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# High dividends with real estate funds

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### In spite of the increase in prices, the interest in real estate is unwaning

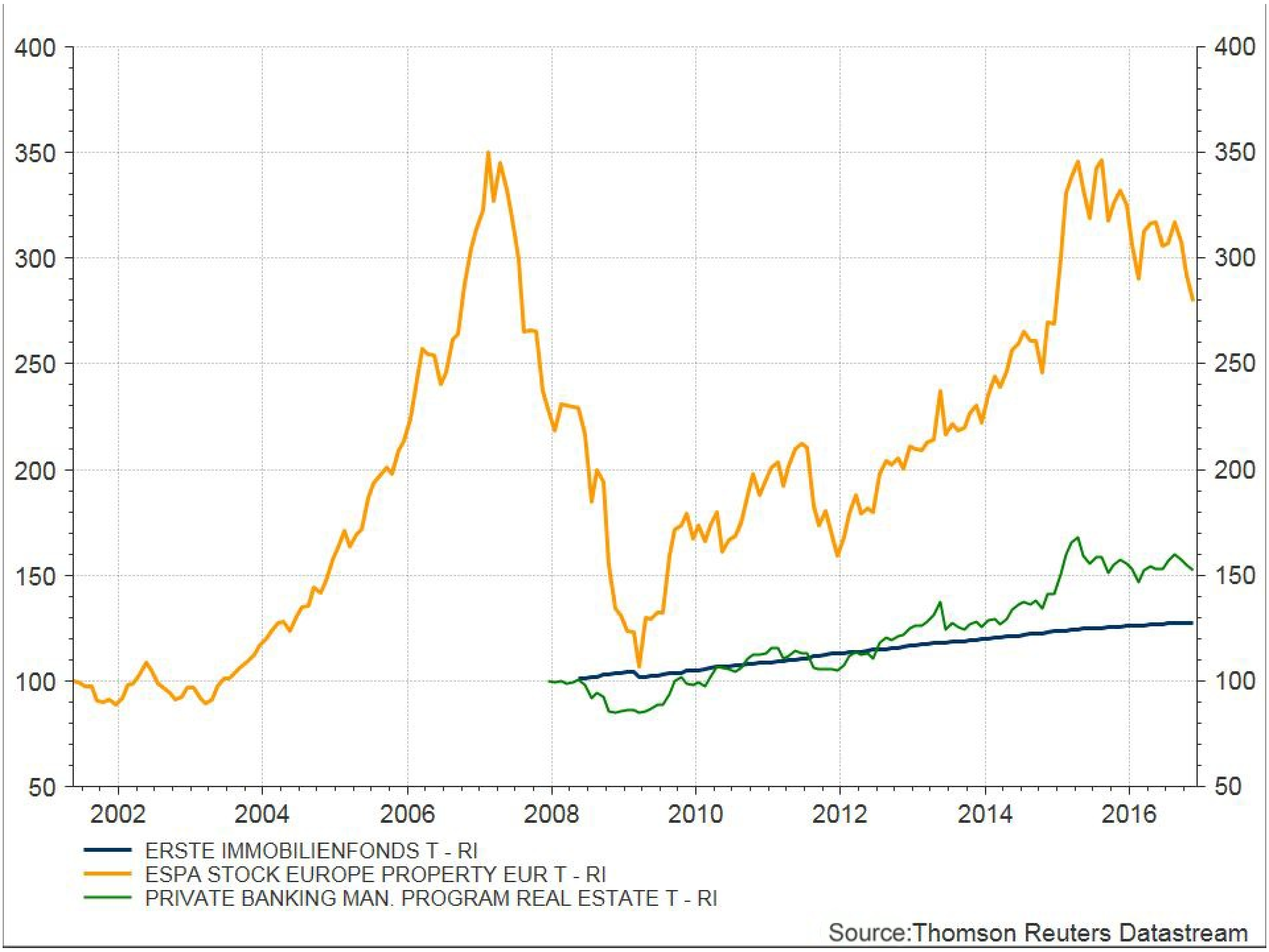
In view of the current level of real estate prices, direct real estate investments are hardly affordable anymore for private investors. The purchase of real estate requires substantial equity at the outset, which for the investors is associated with high risk. In addition, incidentals and administrative costs for the construction and maintenance of the construction project are a burden. Whoever wants to buy real estate, should also have the necessary know-how in the field, because any two properties are never the same. An alternative solution to participate in the rising value of real estate is to invest in real estate funds.

There are different kinds of real estate funds. When selecting one, the investor should carefully consider how long he/she wants to tie up the money. Some product classes offer flexibility.

### Open-ended real estate funds invest directly in a property

Open-ended real estate funds, which are often advertised by banks and are considered relatively safe, invest the money in advance in well-defined real estate projects or acquire objects that have already been completed. Return is generated by rental income and the rising value of the property. Such funds are not very liquid because the assets are tied up in projects. When investing in open-ended real estate funds, one has to take into account the fact that in times of crises, a liquidity crunch may occur, as a result of which the fund may be closed or suspended from trading.

In such a case, the real estate property fund is forced to sell investment objects to ensure it can honour increased outflows from the fund. This would be the case where many investors wanted to withdraw their money. Such sales come with a certain lead time, during which investors have to wait for their money, as it is not immediately available. However, as we have pointed out earlier, the share prices of classic real estate funds are subject to low levels of fluctuation. i.e. to lower risk. Basically, investors should therefore expect lower yields (ERSTE IMMOBILIENFONDS 2,5% p.a., since 30 November 2011; please refer to chart); the upside of the low yield is the relatively high degree of safety.




*Projections and forecasting is no reliable indicator for future developments.*

## Real estate equity funds invest in companies

Real estate equity funds are different: the investor's money is not funnelled into any real estate projects directly; instead, he/she participates indirectly in the profit of real estate development companies, i.e. listed real estate companies, and in real estate investment trusts (REITs). They can be active across various sectors, such as office, retail, residential, and industrial real estate, as well as across different countries. Given that a real estate equity fund invests in several companies, its success does not hinge on one company exclusively. In other words, the risk is diversified.

A real estate equity fund basically offers better chances of a higher yield (ESPA STOCK EUROPE PROPERTY 6,9% p.a. since 21 May). As can be expected from an equity fund, the chance of a higher yield comes with a higher risk of losses, since listed companies are subject to the fluctuations of the market.

Both product classes, i.e. open-ended real estate funds and real estate equity funds, are suitable for both smaller and larger investment amounts. They are a good form of investment for participating in real estate yields.

## High dividends with real estate investment trusts – REITs

Real estate equity funds can invest in so-called real estate investment trusts (i.e. REITs). These are listed property real estate companies that mainly own and manage real estate. REITs distribute a minimum of 90% of their profits as dividends to their shareholders. In contrast to a classic public limited company, the profit is exempt from corporate income tax, which facilitates higher dividends for the shareholders. Traditional companies tend to have less funds available for dividends as their profits are subject to corporate income tax prior to distribution. The investor in turn has to declare the dividends as income from investments for tax purposes. Of course, the tax advantage of REITs is subject to certain conditions.

## Exact market valuation of REITs and real estate shares

Since REITs and real estate shares are traded on the stock exchange, the assets are valued not only on the basis of the frequent appraisal by experts, but also by the market on a daily basis. This creates maximum transparency. Real estate funds, on the other hand, are valued at longer intervals by the asset management company itself or by an appraiser. This causes the time series of the value of traditional real estate funds to be relatively static; it cannot fully reflect the actual, most recent market value of assets (please refer to chart).

Investors interested in real estate as asset class should consider including real estate equity funds in their portfolios. The diversification effect, the high pay-out ratio (for REITs), and the liquidity advantage vis-à-vis a direct real estate investment, all favour an investment in this asset class.

**Erste Asset Management offers different investment solutions to this end:**

Investors interested in a specific region may want to look at the following two funds with regional real estate focus:

Europe: **ESPA STOCK EUROPE-PROPERTY**
Asia-Pacific: **ESPA STOCK ASIA PACIFIC-PROPERTY**

Investors interested in international real estate shares who do not want to focus on a specific region, may find the following real estate equity fund to their liking. It follows an absolute return approach, which means that it is not benchmark-driven. Depending on the market situation, the 0 to 100% of assets will be invested, with the outstanding balance held in cash.

## PRIVATE BANKING MANAGEMENT PROGRAMM REAL ESTATE

All Erste Asset Management real estate equity funds invest also in REITs, which means that the aforementioned tax benefits apply to dividends.

**Risk notes according to 2011 Austrian Investment Fund Act**

PRIVATE BANKING MANAGEMENT PROGRAMM REAL ESTATE may make significant investments in derivatives (including swaps and other OTC derivatives) pursuant to section 73 of the 2011 Austrian Investment Fund Act.

PRIVATE BANKING MANAGEMENT PROGRAMM REAL ESTATE may make significant investments in investment funds (UCITS, UCI) pursuant to section 71 of the 2011 Austrian Investment Fund Act.

ESPA STOCK EUROPE PROPERTY may exhibit increased volatility due to the composition of its portfolio: i.e. the unit value can be subject to significant fluctuations both upwards and downwards within short periods of time.

ESPA STOCK ASIA PACIFIC may exhibit increased volatility due to the composition of its portfolio: i.e. the unit value can be subject to significant fluctuations both upwards and downwards within short periods of time.

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Gabriela Tinti has been with the equity team of Erste Asset Management/ERSTE-SPARINVEST as senior fund manager since 2008. She focuses on companies from the global emerging markets and on property companies. Gabriela Tinti has worked in finance since 1988. At the beginning of her career, she was with a commercial bank, where she gained a wide range of experience in capital markets, retail and institutional banking, international finance, and corporate finance. In 2002 she moved to the asset management industry.