Real Estate Transparency

Real estate transparency varies across the globe.

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OVER THE LAST TWO YEARS, commercial real estate has become more transparent in many parts of the world. Once dominated by local entrepreneurs, the industry is being transformed into an international business. Domestic and international stakeholders—owners, investors, lenders, occupiers, developers and service providers—are demanding more information, consistent regulatory treatment and higher ethical standards.

These demands are being met gradually, but the pace of change differs greatly from country to country. In many countries, the industry still struggles to provide the basic market data, reporting standards and governance expected by international businesses and investors. And within almost all countries, major markets tend to have much higher levels of transparency than second- and third-tier markets. Yet despite these differences, the Jones Lang LaSalle Real Estate Transparency Index (RETI) indicates that the overall trend toward greater transparency is unmistakable (Table I).

Since the last Transparency Index was published in 2004, steady improvements can be seen across different dimensions of transparency (Table II). Among the greatest sources of improvement are the introduction of new investment performance benchmarks, more financial disclosure by listed real estate companies and heightened external governance of these listed companies. At the same time, there has been less progress in the legal and regulatory categories of great interest to investors and occupiers. We see fewer reports of totally opaque legal systems in this category, but improvements remain elusive, even though owners and occupiers regularly deal with national and local governments on a wide variety of regulatory and judicial issues.

Table I: The ten most transparent countries in 2006

2006	2004	Country	2006 Real Estate Transparency Score	2006 Tier	2004 Tier
1	1	Australia	1.15	1	1
1	3	United States	1.15	1	1
4	5	Canada	1.21	1	1
6	7	Hong Kong	1.30	1	2
8	8	Sweden	1.38	1	2
10	9	Singapore	1.44	1	2
In 2006, ten countries were considered Highly Transparent, up from six in 2004.					

Source: Jones Lang LaSalle, LaSalle Investment Management

Table II: The ten greatest improvers, 2004–2006

Countries	Change in Score 2004-2006
Italy	+0.81
Mexico	+0.70
Saudi Arabia	+0.67
United Arab Emirates	+0.67
India	+0.62
Brazil improved the availability of its market fundamentals data across all property types. Italy improved its corporate governance and eminent domain policies. Japan improved its financial disclosure of listed amd unlisted vehicles.	

Source: Jones Lang LaSalle, LaSalle Investment Management

In many countries, the authorities responsible for regulating and taxing real estate have historically taken an ad hoc approach, sometimes based on the inconsistent application of overly complex rules. Hernando de Soto, a Peruvian economist who writes about shanty towns, and Suketa Mehta, author of *Maximum City*, which describes the slums of Mumbai, both document how such policies create an environment rife with delays, corruption, incompetence and graft. In the worst cases, unpredictable or corrupt governmental behavior hinders the development of efficient capital markets equipped to tap into and re-circulate real estate wealth throughout the overall economy of a country. The 2006 RETI indicates that greatest challenges lie in the fair and efficient administration of the regulation and taxation of real estate. These challenges can certainly be found in industrialized nations, but they are most acute in emerging markets.

The rise of cross-border investment opportunities and multinational occupiers has proven to be a powerful force for change. The new generation of cross-border investors and occupiers typically seeks: accurate market and financial information; reliable performance benchmarks; enforceable contracts and property rights; clarity regarding the taxation and regulation of real estate; fair treatment in the transaction process; and ethical standards among professionals hired to transact business. Since its first publication in 1999, the RETI has charted gradual improvement in nearly all these areas. Progress has been especially rapid in the last two years, with the most dramatic changes taking place in emerging markets like Brazil, India, Mexico, Romania and Turkey. Developed countries—France, Japan and Singapore, for example—also showed major improvements in transparency. In fact, in the 2006 RETI, fourteen countries have moved up a full tier in our five-tier transparency ranking system and none have moved down. In addition, many countries remaining in the same tier earned higher transparency scores in the 2006 index. Overall, less than one-third of the countries ranked in our 2004 RETI showed little or no improvement.

In 2004, six countries stood out as highly transparent; in 2006, the number jumps to ten, reflecting the shift toward higher transparency across the globe. The five most transparent countries in 2006 are Australia, the United States, New Zealand, Canada and the United Kingdom. Evidence of the shift is also found at the other end of the transparency spectrum, where there were six opaque countries in 2004 but only three in 2006: Egypt, Venezuela and Vietnam.

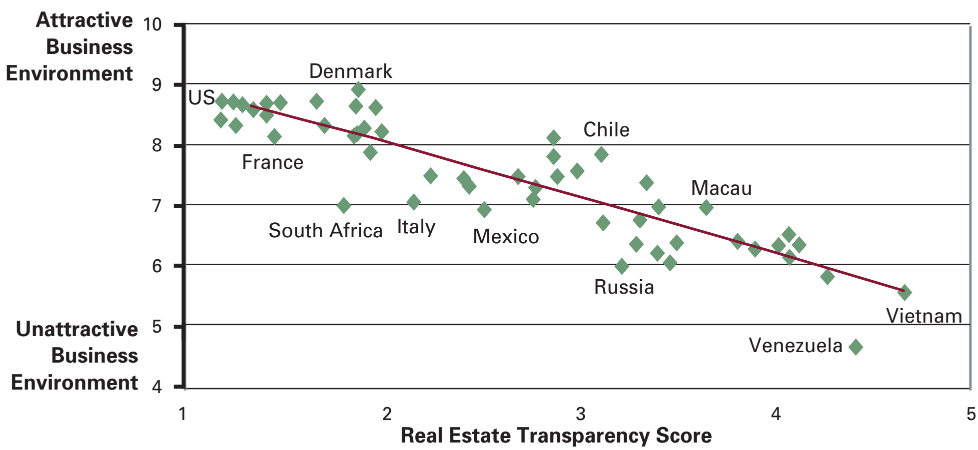
ENHANCEMENTS TO THE INDEX

Investors, lenders, developers and occupiers all now regularly deal with commercial real estate on a cross-border basis. Large multinational corporations (MNCs) and smaller businesses alike frequently encounter unfamiliar practices and major knowledge gaps in countries far from their corporate headquarters. Investors trying to cope with unfamiliar real estate practices in distant countries must learn how the game is played. This learning process varies greatly from country to country. For this reason, we developed a multi-dimensional approach to measuring transparency—the Transparency Survey and the Transparency Index.

The 2006 Transparency Survey digs deeper into issues of greatest concern to cross-border investors and corporate occupiers. Specific questions that probe the role of government as owner, buyer, or seller of land and buildings were added. In many emerging markets, national and local governments own a vast majority of all urbanized land. Although the privatization process is well under way in some countries, the transparency associated with this process varies widely.

We also added questions to evaluate the degree of disclosure typically associated with the transaction process. The availability of information to potential buyers or renters of real estate varies greatly both within and between countries. In recent years, the intensity of the capital markets

Figure 1: Favorable business environments highly correlated to real estate transparency



The highest correlation across different economic measures was found between the business environment of a country and its real estate transparency score.

Source: Jones Lang LaSalle, LaSalle Investment Management Economic Intelligence Unit has compressed due-diligence periods, because sellers tend to favor "rapid closers" during the auction process. Thus, the information contained in an offering document becomes more important to potential buyers. We also added a question that probes the adherence to professional and ethical standards by agents hired to conduct commercial transactions and the enforcement of these standards within each country.

One of the harsh realities of cross-border real estate transactions is that foreign investors are often treated differently from local investors in terms of legal, regulatory and tax considerations. The 2004 and 2006 editions of the RETI both address this issue. We do see improvement in the treatment of foreign investors in most categories, with the notable exception of taxation.

Readers should avoid being overly judgmental about the status of real estate transparency in any given country. While low transparency can impose risks and costs, it does not necessarily mean that a real estate market should be avoided. High transparency, on the other hand, eases the free flow of information and capital, but also makes it harder to find undiscovered bargains or to earn a risk premium. Efficient markets tend to display convergence to the mean. Less transparent, inefficient markets tend to have a wider dispersion of results, which favor or penalize participants in the market, depending on which side of the trade they sit.

Steps can be taken to reduce the risks associated with transactions in a lower transparency country. The market as a whole may be semi-transparent, but specific intelligence can be gathered, and safeguards can be put in place, to mitigate some of the risks. Knowledgeable, trustworthy advisors or local partners are especially important to help cross-border market participants navigate markets with lower transparency.

A highly transparent market is not only largely free from corruption, but also has readily available information and operates in a fair and consistent manner. In previous editions of the RETI, we defined real estate transparency as any open and clearly organized real estate market operating in a legal and regulatory framework that is characterized by a consistent approach to the enforcement of rules and regulations, and respects private property rights. In 2006, we have added a new dimension to this definition: the ethical and professional standards of advisors, agents and brokers who are licensed to conduct business in each country.

Investors and MNCs have encountered many examples of low transparency, both at home and abroad: absence of benchmarks for financial performance; lack of historical or current market statistics on demand, supply or rents; financial statements of listed vehicles that do not meet International Accounting Standards (IAS); real estate tax procedures, building and zoning codes that are not published or are selectively enforced; lack of accurate title records or title insurance; and government or public utilities acquiring private property for necessary public uses giving short notice or not fairly compensating the owner. The composite Transparency Index gives an overview of the state of development in the private and public real estate markets of a country. The various sub-indices that make up the Transparency Index also provide a rigorous framework for comparing the level of transparency across fifty-eight countries. The Index can also be used as a strategic tool to classify markets and/or evaluate market risk.

GLOBAL ANALYSIS

The RETI can be used with other international metrics to help develop a global investment strategy or refine a corporate expansion strategy. There is a relatively high correlation between the Index and

Figure 2: GDP and real estate transparency are correlated across the world

Outliers such as Norway, Japan, South Africa, and Mexico are noteworthy. Norway and Japan have higher GDP per capita than their real estate transparency score would suggest. South Africa and Mexico have higher transparency scores than their GDP per capita would suggest.

Source: Jones Lang LaSalle, LaSalle Investment Management

against other commonly used measures of a country's degree of development or transparency. The Index also highlights where countries have higher or lower real estate transparency than what would be expected based solely on GDP per capita, capital flows to real estate and other published indices that track corruption or the business environment. Japan, for example, has slightly lower real estate transparency relative to what would be expected based solely on GDP per capita, while Mexico has slightly higher transparency. By the same token, the index finds that Switzerland is a transparent real estate market but not as much as its very high ranking in Transparency International's 2005 Corruption Perceptions Index would suggest. The United States, France and Italy all have higher real estate transparency, relative to their scores from Transparency International.

The correlation between real estate transparency and the Economist Intelligence Unit's (EIU) Business Environment Index is the highest of all the metrics we reviewed. Countries in the highest real estate transparency category also have the most favorable business environments and vice versa. A few outliers are worth noting. South Africa is considered to have a transparent real estate market, but according to EIU's Index, it is a less favorable business environment than other countries with similar real estate transparency scores. Chile has a much more favorable business environment than expected, given its semi-transparent real estate market.

The liquidity of a country's real estate—as measured by the percentage of the stock that changes hands each year—and its transparency score are also highly correlated. Highly transparent countries give investors the confidence to trade more frequently, which also leads to a higher proportion of real estate in the hands of private or institutional investors, as opposed to owner-occupiers. Hong Kong is an outlier due to its high proportion of investor-owned real estate given the size of its economy. Singapore also has a much higher transaction volume than its real estate transparency score alone would suggest. Canada and Malaysia have a higher real estate market transparency than what would be predicted based on their transaction volume of real estate stocks alone.

Data from the 2006 Jones Lang LaSalle Global Real Estate Capital Flows Report indicates that there is a relationship between direct real estate investment and transparency. After adjusting the direct real estate investment by a country's GDP, the U.K. clearly receives a large amount of direct real estate investment relative to the size of its economy. The countries with the highest absolute levels of cross-border investment activity are also frequently the most transparent markets. Investor interest in less transparent markets like Japan, China and Mexico is also rising rapidly. The result is that the transparency in these countries is rising rapidly as well.

The same is true for Singapore, Sweden and Hong Kong, which have small economies with extremely high transparency levels and which receive large shares of direct real estate investment. Australia, the beacon of real estate transparency, receives a proportionate amount of direct real estate investment given its size, as does the United States, the Netherlands and France. Indonesia, a low transparency country, receives a small amount of direct real estate investment.

ASIA-PACIFIC

Over the last two years, real estate transparency has improved in more than half of the monitored countries in the Asia Pacific region. The global focus on accounting standards has had an impact on many countries within the region, particularly as the further opening up of many Asian markets to international competition over recent years has accelerated both the adoption of global practices and the publication of market information in English. The most significant improvements over the period are seen in Japan and India, both of which moved up a transparency tier.

Table III: Real Estate Transparency Index: Asia-Pacific

	2006	2004	
1.0–1.5	Australia, New Zealand Hong Kong, Singapore	Australia, New Zealand	Highest
1.5–2.0		Hong Kong, Singapore	High
2.0–2.5	Malaysia, Japan	Malaysia	
2.5–3.0	Taiwan, South Korea		Semi
3.0–3.5	Philippines, Thailand India	Japan, Taiwan, Thailand South Korea, Philippines	
3.5–4.0	P.R. China Macau, Indonesia	P.R. China India	Low
4.0–4.5		Indonesia	
4.5–5.0	Vietnam	Vietnam	Opaque

Source: Jones Lang LaSalle, LaSalle Investment Management

Australia and New Zealand continue to be shining examples of real estate transparency, not just within the region, but also globally. Australia, together with the United States, tops the 2006 RETI. Its 2006 survey scores are broadly the same as the last survey, albeit with a marginal improvement due to a greater focus on corporate governance and a tightening of accounting standards, particularly those governing listed trusts.

New Zealand also remains highly transparent, although several new pieces of legislation have adversely affected compliance costs and the liability associated with property development, which has marginally affected the country's overall transparency.

In the 2006 RETI, Hong Kong and Singapore are also leaders within the region. The 2004 Index had both at the very top of the transparent tier. Both countries have seen further improvement in transparency over the ensuing two years. The rise of listed property vehicles has also had an impact, leading to more publicly reported property information.

While many countries in Asia Pacific exhibited improvements in transparency over the last two years, progress has not been uniform. One highlight is the improvement for Japan, which moved from semi-transparent status in the 2004 RETI to the lower end of the transparent tier in the 2006 RETI. A number of factors are responsible for this shift. The rapid development of the J-REIT market, the expansion of internationally listed trusts with Japanese assets and higher levels of international penetration into the markets more generally have boosted the availability of market information (also, more information is available in English), promoting the efficiency and transparency of what has long been a relatively closed market. Japan's transparency status has also benefited from improvements in taxation transparency and the enforceability of contracts.

India has moved from low transparency status to semi-transparent status over the two-year period, a noteworthy improvement. A flood of major retailers and other MNCs looking to capitalize on India's recent exceptional economic growth, plus an increasing presence of international property consultancies, has significantly improved the quality and availability of market information across all sectors.

Transparency levels improved to a lesser extent in several other countries, most notably Malaysia, Taiwan and South Korea. Slight improvements are also seen in the People's Republic of China and Indonesia. The major factors that contribute to this progress include the improvement in accounting and corporate governance practices to meet higher international standards and the increased availability of market information in English. China now sits at the top of the low transparency tier. Its improvement in transparency reflects more effective legal measures that address the compulsory acquisition processes. Interestingly, the growth of cross-border REITs and the heightened international interest in property in China have affected the transparency investment centers more in Singapore and Hong Kong than in China itself.

Transparency improvements for the countries in Southeast Asia have been generally smaller than in the rest of Asia. Thailand, the Philippines and Vietnam have not experienced any meaningful improvement. Vietnam is clearly at the low end of the scale and continues have substantial property rights issues, beleaguered information flow within the market and few regulations regarding public reporting. Macau has been included in the Asia Pacific region for the first time in 2006. It achieved an overall score consistent with the low transparency tier, and ahead of Indonesia and Vietnam. Macau is quite advanced in terms of adequate accounting standards, governance and taxation, but suffers due to the lack of property market data and performance indexes.

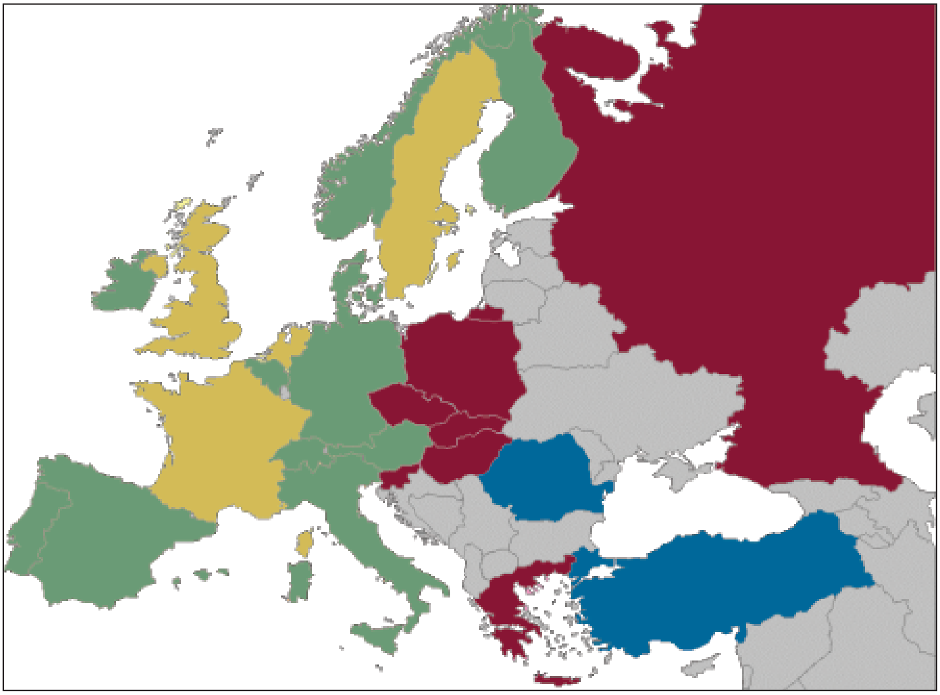
EUROPE, THE MIDDLE EAST AND AFRICA

There has been little significant movement in the transparency rankings of the more mature markets across the Europe, the Middle East and Africa (EMEA) region. While a number of countries have jumped tiers (France and Sweden from transparent to highly transparent; Portugal and Italy from semi-transparent to transparent), few have seen dramatic changes in either the availability of market information or in legal and planning practices. There has been greater improvement in the less mature EMEA markets. Unsurprisingly, as the range and depth of data availability improves, and as governments strive to provide a business environment attractive to foreign capital, these markets begin to appear on international real estate investors' radar.

There are twenty-nine countries in the EMEA region featured in the 2006 Transparency Survey. Of these countries, sixteen were European Union (EU) or European Economic Area (EEA) members before 2004. In 2004, five countries acceded to the EU (Czech Republic, Hungary, Poland, Slovakia and Slovenia), and two more are in negotiation for accession (Romania and Turkey).

A direct correlation may be drawn between EU/EEA membership and real estate transparency. Pre-2004, EU/EEA members (with the exception of Greece) were considered highly transparent or transparent real estate markets. Greece and the 2004 accession countries have seen marked improvements in transparency and

Figure 3: EU/EEA membership and real estate transparency



Highly transparent | Transparent | Semi-transparent | Low transparency

are considered semi-transparent. Countries in negotiation for EU accession still have low transparency. Elsewhere in the EMEA region, South Africa is the only country considered to be transparent.

As in 2004, the United Kingdom and the Netherlands are considered the most highly transparent real estate markets in the EMEA region. Sweden and France joined the highly transparent category in the 2006 Transparency Survey. These markets are characterized as having long time-series investment performance indices, readily available data on market fundamentals, strong accounting standards and disclosure regimes, consistently applied regulations, strong legal frameworks and high professional standards.

Transparency in European markets continued to converge in 2006. With one exception (Greece), pre-accession EU members, along with Switzerland and Norway, are now considered transparent real estate markets. These core European markets have demonstrated a clear improvement in transparency since 2004, with the markets of Italy and Portugal improving from semi-transparent to transparent status. Investment property indices have only recently been launched in these markets and contain time-series data from 2000 in Portugal and 2002 in Italy (most EU markets have over ten-year time series indices). In addition to benefiting from time-series indices, these markets have also experienced improvements in their regulatory and legal infrastructures.

We have classified the countries that joined the EU in 2004 as semi-transparent in the 2006 Index. While all countries in this category have made progress in improving transparency, they score lower than their EU peers due to their lack of investment performance indices, lack of listed real estate securities, poor availability of data on market fundamentals across sectors and weaker regulatory frameworks. Now that these countries are part of the EU, we expect their institutions to continue to strengthen and transparency to eventually converge with their European neighbors. Russia, and in particular the Moscow investment market, is considered semi-transparent, which is an improvement over previous surveys. Despite the well-publicized and controversial nationalization of Yukos' assets in 2004, foreign investment in Russia and its real estate sector has reached record levels. Improvements in transparency relate principally to transaction process improvements.

Table IV: Real Estate Transparency Index: Europe, the Middle East, and Africa

	2006	2004	
1.0–1.5	United Kingdom, Netherlands Sweden, France	United Kingdom Netherlands	Highest
1.5–2.0	Finland, Germany, South Africa, Denmark, Austria, Ireland, Belgium Spain, Switzerland, Norway	Sweden Germany, France, Finland Switzerland, Ireland, Belgium	High
2.0–2.5	Italy Portugal	Denmark, Austria, Norway Spain, South Africa	High
2.5–3.0	Czech Republic, Hungary Poland, Israel, Slovakia	Italy, Portugal Czech Republic, Hungary	Semi
3.0–3.5	Greece, Russia Slovenia	Poland, Israel Greece	Semi
3.5–4.0	United Arab Emirates	Russia	Low
4.0–4.5	Turkey, Romania Saudi Arabia, Egypt	United Arab Emirates Turkey	Low
4.5–5.0		Egypt, Saudi Arabia Romania	Opaque

Source: Jones Lang LaSalle, LaSalle Investment Management

Romania and Turkey, which are both negotiating accession to the EU, are still characterized by low transparency in their real estate markets. While improvements have been noted in the availability of data on market fundamentals, regulatory and legal regimes, these aspects are still weak, and the markets lack performance indices. As these countries progress in their negotiations for EU membership, we would expect significant improvements in their regulatory and legal arenas with corresponding improvements in market transparency.

The high level of cross-border activity across European markets provides little evidence that foreign investors are disadvantaged. Reinforcing this point, there is very low correlation between cross-border investment as a percentage of total transactions and a market's transparency score. In most European markets, as the 2004 RETI showed, there is little regulatory or legal evidence that transparency is different for domestic and foreign investors. An exception is the transparency of taxation regimes, where domestic investors may have greater accessibility to legally acceptable mechanisms to reduce taxes payable. Outside the EU, the regulatory infrastructure is considered to be slightly more transparent for domestic investors.

Market knowledge remains a barrier to entry, and foreign investors face significant competition from savvy domestic investors. Domestic investors in Ireland and Spain have recently been crowding out foreign investment. This situation has existed in Germany, but domestic investors have recently become net sellers, creating opportunities for foreign investors.

A number of emerging trends are increasing demand for ever greater transparency in real estate practices. One such trend is the expansion of the number of routes that investors can take to access real estate. These include tax-transparent real estate investment trusts (REITs), which were introduced in France in 2003, complementing those already established in the Netherlands and Belgium. REIT structures are imminent in both the United Kingdom and Germany.

As demand for indirect investments has risen, so has demand for information. The European Association for Investors in Non-listed Real Estate Vehicles (INREV) was launched in 2003, with the aim of improving accessibility of market information and the liquidity of the non-listed real estate vehicle market. Information collected includes fund investment style, capital raising, legal structure, fees and major investors. INREV also produces a performance index for non-listed European property funds. In addition, the Investment Property Data Bank (IPD) continues to expand the number of markets for which it produces indices and the purposes to which they are put.

On the theme of corporate accountability, the practices of the German open-ended funds have recently received considerable attention. Accountancy errors and concerns over valuation discrepancies have seen two high profile fund closures. The valuation practices of these funds have always suffered from a lack of transparency, because valuations are not based on current market conditions. In a bid to restore confidence in the sector, BVI, the Association of German Investment Funds, has put forward suggestions for industry improvements. Among these are increased transparency with regards to shareholders and individual property values. There has also been speculation that many of the open-ended funds will look to convert to REIT-status once the vehicle is introduced. The introduction of the REIT structure would also make it significantly easier for foreign investors to invest in the German real estate market.

Other, more opaque markets are also making attempts to improve the efficiency of real estate practices. In Greece, the government is seeking to establish a land registry, with the goal of registering all land by 2010. Greece's lack of a land registry has until now deterred foreign investment in property due to uncertainties over ownership.

NORTH AND SOUTH AMERICA

In general, the North and South American countries in the 2006 Index improved their transparency scores, compared to 2004. The United States and Canada are the most transparent countries in the Americas and Mexico comes in third. Chile remains the most transparent country in Central and South America. Four new countries have been added to the 2006 RETI: Panama, Peru, Uruguay and Venezuela. With the addition of these countries, the Index now includes 12 countries from North and South America.

The levels of transparency in real estate markets across North and South America vary markedly. Business, legal and regulatory practices in Latin American countries tend to rely on a detailed Civil Code. The English-dominated countries rely more heavily on case law and precedent to establish and adjudicate property rights. Despite widely differing businesses practices and transaction levels, a regional pattern of transparency can be seen in both North and South America. The higher levels of transparency in South America are found in Chile and Argentina and the southernmost sections of Brazil. The less transparent countries are Colombia, Peru and Venezuela, Panama and Costa Rica. Mexico has relatively high transparency and has shown

Table III: Real Estate Transparency Index: The Americas

	2006	2004	
1.0–1.5	United States Canada	United States Canada	Highest
1.5–2.0			High
2.0–2.5			
2.5–3.0	Mexico		Semi
3.0–3.5	Chile, Brazil Argentina	Mexico Chile	
3.5–4.0	Costa Rica	Brazil Argentina	Low
4.0–4.5	Peru, Colombia Uruguay, Panama, Venezuela	Costa Rica Columbia	
4.5–5.0			Opaque

Source: Jones Lang LaSalle, LaSalle Investment Management

the steadiest improvement in the region since the first RETI back in 1999.

The major changes in the 2006 RETI are the movement of Brazil and Argentina from Tier 4 to Tier 3. Mexico just missed moving into Tier 2 this year. Half of the North and South American countries are in either Tier 4 or Tier 5, which means they have opaque or low transparency real estate markets. Brazil, which has attracted increased interest from the international investment community, improved in several areas and, most notably, in the improved availability of market fundamentals data. In 2004, the country had little or no retail and hotel data available. By 2006, Brazil had reliable data for both property types, although, of course, it still lacked a time series. The country also improved the transparency of its planning and building codes and eminent domain policies. Currently, if the government takes land, the owner is fairly compensated instead of being compensated below market value, as has been observed in the past.

Argentina improved its transparency in the governance of publicly listed real estate vehicles. Like Brazil, it also improved its transparency of planning and building codes and eminent domain policies. The area where Latin American countries have the greatest room for improvement is in the availability of investment performance indices. This is a challenge for many semi-transparent countries, because investment performance is tightly held by private investors, and the institutional investment community is not well-developed.

Issues of greatest concern in some Americas markets include the fairness of real estate taxes, planning and building codes, enforceability of contracts, availability of title records and eminent domain. These issues are particularly acute for cross-border investors in less transparent countries. Foreign investors are likely to shy away from countries where they face a competitive disadvantage due to the complex web of local regulations and legal dealings.

In some countries in the Americas, tax practices can put foreign investors and occupiers at a disadvantage. In Uruguay, Peru, Panama, Venezuela and Canada, for example, foreign investors generally experience less transparency with real estate taxes than their domestic counterparts. There are also ways to reduce payable taxes in these countries, but only if one knows how to maneuver the legal system.

Latin American markets have attracted institutional capital over the last five to six years, and as institutional investors become comfortable with these markets, we expect more capital will enter them. Increased transparency will follow, as more transactions take place in these countries because the transaction processes become easier and more maneuverable. For some occupiers and investors, the move to Latin America represents a great business opportunity. For example, large U.S. retailers are eager to have space in Latin America to gain access to a young and growing population. As businesses move to Latin America and other countries for increased international exposure, transparent real estate practices will become more important.

The lower a country falls on the transparency scale, the higher the required return on the investment. But achieving higher returns by accepting greater risks is not always achievable, especially in parts of South America where foreign investors must compete for transactions with domestic money. Investors should focus on the rate of change of transparency in a country and expect that the risk premium will fall as transparency rises. This is as important for entry as it is for exit strategy. Owner-investors can play an important part in the process by sharing their own operating and financial data with the broader market. This may be in their own interest, because by doing so they will reduce the risk premium required by the next buyer.

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