

Property Investing Differs Globally

There has been a lot of recent focus on South African property investors looking beyond their own borders because of home markets being too small and too competitive.

This could also be because, to use the words of Leon Allison, an analyst at Macquarie First South, "investors don't only want to be exposed to the rand and the South African economy".

"There are yield opportunities around the world and in South Africa the national sport is hedging. This has effectively led to investors wanting to diversify – to go offshore and global," says Patrick Sumner, head of Property Equities at Henderson Global Investors.

He advises though investors should keep in mind that global real estate is a patchwork of a variety of real estate around the world. "There is no global real estate market per se," he says.

"Real estate is a difficult and complex game, and each country has its own set of rules and legal tax.

"It's a case of 'I am a genius in Johannesburg but will I be a genius in New York?'. This is not always the case. Success at home doesn't mean success in a foreign market."

Sumner stresses that it's important to really understand local real estate markets. "There's a lot to understand and know. The what and how in one market is not true in another market. Every market has different sets of obstacles and barriers, and many markets favour tenants. So consider options and develop strategies to mitigate potential losses.

"In Mexico, for example, foreign companies can't own property within a 50 km radius from the shoreline etc. And so it goes for every country. Every country has its own set of rules, which are difficult to understand. And when it comes to financing, companies often have to use a lot of equity when they delve offshore. Furthermore, I would say it's impossible to focus on more than three or more countries' tax systems. Tax has a big impact on yields and performance.

There is effectively no substitute for local knowledge. Therefore, global companies are forced into partnerships.

"These are the type of pitfalls that have to be dealt with if there is a desire to go global in terms of real estate."

Property economist Francois Viruly concedes that investing outside South Africa's borders pose certain risks. "Overall though, I think we have done well outside South Africa," he says.

This is most certainly true for Old Mutual Investment Group Property Investments (OMIGPI) and ICS Realty of India's \$500m Triangle Real Estate India Fund which has secured an investment pipeline of projects worth more than \$400m.

"This fund, which opened at the end of March, is initially aiming to capitalise on the rapidly expanding organised retail market in India," says Colin Young, head of institutional property investments at OMIGPI.

Young says that while the fund will be weighted to retail, it will also take account of the growth in the commercial sector that is being driven by information technology and IT enabled services.

When looking offshore, Hans Timmer, lead economist and manager of the Global Trends and Development Prospects Group at the World Bank, advises taking heed of three main points. "Base your strategy on the future and not the past. Secondly, think about the environment as an economy and finally think regionally and in this regard use knowledge about diversity."

The good news on the offshore property funds front is that institutional property investors will no longer have to contend with exchange controls but rather prudential regulation involving quarterly reporting and monitoring of foreign exposures by the Reserve Bank according to Finance Minister Trevor Manuel's recent budget.

In addition, the foreign exposure limit for pension funds and underwritten policies of long-term insurers has been increased from 15% to 20% of total retail assets, with more attention being paid this year to the final prudential foreign exposure limits. This is especially good news taking into account that there is not much commercial stock available and very low commercial vacancies.

The disadvantage of the removal of foreign exchange controls is that South African investments could be diminished as capital flows offshore.

"In summary, globalisation is here to stay," says Sumner.