SUMMARY

Studies in the performance (risk & returns) of property should consider transaction costs (such as stamp duty, legal fees, capital gains tax and Goods and Services Tax) and property tax to be creamed-off from the gross capital appreciation and yields in order to determine the net holding period return over a specific investment period. Additionally, besides transaction costs and property tax, investments in foreign property should also account for the foreign exchange movements when deriving the net foreign exchange adjusted returns of constituent assets in an international real estate portfolio.

This dissertation aims to determine the ex-post risk and net holding period returns for a representative Singapore investor for three portfolios held on both a 1-year and a 3-year annualized holding period basis. The portfolios' composition are as follows - Portfolio I comprises the Singapore Prime Office, Residential and Retail Sectors; Portfolio II comprises Five Asian Cities (Ex-Japan) Prime Office Sector and Portfolio III comprises Five Asian Cities (Ex-Japan) Prime Residential Sector.

The Markowitz mean-variance optimization model was used to determine the Minimum Variance Portfolio Sets for the above three portfolios. From the empirical results, gains from international diversification of prime residential properties could be achieved by an enhancement of portfolio returns (net of transaction costs) for similar risk levels in Portfolio III as compared to a portfolio that was fully invested in the Singapore prime residential sector. However, no significant gains in terms of enhancement of portfolio returns for similar risk levels could be achieved in holding either Portfolio I or II.