

GLOBAL PERSPECTIVES

TO LOCAL, INTERNATIONAL & LIFESTYLE REAL ESTATE



CIPS

Certified International Property Specialist

> COMMERCIAL TRANSACTIONS

Positive ROI:

THE COMMERCIAL SIDE OF GLOBAL REAL ESTATE

In the world of real estate, buyers and sellers have many different reasons for crossing national borders. With commercial properties, the motivations are usually driven by money-making opportunities. For example, a company may need facilities to expand its operations in a new region. Or an investor may be interested in purchasing hotel property, which will be managed by a relocating relative.

These are just a couple examples of cross-border transactions that start with a commercial investment, but lead to additional residential business. Sometimes the ripple effect flows the other way, starting with a residential purchase. In either case, CIPS designees are in an excellent position to leverage the CIPS network for global referral opportunities.

If you aren't already acquainted with important cross-border commercial investments, this issue of *Global Perspectives* will bring you up to speed on recent activity and expectations for future growth. While the focus is predominantly on the largest transactions and biggest markets, the total sum of money flowing across borders is so extensive that pockets of opportunity are apparent in nearly every market.

Because commercial real estate is a highly specialized industry with many different fields of expertise (office, retail, industrial, land, etc.), professional networking and referrals play an important role in cultivating new opportunities. As a result, this issue also includes valuable tips any CIPS designee can use to extend his or her network and participate more actively in all types of global business. 🌐



WHO'S BUYING WHERE?

Crossing Borders with Commercial Real Estate¹

Commercial real estate is continuing to improve and emerge from the 2008 global financial crisis. Finally, after incremental annual improvements, 2015 proved to be a banner year. Stellar volumes, however, are hard to sustain, especially in tandem with political upheavals. In the end, 2016 proved to be a solid year for commercial transactions, despite coming short of 2015's numbers.

At the start of 2017, most forecasters predicted further improvements. JLL reported that global investment volumes are projected to climb back toward \$700 billion this year, up from \$650 billion in 2016.

The future looks especially bright for cross-border investments, which fell to 30 percent of total global capital in 2016², but is expected to pick up again in 2017. In fact, JLL expects cross-border activity to exceed 50 percent by 2020.

Which markets are garnering the most interest? Here's an around-the-world tour of what to expect in the way of cross-border investments.

UNITED STATES

Mirroring the broader trend among developed nations, commercial real estate transactions in the U.S. reached new records in 2015, then tapered off slightly in 2016. In terms of cross-border investments in the U.S., China grabbed the top spot away from Canada last year.

The following transactions—all hotel properties—were among the most high profile Chinese purchases in the U.S.:

- Strategic Hotels and Resorts - \$6.5 billion, to Anbang Insurance Group
- Hilton (25 percent stake) - \$6.49 billion, to Chinese conglomerate HNA
- Starwood Capital Group - \$2 billion, to China Life Insurance

In 2016, the Association for Foreign Investors in Real Estate (AFIRE) ranked New York City #1 for global investment, ahead of London, San Francisco and Berlin. According to AFIRE's survey, 64 percent of foreign investors say they will increase their U.S. allocation, while 31 percent plan to maintain current levels.

Looking exclusively at New York City, Real Capital Analytics (RCA) found the

¹ Note that this article includes data collected from various sources employing different research methodologies and covering different time periods, which may result in the appearance of discrepancies.

² Source: PGIM Real Estate



following countries representing the top five sources of outside investment capital for the first three quarters of 2016:

- China - 21 purchases totaling \$4.8 billion
- Germany - 8 investments worth \$2.1 billion
- Rounding out the top five: Hong Kong, Saudi Arabia and Canada

It's worth noting that this top-five list regularly changes, which can be interpreted as a positive sign that New York City faces no difficulty attracting global capital from a wide variety of sources. As of the first three quarters of 2016, RCA tracked 58 foreign purchases totaling \$14.375 billion in Manhattan alone.

Adding NYC's boroughs would drive this figure significantly higher. Brooklyn, for example, represents another \$10 billion annually in commercial transactions, albeit at a lower level of foreign participation.

Comparing global investment in New York City to the rest of the U.S., RCA reports that 34 percent of all institutional purchases in NYC are by foreign investors, compared to 21 percent nationwide.

Many other U.S. cities are also hotbeds for global investors. Over the first three quarters of 2016, for example, Los Angeles moved into the #3 spot (ahead of both Tokyo and Paris) with a

22 percent increase in total transactions equaling \$15.7 billion, largely due to an increase of foreign investment³.

Among JLL's top 30 cities in the world for real estate investment, 16 are in the U.S, including Washington, D.C. (#6) and Chicago (#8). The firm also notes that investor interest is growing in several so-called New World Cities—mid-sized cities that typically excel in high-tech and high-value sectors and offer other competitive benefits. Examples in the U.S. include Boston, Dallas and Seattle.

CANADA

Did you know that Canada's commercial real estate transaction volume grew faster last year than anywhere else in the developed world?⁴ Over the first three quarters of 2016, Canada's deal volume experienced a 32 percent increase over the prior year, sharply reversing a three-year trend.

A number of internal and external factors played a role in driving last year's growth, including strong cross-border activity—27 percent of Canada's total deal volume. Investors from China led the way, followed by the U.S.

International participation in Canada's commercial markets is most noticeable in Toronto and Vancouver, where total transaction volume growth (for the first three quarters of 2016) was up 45.1 percent and 9.8 percent, respectively.

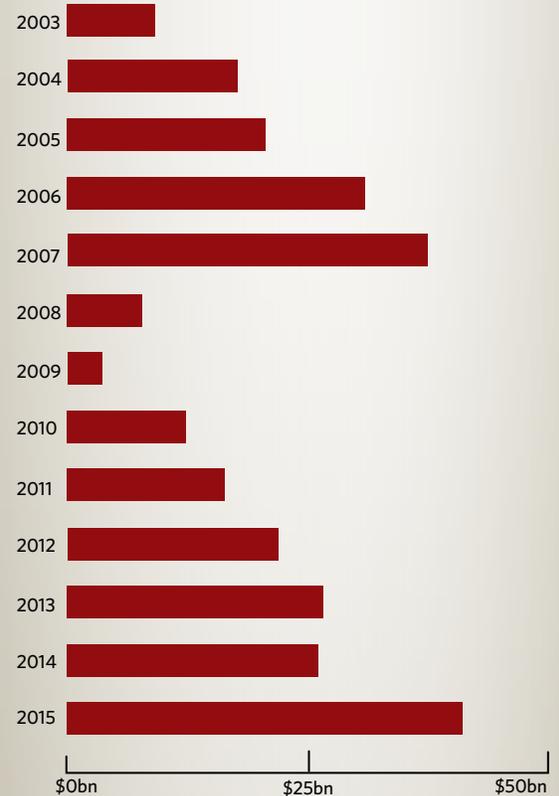
(continued on page 4.)

³ Source: JLL

⁴ Q1-Q3 2016 year-over-year change in sales volume. Source: Real Capital Analytics

Overseas Investment in U.S. Commercial Real Estate

BILLIONS



Sources: JLL, Real Capital Analytics

Top Cities for Overseas Capital

Sales to foreign investors in US\$billions, 12 months to June 2016

Manhattan.....	\$26.5
London.....	\$25.0
Paris	\$7.4
Sydney	\$7.0
Shanghai	\$6.9
Los Angeles.....	\$6.2
Madrid.....	\$5.6
Berlin.....	\$5.4
Singapore.....	\$4.4

Sources: Knight Frank, Newmark Grubb; Knight Frank; RCA

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Crossing Borders with Commercial Real Estate

EUROPE

In spite of disruptions stemming from the U.K.'s Brexit vote and uncertainty about future geopolitical developments across the continent, European commercial real estate remains a global market of choice. As previously noted, however, 2015's record levels were difficult to maintain and cross-border investors did reduce their participation in European commercial real estate last year.

The three main economies of Western Europe—Germany, the U.K., and France—still attract the highest levels of investment, although other smaller markets are also drawing healthy interest, sometimes from surprising sources. For example, Cushman & Wakefield (C&W) observed new South African interest flowing into Montenegro, Serbia and Poland. Other possible targets include JLL's New World Cities of Europe—Stockholm, Brussels, Oslo, Vienna and Dublin.

C&W expects strong property investment demand to continue across Europe in 2017.

Interestingly, the firm also expects Asia to overtake North America as the top source of capital flowing into Europe (beyond Europeans' own cross-border investments).

CHINA

In 2016, Chinese buyers invested a record \$33 billion in overseas property, a one-year increase of nearly 53 percent⁵. In fact, as of the third quarter, 2016, China overtook the U.S. as the world's largest cross-border buyer of commercial property.

Where are Chinese investors making their purchases? The top destination was the U.S. (\$15.1 billion), followed by Australia (\$6.6 billion), Hong Kong, Malaysia and the U.K.⁶ In 2016, there was also a major uptick in the number of megadeals by Chinese investors, with nine transactions exceeding \$1 billion, including five in the U.S. and three in Hong Kong.

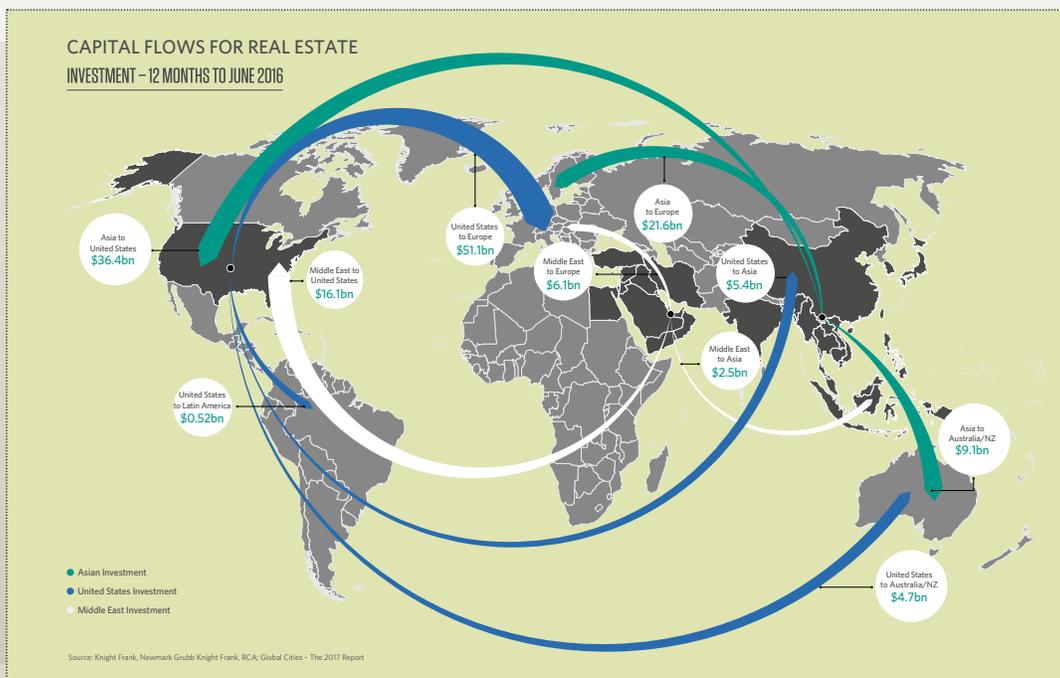
There is some concern that Chinese participation will be dialed back in 2017, partly due to official announcements by

China's State Administration of Foreign Exchange indicating closer scrutiny of deals. However, this may also be viewed as a reasonable reaction by authorities to minimize any negative impacts on the domestic economy, especially in light of pressures on the renminbi and reductions in its foreign exchange reserves.

A slowdown of money flowing out of China may not be entirely bad news, especially in prime markets, where other foreign investors would likely step in. For example, late in 2016, Tokyo-based Mori Trust Co. announced plans to invest \$7 billion globally and has already acquired two office buildings in Boston.

2017 AND BEYOND

Most commercial real estate experts see strong investment activity continuing in 2017, barring an unexpected shock to the global economy. However, given the vast number of variables at play, looking beyond this year is considerably more difficult. 🌐



⁵ Source: JLL

⁶ Source: Real Capital Analytics



BEYOND RESIDENTIAL:

How CIPS Designees Can Cultivate Commercial Opportunities

Global real estate opportunities can pop up in any market, involving virtually any type of property, both residential and commercial. As a CIPS designee, it's more likely that you focus on the residential side of the business. That doesn't preclude you, however, from encountering and leveraging commercial opportunities—as long as you know how to network and build relationships with the right experts.

"Any time we encounter a buyer or seller who needs services beyond our core strengths, the REALTOR® Code of Ethics instructs us to refer them to another professional with sufficient knowledge

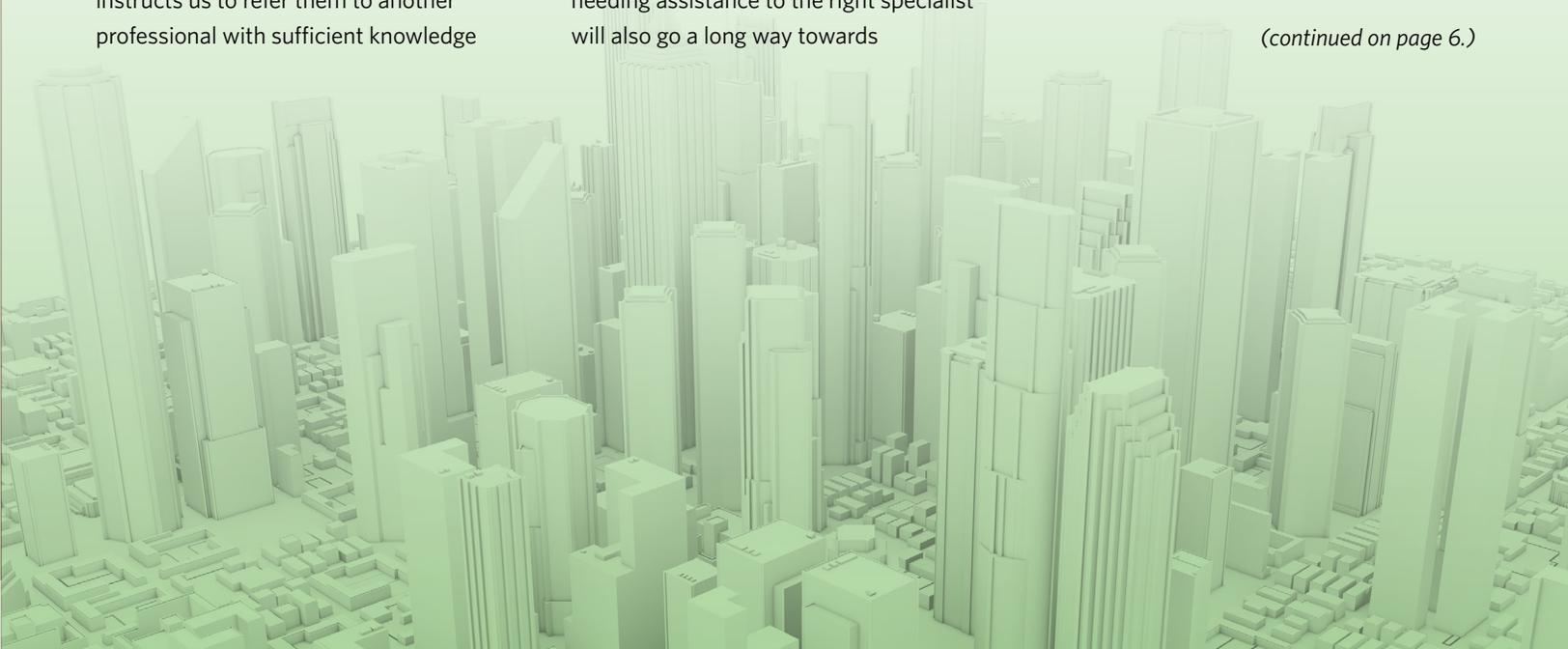
and experience," says Norma Nisbet, ALC, CCIM, CIPS with Vista Properties and Investments in St. Louis, Missouri. "The client benefits from those specialized services."

"Plus, time is money to real estate professionals," adds Nisbet. "We work more efficiently and earn more by adhering to our core competency while referring unfamiliar property transactions to those who specialize in that area."

An agent who refers a prospective client needing assistance to the right specialist will also go a long way towards

developing relationships that also produce referral business. For example, when Bill Milliken, CCIM, CIPS of Milliken Realty Company in Ann Arbor, Michigan helped British carmaker Lotus secure 8,000 sq. ft. of executive office space in Detroit, some of the new employees also needed housing. Milliken referred them to a residential expert; in turn, he has also received numerous commercial referrals from REALTORS® specializing in residential real estate.

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How CIPS Designees Can Cultivate Commercial Opportunities

Building a Referral Network

Regardless of whether you focus primarily on residential or commercial real estate, here are four excellent ways to expand and strengthen your referral connections with commercial practitioners:

1. Start with the CIPS Network

Because CIPS designees share an understanding of many of the unique factors that come into play when working with buyers and sellers from other countries, your designation provides plenty of “common ground” for many different types of global real estate transactions.

If you’re a residential agent, make a point of introducing yourself to any commercial CIPS designees in your immediate market—or vice versa. Learn more about where they’re encountering global business and explore any opportunities for sharing referrals.

One of the best ways to cultivate local connections with other global agents is to join a Global Business Council. Over 100 such groups have been formed within local REALTOR® boards and they all welcome members of other local associations.

For a complete listing, visit www.nar.realtor/global/global-business-councils.

2. Meet local commercial practitioners

Beyond other CIPS designees, get familiar with leading commercial brokers in your local market. There are 29 commercial boards of REALTORS® across the U.S. and more than 120 commercial committees, etc. formed within local associations, all hosting a variety of meetings and related events.

Residential agents are welcome to attend these commercial forums. Consider introducing yourself with something like, “I’m not here to take business from anyone, but I do want to know who specializes in what, so I can do a better job of referring any buyers with a commercial interest.”

Every savvy commercial broker is interested in expanding his or her referral base, especially if the source is a residential agent who passes along the client, then steps out of the way. In contrast, residential agents who attempt to execute a commercial transaction on their own, then ask for help when problems arise, run the risk of tarnishing their reputation with the local commercial community.

How to Find Members of NAR’s Commercial Institutes, Societies and Councils

				
Certified Commercial Investment Member Institute	Institute of Real Estate Management	Society of Industrial and Office REALTORS®	REALTORS® Land Institute	The Counselors of Real Estate®
CCIM designees in 1,000 markets worldwide	Includes 20,000 individuals and 570 corporate members	Nearly 3,100 members in more than 630 cities and 33 countries	1,122 Institute members and 479 Accredited Land Consultants (ALCs)	Includes 1,100 credentialed real estate advisors from 21 countries/territories; membership is by invitation
findaccim.com	irem.org/about-irem/member--amo-directories	sior.com/find-an-sior-member	rliland.com/find-a-land-consultant	cre.org/find-a-cre



"I started as a residential agent before I switched to commercial brokerage, so I know first-hand how different they are," explains Alex Ruggieri, CCIM, CIPS, CRE, GRI with SVN-Ramshaw Real Estate in Champaign, Illinois. "Even with my prior experience, I never get involved in residential transactions and I advise residential agents to stay away from commercial deals. Since commercial transactions tend to be larger, the referral income alone can be quite attractive."

3. Connect with other commercial specialists

Look for commercial practitioners with designations. For example, the National Association of REALTORS® (NAR) has several institutes, societies, and councils specializing in industrial and office properties, land, and property management, among others. Each of these groups hosts a national meeting each year and many have state, regional and local events, all offering more ways to network with various types of commercial specialists.

Additionally, each organization has a "find a professional" online database, providing excellent tools for pinpointing specific types of commercial expertise, including many specialists outside the U.S. (See the table, on page 6, for additional details.)

Interested in Exploring Further?

NAR's Discovering Commercial Real Estate course offers a broad overview of the basics of commercial real estate and how it differs from residential real estate.

While it will not equip an agent with the needed tools to practice commercial real estate, it will explain the business and introduce many of the resources needed to pursue a commercial transaction or a career in commercial real estate. This is an ideal introductory course for those who are newly licensed and/or residential agents who want to learn more about commercial real estate.

Visit nar.realtor/dcre to learn more.

4. Attend international events

While local networking is important (and easier, logistically), every global agent—regardless of commercial or residential affiliation—can greatly benefit from attending at least one international gathering.

At the REALTORS® Conference & Expo, the best place to network with commercial brokers is in the Commercial Marketplace on the expo floor.

NAR also hosts a USA Pavilion at MIPIM - The World's Leading Property Market held each March in Cannes, France. This commercial and luxury residential property event typically attracts over 23,000 attendees from nearly 90 countries, including 2,400 investors seeking opportunities. An online networking directory facilitates attendees' ability to arrange appointments in advance. Learn more at nar.realtor/commercial/nar-at-mipim.

Adopting a Global Mindset

Most CIPS designees became interested in earning the designation because they recognize the growing importance of cross-border influences in real estate markets. When reaching out to the world, however, you never know who you'll meet, possibly including investors interested in acquiring property far outside your expertise.

Your ability to assist clients with strong referral introductions depends heavily upon your professional networking efforts—both the personal connections you've already established and your ability to quickly identify other top-notch resources. By applying the same "no borders" mindset to your networking efforts, your opportunities with buyers and sellers around the world can expand exponentially, knocking down every conceivable barrier. 



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COMMERCIAL TRANSACTIONS



International Events at the REALTORS® Legislative Meetings & Trade Expo

Tuesday, May 16:

Global Programs for Associations

Association staff and volunteers will learn how to develop and grow a Global Business Council at their association. Attendance satisfies one of the required courses for association staff to earn their CIPS designation.

Wednesday, May 17:

Global/CIPS Networking Reception

Catch up with your fellow CIPS designees and get to know attendees from around the globe at the Global/CIPS Networking Reception.

Global Business & Alliances (GBA) Committee

Hear from international experts spanning multiple industries and countries on current and future trends for global business.

EMBASSY VISITS

Enter for your chance to attend an embassy visit during your trip to Washington, D.C. Visits provide first-hand country information on economic development, investment outlook, and the future of international real estate. More information to come.

Thursday, May 18:

Global Business Councils Forum

This year's forum, "Anatomy of a Trade Mission" will focus on trade missions and their importance in building relationships across borders. Learn from a panel of experts on how to plan or host a Trade Mission.

Register Today!
www.nar.realtor/midyear



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LEGISLATIVE MEETINGS & TRADE EXPO
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