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Millionaires See Real Estate as Top Investment for 2014

By Margaret Collins and David M. Levitt - Feb 6, 2014

U.S. millionaires see real estate as the top alternative-asset class to own this year, according to Morgan Stanley. (MS)

About 77 percent of investors with at least $1 million in assets own real estate, according to a survey released today by the New York-based investment bank's wealth-management unit. Direct ownership of residential and commercial properties was the No. 1 alternative-investment pick for 2014, with a third of millionaires surveyed saying they plan to buy this year. Twenty-three percent said they expect to invest in real estate investment trusts, the second-most popular choice.

Wealthy investors are turning to a rebounding real estate market as fixed-income yields remain historically low and equities surge. U.S. commercial-property values rose 8 percent in the 12 months ended Jan. 31, and have jumped 71 percent since hitting their post-recession bottom in 2009, research firm Green Street Advisors Inc. reported today. The S&P/Case-Shiller index of home prices in 20 cities is up 24 percent from its 2012 low.

"After a year where the Standard & Poor's Index rose 30 percent, some millionaires are moving money out of traditional, long-only strategies to find outperformance, and turning toward alternatives such as real estate and private equity," said Gary Kaminsky, a vice chairman at Morgan Stanley Wealth Management in New York. "Sophisticated, high-net-worth investors are much more concerned about losses."

Collectibles ranked as the third-most-popular alternative-investment choice this year, with 20 percent of millionaires saying they planned to buy, followed by private equity at 19 percent and precious metals at 16 percent.

Interest Rates

Wealthy investors see stocks getting expensive and interest rates staying stable or even declining over the next couple of years, Kaminsky said in an interview at a conference for Tiger 21 investors last week in Scottsdale, Arizona. That's why they are looking more closely at alternatives including real estate for returns and income, he said.

Tiger 21 members, who have at least $10 million in investable assets, increased their average allocation to real estate last year to 21 percent as of the fourth quarter from 19 percent in the first three months of 2013, according to a separate study released by the New York-based group last month.

Will Ade, a Tiger 21 member, said real estate is a particularly attractive investment as stocks show vulnerability in 2014. The S&P 500 has fallen more than 4 percent this year, while developing-country stocks have tumbled on concern that the outlook for economies is worsening.

'Lame' Bull

"We had a great bull run last year," Ade, a 60-year-old geologist, said in an interview today. "I don't know if the bull is dead, but it certainly is lame right now."

This year may be the tail-end of attractive investments in property before interest rates rise, said Ade, who has made his money finding oil companies and private investors to fund the drilling of wells. He said he is trying to purchase residential real estate in Miami right now.

"The really good real estate deals are getting harder and harder to find," Ade said. "Once interest rates start to go up, whether it's farmland or single-family dwellings there's going to be huge downward pressure on real estate."

Foreign Buyers

The Manhattan high-rise condominium buildings One57 and 432 Park Ave., where units have gone under contract for more than $90 million, are evidence of the faith that the very wealthy have in real estate, said Mitchell Roschelle, real estate advisory leader at PricewaterhouseCoopers LLP. Such properties have also attracted international buyers.

Wealthy foreigners have bought high-end U.S. properties for their safety and because they're denominated in dollars, the world's reserve currency, he said. This helps domestic millionaires maintain the value of their property investments.

"It creates competition, which drives the price up for everybody," he said. "The sellers have multiple channels to sell into. That gives you more liquidity."

Self-storage properties are among commercial real estate investments wealthy individuals are buying, Kaminsky of Morgan Stanley said. Retail shopping centers are seen as less attractive as more consumers shop online through companies such as Amazon.com Inc., he said.

Chilean Fund

Morgan Stanley Wealth Management surveyed 1,004 U.S. investors ages 25 to 75, with least $100,000 in assets, during the fourth quarter of last year. A third of them had more than $1 million.

BigSur Partners, a Miami-based wealth-management firm, has been helping some of its wealthy clients, who usually have at least $50 million, work with institutional investors such as a Chilean pension fund to invest in commercial real estate, said Chief Executive Officer Ignacio Pakciarz. Deals include an office building in Princeton, New Jersey, he said.

"We don't feel there's a lot of value in emerging-market bonds, high-yield bonds and highly rated fixed income," Pakciarz said.

Owning the real estate is attractive because of the expected appreciation of property value and stream of rental income, as well as better control and supervision over the investments, he said. The firm has also bought office properties in Pittsburgh and Boston, multifamily residences in Texas and some industrial buildings for clients, and is looking for more opportunities this year in real estate purchases or lending, he said.

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