&P 500® and Lehman U.S. Aggregate indices, respectively.

Funds that invest in Real Estate Investment Trusts (REITs) may be subject to a higher degree of market risk because of concentration in a specific industry, sector or geographic region. REITs may be subject to risks including, but not limited to: legal, political, liquidity, interest rate risks, a decline in the value of real estate, risks related to economic conditions, changes in the value of the underlying property owned by the trust and defaults by borrowers. To the extent the Funds invest in foreign REITs, the Funds may be subject to fluctuations in currency rates or political or economic conditions in a particular country. The opinions expressed herein should not be misconstrued as investment advice.

Past performance is no guarantee of future results.

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The FTSE EPRA/NAREIT Global Real Estate Index is a global market capitalization weighted index composed of listed real estate securities in the North American, European and Asian real estate markets.

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