



APREA RESEARCH REPORT

THE SIGNIFICANCE OF REAL ESTATE IN ASIAN PENSION FUNDS

Executive Summary

Asia Pacific Real Estate Association (APREA) is pleased to present this summary of an important report that it has commissioned.

A major real estate research report by Professor Graeme Newell (University of Western Sydney) on this dynamic and increasingly important area for pension funds and the real estate industry in Asia.

“Major demographic changes in Asia will see Asian pension funds reassessing their current conservative asset allocations. Increased levels of real estate in their portfolios offer an important asset class for Asian pension funds to achieve portfolio diversification and meet their significantly increasing future liabilities in an effective risk-adjusted manner”

- Professor Graeme Newell

Research and Data Collection

The research report was undertaken pursuant to a briefing paper produced by APREA and under supervision of a governance committee, comprising APREA-member investors and investment consultants. The research involved surveys of major Asian pension funds, interviews with leading real estate industry figures and sourcing of a range of data including pension fund annual reports.

Full Report – Available September 2010

The full report, presented at the APREA VIP Asia Roundtable in September 2010, addresses the current under allocation to real estate amongst Asian pension funds, why real estate must, however, take on significantly increased importance and how leading Asian pension funds are effectively increasing their real estate exposure. It concludes with effective strategies for increasing real estate allocations by Asia pension funds.

With Asian pension funds to see significant growth in their assets under management, to well over US\$4 trillion in the next decade, highlights of this APREA report include:

- **Global context to pension funds and real estate investment:** *Globally, pension fund assets have increased from US\$17 trillion in 2001 to US\$30 trillion in 2010. Real estate has been an important asset for pension funds in many countries because of the investment characteristics of high quality, income-producing real estate and its low risk and portfolio diversification benefits.*
- **Context to pension funds in Asia:** *Asia has some of the largest pension funds globally – 8 of the 20 largest global pension funds are Asian. In addition, pension funds in Asia are expected to double their assets over 2006-2015, increasing to over US\$4.3 trillion by 2020. A key shift over this period will be the major change in market share by pension funds in the mature pension fund systems of Japan and Singapore and the significant growth in market share by pension funds in the developing pension fund systems in China, South Korea and India. However, in Asia, real estate currently does not constitute a significant level in most pension fund portfolios, largely reflecting regulatory structures and the conservative investment styles of many pension funds in Asia. There has been a particular focus on domestic fixed income products. However, considerable reform is taking place in Asia as pension funds grapple with the issues of rapidly aging populations, low coverage rates by pension schemes and a changing economic environment with increased urbanization. The asset allocation focus on low-yield fix income assets presents potential difficulties in meeting future obligations for an aging population in Asia.*
- **Drivers for pension fund reform in Asia:** *these include changing demographics (aging population, declining fertility rates and early retirement ages), structural change in the economic environment (economic growth, increased urbanization and reduced focus on agriculture), costs and inadequacies in the old defined benefit pension systems, the doubtful ability to meet future long-term liabilities with current low-yield asset allocations (significant fixed income asset exposure), impact of the global financial crisis on pension fund asset performance and growth in the funds management sector in Asia.*

- **Impact of demographic change on Asian pension fund investment strategies:** *changing demographics in Asia have significant implications for the on-going financial viability of current pension schemes in Asia. Significant increases in old age dependency ratios are evident in all countries in Asia, particularly Japan, Hong Kong, Singapore, South Korea and Taiwan (where in all cases the ratio will be well over 50% by 2050). Significant increase in old age dependency will also occur in China and India. Most Asian countries are not adequately prepared for this rapidly aging population over the next 20 years, resulting in unsustainable and financially constrained pension fund schemes in many cases.*
- **Case studies of Asian pension funds with proactive real estate investment strategies**
- **Detailed survey of Asian pension funds regarding their real estate investment activities and strategies:** *these challenges have driven pension fund reform in public and private pension fund schemes in several countries in Asia in recent years. These reforms are detailed in the report. Real estate is an important asset class for pension funds, with attractive investment characteristics that match the long-term liabilities of pension funds. These characteristics include secure, high quality income producing commercial property assets, a high-yield asset class, less volatility than the stock market, attractive risk-return profile, portfolio diversification benefits, inflation-hedging ability and the variety of listed and unlisted real estate investment vehicles available. Globally, these features have resulted in real estate being included as a key asset class in pension fund portfolios in many countries for many years. However, with limited exceptions this has not yet happened in Asia. The survey covers: current real estate allocations, criteria influencing real estate allocation, suitability of types of real estate investment, listed vs. unlisted real estate allocation, selection of real estate fund managers, challenges facing real estate in pension fund allocations and risk management strategies.*
- **Incisive interviews and quotes from leading real estate professionals in Asia:** *comments include why there are generally low levels of real estate in Asian pension fund portfolios but why, moving forward, real estate is important.*
- **Enabling strategies for increased levels of real estate in Asian pension funds:** *these include use of different real estate investment vehicles, real estate risk management procedures and improved levels of real estate information.*
- **Major implications and opportunities for the real estate industry in Asia.**

This report has significant implications for pension funds and all areas of the real estate industry in Asia, as pension funds in Asia strategically assess the increasingly important role and benefits of real estate as an asset class in their portfolios.

For more information or to receive a copy of the full report, please contact Orietta Melfi on +65 64381110 or at orietta.melfi@aprea.asia.

Allocations to Real Estate by Pension Funds

Real estate is an important asset class for pension funds in many countries. However, whilst Asia has some of the world's largest pension funds, real estate currently does not make up a significant level in most pension fund portfolios in Asia, with real estate often considered a relatively new asset class by Asian pension funds. As the Asian economies mature and the Asian population ages, pension funds will take on significantly increased importance in Asia. This has already seen major pension fund reform in many countries in Asia in recent years and a strategic reassessment of their investment portfolios and their ability to meet future obligations.

The Importance of Real Estate in Pension Fund Portfolios

Its investment characteristics make real estate an appropriate, long-term asset class for pension funds in Asia. The report highlights the important role of real estate in pension fund portfolios globally, and the significant opportunities for pension funds in Asia to increase their real estate exposure. Global and Asian case studies are used to highlight the leading pension funds that are effectively including real estate in their portfolios, particularly focusing on the real estate investment vehicles and strategies used to achieve this real estate exposure.

Strategies for Increasing the Levels of Real Estate in Portfolios

A survey of Asian pension funds provides further details regarding their views on real estate in their portfolio, with interviews with leading real estate professionals in Asia adding further strategic insight into this important issue. Effective strategies are also identified for the on-going inclusion of increased levels of real estate in Asian pension fund portfolios. These expected increased levels of real estate in Asian pension fund portfolios would also be a significant stimulus to all major sectors of the real estate industry in Asia.



APREA is a non-profit industry association that works to encourage greater investment in the real estate sector in Asia-Pacific through the provision of better information to investors, improving the general operating environment, encouraging best practices and unifying and strengthening the industry.

Its membership comprises real estate companies, listed real estate trusts, unlisted property funds, investment managers, investment banks, property securities fund managers, institutional investors, real estate consultants, corporate advisors, stockbrokers, investment advisors and universities.

The APREA Institute, APREA's education and training arm, provides the foundation for raising standards in the industry through the provision of practical and applied training programs. Its Certificate of Real Estate Investment Finance program is the only course of its kind in the region to be both developed and delivered by industry practitioners.

APREA's Mission

- To promote, develop and represent the Asia-Pacific real estate sector
- Promote the sector to domestic and foreign investors
- Develop a unified, powerful and professional industry body
- Represent the sector to governments and regulators to improve the commercial operating environment for members

www.aprea.asia

Contact

Please direct all enquiries regarding this research report to:

Orietta Melfi

Events and Marketing Director

APREA

+65 6438 1110

+65 8428 8742

orietta.melfi@aprea.asia