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# Global Real Estate Back in Favor

By DAISY MAXEY

NEW YORK--Investors' on-and-off relationship with global real estate appears to be on again.

With long-distressed real estate assets now on sale in Europe and big opportunities also being seen in Asia, the sector has caught the attention of individual investors and financial advisers, said Adam Taback, president of alternative strategies at Wells Fargo Private Bank.

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It's not for the faint of heart, however. Global real-estate stock funds suffered a gut-wrenching 46.6% loss on average in the crisis of 2008, then recovered to gain nearly 37% and 17.2% in 2009 and 2010, respectively, according to Morningstar Inc.


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Then, just as investors were catching their breath, sovereign debt issues in Europe and the U.S. led to a slowdown in commercial real-estate activity, and a 10.1% average loss for the funds in 2011. A healing economy brought another upturn in 2012 when the group rose 31.8% on average, according to Morningstar.

With that kind of volatility, wise investors know better than to devote more than a small slice of their portfolio to the sector, said Todd Rosenbluth, director of mutual-fund research at S&P Capital IQ. Real-estate investment trusts in the U.S. can be a solid way to obtain guaranteed dividend payments, but outside the U.S., the potential risks and rewards increase, he said.

Global real estate stock funds, including open- and closed-end mutual funds and exchange traded funds, took in $12.3 billion at their peak in 2007, but attracted just $3.7 billion and $5.3 billion in 2011 and 2012, respectively, according to Strategic Insight.

This year through February, however, the funds have taken in nearly $1.7 billion, putting them on pace to attract nearly $10 billion this year, Strategic Insight said.

Global real-estate stock funds have risen 7.1% this year through April 5, Morningstar said.


Mr. Taback said advisers are now interested in both equity and debt, investing in private funds that are buying mortgages at distressed prices from European banks and taking advantage of building opportunities in Asia and Europe. Good core U.S. real estate is also a strong investment now, he said, as well as a source of yield.

Depending on a client's risk profile, Wells Fargo Private Bank recommends a 3% allocation to global real-estate investment trusts and a 4% allocation to global private real estate.

In response to investors' growing appetite for global exposure and non-correlated asset classes, Ivy Funds this month launched two new global real-estate funds--Ivy Global Real Estate (IREAX) and Ivy Global Risk-Managed Real Estate (IVRAX)--said Thomas Butch, president and chief executive of Ivy Funds Distributor Inc.

The risk-managed fund is meant to address concerns about the sector's volatility and downside risks, and will focus on companies that invest in core property types and have lower leverage and lower business risk.

"We're looking for pretty healthy earnings growth from public real-estate companies as a group over the next year," said Keith Pauley, the Ivy funds' manager. "We're seeing stronger growth in the U.S. than, for example, continental Europe, where things are quite anemic."

Paul Carroll, president of Efficient Wealth Management in Houston, Texas, which manages about $90 million, said global real estate is a great equity asset class that offers a strong source of yield and a hedge against the U.S. dollar. He has about 15% of clients' equity assets in the DFA Global Real Estate Fund (DFGEX), depending on their risk profile, he said.

Rob Siegmann, chief operating officer at Cincinnati-based Financial Management Group, which manages $260 million, said foreign investments are naturally more volatile, but a measured investment there can boost returns and reduce risk over time. The domestic real-estate market's risk-return tradeoff is now more beneficial than that of foreign markets, he believes.

Mr. Siegmann typically invests about 3% of a client's portfolio each in foreign and domestic real-estate investments, but that can vary with their risk profile. About a year ago, he began trimming clients' foreign real-estate exposure to 1.5% to 2% of assets and boosting their domestic holdings accordingly.

Michael McGowan, portfolio manager of the $174.3 million Forward International Real Estate Fund (KIRAX), said real-estate markets in most of the world are healthier now. But whether a particular stock is attractive depends on the business and the local economy. His fund has been focused on the Asia-Pacific region and Canada for a few years, and he now sees opportunities in Hong Kong as well as in continental Europe and Britain.

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