

## The Norwegian Sovereign Wealth Fund prepares to become property investor

**The Norwegian Sovereign Wealth Fund (formally called the “Government Pension Fund Global” and popularly named the “Oil Fund”) has been authorised by its owner, the Norwegian Ministry of Finance, to invest in real estate through new rules that entered into force on 1 March 2010.**

The fund is set to invest up to 5% of its size in real estate. At current values, this represents approximately NOK 130 billion (GBP 14 billion / USD 21 billion) of the fund's total value of approximately NOK 2,600 billion (GBP 280 billion / USD 420 billion). The property investments will lead to a corresponding reduction in the fund's investment in bonds. The fund may invest directly in properties or through listed or unlisted securities issued by companies having acquisition, development and management of real estate as their main business.

The performance of the property investments will be measured by reference to the Investment Property Databank Global Property Benchmark as adjusted on basis of the performance of markets actually entered into by the fund. Further, additional guidelines together with comprehensive reporting requirements will apply, and at least annually an external independent valuation report of the unlisted real estate investments shall be obtained.

In terms of timing, the new rules provide that the fund's property investments shall be implemented gradually over time and the Ministry of Finance has signalled that it will take many years to reach the 5% limit.

The fund is in principle free to invest in properties anywhere in the world, except Norway. However, the focus will be on the traditionally stronger markets. *“In order to reduce risk, we have made it a requirement that the investments will be spread over time, over countries and over types of real estate. Investments will principally be made in well developed markets and within traditional types of real estate. Even so, we must be prepared for real estate prices to fluctuate a good deal”,* says Minister of Finance Sigbjørn Johnsen.

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It should be noted that the fund is not only looking to achieve a good financial return. The fund will be required to take into account environmental issues such as energy efficiency, water consumption and waste handling, as well as generally good corporate governance and social aspects in real estate management.

The fund is managed by the Norwegian central bank, but the bank may use external managers in relation to the fund's property investments. It is envisaged that the organisation running the real estate investments on behalf of the fund will operate out of London. Perhaps this is an indication of one of the main markets for the fund's property investments?

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