

PREI's Global Strategy—Global Knowledge, Regional Expertise and Local Execution

By Tara Anderson

While many investment companies are looking to expand their global strategy, Prudential Real Estate Investors (PREI) has shown itself to be a leader in global policy with strong foundations in countries around the globe. While the company expands its reach, its main goal is to continue to serve the individual customer, wherever they may be. PREI Portfolio Advisor William Hauser discusses PREI's global platform and future plans for the company.

Portfolio: What is PREI's current global strategy for its REIT platform?

Hauser: PREI is the global real estate investment business of Prudential Financial, Inc, and we have been investing on behalf of third-party clients in direct real estate for nearly four decades. The global real estate securities unit within PREI is one important function within PREI's broad global operation, which has 20 offices in 15 different countries, staffed by investment professionals who know their local cultures and markets, and completely understand our transactions.

Our global real estate securities unit is embedded in this direct investment platform. Being able to leverage these significant global resources gives us an advantage in the market place. Our investment process is driven by real estate fundamentals and research. Information on deal structuring, local market trends, financing, leasing and other issues is shared. Our team's portfolio managers are based in New York, London and Singapore and our global real estate securities investment committee draws from senior PREI staff from around the globe.

We also analyze public market dynamics. For example, we look at the strength of balance sheets, management teams, liquidity issues and earnings growth. We have a strong view that global investment, rather than simply having a domestic mandate, is the appropriate way to go.

Portfolio: Do you anticipate involvement in emerging markets, in places such as Eastern Europe, Dubai, Israel and South Africa?

Hauser: We are driven by client needs, and we've already invested directly in property in Eastern Europe, Dubai and other emerging markets. As opportunities and client needs arise in other REIT markets, we will be there to address them. At present, those markets have limited exposure relative to real estate securities and there may be limited opportunity that will come up in the public market. One thing that we're very cognizant of is that opportunity needs to be measured on

a risk-adjusted basis. The risks associated with entering emerging markets, including political issues, legislation and liquidity must be considered.

In some significant real estate markets, transparency is still lacking. As public market investors, we want to ensure that there is an alignment of interests and that there is transparency relative to the public marketplace.

Portfolio: Where do you see the most potential in global markets?

Hauser: There are new countries adopting a REIT-like structure every year. That's a strong positive and that's an endorsement for the groundwork that was laid here in the United States over the past several decades. The issues of liquidity, transparency and alignment of investor interests all come together when we talk about the REIT structure.

Development of real estate securities in new markets is interesting, however, the reality is that 90 percent of the investment market and the "investable" real estate market are probably represented in the top 10 markets. We cannot ignore the fact that there are plenty of healthy opportunities that currently exist in developed countries, like the United States and Germany. Surprisingly, in the United States, population growth is projected to actually outpace China over the next two decades. Germany is the fourth-largest property market in the world but less than 2 percent of their property assets are held in securitized form. There, it's a matter of investor awareness and investor education. Ultimately, we think that securitization will continue to take an increased role in both developing and developed markets.

Portfolio: How has global investing changed in the last 10 years?

Hauser: We've seen the market capitalization of real estate securities increase three to fourfold on a global basis. The daily trading volume here in the U.S has increased eightfold. REITs have been introduced into major indexes, and have been accepted not only by retail investors but institutional investors as an integral part of their asset allocation. That trend should continue.

Demographics will continue to play a huge factor, as well. The U.S and western European populations are aging. This means there is a need for income-oriented investment vehicles. The REIT structure fits hand in glove with an aging demographic. Meanwhile, we're witnessing the dawning of a new age for countries like India and China where the pace of economic growth and emergence of a middle class—particularly in India—is rather remarkable.

Portfolio: Do you anticipate American real estate investors to increase their allocations in global markets?

Hauser: Absolutely. Recently, investors have begun to consider that diversification should include non-U.S. exposure. Economic outlooks vary by region and in many areas the investment growth opportunities are real and significant.

For U.S investors, real estate and real estate securities are a great way to take advantage of the economic growth that may be occurring in some of these markets. Real estate embedded in these countries is generally a safe and secure way to gain access to the growth of a local economy.

Valuations are grounded with tangible assets and the cash flows are often more discernable than some might consider the equity markets.

Another consideration of diversification has to do with currency exposure. Many investors are seeking a more diversified basket of currency exposure. Investment in global real estate securities provides an excellent means of filling that need.