Part I

Products

1

Global Real Estate Investable Universe Continues to Expand and Develop

Lijian Chen and Thomas I. Mills

Introduction

Investors today should expect to gain significant diversification benefits and achieve higher risk-adjusted returns by adding real estate to their multi-asset portfolios. Furthermore, when expanding from a purely domestic property exposure to a global real estate portfolio, there are additional benefits. For example, the effect of diversification is enhanced by the low correlation of real estate returns across regions, which strengthens the argument that real estate should be considered a separate asset class, competing squarely with stocks and bonds. In addition, the large size of the global investment universe provides a greater number and larger variety of potential investment opportunities and strategies.

An attractive way for investors to add global real estate to their portfolios is through public real estate investment trusts (REITs). Both the private and public global real estate investment universes have experienced substantial increases in value over the past decade. In particular, the market capitalization of REITs around the world has grown exponentially over the last 10 years, notwithstanding recent market corrections in many countries. The rapid REIT market expansion was mainly due to the steady creation of new REITs, the acquisition of new properties by existing REITs and increases in value of their property holdings. In order to illustrate this growth, we first present our most recent estimate of the size of core private real estate markets by region. Then, we discuss the dramatic growth of the global public real estate market and highlight several major REIT markets to illustrate several important and unique emerging trends. We attempt to demonstrate why we believe there is still plenty of room left for further market expansion of the public real estate investable universes. The high volatility seen in many REIT markets in 2007 and recent weakness in certain private real estate markets have not altered the fundamental case for global real estate. On the contrary, the recent market changes have created even more numerous and attractive opportunities for many investors.

Global core real estate universe: $8 trillion and growing

Our latest estimate for the global investable universe of core real estate, summarized in Figure 1.1, indicates that the total market value has increased from approximately $6.6 trillion at the end of 2004 to nearly $8.0 trillion as of the end of 2005, an increase of more than 20%. When data becomes available allowing a more current estimate using 2007 year-end data, based on the performance of private real estate over the past 2 years, we expect that the investment universe may have approached or even exceeded $10 trillion.

Our model for estimating the total value of core real estate in the investment universe first determines those countries that may be considered suitable for core real estate investment by institutional investors, based on such factors as size of the economy, political stability and the level of economic development. From that point, estimating the size of the investable

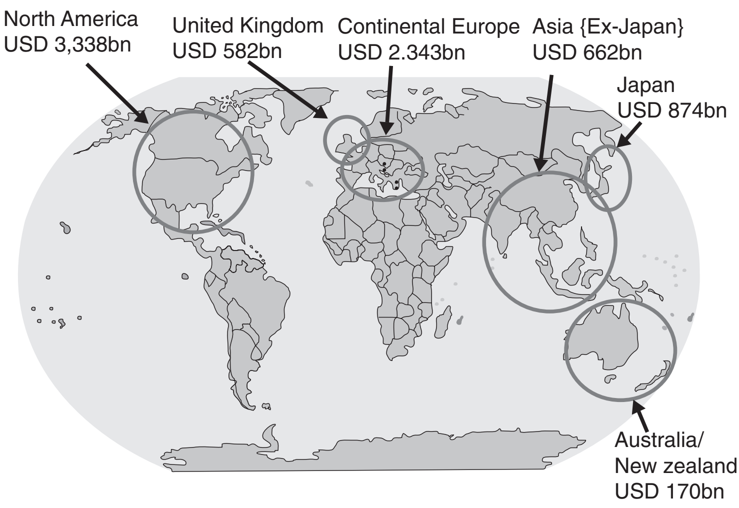

Figure 1.1 Real estate market size by region. *Source*: UBS Global Asset Management Real Estate Research as of December 31, 2005. This data does not include single-family homes.

real estate universe in each of the selected 27 countries entails considerable subjectivity and is not an exact science. At the asset level, it is not uncommon for two appraisers in the same market to disagree on the value of a specific building. Expanding this example across national borders and continents, there are potentially vast differences in valuation methods in different countries as well as significant variation in many real estate market-related definitions (e.g., quality, product type, sectors and market rents). Therefore, instead of such a bottom-up approach, we employ a top-down approach. We start with the largest 65 metro markets in the USA, where we have greater confidence in our estimate of total real estate value. Then, we use a simple econometric model to estimate the size of the investable real estate universe for the other countries. The results from our econometric model are checked for reasonableness and further improved by applying our knowledge of various markets. For example, we anticipate that the model would understate the value of the real estate universe in the cases of Hong Kong and Singapore, two densely populated areas with more than 10 times as many people per square mile as the most densely populated European country. Therefore, we fine-tune our estimates using a bottom-up approach, which leads to substantial upward adjustment of the size for Hong Kong and Singapore. Similarly, we increase the estimate for the UK by nearly a third based on the more reliable information on the amount of real estate owned by institutions in that country.

The estimation of real estate market size for any country remains largely a work of art. While we make no statement that the estimations presented herein are any better than those of our industry peers or friends in academia, we do believe that the estimates are reasonable approximations that allow a good understanding of the relative sizes of real estate markets in different countries and a good comparison of the aggregate size of the real estate universe with the equity and debt asset classes. The estimates shown are based on the data available from year-end 2005, and undoubtedly the market size has expanded significantly in the years since that time. Also important to note is that the relative value of real estate in each region is less likely to have changed drastically.

In most countries around the world that we consider potentially suitable targets for institutional investors' global real estate portfolios, private real estate prices have been rising. Other than the development of new properties or the addition of new countries and their core real estate stock to our list of core countries, such price increases are effectively the only way for the value of the real estate investment universe to rise. The increase in capital values in the USA has been tracked by the National Council of Real Estate Investment Fiduciaries (NCREIF), and for an indication of trends elsewhere, the Investment Property Databank (IPD) indices facilitate a comparison in many more countries. Of the 21 countries for which IPD maintains indices, there were only two countries experiencing negative capital value returns in the past 2 years: Germany in 2006 and 2007, and the UK in 2007. From a total return perspective, the UK in 2007 registered the only decline while Germany in both 2006 and 2007 saw the positive income returns more than offset the negative capital value returns. Clearly, the impressive performance of real estate investments has been one of the major contributors to the increase of market value worldwide.

Even more dramatic than the long-term increase in prices of real estate around the world and the associated increase in the size of the investable universe of core, institutional-quality property is the rise in equity market capitalization of publicly traded real estate and the proliferation and growth of REIT-like structures around the globe. Figure 1.2 depicts the dramatic increase of public real estate's market capitalization. Notwithstanding the decline in market capitalization from its global peak in May 2007 of $952 billion, the overall increase over the past decade is considerable. In the 5 years through the end of April 2008, the FTSE EPRA/NAREIT global listed real estate index increased from 224 companies and a market capitalization of $265 billion to 291 companies and a market capitalization of $786 billion, representing an increase in market capitalization of 197% over the period. Out of the $786 billion universe, approximately 40% was in North America, 40% in Asia and 20% in Europe as of April 2008.

Existing REITs have been acquiring properties, and their properties have gone up in value as private real estate prices have increased. In some markets, new public real estate companies have been created. For example,

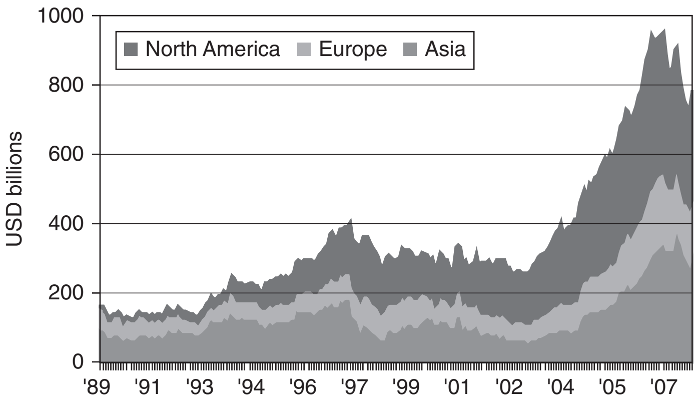

Figure 1.2 Growth of global REIT market capitalization: December 1989–April 2008. *Source*: UBS Global Asset Management Real Estate Research based on data obtained from FTSE EPRA/NAREIT.

in Japan, where the J-REIT market did not exist until September 2001, it grew to a sizable REIT sector of 42 J-REITs and a market capitalization of JPY 4.4 trillion (roughly $42 billion) by May 2008, an increase from 28 J-REITs and a market capitalization of JPY 2.8 trillion as of the end of 2005. While over the long run this growth has been substantial, in the 12 months to May 2008, the market capitalization of the J-REIT sector has declined from approximately JPY 6.7 trillion in May 2007, highlighting the potential high volatility associated with public markets. Partly due to the decline of J-REIT unit prices in 2007, only two J-REIT IPOs occurred in that year as many planned launches were withdrawn or postponed pending improvement of public market conditions. In other countries, REIT legislation has been put in place but rapid growth has not ensued, due in some cases to cumbersome structures or regulatory barriers. South Korea's REIT market experienced only modest growth initially after its introduction in 2001, but changes have been enacted that potentially allow REITs there to be more scalable and sustainable.

In the years ahead, more investors are expected to discover merits of investing in global real estate. The success of the REIT revolution worldwide has provided investors even greater opportunities to exploit the benefits of investing globally. It is foreseeable that in the near future more countries are likely to join the family of countries around the world that have adopted REIT structures, thanks in large part to the substantial expansion of the global REIT universe over the past decade or so.

Why have REITs succeeded?

Interest in listed real estate has continued to grow over the past several years despite the weakness in 2007. The number of countries adopting REIT structures has increased, and more countries are entering the debate and planning phase of adopting them. In countries where REIT structures already exist, their market capitalizations have generally been increasing. It should be noted that while listed real estate does not necessarily have to be in the form of a REIT, the trend reflects investors' preferences for REIT-like vehicles. Investors seeking exposure to real estate favor the high payout ratio of property operating income that REITs must distribute in the form of dividends. Investors also like it that REITs must invest nearly exclusively in real estate. Another attraction of investing in REITs is the benefit of tax transparency that virtually all REITs offer.

There are other benefits from investing in REITs as well as listed real estate in general, *vis-à-vis* private real estate. REIT returns have low correlations with those of other asset classes, and even with private real estate indices, offering potential diversification benefits from adding REITs to a mixed-asset portfolio. Also, investors have come to view them as fairly liquid investments. REIT markets have, in many countries, reached a sufficient size, and their trading volumes have become large enough, that once decisions on company selection are made, investments in REIT shares can be executed in a timely manner. Because shares can be bought and sold more easily than private real estate can, shifting allocations from one property sector to another, and from one country to another can be done relatively quickly at reasonably low cost. Further, a relatively large amount of capital can potentially be spread over more companies by investing globally, achieving nearly instant diversification and high liquidity. It is for all of the above reasons that listed real estates, and REITs in particular, are steadily attracting more investors around the world. In most cases, REITs, in particular, have the additional advantage of having relatively high dividend yields due to the requirement that most of their earnings must be distributed to shareholders as well as paying no tax at the corporate level (shareholders generally must pay taxes on the dividends).

The tremendous demand for REITs and REIT-like products led to substantial declines of dividend yield spreads of REITs over 10-year government bond yields from 2004 to 2006. Following the decline in REIT share prices in many countries in 2007, dividend yields in many markets once again look very attractive relative to government bonds. In certain countries, dividend yields are relatively high in comparison with government bonds. In Japan, for example, as of May 2008, the average REIT dividend yield was 4.7%, a 310 basis point spread over the 10-year government bond yield, an increase from a spread of 110 basis points a year earlier. In other countries, spreads over government bonds have rebounded from negative territory. In the USA in September 2006, the average 3.9% REIT dividend yield was approximately 70 basis points below the 10-year treasury yield, but in April 2008 the 4.72% dividend yield represented an approximately 95 basis point positive spread. With higher dividend yields, it is important to note that REITs have once again become one of the most attractive investment sectors.

REITs have registered impressive total returns this decade worldwide. In local currency terms, the global FTSE EPRA/NAREIT index returned −10.8% in 2007, but in the 5 years through the end of 2006 the average annual return of 23.3% significantly exceeded the annualized return of 8.7% generated by global equities as measured by the global FTSE index over the same period.

The future evolution of REITs globally is likely to continue benefiting from two key trends. First, investors are increasingly drawn to the high dividend yields relative to general equities and the stability of the underlying asset class. Second, governments around the world are seeing REITs as a way to improve the relative competitiveness of their listed real estate markets. The REIT sector will likely enjoy a strong tailwind for many years to come.

REIT proliferation: thriving in 18 countries and counting

Despite having been created as long ago as 1960 in the USA and then introduced in the Netherlands, Australia and New Zealand in the late 1960s and the early 1970s, by 1994 REIT structures existed in only these four countries, and the introduction of REITs was being considered in one more. Since 1994, however, the number of countries with REITs or REIT-like structures has grown to at least 18 as of July 2007, and legislation was either in place or under consideration in at least another 12 countries (Figure 1.3).

REITs and REIT-like structures continue to spring up around the globe. Take Hong Kong as an example. In 2005, Hong Kong successfully delivered the Link REIT, which became the largest REIT IPO in the world when it issued shares with an aggregate value of HKD 22 billion ($2.8 billion). In the late 2005, all of the first three Hong Kong REIT IPOs, raised a combined total of HKD 25.8 billion ($3.3 billion). By the year-end 2005, the Link REIT alone had a market cap of more than HKD 31 billion due to a rapid increase in its share price following its IPO, indicative of the success of the nascent structure. Even though the HK structure does not offer any additional tax incentive, the market's strategic influence in Asia has attracted both local and foreign real estate companies to consider taking advantage of the opportunity to list in Hong Kong. Within a month of the Link REIT IPO, the Hong Kong Stock Exchange experienced two additional successful listings of REITs: prosperity REIT and GZI REIT. The latter owns properties in Mainland China.

There were initially limits on Hong Kong REIT ownership of properties outside of Hong Kong, which contributed to the decision of at least one company, Fortune REIT, to list in Singapore instead of Hong Kong, despite owning retail properties located in Hong Kong. However, in order to make Hong Kong a more competitive and attractive market for REIT listing, in the summer 2005, the government relaxed restrictions on property ownership, allowing Hong Kong REITs to own property outside of Hong Kong (such as in Mainland China). This made possible the previously mentioned launch of GZI REIT, a Hong Kong REIT owning properties in Mainland China, in the late 2005. Rules and policies instituted by governments to guide the development of a REIT sector are clearly one of the most important factors impacting the growth of the sector.

Besides the success in Hong Kong, France is another country where REITs have succeeded. Since its introduction in 2003, the French Société d'Investissement Immobilier Cotee (SIIC) structure has fostered a sector that has grown to a market capitalization of more than $50 billion as of July 2007. The French experience also appears successful in terms of its pricing of listed property companies relative to the value of the real estate owned by them. For the 13 years prior to the introduction of the SIIC structure, listed

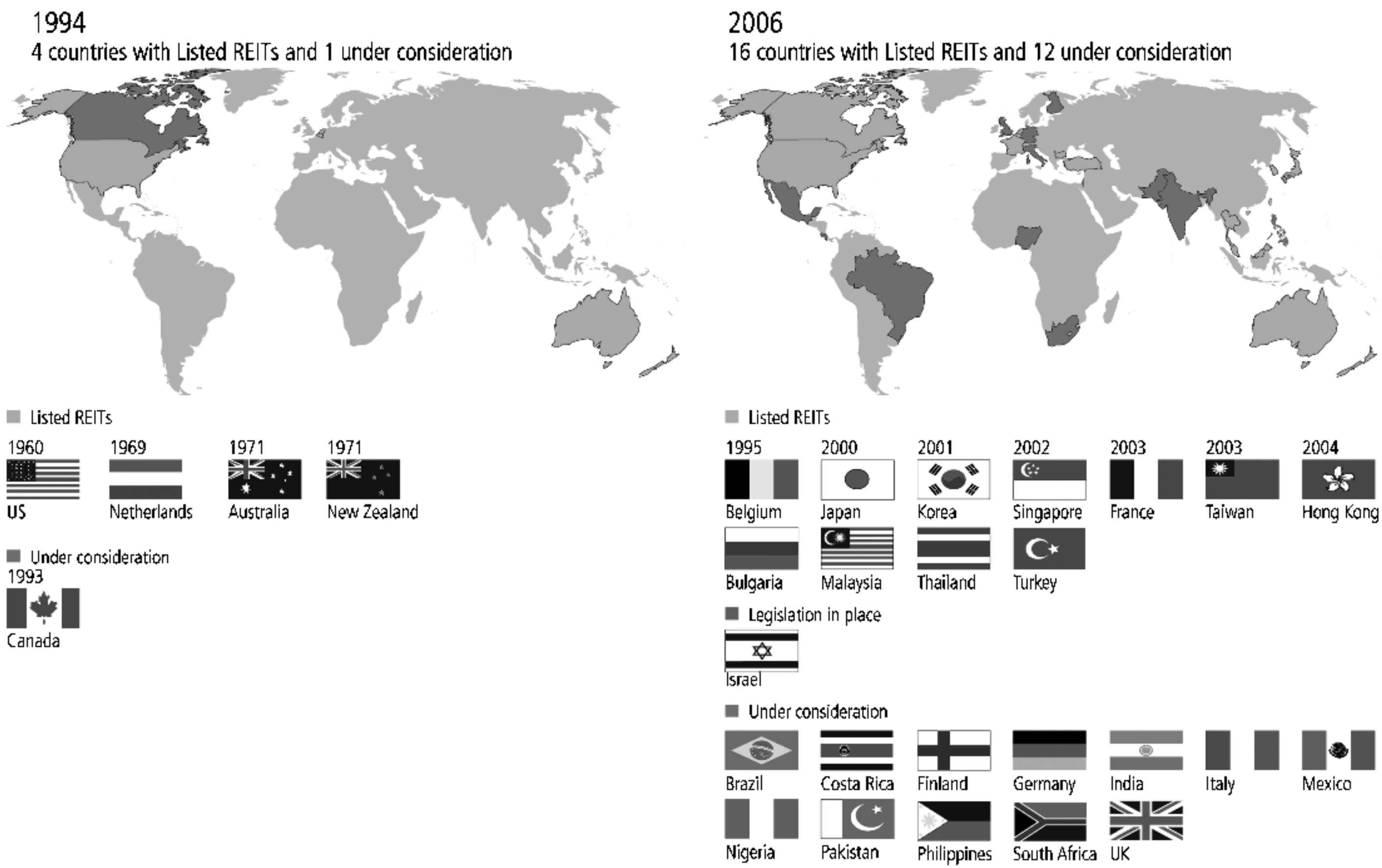

Figure 1.3 More countries adopt REIT structures. *Source*: UBS Global Asset Management Real Estate Research as of June 2006.

property companies in France traded at an average discount to net asset value (NAV) of approximately 25%, but by mid-2004 the sector was trading at a premium to NAV of ~8%. The structure has recently been revised to make it even more attractive for companies wishing to sell properties to SIICs. Similar to the UPREIT structure in the USA, which allowed sellers of properties to defer taxes on gains by accepting shares in the REIT buying the properties, the new rules allow capital gains on sales to SIICs to be taxed at a reduced rate. This change may encourage the transfer of assets from corporations that own and occupy their own real estate to SIICs, providing an additional source of growth for the market.

Two additional countries to introduce REITs recently were the UK and Germany, which added significantly to the total market capitalization of REITs globally. Both introduced REIT structures in 2007, retroactive to the beginning of the year. The governments of both countries were concerned about structuring the market so that tax revenues were not reduced. A major issue is that if a foreign entity acquires real estate in either the UK or Germany, taxes would be paid on the rental income stream. If that entity were to invest through a REIT, the income stream would become a dividend income stream and often taxed at a lower rate under withholding tax agreements, possibly at 0%. This potential loss of future tax revenue is something that concerns most governments, and impacted discussions of new REIT regime introductions in some countries. The UK REIT sector suffered from somewhat unfortunate timing, as 2007 was a year of REIT price declines generally worldwide. Nevertheless, by July 2007, there were some 11 UK REITs with a total market capitalization of approximately $58 billion. As of November 2007, some 17 UK REITs existed, and all of the major listed real estate companies had converted. The first German company to convert to REIT status was Alstria Office, in October 2007. Before the German REIT legislation was enacted, the Initiative Finanzplatz Deutschland (IFD) estimated that the listed real estate market in Germany could reach as much as EUR 127 billion by 2010. With the pullback in 2007, this may now look rather optimistic, but there is likely significant room for future growth.

In certain markets there is also cross border investment in which REITs in one country own significant amounts of property in another. For example, there are Australian listed property trusts (LPTs) that own properties in the USA and Japan. Such cross border investment would most likely serve as a source of growth even if the number of countries with REIT structures remained static or increased only sluggishly, which has not been the case in recent years.

Our estimate of the size of the commercial real estate market in Europe is just over $2.9 trillion (as of the end of 2005), and the UK and Germany together make up more than $1.1 trillion, or nearly 40%, of the total. Globally, approximately 90% of all commercial real estate is located in markets where REIT structures exist, following the addition of Germany and the UK to this group,

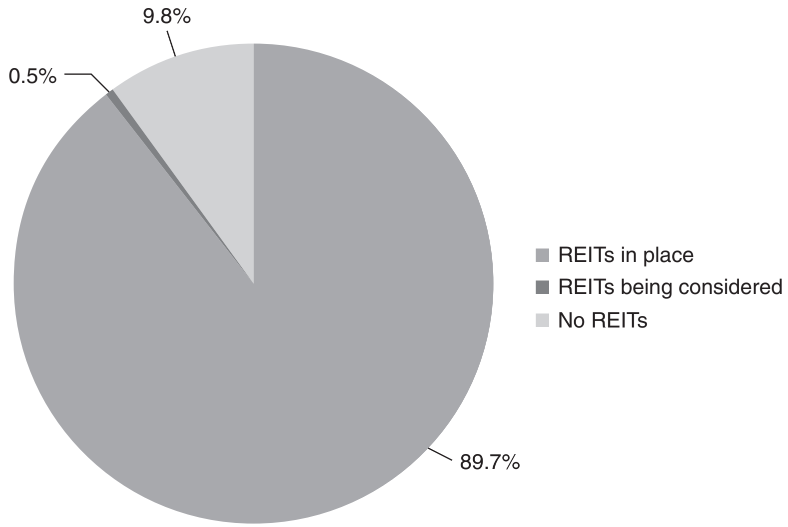

Figure 1.4 Share of investable real estate universe with REIT structures. *Source*: UBS Global Asset Management Real Estate Research data as of July 2007.

as shown in Figure 1.4. Given the sheer size of those two markets, the introduction of REIT structures had a significant impact on the global REIT universe.

In Figure 1.2 we show the market capitalization of listed property companies in the three regions of Asia-Pacific, Europe and North America. Figure 1.5 in turn depicts the breakdown by country within each region as of April 2008, as well as the relative sizes of each region, as the relative areas of each circles correspond to the market capitalizations of its respective region. This illustrates the relatively small market sizes of markets in Europe outside the UK, and also the rather dominating size of the US market, both within the North American region and in the global context. In addition, the market capitalization of Asian listed real estate companies is now nearly as large as that of North American companies.

The larger markets are generally characterized by higher daily trading volume, hence providing higher liquidity. In contrast, smaller, yet growing, REIT markets tend to have only limited liquidity. Several REIT markets remain small and have yet to show much potential for scalability. For example, with 19 REITs listed as of July 2007, all of Bulgaria's REITs had market capitalizations below $200 million. Thus far, the sectors in South Korea and Taiwan have not seen significant growth since inception. However, despite recent rapid expansion, there is still room for considerable growth in many listed real estate markets around the world, which will be elaborated below.

Another important trend to note is that the property-sector compositions of many REIT markets are very different. The US market is relatively

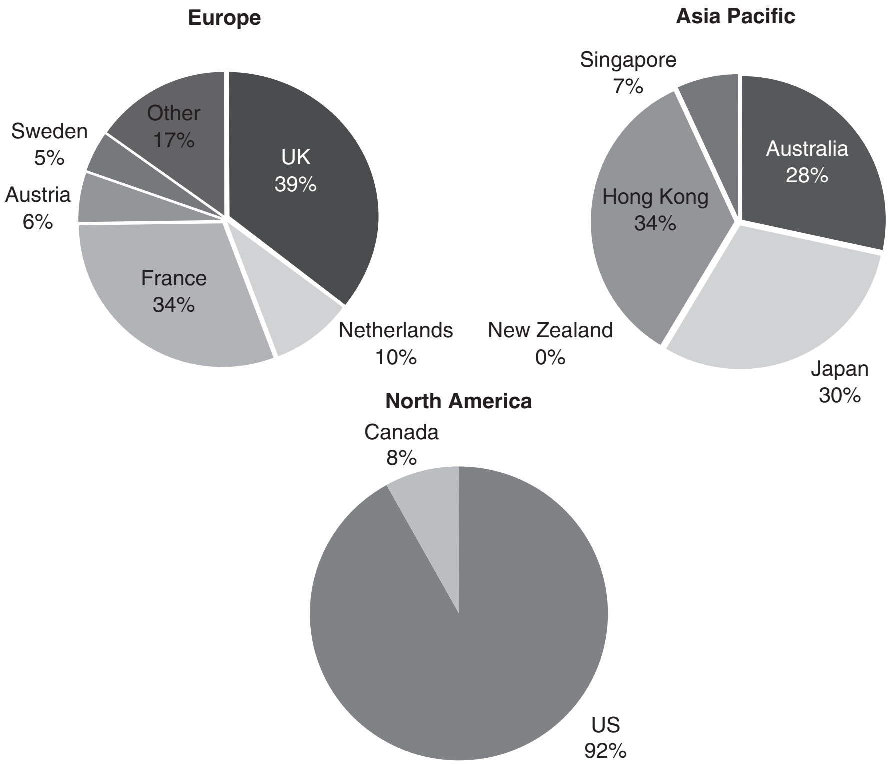

Figure 1.5 REIT Market capitalization by region with country weightings. *Source*: UBS Global Asset Management Real Estate Research based on data obtained from FTSE EPRA/NAREIT.

evenly composed of several key property sectors, including office, industrial, retail, and residential. Japan's REIT market is dominated by the office sector. It is clear that most REIT markets are still rapidly evolving, adding new sectors and changing the sector mix. Many REITs started with portfolios representing multiple property types (i.e., diversified across sectors). Increasingly, however, REITs have become more specialized, focusing on a single property sector.

The line between public and private real estates can be less starkly delineated than it might seem at first. Ownership forms between public and private real estates can change, also affecting the relative size of public and private markets at the margin. A large number of private companies have become public companies for a variety of reasons, including access to capital. Conversely, several companies have recently moved in the opposite direction. In the USA, a number of public REITs have been taken private, and the total transaction volume of such public-to-private deals rose from \$3.8 billion in 2004 to \$13.0 billion in 2005, and in the early 2007 a single deal, the privatization of Equity Office Properties, involved a portfolio valued at approximately $40 billion. In December 2005, the industrial REIT Centerpoint Properties agreed to be acquired by a joint venture, which included among its investors the largest pension fund in the USA: California Public Employees Retirement System (CalPERS). The sale transacted at a price of $50 per share, or significantly above the Green Street Advisors' NAV estimate of $31.75, although only a 9.1% premium to the pre-announcement closing price. In each such case of public real estate being taken private, the buyers presumably believed there was a chance for arbitrage between the two ownership types, or that if they were merely acquiring the real estate at market prices, the size of the portfolio and the chance to acquire it all in a single, if complicated, deal made it worthwhile. The Centerpoint Properties deal illustrates some additional reasons why an investor might be willing to pay more for a company than the underlying properties are worth on the private market, as Centerpoint owns a considerable amount of land available for future development and a platform to manage the assets and undertake future acquisitions and development. In the sense that real estate capital markets permit arbitrage of price inefficiencies in the underlying assets of public companies, public and private real estates seem to be interchangeable. The acquisition of Equity Office Properties by private equity fund Blackstone in February 2007 was concluded at $55.50 per share, and the Green Street Advisors' NAV estimate at the time was $56.00. Blackstone's initial offer was for $48.50 per share, but they were forced to raise it when another bidder submitted a higher offer. Interestingly, within 2 weeks of reaching an agreement, Blackstone had in turn sold off 109 properties in the portfolio for approximately $19 billion. A portfolio of seven Manhattan properties was sold within 2 days. These events once more illustrate how quickly the overall size of the public and private real estate markets can expand and contract. Therefore, when discussing the evolution of the REIT sector, it often makes more sense to focus on longer term trends and structural changes.

Early growth cycle: only the tip of the iceberg

Despite the significant long-term growth of public real estate markets around the world, we believe that we have experienced only the early phase of a growth cycle. Many favorable factors have continued to develop that we expect to help maintain the current momentum. First, real estate, as a distinct asset class with several attractive characteristics, has only recently begun to gather wider recognition from institutional and private investors worldwide, especially many large institutional investors in emerging economies (e.g., China and India) and even certain developed economies (e.g., Japan and South Korea). In the coming years, we are likely to see many Asian institutional investors, following their European and American counterparts, start investing a substantial amount of capital in real estate. Japanese institutional investors' strategic allocations to real estate on average accounted for only 4.7% of their overall portfolios in 2007, according to a survey conducted by Russell Investments. This represented an increase from 3.4% in 2005, and the allocation was expected to increase to 5.7% by 2009. Nevertheless, the 2007 figure for Japan was significantly below the 6.7% strategic allocation in the USA, 8.9% in Europe and 9.6% in Australia. Furthermore, in China, a new wave of capital could soon be heading for domestic and global real estate investments once pension funds, insurance companies and banks are permitted to invest in the real estate asset class.

Second, from the perspective of optimal asset allocation, many investors are still significantly under-allocated to real estate in their mixed-asset portfolios. Even in the USA, many institutional investors hope the values of their actual real estate investments can be increased to match their allocation targets, which often reach 10% or more. According to a survey of the largest 50 public pension systems in the USA by the newsletter *Real Estate Alert*, real estate holdings for these systems increased 33% to \$144.3 billion in 2007. Perhaps even more indicative of the strong demand from pension funds in the USA is that additional \$73.9 billion had been committed to specific advisors but not yet invested as of the end of 2007. Adding these commitments to the total real estate holdings of the pension funds would bring (if fully invested) the aggregate allocation to real estate up to 8.3% from the current 6.3% of invested assets according to the survey. In response to such potential demand, more and larger investment vehicles have been created in both the public and private real estate sectors. In addition, the breadth and the depth of the global real estate investable universe are so substantial that it is likely to take several more years before we should start to be concerned about oversupply of private investment vehicles, especially those that are structured to invest on a global basis, or become concerned about saturation of public real estate markets.

The proliferation and growth of REIT and REIT-like structures around the world has still utilized only a small share of the potential pool of securitizable real estate assets in many countries. Using relevant national GDPs, broad stock index market capitalizations, and our estimates of investable real estate market size as benchmarks, Figure 1.6 shows the relative sizes of four listed real estate markets as of the end of 2005 (the latest date for which we have a real estate investable universe estimate). Although the US REIT market capitalization was by far the largest of those in the four countries shown in terms of absolute value, it equaled approximately 2.4% of GDP and 2.7% of the market capitalization of large-cap stocks.

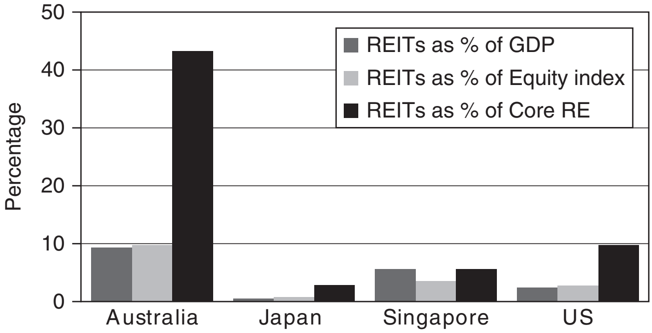

Figure 1.6 REIT equity market capitalization as share of GDP, stock markets and core real estate. *Source*: S&P, UBS Global Asset Management, EIU.

These relative shares were lower than those in Singapore, where REITs were only recently established, equaling approximately 5.6% and 3.5% of the country's GDP and the Straits Times Index market cap, respectively. The J-REIT market in Japan was by all three measures the least developed of the four countries analyzed. The market capitalization of REITs in the USA was equal to 9.7% of the total market size of core real estate in the country, a greater share than in either Singapore or Japan. However, on all three measures, Australia stands out as the country where the LPT sector was the most significant one in relative size. Perhaps the most noteworthy is that the market capitalization of the LPT market was more than 40% of the total core real estate market universe. This high percentage of real estate owned by LPTs is partly behind the recent trend in Australia for LPTs to acquire properties overseas. If the development of the Australian LPT market is a good guide, it suggests that REITs in Japan and Singapore, and even in the USA, still have considerable potential for growth.

Relative risk and return

Real estate investment spans much of the risk-return spectrum. As depicted in Figure 1.7, there is a wide spectrum of real estate investment strategies that range from core investing at the low-risk-low-return end to opportunistic strategies at the high-risk-high-return end. Public real estate investment, either REITs or other listed real estate operating companies (REOCs) are positioned between the two ends, given their generally perceived risk-and-return characteristics. Our placement of REITs is in the middle of the spectrum, yet above core real estate. REITs normally employ more leverage than core private funds, tend to be riskier and are expected to generate higher returns. But they are generally considered to be less risky than value-added real estate. One value-added strategy worth

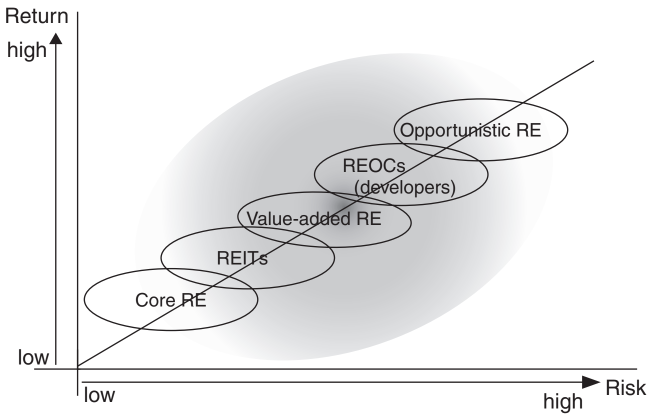

Figure 1.7 Real estate on the risk-return spectrum. *Source*: UBS Global Asset Management Real Estate Research.

noting is to invest in properties that are not considered core at the time of acquisition for various reasons, such as having significantly below-market occupancy, requiring substantial capital improvements, or being located in distressed markets but with promising recovery potential. Through successful execution of upgrading and repositioning strategies, the value-added properties can potentially be improved to achieve core status and be sold to investors in core real estate. Similarly, undesirable market dynamics such as a prolonged economic downturn and the deterioration of environmental quality, for example, could transform a core asset into a non-core one.

The above framework serves only as a general guideline and is certainly subject to debate. One could argue that positions for different strategies could vary from country to country. For example, REITs in some countries tend to have far less debt than others, sometimes due to regulatory limits, and are thus less risky than more highly levered REITs. In addition, certain REITs with high leverage, with unproven, risky strategies, specializing in less conventional property types, or any combination of these factors, might well be considered much riskier than an open-end fund focused on a value-added strategy. Moreover, not all REOCs are riskier than REITs, although it is generally true that they tend to have more volatile earnings and lower dividend payouts. In contrast, opportunity funds, free to use high debt levels, deploy creative strategies that might include acquiring non-performing loans backed by real estate, or investment in high-tech real-estate-related startups, and, usually having little liquidity for their closed-end units, are clearly at the high end of the spectrum. These funds can be attractive to those investors with greater tolerance for risk and who are attracted by a strategy often to target returns in excess of 20% per annum.

We began this chapter with our estimate of the size of the real estate investable universe, and clearly that is a moving target. Any attempt to quantify the size of the universe is always a work in progress. What is important is that we believe there exists sufficient depth and breadth in the universe for further expansion and innovation to absorb additional inflow of capital without quickly resulting in "irrational exuberance" in the global real estate investment. The real estate investable universe may have reached a period of stability given various uncertainties in the current global economic environment. But further growth will likely resume in the near future as opportunities and strategies seem to be boundless. And there is little doubt that over the medium to long term, the share of the investable universe that is in the control of public REITs is set to continue rising globally.

A new chapter for global real estate investment has emerged in the past few years. However, much of the story remains to be written. On the one hand, we may anticipate the content of some future chapters by borrowing pages from the history books of the stock and bond world, such as the further advancement of the REIT industry and the development of property derivative markets. On the other hand, given the unique attributes of the real estate asset class, we can envision that some chapters will likely feature the industry blazing new paths and learning and growing by trial and error along the way. Global real estate investment has definitely come of age, and the industry is continuing to advance, aided in no small part by the increases in size and sophistication of REIT markets around the world. It is expected to become more sophisticated, mature, innovative, transparent, disciplined and accountable to investors, and even better positioned to compete for capital with stocks and bonds.

Notes

1. Details on the market size estimates and other global real estate issues can be found in two papers, "Global real estate going mainstream" and "Global real estate investment – volume II: The world is becoming flatter," published in 2004 and 2006, respectively, and available on the internet at www.ubs.com/realestate.
2. At the time of the publication of this book, both the authors of this chapter would be transferred from their previous research roles to new business operation roles within UBS Global Asset Management. Due also to substantial personnel changes that have occurred since the first version of this chapter was written, the authors regret that it has become very challenging to update all exhibits used herein. However, they have done their best to update it where possible so as to improve its currency. Also, they have endeavored to add more insights from the vantage points of their current business roles.