The Risks of Investing in the Real Estate Markets of the Asian Region

by

Stephen L. Lee

Department of Land Management, The University of Reading
Whiteknights, Reading, RG6 6AW, England

Phone: +44 (0) 118 931 6338, Fax: +44 (0) 118 931 8172 E-mail: S.L.Lee@reading.ac.uk

Abstract

The Asian region has become a focus of attention for investors in recent years. Due to the strong economic performance of the region, the higher expected returns in the area compared with Europe and the USA and the additional diversification benefits investment in the region would offer. Nonetheless many investors have doubts about the prudence of investing in such areas. In particular it may be felt that the expected returns offered in the countries of the Asian region are not sufficient to compensate investors for the increased risks of investing in such markets. These risks can be categorised into under four headings: investment risk, currency risk, political risk, and institutional risk. This paper analyses each of these risks in turn to see if they are sufficiently large to deter real estate investment in the region in general or in a particular country.

Key words: *Asian real estate markets, investment, currency, political, and institutional risks.*

Introduction

Capital markets are becoming global markets and commercial real estate markets are no exception. Recently, international real estate investors have expressed interest in investing in the Asian emerging markets. Three main reasons can be given for investing in such markets. First the strong economic performance in the region, at least up to 1997 and the huge growth potential of the region in the future. For example over the period 1966-1991 the average annual real economic growth rate for Hong Kong, Japan, Singapore and Malaysia was greater than 6% while the comparable figures for the US and UK were between 2% and 3% (Greenwood, 1993). The second reason for investing in such countries is the very high returns such economic generates. Indeed in a survey of investors in the UK and Asia "higher returns" and the potential for "capital appreciation" were ranked one and two as the main reasons to hold foreign property, Lim (2000). A final reason apart from sharing in such economic growth and higher expected returns is the additional diversification benefits that may accrue. Studies have shown the considerable benefits to be gained from the international diversification in real estate markets (see Lizerli et al 1998 for a review). However, the economic convergence observed in world markets and the globalisation of the worlds financial system has led to the emergence of a number of key financial centres: London, New York and Tokyo, whose real estate markets are closely tied to the new international financial circuits. As a result their real estate markets are more integrated and so offer low diversification benefits, Lizieri (1992). Thus the benefits for portfolio risk reduction are likely to be even greater from diversify into emerging markets, Divecha et al (1992). Consequently countries in the Southeast Asian region including: China, Hong Kong, Indonesia, Korea, Malaysia, the Philippines, Singapore, Taiwan, and Thailand have come to be seen as areas of future investment because of their huge growth potential, greater returns and portfolio diversification benefits.

Despite all of this most institutional investors still display a reluctance to go overseas in general and into emerging markets in particular, Solnik (1974). One explanation for such a reticence is the possibility that investors impute "extra" risk to foreign investments, French and Poterba (1991). In other words international investment may also increase an investor's exposure to other pervasive economic factors, and therefore increase the investor's level of risk. These risks include an increased exchange rate risk, greater exposure to political risk, and greater tax uncertainty, thus increasing the risk of overseas investors relative to domestic investors. Consequently the lack of investment in the emerging markets of the Asian region may simply be a perception that the returns achieved in such markets is not sufficient given the risks. The emerging real estate markets of the Asian region therefore need to be evaluate to see whether the assumption that the expected returns in the emerging markets of the Asian region are not adequate to cover the increased risks borne by the foreign investor.

In analysing overseas investment in general and emerging markets in particular two broad areas of enquiry have developed. The first area of interest relates is their inherent volatility and the second the informational efficiency of the markets. For example emerging markets can be characterised by their skewed wealth distributions, small size and concentrated market structures all of which it can be argued accentuates return volatility, Divecha et al

(1992). Thus it may be felt that there is a greater investment risk from emerging markets than from investment in developed countries. In addition the greater political instability and higher levels of inflation in such markets is likely to lead to greater fluctuations in exchange rates making these locally volatile returns even more volatile when converted to the foreign investors home currency. On the question of informational efficiency emerging markets by their nature have more recent origins than developed markets in addition to which they have adopted differing policies relating to the financial and real estate sectors than developed countries. Hence it can be argued that emerging markets differ from their counterparts in the developed world in terms of their institutional structures and informational related attributes. Which can be characterised in terms of tax treatment of locals versus foreign investors, regulations of market entry and exit and factors relating to the quality and quantity of information dissemination. In particular any differential in the tax treatment of local and foreign investors and any impediments that are placed on foreign investors from entering the market and/or hinders repatriation of income and capital inhibits participation by foreign investors so limiting market liquidity and increasing volatility. Finally the free flow of information to all investors is a necessary condition for market pricing efficiency, without which mispricing can take place. The newness of emerging markets and the different institutional structures adopted, compared with developed countries, suggests that access to all relevant information by *all* investors, especially foreign investors, is unlikely to be the case. All of which suggests that unless an outsider is fully aware of the institutional structures of the market, both formal and informal, they are likely to be at a major disadvantage compared with local market players, Guerts and Jaffe (1996). This institutional risk depends on the maturity and transparency of the market (Gordon, 1999 and Keogh and D'Arcy, 1994). Thus if investors can become more informed of the institutional structures and business practices of overseas markets they are more likely to invest in those markets, i.e. "familiarity breeds investment", Stratman (1999).

Consequently from the discussion above the risks facing a foreign real estate investor can be broken down into four categories: *investment risk* (the volatility of returns), *currency risk* (exchange rate volatility), *political risk* (explicit barriers to capital flows, taxes, expropriation, and exchange controls) and *institutional risk* (market maturity, size and liquidity, regulation, and information). Each of these is analysed in turn to see if they are sufficiently large to deter investment into the emerging markets of the Asian region.

Investment Risk

In the equity and bond markets there is abundant literature on the benefits of international diversification. Madura (1985) provides an excellent review of the work as of 1985, while Lonie et al. (1993) extends the coverage to 1993. All studies concluding that the risk and return advantages of international diversification are very large for investors in all the major countries. Indeed with more assets to choose from a more widely diversified international portfolio cannot do worse than a one based on domestic stocks only. In contrast the issue of international real estate diversification has received scant attention in the academic literature (Eichholtz et al, 1996). In general data limitations have resulted in less research being undertaken.

As it is felt that investment in merging markets is more risky than investment in developed markets it could be argued that this alone will deter investors. Indeed Lim (2000) finds that UK investors are much more risk averse than their Asian counterparts. Consequently the greater perceived risk of investing in the countries of Southeast Asia would seem to be the main reason for avoiding the area. This perception can be questioned on at least two counts.

First, modern portfolio theory (MPT) tells us that investors should focus on the expected return and risk of their portfolio as a whole rather than on the return and risk of each asset in isolation. In other words individual risks are not of consequence because they can be diversified away at the portfolio level. Indeed although the issue of international real estate diversification has received limited attention in the academic literature (Eichholtz et. al, 1996) even though the globalisation of financial markets has a particular significance for international property investment. The few studies that have examined clearly show that the risk and return advantages of international diversification are very large for investors (see Lizieri et al, 1998 and D'Arcy and Lee, 1997). The research undertaken in securitised property markets has generally tended to support the benefits of risk reduction through an international real estate portfolio (Giliberto, 1990, Asabere et al, 1991, Eichholtz and Lie, 1995 and Case, et al, 1997). These results are confirmed when using data from the direct property market (Del Casino, 1986, Sweeney, 1989, Gordon, 1991, Wurtzebach, 1991 and D'Arcy and Lee 1998). Furthermore, the one study that that has examined the benefits of including the emerging markets in a global portfolio, albeit with securitised property data, finds that including at least some investment in emerging markets would have reduced the risks associated with developed country portfolios. While Eichholtz et al (1996) finds that the existence of continental factors in determining property market returns means that emerging markets are a source of diversification benefit to both American and European investors. Secondly, the tendency to lump emerging markets as a homogeneous group is a mistake. The work by Eichholtz and Lie (1995) Eichholtz et al (1998a) on securitised property shows that additional diversification benefits accrue to investors within the region. Indeed the following data on the direct property market confirms this view.

In order to investigate the risk/return performance from investing in the Asia-Pacific region in comparison with markets in the US and Europe the annual total returns from investing in the Office market of the capital (main) cities of the UK, USA, Europe and Asia-Pacific region over the period 1985-1997 were extracted from the ONCOR database. The appreciation figures, however, are not based on appraisals, but upon changes in capitalised asking rents. The use of asking rents may make it difficult to identify sharp declines in commercial real estate markets, since effective rents typically lead asking rents in declining markets. The rental figures used are net of service charges and local taxes. In calculating returns no adjustment was made for exchange rates between countries. The rational for not expressing returns in a common currency is to segregate the local market risk from currency risk for a number of reasons. First it is well known that these two risks are not additive and that expressing the various local market portfolio returns in a common currency will have an adverse impact on their conditional mean and volatility measures. Second the correlation coefficient between a set of local market portfolios is typically smaller when a currency

factor is added in their returns. Studies, therefore, which use common currencies, have great difficulty in dissociating these two risks. Thus caution is needed to interpret the results of such an analysis, if based in a common currency, as the result of such studies can be misleading, Engle and Susmel (1993). Therefore the case for investment in the Asia-Pacific region needs to be examined in isolation from exchange rate movements.

Table 1: The Risks and Returns of Investing in the UK, USA, Europe and Asian Emerging Markets 1985-1997

	Average %	SD %	Correlation UK	USA
UK	10.52	22.99	1.000	0.076
USA	2.18	8.19	0.076	1.000
European Core				
Belgium	13.12	14.45	0.368	0.190
Denmark	4.14	14.68	0.121	-0.502
France	9.42	18.68	0.431	0.329
Germany	8.37	13.87	0.147	-0.343
Holland	9.43	10.84	0.286	0.062
Asia-Pacific				
Australia	15.34	23.26	0.754	0.079
Hong Kong	38.26	34.35	0.383	-0.380
Malaysia	22.99	53.14	-0.364	-0.294
Singapore	26.06	45.29	-0.134	-0.066
Taiwan	40.06	54.78	0.138	0.001
Average				
European Core	8.89	14.51	0.271	-0.053
Asia-Pacific Average	28.54	42.17	0.156	-0.132

Source: ONCOR

Table 1 shows that an institutional investor in the UK and especially the ones in the USA would have achieved much higher returns from investing in the emerging markets of Europe and Asia-Pacific. Indeed surveys show that increased expected returns is the main motivation for investment in Southeast Asia, Lim (2000). Naturally such an increased return would also be accompanied by increased risk (standard deviation) on an individual country basis. However, Table 1 also shows that the correlation between the UK and the US with the emerging markets of Asia was on average much lower than that with Europe. In addition the average intra-regional correlation within Europe was 0.236, and that within Asia 0.169. In other words the Asia-Pacific region not only offers greater returns to UK and US investors but shows greater intra-regional diversification benefits than Europe.

This evidence on the benefits of international investment into emerging markets once more lends support to the arguments in favour of international diversification: lower portfolio risk arising from low correlation across countries and higher returns arising from faster-growing economies. However even this strong case for international diversification into emerging

markets seems to be insufficient to convince investors to invest in these markets. Thus the lack of investment must be the related to the addition risks investors perceive as important when investing overseas.

Currency Risk

Investment overseas is a "two edged sword". In that while investors may reap the benefits of increased returns at lower portfolio risk when they venture overseas, such investors suddenly find themselves exposed to a relatively new type of risk, currency risk. Consequently Madura (1992) indicates that because overseas investors are more affected by exchange rate variations relative to domestic investors, they may have riskier returns. While Eun and Resnick (1988) note, fluctuating exchange rates may mitigate the gains from diversification. Thus what is the impact of currency exposure on investment returns?

What is Currency Risk?

As explained in Eun and Resnick (1988) the domestic market return R_{id}, from an unhedged investment in the *ith* foreign market is given by

$$(1 + R_{id}) = (1 + R_i)(1 + e_i) \qquad (1)$$

Which can be written as:

$$R_{id} = R_i + e_i + R_i e_i \qquad (2)$$

Where R_i is the return of property in the local foreign currency and e_i is the rate of appreciation (depreciation) of the local currency against the domestic investors currency. The last term of this equation will generally be smaller than the first two, since it equals their product, and both are generally less than one. Thus equation (2) can be restated as an approximation:

$$R_{id} = R_i + e_i \qquad (3)$$

It can now be seen that the return on a foreign investment (R_{id}) can be decomposed into two parts representing the local market return of the investment (R_i) in the *ith* country and the return on the foreign exchange rate (e_i). Thus if e_i is negative and greater than R_i the home base return will be negative! In contrast if e_i is positive and greater than the local foreign-based asset returns, which could be negative, the investors home based returns can be positive! In other words the rate of return faced by an investor from a foreign-based investment can be significantly increased (decreased) by the appreciation (depreciation) of the foreign countries exchange rate compared with the investors domestic currency.

By the same reasoning the risk (standard deviation) of the foreign currency based investment returns is given by:

$$\sigma_{id} = \sqrt{\sigma_i^2 + \sigma_e^2 + 2\sigma_i \sigma_e \rho_{i,e}} \qquad (4)$$

where: σ_i is the individual risk of the property investment in the *ith* country, σ_e is standard deviation of the *ith* countries exchange rate relation to the investors home base currency and ρ_{ie} is the correlation of the *ith* countries property returns with the exchange rate. Thus equation (4) reveals that the smaller the correlation between the returns on a foreign currency and the returns on a foreign investment, the smaller will be the foreign investment risk. Indeed if ρ_{ie} is negative an investor who ventures overseas could be holding an investment in a 'risky' foreign country that displays little or no risk when converted back into his home base currency. Consequently the impact of currency risk can be easily exaggerated. Indeed currency returns can offer enhanced foreign market returns as equally eliminate them. In other words exchange rate adjusted returns are equally likely to be increased as well as reduced by the impact of exchange rate changes. While the increased risk faced by investors in foreign country assets need be only marginally greater than that of the local country returns, so long as the correlation between the local foreign market returns and the exchange rate is low or even negative. Furthermore investors have at their disposal a number of money market instruments with which they can hedge currency fluctuations. However, given the long term holding periods of real estate investment and the cost of hedging using traditional methods the difficulties of applying hedging techniques are problematical, see Worzala (1995), Worzala, et al (1997), Worzala and Newell (1997) and Lizieri, et al (1998) for reviews.

Should Investors Hedge Currency Risk?

Gastineau (1995) argues that given the success of currency derivative funds and overlay managers there are apparently possibilities to add value through active currency management. According currency management could be a source of portfolio risk reduction and/or return enhancement. Indeed Perold and Shulman (1988) show that based on theoretical assumptions, hedging currencies can generate non-zero returns, especially in the short run. The authors then show that not only does investing internationally leads to risk reduction; fully hedging currency exposure leads to *additional risk reduction* while maintaining the return profile. In other words investors are faced with a "free lunch" from hedging currency risk. From their perspective, this is the main attractiveness for hedging currency exposure.

In contrast Froot (1993) argues that long-term exposure to currency movements, for example by employing forward rate agreements, generate zero returns. Using 200 years of data Froot finds that in the short run, following the work done by Perold and Shulman, hedging (fully) reduces volatility. However, if the holding period of an Equities portfolio exceeds five years, a fully hedged portfolio exhibits a larger volatility than an unhedged portfolio. In the case of a Bond portfolio the crossover point is on average eight years. In other words (partially) hedging currency exposure is a waste of transaction, management, administrative and opportunity costs. Given that investors often see Real Estate investment as a hybrid Equity/Bond security this would suggest that the cross over point of property investment is about six years. In other words if investors holding period is about six years currency hedging is not only of little use but actually detrimental. Froot attributes this result to the tendency that exchange rates exhibit mean reversion characteristics due to the equilibrating force of Purchasing Power Parity (PPP). Thus if exchange rates mean revert

they can have no added value to the risk profiles of the portfolios of long term investors. However, in a floating exchange rate regime, where PPP does not hold perfectly, an overseas investor faces exchange rate risk (Solnik, 1974). Nonetheless Froot concludes that in the long run exchange rates are more or less stable. Consequently the minimum-variance hedge (using derivatives) cannot reduce volatility below that of an unhedged portfolio over long run investment horizons. Furthermore Gardner and Stone (1995) and Jorian (1985) both argue that the input estimates used to come to an optimal hedge ratio strategy will result in substantial estimation errors. Thus if investors have a low to moderate risk tolerance, the use of the hedge ratio probably won't have any meaningful added value.

In contrast Filatov and Rappoport (1992) in a study on international bond investing covering the period 1980-1989 have shown that a fully hedged position on the part of British, Japanese and German investors would have lead to *additional risk* in the portfolio. However, the period involved, the base currency and the fact that these premiums are non-stationary can explain these results. Indeed within the real estate market the work of Ziobrowski and Ziobrowski (1993), Addae-Dapaah and Choo (1996) and Worzala (1995), all find that although currency derivatives provided a limit to the magnitude of downside losses over relatively short periods (one year), their effectiveness was lost over the typically longer holding periods of real estate investment. Moreover the periodic costs of hedging easy offset the gains. Thus when short-term volatility is not an issue for an investor, they should not hedge currencies as this will only result in increased costs and therefore reduce the return potential of an investment portfolio.

Nonetheless Perold and Shulman (1988) argue that the performance of international investors should be measured in local currencies (fully hedged) and every decision to have a different exposure than the base currency is an active investment decision. In other words currency decisions can affect performance and so should be accounted for in assessing the success of fund managers investment decisions. Indeed this argument is adopted in performance presentation standards by AIMR, the US financial analyst organisation. Thus if fund managers deviate from the standard they have to inform investors as to the benchmarks they are using. This implies investors are aware of the importance of currency risk can have on the overall risk of a portfolio and so it needs to be accounted for in evaluating the fund's overall performance. However, the perceived importance of currency risk to institutional real estate investors is not uniform. For example, Worzala (1994) reports that only 44% of the UK, Dutch and German institutions sampled perceived currency fluctuations as an important variable in the international investment decision. Although this may be due to the preference of European investors to concentrate their overseas investments in the other countries of Europe or the developed markets such as the US and Australia, where currency risk may be felt to be of only a minor impact. Similarly McAllister (1999) finds that British institutions rank currency risk fourth in a possible list of eight potential problems associated with overseas investment. In contrast similar surveys based on Asian investors found that the respondents are much more concerned with exchange rate risk than investors in Europe, Worzala and Newell (1997) and Lim (2000). In other words although currency fluctuations are not perceived as the primary concern of investors when considering international diversification (except by Asian investors), it appears to play a minor role.

Even in the Asian market the actual impact of currency risk is apparently small and insignificant. Addae-Dapaah, and Yong (1998) in a study of currency risk on office investment within the Asian region find that for a single country investment. exchange rate risk can be substantial. Nonetheless the impact was statistically insignificant, consistent with the findings of Ratcliffe (1994), Ziobrowski and Curico (1991) and Worzala (1995). In other words when the impact of currency risk is considered in a portfolio context the authors found that the potential diversification benefits from international investment outweigh the supposed ravages of currency risk. Thus an investor with a fully diversified portfolio should not be overly concerned with currency risk. Supporting the conclusions of Solnik (1996) that exchange rate risks have never been a major component in a diversified portfolio over a long period of time. Indeed Sweeney (1989) considers the additional risk of exchange rates to real estate investment to be minimal. Whist Solnik and Odier (1993) and Drummen and Zimmermann (1992) find that the currency risks are only a minor determinant of European stock return variances. Thus a review of the academic work on the question as to whether investors should hedge or not their currency exposure shows that a simple solution is not obvious.

Should Currency Risk Play a Role in the Investment Decision?

However, is currency risk management the function of the real estate fund manager? In other words is the allocation decision to invest in certain countries an integrated or a separated process incorporating both the asset and currency implications of international investment? The answer to this question highlights a difference between practice and academia. To the academic international investment is usually viewed as an integrated process. Where the decision as to what assets to hold is entwined with the currency implications of such decisions. In contrast practitioners look upon country allocation and the embedded exposure to currency movements from a separated perspective. For example, many multinational firms use a currency overlay approach when considering their investment overseas, Meijer (1996). In other words foreign currency exposure is treated as a separate asset from the actual invest and is managed by a separate specialist team (Giddy, 1994).

In summary, movements in foreign exchange rates occur so as to achieve equilibrium position between countries in terms of inflation and interest rate differentials, and as a results create a neutral effect on investment in the long run. Unfortunately it seems that currencies can have a substantial impact on real estate investment returns, in the short and medium term, making the management of exchange rate during these periods vital to the immediate future heath of the investor. However, currency risks can be overstated, for a number of reasons. First, for long term investors there is a zero correlation between real estate returns and exchange rates in nominal terms means that foreign investors are not necessarily at greater risk than domestic investors. Secondly, long tem investors are more concerned with the real rather than nominal returns from their investments. The resulting inflation adjustment will reduce the impact of exchange risk, given the purchasing power parity (PPP) relationship. In other words PPP neutralises exchange risk for long-term investors. Thirdly, currency risk can be hedged through a number of money market instruments. Fourth, real estate typically represents a minor proportion of the mixed-asset portfolio to long term investors, insurance companies and pension funds, the impact of exchange rate risk on the

real estate portfolio as little or no impact at the mixed-asset level. Finally there is the question as to whether or not currencies should be regarded as a separate function from the asset investment decision. That is the should the decision to invest in a particular real estate market be made on the basis of local market conditions rather than the currency position of the fund. In the main fund mangers see the allocation and the currency consequences as two separate decisions; see D'Arcy and Lee (1998). In other words real estate manager's focus on returns in local currencies to make country allocation decisions and then let a currency manager decide whether the investment should be hedged, what proportion to hedge and how to hedge the currency risk. Consequently the impact of currency risk on investment decision to purchase in Asia's emerging real estate markets should not be a deterrent to long-term investors. Nonetheless the presence of currency fluctuations adds an additional dimension of uncertainty to the investment decision, which many investors may prefer to avoid.

Political Risk

Political risk is often defined as the risk of adverse consequences arising from unexpected political events (e.g., Root, 1972 and Kobrin, 1979). This definition is useful because it is the unexpected nature of the event that increases uncertainty and so investment risk. Consequently events that are either expected or easy to anticipate do not constitute political risk. In addition it is the adverse consequences of political risk that detract from investment returns, and hence most concern investors. Consequently political risk arises when a sovereign host government unexpectedly change the "rules of the game" under which businesses operate through intervention in the economy. Such intervention may take many forms, including explicit barriers to capital flows, taxes, exchange controls and outright expropriation. In addition such interventions are precipitated by exogenous shocks to the economy, such as changes in world demand and trade, and endogenous behaviour in response to internal forces, such as coupe or changes in the ruling party. This has a profound affect on the risk of international investment, as instability in a host country's government, or monetary and fiscal policies results in more uncertain investment returns, Brewer (1993). For example, host governments frequently impose penalties on overseas investors when market conditions deteriorate and so have an adverse effect on investment returns. Penalties typically come in the form of restrictions on the repatriation of dividends and the control of the remittance of funds. Also once the penalties have been imposed on foreign-investors in response to market turmoil they are unlikely to be relaxed until local market conditions improve. Thus as it may be felt that political risks are greater in emerging than developed markets such risks may exert a significant influence on returns. Indeed Diamonte et al (1996) among others find that changes in political risk represent an economically and statistically determinant of returns in emerging markets. Thus Errunza (1983) notes that political risk, particularly in developing markets, could have a great deal of influence on the international portfolio investment decision. Indeed in a survey of Asian and UK property investors "internal political stability" ranked second highest in factors influencing decision-making, Lim (2000).

However, the political sources of risk can also decrease the risk to investing. As exemplified recently in the cases of Korea, Indonesia, and Thailand, where previously

closed markets have had to agree to reforms within their markets and relaxation of restrictions and taxes applied to foreign investors as part of the conditions attached the loans from the International Monetary Fund (IMF). Loans needed by such countries to help them weather their currency, real estate and stock market crises. Thus the political consequences of the crises have lead in the case of Korea to the removal of all restrictions on foreign acquisition of land and property. Promoting the government to establish the Korean Real Estate Information Service (KREIS), to provide property market information thus increasing the transparency of the market. While the Korean Asset Management Company has acquired non-performing loans and packaging them to foreign and local investors alike. Thus creating a level playing field for local and foreign real estate investors, Gordon (1999).

Furthermore although political risk is typically associated with the developing world, all international investments, whether in developed or developing countries, face some political risk. Examples in developed countries include the imposition of tax on conversion of British shares to ADRs and exchange controls in France. Also the increased political instability, normally associated with less developed countries, need not translate into political risk. Indeed, although the consequences of instability are usually adverse, such risks also can provide a number of profitable opportunities.

In addition if political risk is diversifiable, then it will not affect investors' required returns even though it may affect expected returns. In contrast, if many or all investors share political risk, then required returns will reflect these systematic, non-diversifiable risks, and political risk will be compensated for in high returns. The question becomes one then of whether political risk is priced in the domestic market and so impounded in the returns expected by foreign investors and/or whether political risk can be diversified in an international portfolio. To see if this is the case we focus on two forms of political risk; expropriation the most severe form and exchange controls the most frequently encountered.

The most severe form of adverse political risk is expropriation, the forced divestment of equity ownership of a foreign direct investor. Further although as suggested above political risk is not restricted to developing countries, the incidence of expropriation since the Second World War has been largely a less developed country phenomenon. Hence it deserves special consideration when considering investment in emerging markets. In particular since expropriation risk weighs on only the foreign investor, then, regardless of the structure of world capital markets, local real estate would not appropriately reflect such risk. Furthermore although such expropriation is triggered by domestic considerations, it could be argued that such risks could be largely diversified away in a well-diversified portfolio. However, most real estate portfolios are unlikely to be well diversified internationally. Consequently such a risk is unlikely to be fully eliminated. Nonetheless expropriation is usually a phenomenon faced by multinational companies, rather than portfolio investors, and is becoming less common over time, Minor (1994). Indeed given the move to more market oriented economic systems, albeit in varying degrees and forms, and the concomitant commitment to privatisation, among less developed countries, in a number of cases expropriated foreign investors have been invited back, in some cases to re-purchase their former investments. In other words not only as expropriation largely ended, in some countries it is being reversed. Therefore the probability of expropriation of real estate

investment is probably too small to be quantified. Consequently the expected loss due to the prospect of expropriation is unlikely to weigh heavily in the decision-making processes of the foreign real estate investor.

In contrast to expropriation, host governments in both developed and developing countries have frequently used exchange controls. Broadly defined, exchange control risk includes currency inconvertibility; multiple exchange rates; limits on the ownership of equity and debt; and the blockage of fund repatriation. Again as in the case of expropriation the risk of exchange controls is borne primarily by foreign investors, consequently the real estate returns in the domestic market would not appropriately reflect such risk. Also, controls are more likely to be triggered by world economic shocks rather than by endogenous factors, which means these controls would carry significant impact on even a well-diversified international portfolio. Thus because exchange controls weigh primarily on foreign investors and are more prevalent, they are more likely to be a barrier to international investment into the less politically safe countries of the world.

Therefore what are the political risks in the emerging markets of the Asian region? In order to answer this question requires rating the exchange control riskiness of each of the country, as it is this risk that is most likely to deter foreign investment by real estate investors, Aliber (1973) and Haendel et al. (1975). A number of measures of political risk exist see Erb et al (1996). One particularly useful source in this case is the political risk ratings of Political Risk Services (PRS). This is because one of the risk measures used by PRS is the uncertainty of future capital exchange controls, the key political risk facing international portfolio investors' and so the one that needs the most consideration. Specifically, this category refers to the risk from financial transfer, non-convertibility from the local currency to the desired foreign currency, and the transfer of foreign currency out of country. The measure is based on an assessment that: (1) restrictions on repatriation of profits or capital, exchange controls, (2) payment delays facing exporters to that country, (3) policy related to fiscal and monetary expansion and (4) governmental foreign borrowing will be imposed over the next eighteen months. Based on these calculations countries are then rated according to a scale ranging from A+ for the least risky to D- for the most risky. PRS provides the following description of each letter category:

- **A Countries:** No exchange controls, repatriation restrictions, or other barriers to financial transfer, and little likelihood that controls will increase in the forecast period.
- **B. Countries:** Modest or sporadic delays in financial transfers; a reasonable chance that delays will be high in the forecast period.
- **C. Countries:** Modest to heavy delays and even blockage of financial transfer; a reasonable chance that barriers will increase, and little chance that they will decrease within the forecast period.
- **D. Countries:** Heavy exchange controls and long delays for the transfer of currency; little chance that conditions will improve within the forecast period.

Table 2 presents the financial transfer risk ratings for various dates from 1982 to 1998 for 28 selected so called developed and less developed countries. The table displays a number of features of interest. First, as a whole, the perceived political risk of the sampled countries has typically decreased over time. However, political risk, as perceived by PRS, has increased in several countries (for example, India, Italy, and the Philippines). Second, it appears that medium or high political risk is not associated with the developing world. In 1991, some developing markets, such as Hong Kong, Singapore, Portugal and Taiwan, are included in the low or lowest political risk groups (A+ and A) whereas some non-developing markets, such as Belgium, France, and Ireland are included in the medium political risk group (particularly at the beginning of the period). This evidence lends support to Errunza and Losq's (1987) contention that political risk is not unique to developing countries and suggests that it would be a mistake to lump together all developing markets as a homogeneous group on the basis of their political risk.

Table 2: The Financial Risk Transfer of Selected Developed and Less Developed Countries 1982-1998

Country	1982	1985	1988	1991	1998
Australia	A	A+	A	A-	A
Belgium	B	A-	B-	A-	A+
Canada	A	A	A	A-	A-
China	N/A	N/A	N/A	N/A	B
Denmark	A-	A	A	A+	A+
France	B	B	A+	A+	A
Germany	A+	A	A+	A-	A+
Greece	B-	C	C	B-	B-
Hong Kong	N/A	A+	A+	A	A
India	B	B+	B-	C	B
Indonesia	N/A	N/A	N/A	N/A	B
Ireland	B	B+	A	A-	A
Italy	A-	B+	B+	B	A+
Japan	A+	A-	A+	A	A
Malaysia	B+	B	A-	B+	B+
Netherlands	A	A+	A	A	A+
New Zealand	A	B+	A-	A+	A
Norway	A	A	A+	A	A+
Philippines	B-	C-	B-	C	B
Portugal	N/A	N/A	N/A	N/A	A
Singapore	A+	A	A	A+	A+
South Korea	B+	C+	A-	B+	B+
Spain	B	A-	A-	A	A+
Taiwan	A	B+	A	A	A
Thailand	B	B-	B	B	B
UK	A	A	A+	A+	A+
USA	A+	A+	A+	A-	A
Vietnam	N/A	N/A	N/A	N/A	C

In summary investors frequently shun the politically unstable regions of the world in order to avoid political risk. Solnik (1991) argues that political risks of foreign investment might

dampen the enthusiasm for international diversification, as although the risk is extremely small, the associated potential loss is large. On the other hand, Kobrin (1979) suggest that political risk assessments are often overstated. In addition avoidance of political risk also leads to the loss of profitable opportunities, JLL (1999) and Lim (2000). Thus Errunza and Losq (1987) contend that investors should *not* avoid the politically unstable regions of the world because investments in these markets might provide returns that outweigh the risks. Indeed Cosset and Suret (1996) find that the inclusion of politically risky countries into an international investment portfolio leads to an overall reduction in portfolio risk. While Errunza and Losq (1987) and Lessard (1985) suggest that political risk might even favour foreign investors relative to domestic investors to the extent that these risks are a domestic phenomena that can be diversified internationally. Finally political risk, in the form of exchange controls risk, is not confined to emerging markets. Consequently it is a risk faced by any investor going overseas whether they venture into developed or developing markets. Therefore political risk need not be a major deterrent to international investment into the emerging real estate of the Asian region and its' impact is probably overstated. So what does deter foreign investment?

Institutional Risk

From surveys of investors it appears that the most important factor deterring overseas investment is unfamiliarity with foreign market structures and conventions and other formal regulatory barriers. For example, Worzala (1994) found that 81% of the European institutional investors surveyed saw lack of local market expertise as the major problem affecting international investing. A results confirmed by the surveys of the Investment Property Forum (reported in Baum, 1995**)** and Elliot and Halliday, (1996) both of whom finds the lack of local expertise and information the greatest difficulty to overseas investment. Other factors sighted including different cultural and legal structures and difficulties in identifying and managing real estate in foreign markets, all of which are closely allied to this perceived lack of local market knowledge. Thus lack of local market knowledge adds an additional risk into the investment decision-making that UK institutional investors would wish to avoid. In other words the greatest barrier to international investment in the real estate sector is institutional complexly and the variation in market conduct. In addition considerable differences exist in the characteristics of market participants, i.e. developers, investors and real estate service providers across markets. This has had significant implications for the characteristics, quality and comparability of the market information generated. In addition differences in the obligations of occupation and transactions costs such as lease lengths, their statutory provisions, real estate transfer taxes, brokers fees and non-rent occupancy costs provide another tangible example of differences across and between markets. In particular a diversity of types of real estate investment market exist, ranging from very sophisticated markets like the US and UK to underdeveloped markets of China and Vietnam. These differences reflect amongst other things the stage of development of other asset markets in the country in question, the structure of investing institutions and cultural factors like the prevailing attitude to real estate as an investment. If investment markets are not well developed, then the information base necessary for real estate investment decision making in a particular market may be absent. Consequently Guerts and Jaffe (1996) suggest that this "institutional risk" should be a prime area of concern when

contemplating investing into foreign markets, especially into emerging markets where cultural a legal differences will be even more pronounced. Differences that D'Arcy and Keogh (1996) and Guerts and Jaffe (1996) suggest are likely to lead to differing levels of performance. All of which suggests that unless an outsider is fully aware of the institutional structures, both formal and informal, between countries and even for segments within a country such investors are likely to be at a major disadvantage compared with local market players when they wish to enter the market. Indeed there is some evidence that supports the view that local firms perform significantly better than non-domestic investors because of their information advantage. For example, Eichholtz et al (1998b) report that internationally diversified property tend to achieve lower returns than domestic property companies without the compensation of lower risk. The authors arguing that these lower returns reflect the higher information cost faced by foreign investors leading them to either buy overpriced buildings or be unable to identify under priced investments. Thus if investors can become more informed of the institutional structures and business practices of overseas markets they are more likely to invest in those markets, i.e. "familiarity breeds investment", Stratman (1999).

Therefore in order to implement an international diversification strategy investors need reliable information on the performance of such markets, in order to make rational investment decisions, coupled with an understanding of local market trading conditions in order to implement those decisions effectively. Without which investors will avoid such markets, as the uncertainty the lack of transparency induces will increase the risk of investment to such a level that is becomes unacceptably high. A key source of barriers facing the international real estate investor relates to the acquisition of appropriate information about the risk and return characteristics of the markets that they intend to invest in. In particular difficulties arise in the standardisation of property returns in particular, and in the ability to obtain data on rental values or yields across a wide enough spread of cities to have a sample size sufficiently large to be statistically robust. As international markets encompass many different countries with differing administrative, legislative and fiscal regimes, coupled with differing property market conventions and codes of valuation practice (Keogh and D'Arcy, 1994; Adair et al 1996 D'Arcy and Keogh, 1997a), major issues arise regarding the compatibility of property data on a cross-border basis. In other words before international investors venture into the emerging markets of the Asian region the transparency of these countries needs to increase to a relatively high enough level before the market can hope to attract overseas investors. Finally when considering investment into new markets, especially emerging markets an addition risk, which many investors need to consider, is that of corruption. Indeed Roulac and Eachempti (2000) state that corruption is "the single greatest obstacle to economic development" facing countries today. Consequently the question becomes how transparent are the real estate markets of the Asian region relative to the other countries of the world. This can be answered by assessing their level of market maturity, and the amount and availability of information (transparency) and corruption within in each country.

Market Maturity

The consideration of issues relating to the institutional structure of individual real estate markets in Asia is important because real estate markets perform differently according to their institutional form and structure (D'Arcy and Keogh, 1996). These real estate market institutions mediate pressures for change through a real estate market process that, amongst other things, determines values, allocates space in buildings between competing uses, and stimulates the production of new space through development and redevelopment. This market process involves mechanisms that bring buyers and sellers together, which generate information and signals of market opportunity, which define legal interests in real estate, and which regulate trade in real estate. Market process is not a static concept but rather one that is subject to change in response to institutional changes in the real estate market. Such changes come from a variety of sources reflecting the diversity of institutional influences - social, political, economic, and legal - on the real estate market. However, institutional economics suggests that changes in market process will only occur when there are opportunities to reduce the transactions costs associated with use and trade in real estate.

For the purposes of the current paper it is important to highlight the extent of the differences which exist in the various elements of market process between Asian real estate markets. For simplicity the analysis focuses on five features, market actors, obligations of occupation, market openness and flexibility, market specialisation, and information generation and transmission. These are considered to be the most relevant in the context of European real estate portfolio construction. It is also important to highlight the fact that these individual elements of market process are not mutually exclusive of each other but are quite interdependent.

Starting with market actors, considerable differences between Asian markets exist in the characteristics of market participants groups. These differences span developers, investors and real estate service providers alike. This latter group in particular provides an important illustration of the differences that exist between actor groups in different countries. In most countries in Asia real estate as a profession is underdeveloped. As a consequence a diversity of individuals reflecting a wide range of professional backgrounds is involved in the provision of some form of real estate services and more specifically in the generation of the information necessary to make investment decisions. In turn this has generated a diversity of market practices and conventions with little standardisation across countries. This has had significant implications for the characteristics, quality and comparability of the market information generated which is a key issue in the context of this paper.

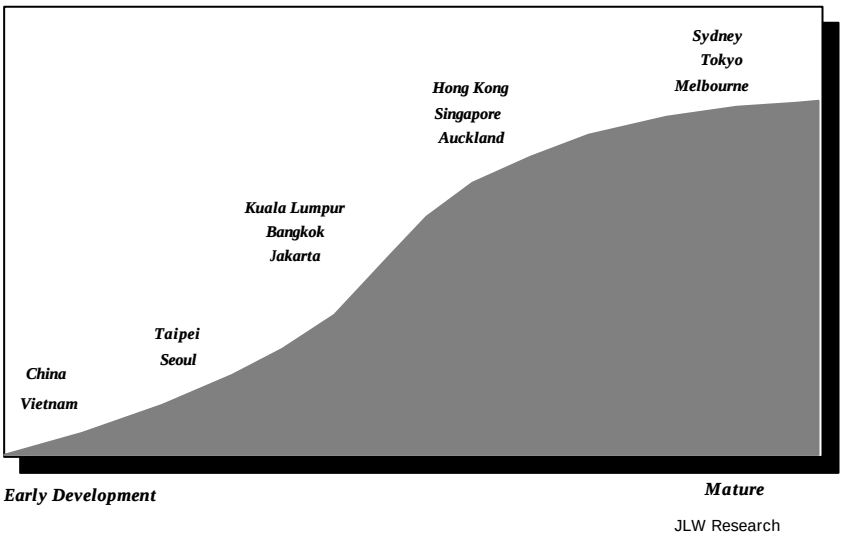
Jones Lang Wootton (1992) in particular sees the process of market maturity as a useful aid in “understanding of how markets will emerge, mature and perform in the future”. In particular JLW argue that issue of market maturity has “important implications for the type of real estate products that might be appropriately offered to the market, city by city”. The most comprehensive treatment of market maturity is found in Keogh and D'Arcy’ (1994) and D'Arcy and Keogh (1998). The authors identified six factors which may be expected to be associated with maturity from the perspective of property market theory, and which are generally deemed in practice to be characteristics of maturity by property market participants:

accommodation of a full range of use and investment objectives
flexible market adjustment in both the short and long run
existence of a sophisticated property profession with its associated institutions and networks
extensive information flows and research activity
market openness in spatial, functional and sectoral terms
standardisation of property rights and market practice

Thus it seems reasonable to believe that different markets will follow a common evolutionary process from early development through immaturity and finally maturity, albeit at different rates (Seek, 1993). Where Seek visualises a continuum from early development and emergence to high levels of maturity, and places specific urban property markets on that spectrum. This approach is interesting for a two reasons. First, it suggests an 'S'-shaped pattern of development, with the evolutionary process accelerating rapidly and then slowing as maturity is approached. Second, it implies "mature" as the ultimate goal although it might be more appropriate to see maturity "as a relative rather than an absolute achievement since the future evolution of property market process may render obsolete our current perception of maturity" (Keogh and D'Arcy 1994). Based on these ideas Seek (1996) categorised the markets of the Asian region as shown in Figure 1.

Where Seek suggested that in 1993 the main Chinese and Vietnamese cities represent markets at their most emergent, with the markets of Taipei and Seoul being characteristic of early stages of development. While the markets of Kuala Lumpur, Bangkok and Jakarta have moved to a stage of rapid development. Hong Kong, Singapore and Auckland maturing, with Sydney, Tokyo and Melbourne described as having achieved maturity. Consequently if an investor wished to avoid immature markets the choice was essentially limited to the capital cities of Japan and Australia, with Auckland, Singapore and Hong Kong as a secondary alternative. Institutional investors meanwhile would avoid the emerging markets with the field left to wealthy individuals and high-risk players, Lim (2000).

Figure 1: Asia Pacific Commercial Property Market Maturity Continuum.



Market Transparency

As global markets develop, the established investors call for increased transparency to reduce the risk of mispricing and to improve the reputation and credibility of the market., Gordon (1999). In other words international investment depends on the ability to achieve immediate and full access to market information that can be verified and can be confirmed in a shorter time than ever before. Indeed the free flow of information to all participants is a necessary condition for market efficiency. The newness of emerging markets and the different institutional structures adopted, compared with developed countries, suggests that access to all relevant information by all investors is unlikely to be the case. A specific issue is transparency, i.e. the ability of market participants to observe the information driving the trading process, since such the information available in the trading process dictates the investment strategies of investors and so influences market equilibrium and prices, see O'Hara (1995). In addition it can be argued that emerging markets are made up of informed as well as uninformed investors both of who operate in a relatively unreliable information environment, Antoniou et al (1997). In particular it could to argued that the informed players are locals with a full knowledge of the local market property game, while the uniformed players are the international investors. Thus whereas informed investors determine fundamental values from market prices uninformed investors are not equally perceptive placing them are at a serious disadvantage in the market. This implies foreign investors who may wish to enter the market will be at a severe disadvantage. In other words foreign investors need to see a high level of transparency within markets as such transparency leads to pricing efficiency by which they can feel confident that their investment decisions are based on a more thorough information set as to the risks and returns within the market. Thus until the efficiency of a particular market achieves some acceptable level of efficiency foreign investors will go elsewhere. Consequently Gordon (1999) has argued that foreign investors will require the market to display the following attributes before then will consider investing:

Financial transparency of investment vehicles
Independent governance of shareholder interest
Management compensation tied to the performance of investment vehicles
Transparent market risks

The level of transparency within a market therefore depends on the quality and quantity of information available. However, twenty years ago it was virtually impossible to obtain performance information about international real estate investments and even now research into the performance of property investment markets, especially in Asia, has been limited because of serious problems related to data availability and quality. Difficulties arise in the standardisation of property returns in particular, and in the ability to obtain data on rental values or yields across a wide enough spread of cities in order to have a sample size large enough to be statistically robust. As Asian markets encompass many different countries with differing administrative, legislative and fiscal regimes coupled with differing property market conventions and codes of valuation practice (Keogh and D'Arcy, 1994 and D'Arcy and Keogh, 1997a), major issues arise regarding the compatibility of property data on a cross-border basis.

Nonetheless primarily in response to foreign investor demand, the availability, timeliness, and quality of property market data is on the rise across the globe. Especially as a result of the globalisation of real estate surveying firms who now provide market data on a much more consistent basis for markets across the world. Indeed branches of several professional property practices have now been operating in some of the emerging markets of the Asian region for over twenty years. Initially functioning almost exclusively at a local level in conjunction with local firms but in a loose association with an international network, as in the case of ONCOR, the more recent mergers taking this global investment advice to new highs with an almost world wide coverage being offered to clients in every country across the globe. However, despite the emergence of these global firms with established research departments, property market information is still very difficult to obtain in emerging markets unless the investor is only interested in a narrow range of property types and locations. Otherwise there is virtually no culture of information exchange in the most of the emerging markets. Even where this information barrier is less severe, special knowledge, interpretation skills, and local contacts are still necessary for the purpose of actively managing a international portfolio.

Gordon (1999) has classified a number of countries on their level of transparency based on the following five criteria:

Presence of public and private performance indices
Quality of market fundamental research
Availability of reliable financial statements
Alignment of interests among directors, managers and investors/shareholders
Taxes, penalties and restrictions on cross-border transactions

See Gordon (2000) for more information.

Table 3: The Maturity and Transparency of Selected Countries

Country	Maturity	Transparency
Australia	Established	Highest
Belgium	Nearly Established	High
Canada	Established	Highest
China	Emerging	Low
Denmark	Nearly Established	High
France	Nearly Established	High
Germany	Established	High
Greece	Emerging	Opaque
Hong Kong	Nearly Established	High
India	Emerging	Opaque
Indonesia	Emerging	Low
Ireland	Emergent	High
Italy	Emerging	Low/Opaque
Japan	Nearly Established	Semitransparent
Malaysia	Emergent	Semitransparent
Netherlands	Emergent	High
New Zealand	Emergent	High
Norway	Emergent	High
Philippines	Emerging	Low
Portugal	Emerging	Opaque
Singapore	Nearly Established	High
South Korea	Emerging	Low
Spain	Emergent	Low
Taiwan	Emergent	Low
Thailand	Emergent	Low
UK	Established	Highest
USA	Established	Highest
Vietnam	Emerging	Opaque

The levels of transparency shown in Table 3 are also compared with an assessment of each countries market maturity updating the original work of Keogh and D'Arcy' (1994), Seek (1993) and Lee (1999). As can be readily appreciated the two concepts of market maturity and transparency are closely related to one another. Thus the markets of China, Vietnam, Indonesia, Korea and the Philippines are still at the emerging stage of maturity and so also display the least transparency. While the markets of Malaysia, Thailand and Taiwan have moved to a stage of rapid development towards maturity so can be thought of as emergent markets and so still displaying low to levels of transparency. Thus all these markets are unsuitable for institutional investors and are only of interest, at this stage in their development, to individuals willing to take a risk or vulture funds seeking out high returns in a very short time before moving on to new markets. In contrast the markets of Hong Kong, Singapore and New Zealand, Australia and Japan have much more established markets and all show good to high levels of transparency. All of which suggests that it is these markets that are likely to offer the 'best' form of investment opportunities to institutional investors considering overseas investment in the Asian region. That is the emerging markets of the Asian region (China, Vietnam, Taiwan, the Philippines, Malaysia, Thailand and Indonesia) still display levels of transparency and maturity which are likely to deter institutional investors from venturing into their domestic real estate markets. In other words the perception of institutional investors, considering investment into the emerging markets of the Asian region, is that the "institutional risks" of such markets are such that they are too high, even given the

higher expected returns and their portfolio diversification benefits. Furthermore until their transparency and maturity increases this is likely to be the case in the foreseeable future.

Corruption

The unwritten "rules of the game" in each country can be markedly different in terms of how business is conducted, compared to an individuals home market. Consequently the level of perceived corruption faced by business within a country could prove a major impediment to the successfully implementation of an investment strategy. This is especially important when investment is being considered into less developed countries as it may be thought that such countries are also the most corrupt. Corruption comes in many forms and is constantly changing over time, both in terms of the level of corruption (petty or grand), whether political, public or private, the frequency of corruption and price paid (low or high), etc. Thus a measure is of corruption is needed that is not only on a relative scale but also takes account the different forms of corruption and is available over a sufficient length of time to see is the level of corruption within a country is increasing or decreasing relative to over countries.

The source of perceived corruption data used here is the Corruption Perception Indexes (CPI) of Transparency International (TI) for a number of reasons. First, the aim of the CPI is to provide data on the perception of corruption within countries as a means of comparing the relative levels of corruption between countries. Second the CPI covers a wide range of countries. Next it incorporates both public and private measures of corruption. Finally the CPI is available over a number of years facilitating an analysis as to whether corruption is increasing or decreasing in absolute and relative terms. To achieve this TI does not rely on a single source of data, or polling method but calculates the index based on a "poll of polls". That is the index is drawn from the results from a number of surveys of corruption, each based on different sampling frames and methodologies, in order to achieve a more robust measure of perceived corruption. The data drawn from the surveys of a number of organisations including: the Economic Intelligence Unit, Gallup International, the Institute for Management Development, the Political Risk Services, the World Development Report and the World Economic Forum. Given the diversity of sources and methodologies employed the individual sources are firsts standardised before the mean value for each country can be determined. The higher the score the lower the levels of corruption within a country, see Lambsdorff (1999) for more details.

Using the data from TI Table 4 shows the CPI for the selected countries used in Tables 2 and 3. Table 4 shows that overall the average level of corruption has only slightly decreased since the early 1980s, with the average index score of 6.3 in 1998/1999 compared with 6.4 for the 1980-1985 period, at least for these selected countries. Nonetheless there is a significant difference in the average CPI values for the developed and less developed countries in each period, based on ANOVA tests. In other words the less developed countries display significantly worst levels of corruption that developed countries. However there appears to have been an improvement in the perceived level of corruption by business people in a number of less developed countries over this period, especially in Thailand, Portugal, Indonesia and South Korea. On the other hand the position a number of countries

has deteriorated, e.g. China, India and surprisingly Japan and Belgium. Japan and Belgium, two well developed countries, both now displaying a level of perceived corruption on a par with Malaysia and Taiwan! In addition Italy, which may be regarded as a non-developing country shows a level of perceived corruption below that of a number of, so called less developed countries. Finally the USA and notably France have both shown a continuing downward trend since the early 1980s although both with CPI values still above the average. Consequently all that can be said is that in general the Asian region does suffer from a level of corruption which is on average significantly worse than that in the developed countries, but that some so called developed countries display levels of business corruption more akin to the emerging markets than one would have expected. Thus corruption is likely to a problem in implementing an investment strategy in the emerging markets of the Asian region. But like political risk, corruption could also play a role in the decision to invest in a number of mature markets.

Table 4: The Corruption Perception Indices for Countries 1980-1999

Country	1980-1985	1988-1992	1998	1999
Australia	8.4	8.2	8.7	8.7
Belgium	8.3	7.4	5.4	5.3
Canada	8.4	9.0	9.2	9.2
China	5.1	4.7	3.5	3.4
Denmark	8.0	8.9	10.0	10.0
France	8.4	7.5	6.7	6.6
Germany	8.1	8.1	7.9	8.0
Greece	4.2	5.1	4.9	4.9
Hong Kong	7.4	6.9	7.8	7.7
India	3.7	2.9	2.9	2.9
Indonesia	0.2	0.6	2.0	1.7
Ireland	8.3	7.7	8.2	7.7
Italy	4.9	4.3	4.6	4.7
Japan	7.8	7.3	5.8	6.0
Malaysia	6.3	5.1	5.3	5.1
Netherlands	8.4	9.0	9.0	9.0
New Zealand	8.4	9.3	9.4	9.4
Norway	8.4	8.7	9.0	8.9
Philippines	1.0	2.0	3.3	3.6
Portugal	4.5	5.6	6.5	6.7
Singapore	8.4	9.2	9.1	9.1
South Korea	3.9	3.5	4.2	3.8
Spain	6.8	5.1	6.1	6.6
Taiwan	6.0	5.1	5.3	5.6
Thailand	2.4	1.9	3.0	3.2
UK	8.0	8.3	8.7	8.6
USA	8.4	7.8	7.5	7.5
Vietnam	N/A	N/A	2.5	2.6
Average	6.4	6.3	6.3	6.3

Source: Transparency International

Conclusion

The Asian region has become a focus of attention for international investors in recent years. Nonetheless many investors have doubts about the prudence of investing in such areas. In particular it may be felt that the expected returns offered in the countries of the Asian region are not sufficient good enough to compensate investors for the increased risks of investing in such markets. In other words although interest in the real estate emerging markets of the Asian region has increased in recent years, doubts about the expected returns in such markets does not compensate institutional investors for the addition risks incurred. Such risks can be classified under four headings: investment risk, currency risk, political risk, and market transparency.

In particular is has been shown that the usual risks associated in the literatures that are often considered as the main deterrents to overseas investment: currency and political risks are not that important to the investment decision. While the increased investment risk often attached to such markets is incorrectly understood, in a portfolio context. As the inclusion of

emerging markets in an international portfolio is actually beneficial has such markets offer increased expected returns and a reduction in portfolio risk. Thus the main barrier to foreign investment in such markets remains that of institutional risk, maturity and transparency. Consequently the real estate markets of the Asian region are unlikely to be on the investment lists of institutional investors until their maturity and transparency increases to acceptable level, something that seems unlikely for the foreseeable future. In other words countries have to recognise that greater transparency and openness is a pre-requisite for success in the future, Roulac and Eachempati (2000). Indeed Gordon (1999) suggests that the increase in market transparency in a countries real estate market is the price that must be paid for a country to be considered for admission into today's global investment markets.

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