

# MONEY & INVESTING

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## Australia Searches for Gold in U.S. Commercial Real Estate

By CHRISTINE HAUGHNEY

**A**USTRALIAN PENSION funds are snapping up U.S. commercial real estate, adding heat to a steamy market.

In the past 12 months, Australians have purchased \$6.8 billion of American office buildings, shopping centers and other commercial properties, according to Real Capital Analytics. During that period, Australians accounted for 37% of the international capital that poured into U.S. real estate, the New York research firm says.

Australians topped German investors, the biggest foreign investors in U.S. real estate lately, who invested \$3.5 billion over the same period, according to Real Capital. The rest of Europe combined ranked third with \$2.8 billion in deals. And for the first time in its 17-year history, the Association of Foreign Investors in Real Estate, a trade group based in Washington, next year will be run

by an Australian, who is taking over from a German investment executive.

"Their appetite in the United States is very strong," says Anthony Buono, a CB Richard Ellis senior managing director for investment properties for the western U.S. "All of these deals look very good to the Australians."

The U.S. commercial real-estate market is setting records for the high prices that buildings are commanding, the relatively low returns that buyers are accepting and the amounts banks are lending.

The Australian enthusiasm for U.S. real estate has brought inevitable comparisons with other foreign buyers who overpaid for properties before the market turned south. "There's been a debate: Are we similar to the Japanese buying in the '80s?" says Chris Lawton, an Ernst & Young partner in the real-estate, hospitality and construction group in Australia.

Australians appear undaunted by high prices in the U.S. real-estate market. "I know current U.S. investors that wouldn't touch these things at the prices that were paid," says Bill Starn, a partner in PricewaterhouseCoopers's national real-estate group, who has audited some Australian investment firms. Still, he said the deals met the parameters that Australian investors set for themselves.

Part of the confidence stems from a strong currency. The Australian dollar is up 10% from its recent low on June 17, 2004, against its U.S. counterpart. A stronger Australian dollar makes assets denominated in U.S. currency cheaper.

According to Real Capital, Australians have paid \$203 a square foot for office buildings this year compared with the national average of \$157 a square foot. For retail properties such as strip malls, they paid \$156 a square foot compared with a national average

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# Australia Targets U.S. Property

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of \$141 a square foot. Many Australian investors acknowledge that they are buying into a pricey market but say these deals offer less risk and potentially higher returns than real estate in Asia or Europe.

Australians are avoiding trophy properties such as New York's Empire State Building or Rockefeller Center, sticking to top-quality but lower-profile buildings. "Yes, their average prices are 10% higher than the market average," says Real Capital's president, Robert White. "But the Australians are buying properties that are better than average in quality."

While Australian outfits like Westfield Group have invested and operated U.S. real estate for decades, this flood of capital is coming out of the country's \$40 billion pension-fund pool, which has grown sharply since the 1990s, when legislation mandated workers put part of their salaries into the fund, says James Dunning, a Sydney-based partner with PricewaterhouseCoopers.

Mark Baillie—who runs the real-estate group that invests in North America and Europe for Macquarie Bank and will take over next year as chairman of the Association of Foreign Investors in Real Estate—estimates that the Australian pension-fund total will rise to \$1.5 trillion by 2012. "The U.S. market is not without its challenges," he says. But, he adds, "We're here for the foreseeable future."

Australians long have invested in real estate and like the U.S. market because its laws and structure resemble its own, in particular the real-estate investment trusts that helped put billions of dollars of properties into the hands of publicly traded companies. Australian investors often view Asian real-estate markets as too unstable for pension-fund investments and say European markets aren't far enough along with their REIT legislation. Australian investors add that the U.S. has the most favorable tax treatment.

Australian pension funds tend to invest relatively heavily in real estate, putting roughly 10% of their assets into properties, according to independent research group Rainmaker Information. U.S. pension funds typically hold about 4% of investments in real estate, though many would like to raise their allocations, according to the Pension Real Es-

tate Association of Hartford, Conn.

Also driving the Australian influx are successes by players like Macquarie and the relative shortage of properties—and especially bargain-priced properties—on the market in Australia.

"You have a lot of capital that can't be invested in its own country," says Peter Lowy, head of Westfield Group's Westfield America operations.

While Australians may not figure in flashier deals like the 2004 deal for Chicago's Sears Tower or this year's sale of New York's MetLife building, they are garnering attention for the size of the portfolios they buy. This year real-estate investment trusts associated with Macquarie purchased \$3.3 billion of U.S. real estate, including the \$2.7 billion portfolio of 100 shopping centers and a \$445

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million portfolio of senior centers. Australia's Centro Properties Group partnered with California real-estate group Watt Commercial Properties to buy a \$1.2 billion portfolio of 93 retail centers through the Northeast from Kramont Realty Trust.

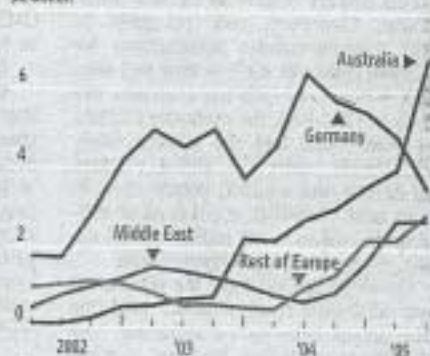
The Australian interest hasn't been lost on U.S. real-estate operators, who have formed joint ventures with Australians to buy large portfolios, launched funds to purchase individual office towers and started separate companies listed on the Australian Stock Exchange.

Late last year executives with Tishman Speyer Properties, an old-line, private New York real-estate company, set up a \$400 million real-estate fund filled with some of its properties including the AT&T Corporate Center in Chicago and 300 Park Ave. in New York and held an initial public offering for fund shares on the Australian Stock Exchange. On Sept. 26, real-estate investment trust Reckson Associates Realty Corp. is starting a separate publicly traded \$563 million real-estate company listed on the Australian Stock Exchange.

## Over Here

Value of U.S. property bought by foreigners

\$B billion



Source: Real Capital Analysis