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### Asia research draws similar conclusions to studies in Europe and the US

19 May, 2014 – A landmark research report commissioned by APREA finds that listed real estate in Asia, including REITs, may be a good option for gaining exposure to direct real estate, with the added advantage of liquidity and much lower transaction costs.

The report, written by IPD and led by Bryan Reid, Vice President, IPD, focuses on short-term linkage in four key markets in the Asia-Pacific region (Australia, Japan, Hong Kong and Singapore), over the period Q1 2004 through Q4 2012. This linkage is in the form of positive correlation between returns achieved in listed and direct markets over the sample period.

Given the limited universe of direct property funds in Asia, these findings support the case for using the listed market to achieve some exposure to commercial property. The research is particularly important because of the length and uniqueness of the time series used across the Asian markets, enabling robust comparisons of listed and direct markets. The results are also consistent with those from previous studies on the North American and European markets, and suggest that Asia is developing in a manner similar to those markets.

Peter Mitchell, Chief Executive Officer of APREA, said that the report had been commissioned because such work that has been undertaken with respect to Asian real estate has not had the benefit of the same longer term time horizons (generally limited to 5 or 6 year time series) and has not identified any similar linkage between returns. A new study needed to be undertaken, with the benefit of longer term time horizons, to see if there was any suggestion that Asian public and private real estate performance might have the same longer term performance characteristics.

On an unadjusted basis, listed market returns are actually more correlated with their international counterparts than they are with their domestic direct market. Part of the reason for this would be the exposure of the listed sector to overseas direct assets. A possible explanation for Australia having the strongest relationship between the listed and direct markets is also that its listed market is relatively domestically-focused and more mature, with high levels of transparency.

#### Return correlation matrix - Q1 2004 through Q4 2012

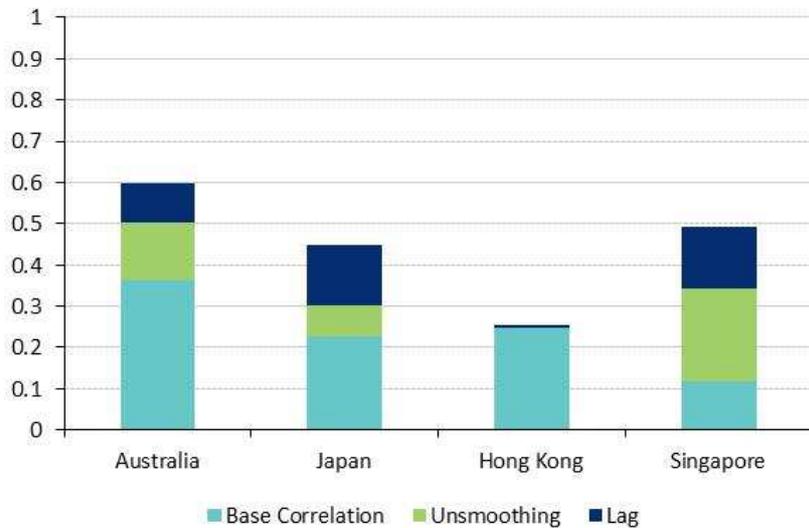
	AUS Listed	AUS Direct	JPN Listed	JPN Direct	HKG Listed	HKG Direct	SGP Listed	SGP Direct
AUS Listed	1.00							
AUS Direct	0.36	1.00						
JPN Listed	0.49	0.19	1.00					
JPN Direct	0.27	0.94	0.23	1.00				
HKG Listed	0.56	0.06	0.53	0.03	1.00			
HKG Direct	0.17	0.22	0.16	0.05	0.25	1.00		
SGP Listed	0.64	0.14	0.66	0.05	0.76	0.17	1.00	
SGP Direct	0.14	0.60	0.13	0.56	0.19	0.11	0.12	1.00

Other factors which potentially distort the relationship between listed returns and direct returns include the appraisal smoothing incorporated in direct indexes but not in listed indexes and the inherent lag in the reporting of both direct market transactions and valuations.

The research adjusts for appraisal smoothing by means of a Geltner unsmoothing adjustment and for lag by examining correlations for a series of different lagged periods for each market. It is clear that the adjustments make a substantial difference to the comparability of returns. As such, comparing listed and

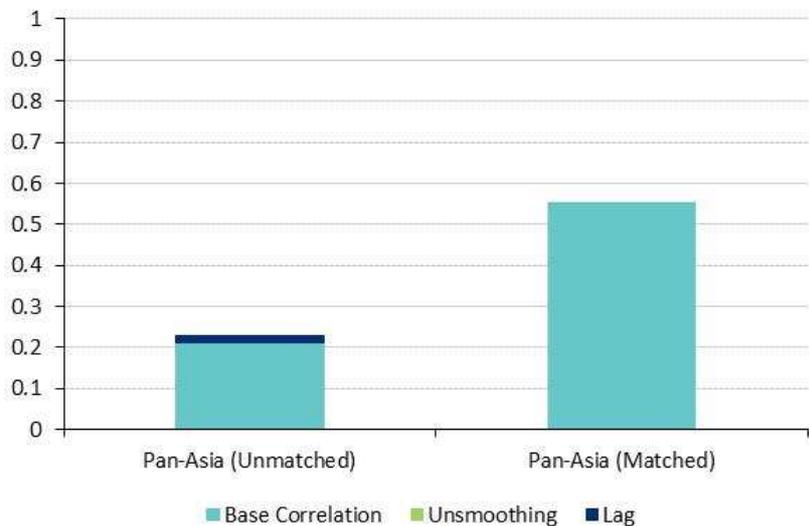
direct returns without making these adjustments is misleading and will understate the actual level of co-movement.

#### Adjusted correlations - Q1 2004 through Q4 2012



To adjust for the fundamental issue of sample mismatch in terms of geography and physical assets, a pair of bespoke matched sample indexes was created where the property underlying both of them is the same. This exercise was conducted at a pan-Asia level to give some indication of the overall regional linkage between listed and direct property markets. Unlike the country level results, the unsmoothing and lag adjustments do not play a significant role in the results.

Figure 3 – Matched sample correlations (Q1 2004 through Q4 2012)



Peter Hobbs, Managing Director and Head of Research at IPD, said, “We were delighted to work with APREA on this project that drew from IPD’s extensive datasets across Asia Pacific real estate markets. We were glad to be able to replicate analysis that has been carried out in Europe and the US, and particularly interested to see a stronger relationship when we carried out the analysis for a ‘matched’ sample that controlled for the underlying property sample of a set of companies across the region”.

Professor Graeme Newell of University of Western Sydney, a member of the APREA committee that oversaw the project, commented, “This timely research has provided major insights, highlighting the stronger link between Asian securitised property and direct property. This is particularly important for investors seeking to use Asian listed real estate to achieve their real estate exposure”.

