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Real-Estate Investors Head Overseas

As the U.S. Property Market Cools Off, Americans Start to Look At Foreign Properties and Funds; Buying a Condo in Bulgaria

By JEFF D. OPDYKE
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Investing in real estate once meant owning rental property downtown or buying shares in a U.S.-based real-estate investment trust. Today, it increasingly means putting money in a REIT trading in Singapore or buying a pied-à-terre in a refurbished medieval village in northern Italy.

GOING GLOBAL

American investors are increasingly adding foreign properties to their portfolios. These Web sites can help you get started.

• For researching foreign properties:

Promaga.com¹
Propertyshowrooms.com²
Sothebysrealty.com³
Realinvest.co.uk⁴

• For researching exchange-traded funds and mutual funds:

ETFconnect.com⁵
Morningstar.com⁶

These days, real-estate investing is a international proposition. Nearly a score of global real-estate mutual funds have launched in the U.S. in the past two years, more than doubling in number. They now manage some \$16.8 billion collectively, with more than \$5.8 billion in new money flowing in this year alone, according to investment researchers Morningstar Inc.

Earlier this month, the American Stock Exchange listed its second international real-estate exchange-traded fund in the last six months, the **WisdomTree International Real Estate** fund. And last summer, private bank Northern Trust Corp. launched the first international real-estate index fund, Northern Global Real Estate Index, which now has more than \$1 billion in assets.

Not content with owning real estate through the stock market, some Americans are venturing abroad to buy properties, especially in lower-cost markets such as Brazil, Morocco and Portugal. They then turn them over to property-management firms to generate income.

That's what Beth Damberger and her husband, Orlando Londres, are doing. Instead of investing in stocks and bonds, the Vallejo, Calif., couple, who own a pet-care business, in the past year have put their investment dollars into a villa in southern France, a beachfront apartment in Brazil and a studio in a Bulgarian ski resort. They hope to one day move to France with their two young children, but for now are renting the villa to vacationers to cover the mortgage payments. The apartments in Brazil and Bulgaria -- each of which cost

about \$60,000 -- "are purely investments," says Ms. Damberger.

The trend comes as U.S. investors seek ways to sidestep the weakening U.S. housing market -- and as they grow wary of a domestic REIT market that has been exceedingly strong in recent years. At the same time, real estate is emerging as a more viable asset class around the world and among U.S. institutional investors. As recently as five years ago, REITs -- publicly traded real-estate portfolios -- were a rarity outside the U.S. and a few other developed markets. Now, roughly 30 countries have REIT-like investment vehicles that trade in the local stock market, or are considering adding them.

The chief benefit to investors from going abroad: diversification. Real estate is the ultimate "local" investment, since what happens in New York or London, for instance, has little effect on the real-estate market in, say, Perth, Australia. Moreover, foreign real estate is only mildly correlated with the movement of U.S. stock prices, meaning a hit to the American stock market won't necessarily ripple through foreign real-estate investments.

The risks include a crumbling economy in a particular real estate market, or a swoon in stock prices for local REITs. Then there's the dollar, whose current weakness against many other currencies makes foreign real estate more expensive for Americans. Worse, if the dollar rises after you buy property overseas, the value of your investment will erode, since a stronger greenback means foreign assets -- from stocks to bonds to houses -- are worth less in dollar terms.

Ibbotson Associates, a Chicago investment-research firm, recently studied international real estate and concluded that foreign real estate should equal about 8% to 9% of an investor's portfolio. Charles Schwab & Co., which recently launched the Schwab Global Real Estate mutual fund, says investors should have about 3% to 5% in overseas property, noting that adding foreign real estate to a portfolio increases returns and reduces overall risk.

Buying shares in a mutual fund or an exchange-traded fund -- which resemble index funds that trade like stocks -- is easy to do in your brokerage account. But buying property directly presents numerous logistical challenges. For one thing, many hot property markets, such as China, are exceedingly difficult for foreign investors to access.

Ms. Damberger and Mr. Londres -- she's 37; he's 39 -- used a firm they found on the Web, London-based Bulgarian Properties Ltd., to locate a studio in a new resort being built in Bulgaria's Pirin Mountains. They hired a local attorney to ensure all the title work was accurate and to help open a local bank account.

When the resort opens next spring, the couple plans to begin generating rental income through a property-management firm that will lease the studio to vacationers. The cash will be directly deposited into their Bulgarian bank account, and any bills will be directly debited. Any local taxes due will be handled by the property firm.

Their ultimate goal: to sell the studio when Bulgaria, which joined the European Union in January, begins using the euro in 2010. That, Ms. Damberger says, "should drive the property prices higher" as Western Europeans look east toward cheaper markets for second homes and investment opportunities.

Foreign property-management companies in places as obscure as Mauritius say they're routinely hearing from U.S. investors looking for ways to diversify their money across other economies and across assets other than stocks and bonds. At Realinvest Ltd., a London firm matching buyers to properties in Italy, more than half the online traffic comes from Americans. Sotheby's International Realty Canada, meanwhile, says it hears from U.S. investors daily and that Americans bought 55% of the 130 mountain-resort units in British Columbia the firm sold in March.

Firms such as Sotheby's, Realinvest and Propertyshowrooms.com work with clients on everything from finding properties to help securing a mortgage. Most offer property-management services and, in some cases, offer guaranteed minimum rental income for a certain number of years, basing the amount on projected occupancy rates.

"The reasons Americans tell us they're buying are the same reasons we hear from all over the world: they don't want all their eggs in one basket," says Sophie Moore, international marketing coordinator for Promaga SAU, a Cadiz, Spain, international property-development firm with residential projects in Spain, Brazil and, soon, Ecuador. Promaga routinely fields queries from Americans and is slated to launch its first U.S. advertising campaign in the next few months.

Joe Azelby, global head of real estate and infrastructure at JP Morgan Asset Management, says "we're seeing great interest from our high-net-worth investors who want a global approach to their real-estate allocation," mainly through private real-estate funds with a minimum investment of \$250,000. A widely held view among clients "is that there are real growth opportunities in real estate when you look at the growing economies around the world and the massive urbanization taking place," says Mr. Azelby.

But there are also ways for smaller investors to participate. Linda Lubitz-Boone, a wealth manager in Miami, Fla., says 18 months ago she began splitting equally the real-estate allocation for all of her clients between U.S. and foreign real-estate mutual funds. Her foreign funds of choice: Cohen & Steers International Realty and Alpine International Real Estate. Both have \$1,000 minimums.

Be aware, though, of what you're buying. The Dryden Global Real Estate fund, for instance, has more than a third of its assets in U.S. real-estate investments. That's not necessarily bad, so long as you're not overloading your U.S. real-estate holdings elsewhere. Other funds, such as the Fidelity International Real Estate fund, own no U.S. stocks

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and don't hedge their currency exposure, providing the purest play for foreign property. Typically, "global" funds will own U.S. investments, while "international" funds won't.

Not every overseas buyer is looking to generate income. La Jolla, Calif., retirees Larry and Carol Papay, both 70, three years ago bought a two-bedroom condominium in a small, northern Italian village in the Liguria region. The building their condo is in, Mr. Papay estimates, is roughly 400 years old. The couple spends 18 hours traveling to their getaway for periods of at least three weeks three times a year; the rest of the time the place sits empty.

"We considered renting it out, but we decided we wanted it to be ours when we're there and when we're not," Mr. Papay says. They use the condo as a base for trips through northern Italy and France, or "to just thoroughly kick back and enjoy this quiet little village."

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