the reit stuff

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A revolution has gripped Europe’s real estate sector as a burgeoning securitisation market comes face to face with property stock ripe for a makeover. Jim Rehlaender, New York based EII’s managing director, tells Bruce Madden where the bargains are.

James (Jim) Rehlaender caught the real estate bug early – and his fascination with the sector has never left him. According to Rehlaender, now managing director of EII, he began his working life in banking, which brought him into contact with numerous property investors.

“I had done a lot of real estate with the bank and I thought it was an interesting and inefficient market.” So interesting, in fact, that Rehlaender jumped at the chance in the mid 80s to join start-up real estate investment firm La Salle Partners – the business that has since evolved into global property giant Jones Lang La Salle.

During his 12 years at La Salle, Rehlaender was involved in every aspect of the commercial real estate trade, from ‘ground-up development to financing’ building formidable skills and knowledge in the business. He also initiated La Salle’s move into Real Estate Investment Trusts (REITs – better known as Listed Property Trusts or LPTs in Australia) both in the US and globally.

But it was Rehlaender’s particular interest in the European market that prompted him to launch a new business venture in 1995. He formed Global Property Advisers in partnership with a large German insurance company to take advantage of ‘the more price inefficient’ real estate market in Europe.

And Rehlaender has solid claims to understanding the European property investment world better than most. While he is based in New York (and sports an unmistakable American accent) his roots in Europe are deep – both professionally and personally, having spent his childhood on the continent and his adult career forging business relationships there.

In 2000 EII, a US-based firm bought Global Property Advisers to extend its real estate investment activities beyond its home shores and appointed Rehlaender as its managing director with responsibilities for its international investment business.

EII has over $5.4 billion, as at 30 April 2007, invested in global property securities. Its 40 employees are spread across offices in New York, Amsterdam, Singapore and Munich. While it remains a boutique player, EII’s influence in the REIT market is substantial and its success has attracted investment from the likes of the largest public sector pension fund in the US, CALPERS.

EII has a mainly institutional client base but retail investors can access its expertise through vehicles such as the EII Global Property Fund in Australia (one of the Macquarie Professional Series products).
Rehlaender’s potential investment universe might be wide but he says the greatest opportunities for REIT investors today are emerging in parts of Western Europe. REIT structures, which have been common in the US, Australia and the Benelux countries (Belgium, the Netherlands and Luxembourg) for some time, are only now appearing in the huge economies of Germany, Italy and Britain.

The REIT revolution began in these countries in 2003 when France enacted a law allowing the creation of these property investment vehicles, which are exempt from tax as long as 85% of their income is distributed to investors.

Rehlaender says the French went down the REIT road primarily as a nationalistic response to foreign funds buying up its real estate but the eventual legislation was incredibly liberal. “It didn’t impose any structure… essentially you could do what you wanted as long as you distributed 85% of the income,” he says. “Now French REITs have the lowest cost of capital and the best deal flow in the country.”

Both the UK (which tried and failed to introduce its own acronym, Property Investment Fund or PIF, for the product) and Germany have followed suit this year with Italy also a latecomer to the REIT party.

“At the end of last year Italy surprised everyone by copying the French concept and passing REIT laws,” Rehlaender says. “We’ll probably see the first Italian REITs at the end of this year.”

As property securitisation opens up new avenues for investors in these European heavyweight countries the market fundamentals are also very promising, he says. “Even though Europe is emerging out of an economic slowdown it has a very low vacancy rate – for example, France only has a 4% office vacancy rate,” Rehlaender says. A similar economic slump in the US or Australia would typically see vacancy rates hitting 10% and beyond.

“Now the European economies are just starting to push ahead and there is a lot of antiquated stock – office, retail and residential – that needs replacement or refurbishment,” he says. “For example, there are plenty of buildings in Paris or Rome that have no air-conditioning. These are exciting days for what has traditionally been a slow-moving market.

But Rehlaender says that to truly take advantage of the coming property investment boom in Europe an understanding of local markets remains essential. Unlike in Australia, and to a lesser extent the US and Dutch markets, the rewards for active REIT managers can be substantial: it is a stock picker’s paradise in a sector suffering from a dearth of experienced analysts. “Outside Australia and the US the number of analysts covering the property sector is tiny… and you’d be blown away by how poor some of their reports are,” Rehlaender says.

As an illustration of the EII process, he cites the example of a listed Italian property development company it bought into, IGD. He says firstly EII took the macro-view that Italy, which has an extremely low level of retail space per inhabitant in Europe, was changing. “IGD has a young, smart management team with good deal flow,” Rehlaender says. “After we started investing its stock is now up 90%. Other investors tend to follow us, we create a tailwind.” IGD represents the kind of investment potential the changing European property market can deliver to those who can identify it in time.

Rehlaender puts EII’s investment philosophy in very simple terms: “We focus on investing in companies that know how to make money out of real estate.”

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Christian Lange (right), President and Co-Founder of EII, and some key members of the team (below) have been managing US property security portfolios since 1987, and global property since 2000. Their benchmark agnostic style has yielded very healthy dividends over the long term, and their recent returns are particularly impressive.
This page, left to right: Robert Lange, Head of European Sales, Kirsten McElroy, Managing Director and James Rehlænder, Managing Director, on the way to EU’s office located in mid-town Manhattan.
She is not the only European shining brightly in New York.

The Statue of Liberty was gifted to the Americans by the people of France in 1886. She pays homage to the millions of Europeans who made the US their home and helped it become the economic powerhouse it is today. Christian Lange, founder of EII’s global property team, is one of them: born in Germany, he was a successful investment manager for wealthy Europeans before he decided to set up in New York 20 years ago.

EII is now a highly regarded global property boutique manager – some of the largest institutions in the US put their faith and money in EII. It’s easy to see why. Global property provides a low correlation with other asset classes. It’s further diversified across different countries around the world, where property market peaks and troughs come about at different times; EII is perfectly positioned to exploit these fluctuations through deep local knowledge and the courage to act swiftly.

Christian and his team have established an enviable track record over the years, consistently outperforming relevant indices. Their recipe for success is deceptively simple: don’t look at benchmarks, find value where others aren’t looking and follow your convictions.

Macquarie provides access to EII via the EII Global Property Fund, which is now available to the Australian market as part of the Macquarie Professional Series, an exclusive collection of highly individual managed funds. If you are after long-term growth and greater diversification in your portfolio, we believe you’ll like EII as much as we do.