

Commercial Property Index Shows Extremes in Returns

Capital value and currency swings produce contrasting global returns, says IPD, a global information business, dedicated to the objective measurement of commercial property performance.

The local currencies spread of movement in underlying capital values across 23 of the world's most mature property markets was 42 percentage points from best to worst through 2008, according to IPD Global Property Index.

Despite some severe capital falls, the estimated size of the professionally-managed global property investment market still topped the \$4.6 trillion (R36 trillion) mark.

At the two extremes were Ireland, at -37.2 percent, and South Africa which produced +4.4 percent, this positive capital growth albeit reflecting domestic inflation of 11.5 percent.

Although three national property markets produced positive capital returns over last year, all markets suffered significant reductions on the previous year.

Increases in property yields across world property markets were at significantly different paces, due to the pattern of yield compression before the tipping points, following the summer of 2007; the level of capital flows into different property markets before the crisis; and national variations in the supply of and demand for assets.

For many cross-border property investors in 2008, however, possibly the most crucial factor driving overall returns was the dramatic pattern of cross-currency movements.

According to the Global Index, the 2008 total return in US dollars was -10.1 percent, reflecting a -14.7 percent capital return partially offset by a stable income return of 5.4 percent.

The spread of returns on a US dollar basis was far more substantial than local currency capital movement spreads - at more than 64 percentage points.

Given the profoundly weakened sterling against the euro and to a lesser extent the US dollar last year, the UK has overtaken Ireland as the weakest national market on a dollar return basis, at 43.7 percent, while the strongest performer was Japan, at 22.9 percent, due to the yen strengthening considerably against the dollar.

This is the second IPD Global Property Index - published at the IPD European Property Investment Conference 2008 in Barcelona - but is the first in the annual series which includes consistent data from the US following the inclusion of the IPD US Annual Property Index launched in New York on May 27.

IPD estimates the size of each national property investment market by identifying and aggregating the best available approximation of the unleveraged total value of each of the professionally managed direct property portfolios invested in each market.

The IPD Global Property Index database is comprised of more than 50 000 assets worth \$1.1trillion as at the end of December 2008.