

First Asia open-end property fund keen on Japan

By Dominic Whiting, Asia property correspondent

HONG KONG, Feb 13 (Reuters) - Asia's first open-end property fund, wielding an initial \$600 million of assets and another \$400 million of spending power, is keen to invest in Japanese retail and logistics.

The new fund, created by Prudential Property Investment Management (PruPIM) and LaSalle Investment Management, hopes to attract institutional investors and rich individuals from Asia, the Middle East and Europe with promises of 8-10 percent annual total returns.

It will begin life with five assets injected by British insurer Prudential <PRU.L> -- a Sydney office block, a Singapore shopping mall, a logistics building in Hong Kong, and two office buildings in South Korea.

But PruPIM Asia's chief executive, Jonathan Allen, said the fund would build up its exposure in Japan to reflect the country's share of total Asian investment-grade property.

Japan has around \$1.27 trillion worth of buildings, about the same as the rest of Asia and Australia together, according to UBS.

"Japan is a very big market and there are sectoral opportunities," Allen told Reuters in a telephone interview from Vietnam.

"We remain supportive of retail and logistics in Japan," he said. "I just think that at the end of day, it's one of the largest consumption markets in the world."

Allen pointed to strong demand for an open-end fund, which has an indefinite life-span and can continually accept capital from investors, rather than a close-end alternative, which cannot grow.

Investors can also usually redeem their investments easier from an open-end fund.

"The clear message is that investors want to get exposure in that way, they prefer that it's not a single transaction," Allen said.

"They want the opportunity to make continual investment, and the natural response is to create a structure to facilitate that."

Open-end property funds have had a checkered history, with Germany's experience of mass redemptions by retail investors in 2004 and 2005 standing out as a black mark -- many funds got into trouble and were forced to sell off assets quickly.

PruPIM says its "Asia property fund", which will only invest in physical property, will be steady because of the institutional nature of its investor base.

The fund venture between the units of Prudential and property services firm Jones Lang LaSalle Inc. <JLL.N> is the latest in a wave of new property funds targeting Asia.

ING Real Estate, for example, is planning to launch two \$1 billion Asia property funds this year, and fund management firm Invesco is about to launch a \$300 million fund for Japan and China.