12.2014

GLOBAL PERSPECTIVES

TO LOCAL, INTERNATIONAL & LIFESTYLE REAL ESTATE

CIPS

Certified International Property Specialist

> EMERGING MARKETS

THE NEW FRONTIERS FOR REAL ESTATE

Emerging markets, primarily in developing non-Western countries, represent the far frontier of real estate investment. As with emerging capital markets, risk is high but the upside potential is great. However, unlike most mutual fund investments based on emerging economies, real estate investors' horizons are long, funds are not diversified and their ability to exit is limited.

Developing economies can ride through massive swings of inflation and recession. While most Western countries have relatively stable economies, political structures, currencies and established real estate markets, these factors may be less secure in other parts of the world. How does an investor understand where to find the best opportunities?

This issue of *Global Perspectives* looks at factors driving emerging market investments—and which markets appear most promising. Once the seeds are sown for economic growth, multinational corporations move in, looking for property and facilities that meet their needs. Where employment improves, middle classes emerge, creating consumers hungry for Western style goods and shopping experiences. With them, the growth cycle expands further, prompting the development of more malls, hotels, office property and other commercial investments.

So take a ride around the globe and tour the hot markets that are currently drawing investments—and changing the lives of many people in developing countries.

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Fundamentals of Emerging Real Estate Markets

Emerging markets in Africa, South America and Asia represent some of the riskiest real estate investments in the world, however, they can also present the potential for opportunity. Buying property, developing projects, securing funding and finding investors takes a strong constitution. Select global investors are jumping in where they see stability and manageable risks. Before rolling the dice, they assess many factors that both drive and undermine newly emerging economies.

How do they decide if the rewards will outweigh the risks? In general, regions on the cusp of development share certain common characteristics that make them more attractive than others. Their economies, demographic trends and political climates indicate they are primed for rapid and sustained growth. These factors include:

Economic growth - A promising emerging economy may experience several years of solid and stable growth in gross domestic product (GDP). For instance, both China and Brazil, widely considered to be "emerging real estate markets," have had particularly impressive gains in GDP over the last decade.

Investment returns - Substantially better rates of return are needed to draw foreign direct investment (FDI) out of developed countries and into emerging economies.

Population trends - Emerging market populations can grow two or three times faster than developed countries, with demographics heavily weighted toward the young. According to Euromonitor International, a London-based market research firm, about half the world's population is under the age of 30. However, roughly 90 percent of them live in emerging markets. People under 30 are tomorrow's workers and spenders, critical gears in economic growth.

Middle class - A rising GDP and youthful population can often lead to the creation of a new consumer middle class, which further fuels the economy.

Urbanization - In developing countries, people are migrating to cities as economic opportunities dwindle in rural areas. Future-focused governments are investing in infrastructure, housing and urban planning to generate an attractive environment for FDI.

Inventory - As outside corporations move into regions with limited commercial property options, their preference for modern Western-style buildings and facilities creates development opportunities.

Potential Setbacks

Even when emerging markets appear promising, things can go wrong quickly. "There are significant issues to be considered," says Howie Gelbtuch, principal, Greenwich Realty Advisors of New York City. "For example, Brazil's economy is now in recession, Russia is being economically sanctioned and Africa is dealing with political instability and a health crisis."

All these factors, and others, can exacerbate the risks of investing in emerging real estate markets. Developing countries are often battered by challenges that Western nations don't typically grapple with, including:

Political risk - At its worst, political upheaval can result in social turmoil and violence. Even when change occurs peacefully, policy changes can shift an economy's future course. Investors look for stability and legal systems that support individual and corporate rights.

Health, safety and crime - Western corporations moving into frontier markets need to ensure their workers' safety; similarly, if customers in these markets are under threat, business is disrupted. Recently, terrorism and disease have emerged as major concerns in certain regions. In other cases, crime and corruption contribute to the uncertainty and cost of doing business.

Property rights and market transparency - Reliable market information may be difficult to obtain in emerging markets. Property rights may be nascent and ownership records, where they exist, may not be accessible. Buyers lack the protection of title insurance, which is nonexistent in most of the developing world.

"In some parts of Africa homeowners spray-paint 'not for sale' on the front of their houses," reports Gelbtuch. "Con artists claim they own properties and sell them to unsuspecting buyers. Or, actual owners may sell the same property repeatedly to different people."

Property Preferences

Foreign investors tend to focus on commercial and industrial opportunities over residential real estate. The types of properties high on their list include:

Hotels - Emerging business centers need modern hotel accommodations. Worldwide franchises step into the void to provide space for business travelers, tourists and transferred executives.

Older existing hotels in these markets tend to lack Western-style amenities like air conditioning, on-premise restaurants, covered parking and guest security. Major hotel chains bring these features and provide brand familiarity for Western visitors. Chains making inroads into emerging markets include Marriott International and Hilton Worldwide.

Retail - In developing markets, a growing middle class is eager to buy food, clothes and goods. Typically, a retail vacuum exists in these areas because, previously, the market was highly decentralized and local. International retailers are taking note and moving into urban centers to tap this growth.

Malls and supermarkets are proliferating to offer consumers comfortable and convenient shopping experiences. U.S. and European retailers like Walmart and French grocer Carrefour are building supermarkets in several nations or acquiring and expanding established retailers' operations.

Office space - When multinational corporations enter developing regions they look for modern, comfortable and secure office space. Developers in up-and-coming urban centers are meeting this demand by building and leasing new office buildings. In well-established lower-risk cities, international companies are acquiring and/or building their own space. Funding is also beginning to pour into some markets from real estate investment trusts and private equity groups.

Industrial facilities - Giant multinational producers of pharmaceuticals, consumer goods and electronics are establishing facilities in the emerging markets they are entering and serving.

Agricultural land - Foreign investment in emerging markets isn't limited to structures. China and the Gulf States, for example, are acquiring farmland in Africa for food and biofuel production. "Land in China is being put to use in ways that produce a higher return than farming. Instead, China buys cheap but fertile farmland in Africa, sets up Chinese management and ships product back to China," reports Gelbtuch.

Emerging markets offer high returns over the long term but may be a roller coaster until fully mature. Each market poses unique dynamics, challenges and niche opportunities. Investors who dig in to uncover and analyze long-term risks and returns, and plan accordingly for them, will do well.

EMERGING MARKETS:
Where the Action Is

Most forward-thinking global investments are now taking place in regions that, until recently, were relatively undeveloped. Nations in Sub-Saharan Africa, Central and South America and Southeast Asia have been attracting foreign investors at a faster rate than the rest of the developed world.

Brazil, Russia, India and China, for example, have been hot spots for some time, with investors riding both the highs and the lows in their equity and real estate markets. They have moved on to more risky, less developed markets where perceived ground-floor opportunities exist.

Here is a look at several new frontiers that are currently drawing investors.

Topping the List: Africa

The African continent may be the hottest frontier. It has experienced tremendous growth since the beginning of this century and is poised to become a huge consumer market. "Africa is now where China was 20 years ago," observes Howie Gelbtuch, principal, Greenwich Realty Advisors of New York City.

According to the McKinsey Global Institute, between 2000 and 2013, Africa's real GDP grew at a compound annual rate of 4.9 percent, more than twice its pace during the prior two decades. Forecasters expect further improvements in Africa's GDP growth from 2014 to 2019, with sub-Saharan economies performing even better than the rest of the continent (6.2 percent versus 5.8 percent).

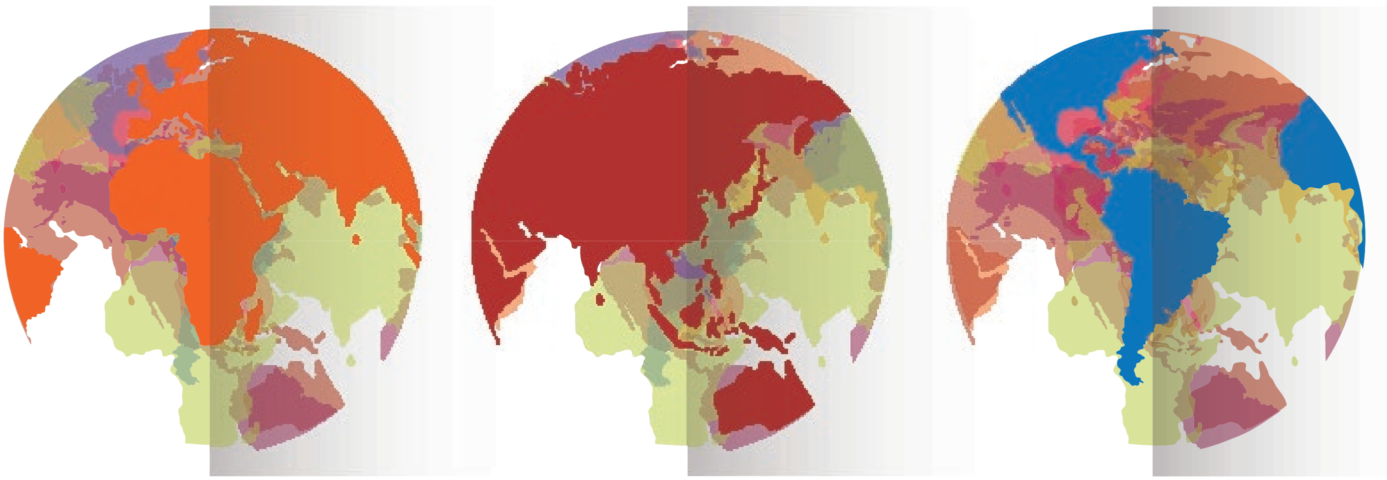
In addition to strong economic growth, the continent is sending out several other strong signals that attract investors, including:

Urbanization: Half of all Africans will live in cities by 2020.

Population trends: Africa will have the world's largest working-class population by 2035.

Political climate: Government reforms are supporting business growth in some countries, lowering inflation and promoting economic stability.

Middle Class: Africa now has more middle-class households (annual incomes of more than $20,000) than India.



African Nations Attracting Foreign Investment

Kenya

With Sub-Saharan Africa's sixth largest economy, Kenya is an important commercial and financial center for the East African region. The capital city of Nairobi is home to over three million people, including a well-developed middle class. Kenya's government has strengthened the real estate industry's infrastructure by digitizing land records and creating more market transparency.

Office rents in Nairobi's well-developed central business district have risen 23 percent in the past year, according to a report by real estate giant Cushman and Wakefield. Modern supermarkets and shopping malls serve consumers in suburban areas.

New office space for multinational corporations is being built outside the congested city center. Europe-based Kempinski Hotels, a luxury hotel group, is opening multiple locations. Kenya's real estate and investment market is already mature enough to support REITs.

Rwanda

Rwanda was one of Africa's fastest growing economies from 2009 to 2012. While growth hit a speed bump in 2013, its high pace (at least six percent) has resumed and is expected to continue. The nation has significantly reformed its business climate and worked hard to attract foreign direct investment (a major accomplishment, especially in light of the 1994 genocide). Improvements to its road system have helped Rwanda become a regional logistics hub. Retailers from other African nations have opened shops in the capital, Kigali, which also attract shoppers from Uganda and the Democratic Republic of the Congo.

Nigeria

Home to Africa's largest population, Nigeria's economy is growing six percent annually. Lagos, the largest city in Africa, is the country's business center and one of the 25 largest cities in the world. Its population of over 20 million makes it two and half times bigger than New York City. The central business district has matured and newer, modern office buildings are springing up in less congested, less expensive areas.

The nation is becoming increasingly urbanized. Its youthful population and developing middle class can afford discretionary spending. Their desire for modern shopping venues has attracted foreign retailers, resulting in new shopping malls, supermarkets and convenience stores. Despite growth opportunities, doing business in Nigeria poses challenges. In addition to safety and security concerns, over 100 languages are spoken across the nation and weak supply channels pose roadblocks.

Other African countries

In West Africa, Ghana has a relatively well-developed office market in capital city Accra, and newer office buildings are rising in areas close to the international airport where there is more vacant land. Accra also has a growing middle class. Modern supermarkets have recently opened, as well as foreign retail chains like GNC, ShopRite and Walmart.

Business activity in South Africa, the continent's most mature market, is focused in Johannesburg, Durban and Cape Town. The Johannesburg office market has been sluggish, but multinational corporations continue to look for space in increasingly modern buildings. Sixty percent of South Africa's population lives in urban areas and the middle class is well established.

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EMERGING MARKETS:

Where the Action Is

(continued from page 5.)

Central and South America

Though Latin America has been a strong performer in recent years, the International Monetary Fund predicts the region will have less than two percent GDP growth in 2014. Brazil, the largest regional economy, moved into recession in the first half of 2014. Mexico, Colombia and Peru are the new hotspots attracting global investment in Latin America.

Mexico

Mexico's GDP has slipped from earlier boom years, to 1.3 percent (in 2013) and now 2.3 percent. However, its economy is expected to rebound to an average 3.8 percent annual growth for 2015 to 2019 as President Enrique Peña Nieto implements programs focused on creating jobs and reigning in drug-related violence.

One of the engines of job growth and foreign investment is the maquila or maquiladora industry—manufacturers who enjoy special tax breaks under NAFTA and produce electronics, parts and supplies for American companies in the automotive, aerospace and defense sectors. Their exports and foreign investment grew by 50 percent between 2009 and 2012.

Another hot spot is hotel expansion. Mexico is one of the most important hotel markets in Latin America. In the past, it was dominated by large Mexican hotel companies within diversified business conglomerates. In the past five years, foreign hotel chains like Wyndham, Marriott, Hilton, Hyatt and Best Western have expanded aggressively in resort areas and Mexico City.

Colombia

Colombia's economy grew at a healthy 4.3 percent in 2013 and has remained strong in 2014. The government has instituted policies improving the country's infrastructure and has supported the residential market by cutting mortgage rates and payroll taxes.

Capital city Bogotá has a well-established commercial real estate market. According to Cushman and Wakefield, developers have continued to rapidly deliver premium space, with the overall stock predicted to increase 20 percent over 2013. The occupier market has not been as quick to absorb new inventory, however, creating downward pressure on office rents. Colombia is also a strong performer in shopping center construction. In 2014, it ranked third behind Brazil and Mexico in total gross leasable retail space.

Peru

In 2013, Peru's economy led the region with 5.8 percent GDP growth. The Ministry of Economy and Finance in Peru is predicting continued strong growth of around four percent in 2014.

Lima's market for office space is booming. The city is one of the most sought-out commercial markets in South America. In 2014, office space development has been steady, with the supply readily absorbed by multinational corporations setting up operations there.

Class A office properties are in heavy demand and developers are beginning to move into Lima's less congested submarkets. Cushman and Wakefield reports that new office stock increased 300 percent over a year ago, almost entirely premium space. Rental rates have risen an average 12.8 percent across central Lima and its submarkets in the last year.

New shopping center construction is also strong. Cushman and Wakefield reports that Peru will rank second behind Brazil in the addition of new gross leasable retail space in the next year.

Chile

Retail development is strong in Chile. While investment in the retail sector has slowed across Latin America for two years, Chile was the only country to post a gain, though modest. Chile may be a relatively small market, but it ranks first in Latin America for total per capita retail space, with Mexico a very distant second.

Brazil

Despite Brazil's fall into recession earlier this year, bright spots remain in the property market. A shortage of hotel rooms in the cities, due to lender hesitance, is now easing. Marriott will be addressing the void by developing 12 new properties by 2017.

Retail is another area expected to remain strong. Despite its economic downturn, Brazil accounts for 36 percent of shopping center space in Latin America and had the most projects in the pipeline for 2014.

Two other sectors netting foreign direct investment in Brazil are data center space, of which there is little in Latin America, and warehouse space to serve big box and online retailers.

Asia

China and India are the key drivers of the Asian economy, but their major property markets are more mature than those in other Asian nations, prompting an increase in foreign investors' cost of doing business. Investments are now migrating to lower-cost manufacturing centers in other countries.

The Economist is forecasting a 4.5 percent increase in GDP for Asia overall, but this average is weighed down by slow growth in Taiwan, South Korea and Japan. India and China will be tapering off considerably from their double-digit growth of the last decades to still-solid rates of 6.4 percent and 7.0 percent, respectively. The biggest winners will be less developed nations like Sri Lanka, the Philippines, Indonesia and Vietnam.

China

Lately, Chinese investors have been selling properties in China and redeploying funds to other parts of the world. Space in Class A office buildings in China's top markets is yielding around four percent, compared to six or seven percent for similar properties in other major global cities.

On the other hand, foreign multinational corporations are becoming leading buyers in China. For example, financial firms and pharmaceutical companies locating in Hong Kong and Shanghai are purchasing facilities rather than leasing them.

Retail is a bright spot in China. Earlier this year, CBRE reported that out of 39 million square meters of shopping center space under construction in major cities around the world, half is being built in China. Among the top ten global cities for retail construction, eight are in China.

India

Multinational corporations are also buying properties to consolidate their operations in India. Companies like GlaxoSmithKline, Adobe Systems and Amazon, who have been in India for a while, are deciding that ownership provides a buffer against rising lease rates. They are investing in commercial office space, manufacturing and R&D facilities, and logistics space. The pro-business stance of the new Modi government may also be a factor.

Cushman and Wakefield expects a boom in India's retail segment in the coming years. Its retail market is currently one fourth the size of China's, but its young and increasingly middle-class population is expected to drive exponential growth. India is second only to China in shopping center space currently in development in the region.

Smaller economies

The prospects for countries like Vietnam, Cambodia, Sri Lanka and Myanmar are promising because they favorably compete with China for low-cost export-oriented manufacturing. Cushman and Wakefield predicts demand will be driven by manufacturers in the technology and pharmaceutical sectors seeking lower production costs.

However, the central business districts in these countries lack the type of prime office space expected by Western companies. Foreign developers, mostly from Asia, are jumping in to address demand.

CIPS

Across the globe, real estate markets in the emerging economies of Asia, Latin America and Africa present distinct risks, but could generate the best global returns of the coming decades. These markets are truly on the frontier. Informed investors could find opportunities well worth taking, especially when armed with good timing, smart property selection, and a bit of luck.

Most Efficient and Transparent Emerging Markets
for acquiring corporate real estate

Rank	Country	Region
1	Botswana	Africa
2	South Africa	Africa
3	Zambia	Africa
4	Ghana	Africa
5	Indonesia	Asia Pacific
6	Algeria	Africa
7	Tunisia	Africa
8	Peru	Americas
9	UAE	Middle East
10	Oman	Middle East

Source: Cushman and Wakefield 2014

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EMERGING MARKETS

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TWO

CONSUMER-FOCUSED CAMPAIGNS

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THREE

NEW BENEFITS

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