



FORMAT FOR
PRINTING
sponsored by



October 18, 2006

International Real Estate Gets Its Very Own ETF

By IAN SALISBURY
October 18, 2006; Page D2

Many people would like to own real-estate abroad -- and while buying a pied-à-terre in Biarritz may be difficult, investing in international real estate could soon get easier.

State Street Corp.'s State Street Global Advisors recently filed with the Securities and Exchange Commission to launch an exchange-traded fund based on real-estate securities in 23 countries. Exchange-traded funds resemble index-oriented mutual funds, but trade on an exchange like a stock.

While there are a number of traditional mutual funds to track international real estate, so far all the real-estate ETFs on the U.S. market follow domestic stocks.

In the past few years, real estate has been a hot investment and, importantly, one that promises not to rise and fall in correlation with U.S. stocks and bonds. That has many brokers saying an international ETF would be welcome.

"It would help us span markets" overseas, says Louis Kokernak of Haven Financial Advisors in Austin, Texas. Mr. Kokernak allocates about 5% of his clients' portfolios to real estate.

He says he already uses State Street's domestic real-estate ETF and, if an international version became available, he would consider switching a quarter to a third of his clients' real-estate exposure to it.


Mark Willoughby of Greenbaum & Orecchio Inc. in Old Tappan, N.J., is also interested. "We've looked at international real estate for the past two years," he says. His firm recently started using two institutional funds for its high net-worth clients, but also would like to see an ETF, because ETFs typically have lower annual expenses than other funds.

"The expense ratios are not that bad, about 100" basis points, or 1%, he says. "We're used to something cheaper, but we haven't been able to get it."

The State Street filing doesn't say what the annual fees will be for the proposed ETF, but a number of advisers say they would be surprised if it were much more than 60 basis points, or 0.6% of assets.

One possible rival, the Northern Global Real Estate Index Fund, boasts an expense ratio of 65

DOW JONES REPRINTS

 This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Order Reprints tool at the bottom of any article or visit: www.djreprints.com.

- [See a sample reprint in PDF format.](#)
- [Order a reprint of this article now.](#)

basis points. That product is "global" rather than international, meaning it includes some U.S. stocks, but still, an ETF that wasn't priced in this range could find it hard to compete.

The State Street fund will be based on the Dow Jones Wilshire exUS Real Estate Securities Index. The "exUS" means there are no U.S. stocks.

The index has posted some eye-popping returns, but because it was introduced only in March, those numbers are based on hypothetical back tests and don't reflect actual results.

According to the tests, the index has returned 33% over the past three years, 23% over the past five years and 9% over the past 10 years.

Investors should note that, despite the large number of countries in the index, nearly 60% of the holdings are concentrated in just three: Australia with 20%, the United Kingdom with 19%, and Japan with 18%. The top nine countries comprise just more than 90% of the weightings. Also, many of the stocks in the index are "real-estate operating companies" instead of real-estate investment trusts.

Ronnee Ades, senior director of institutional markets at **Dow Jones** & Co.'s indexing unit, says a REIT-only index wouldn't be as diverse, because many countries have yet to adopt that special tax structure.

REITs, which were introduced in the U.S. in the 1960s as a way to invest in income-producing real estate, are largely exempt from tax on profit at the corporate level, and distribute nearly all of their net income as dividends.

Write to Ian Salisbury at ian.salisbury@dowjones.com¹

URL for this article:

<http://online.wsj.com/article/SB116112776044295844.html>

Hyperlinks in this Article:

(1) <mailto:ian.salisbury@dowjones.com>

Copyright 2006 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our [Subscriber Agreement](#) and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit www.djreprints.com.