Association of Foreign Investors in Real Estate

2007 Foreign Investment Survey

Prepared by:

AFIRE

and

The James A. Graaskamp Center for Real Estate
University of Wisconsin – Madison

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Summary

1. New York City ranks as top city in the world for real estate investment by AFIRE members. Washington D.C. is number two. This is the first time since 2001 that two USA cities top the global ranking.

2. Appetite for investment in USA real estate remains strong. The USA continues to be considered the country providing the most stable and secure real estate investment opportunities. It also continues to be considered the country providing the best opportunities for capital appreciation.

3. The perceived difficulty of investing in USA real estate continues to decline. In order to implement their investment strategy, foreign investors focus on building relationships with local partners. They also use more diversified approaches to the USA market than in the past.

4. The ranking of USA property types confirms the trend already seen last year with strong appetite for office and multifamilty properties, and continued loss of interest for hotel and retail properties.

5. For the first time in years, “distressed assets” are mentioned by AFIRE members as a new strategic focus going forward, surely a sign of the current difficulties in some markets.

6. In Western Europe, Germany is gaining ground as a destination for real estate investment. London and the UK lose some of their dominance. France continues to slide down.

7. In Eastern Europe, the Czech Republic, Poland and Hungary continue to be the most favored destinations. AFIRE members show increasing interest for the Baltic countries.

8. In Asia, Japan and China remain the top targets for foreign real estate investment. Last year’s excitement for India appears to have waned. Singapore makes a strong comeback as destination for real estate investments.

9. A quarter of the AFIRE members, mainly Institutional Members, hold $694 billion of real estate assets around the world, $230 billion in the USA.

AFIRE and the James A. Graaskamp Center for Real Estate at the University of Wisconsin–Madison would like to thank the 60 member firms who responded to the 2007 survey. For more information regarding any data presented in this report, please contact Lexie Miller, AFIRE Managing Director, or François Ortalo-Magné, Professor, James A. Graaskamp Center for Real Estate. Contact information is provided at the end of the report.

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Survey Methodology

The 2007 Foreign Investment Survey was designed by AFIRE and the James A. Graaskamp Center for Real Estate at the University of Wisconsin-Madison.

To maintain comparability with past results, the survey included core questions from prior surveys. The survey was also updated and expanded to include questions addressing current interests of the AFIRE Membership.

The AFIRE Members which participated in this survey are Institutional Members and Associate Members. The AFIRE Institutional Members are foreign institutions or their USA-controlled subsidiaries engaged in international real estate investment (i.e., pension funds, insurance companies, banks, and large public and private companies). The AFIRE Associate Members are foreign or USA institutions actively engaged in managing and advising investment accounts for foreign institutions.

The survey questionnaire contained two sections. The first section of the questionnaire addressed investor perceptions and opinions regarding cross-border real estate investment, and was to be completed by both the AFIRE Institutional and Associate Membership. The second section comprised of questions addressing real estate portfolio market values, investment allocations, and capital flows. This section was aimed exclusively at the AFIRE Institutional Membership.

The overall response rate for the 2007 Foreign Investment Survey is 40%, which corresponds to 63 of the 156 potential respondents; 42% of the 97 Institutional Members and 37% of the 59 Associate Members returned the survey.

The James A. Graaskamp Center for Real Estate tabulated and analyzed the survey results and presented the findings in this report to be distributed to all survey respondents. Where applicable, results from the 2004, 2005 and 2006 Annual Member Surveys are shown for comparison purposes.

Section 1. Global Perspective

AFIRE members were asked their opinion with regards to investment opportunities around the world. This section provides unique insights into the worldview of foreign investors active in the USA.

1.1. Ranking Countries

Overall, AFIRE members continue to view the USA as the preferred country for real estate investment. The USA continues to be ranked as the country providing the most stable and secure real estate investments. Notice the wide margin between the number 1 and number 2 spots in the table below. The USA continues to gather more than half the votes of the members. Germany has been climbing up the ranking every year, whereas France has been declining.

Exhibit 1. Country providing the most stable and secure real estate investments.

Country	Ranking Trend	2007 Rank	2007 Percent	2006 Rank	2006 Percent	2005 Rank	2004 Rank
USA	●	1	56.1%	1	63.6%	1	1
Germany	↑	2	10.5%	3	4.5%	4	6
United Kingdom	↓	3	8.8%	2	10.6%	2	2
Australia	↑	3	8.8%	5	3.0%	7	4
Japan	●	5	5.3%	5	3.0%	4	6
Canada	↓	6	3.5%	3	4.5%	3	4
France	↓	7	1.8%	5	3.0%	4	3
Switzerland	↓	7	1.8%	5	3.0%		
Singapore	↓	7	1.8%				
Switzerland	↓	7	1.8%				
Netherlands	↓	11	0.0%	5	3.0%		
Sweden	↓	11	0.0%	10	1.5%		

The USA is also ranked as the country providing the best opportunity for capital appreciation, but not as dominant as it used to be with 26.2% of the votes, compared to 44.4 and 53.8% of the votes in 2005 and 2004, respectively. This year, the vote for the USA is slightly higher than last year.

Last year, India was a newcomer in the top 3 with a very positive outlook expressed by AFIRE members. No country had obtained a vote of confidence so close to that of the USA in the past five years. The small 5 percentage point difference between the USA and India was a first.

This year, India gathers a similar vote of confidence as last year but China makes a stronger showing than last year. China is now within 5% of the vote expressed for the USA.

Two years ago at the AFIRE Annual Meeting, William Sanders of the Verde Group, made the case for real estate investment in Mexico, arguing the country offers strong investment opportunities. Mexico climbs up to fourth place this year.

Exhibit 2. Country providing the best opportunity for capital appreciation.

Country	Ranking Change	2007 Rank	2007 Percent	2006 Rank	2006 Percent	2005 Rank	2004 Rank
USA	●	*1*	26.2%	1	23.0%	1	1
China	↑	*2*	21.4%	3	14.8%	2	4
India	↓	*3*	16.7%	2	18.0%	8	
Russia	↑	*4*	7.1%	5	8.2%	8	8
Mexico	↑	*4*	7.1%	7	4.9%	6	6
Germany	↓	*6*	4.8%	4	9.8%	3	8
Japan	↑	*6*	4.8%	8	3.3%	6	2
Turkey	↑	*6*	4.8%	10	1.6%	8	
Eastern Europe	↓	*9*	2.4%	6	6.6%	12	
Canada	↓	*9*	2.4%	8	3.3%	4	8
United Kingdom	↑	*9*	2.4%	10	1.6%	4	3
Spain	↓	*12*	0.0%	10	1.6%	12	
France	↓	*12*	0.0%	10	1.6%	12	6
Korea	↓	*12*	0.0%	10	1.6%	8	

1.2. Asia

In terms of investment strategies within Asia, AFIRE members continue to target primarily Japan and China. Singapore comes back after a weak showing last year. India declines after a strong showing last year.

Exhibit 3. Asian markets targeted for real estate investments.

Country	Ranking Trend	2007 Rank	2007 Votes	2006 Rank	2006 Votes	2005 Rank	2005 Votes
Japan	●	1	24	1	29	1	25
Mainland China	↑	1	24	2	27	2	24
Singapore	↑	3	22	4	19	3	23
Hong Kong	●	4	19	4	19	4	18
India	↓	5	17	3	21	6	15
Australia	↑	6	16	7	14	7	14
Korea	↓	7	15	6	16	5	16
Other	●	8	7	8	10	8	2

On average, AFIRE members who are active in Asia have allocated $900 million to real estate investment in the region, up from $500 million last year. Note however, that from year to year, a different mix of members respond to the survey.

1.3. Eastern Europe

Within Eastern Europe, the Czech Republic and Poland keep their top spots as prime targets for real estate investments by AFIRE members. Hungary is back to a level of interest similar to that shown in 2005, following a dip in 2006. Members show an increasing interest in the Baltic Countries.

Exhibit 4. Eastern European countries offering the best real estate investment opportunities.

Country	Ranking Trend	2007 Rank	2007 Score	2006 Rank	2006 Score	2005 Rank	2005 Score
Czech Republic	●	1	45	1	55	1	51
Poland	●	2	37	2	48	2	44
Hungary	●	3	22	3	16	3	28
Baltics	↑	4	13	6	8	4	6
Romania	↓	5	9	4	12		
Slovakia	↓	6	4	5	10	5	2
Slovenia	↑	6	4	7	4	6	1

Members were asked to rank their top three countries. A score of 3 was allocated to the number 1 country, 2 to the number 2 country, and 1 to the number 3 country.

1.4. Ranking Global Cities

New York City emerges as the top global city for real estate investment for the first time since 2001, taking away top spot from London, which ties this year for second with Washington D.C. Note the strong increase in interest for Singapore (number 6 this year, not mentioned by anyone last year) and Shanghai, number 5 this year, up from ninth last year. Tokyo and Paris round out the top 6 positions.

Exhibit 5. Ranking of global cities for real estate investment.

City	Ranking Trend	2007 Rank	2007 Score	2006 Rank	2006 Score	2005 Rank	2004 Rank	2003 Rank
New York City	↑	1	53	2	43	3	4	4
London	↓	2	35	1	48	1	2	2
Washington, D.C.	↑	2	35	4	24	2	1	1
Paris	↓	4	26	3	25	4	5	3
Shanghai	↑	5	21	9	5	6	6	
Tokyo	↓	6	18	5	23	5	3	6
Singapore	↑	6	18	24	0	21		
Munich	↓	8	9	7	8	21		
Sydney	↑	9	8	15	2	21	19	20
Hong Kong	↑	10	7	11	4	21	9	8
Toronto	↑	11	6	15	2	8	9	7
Beijing	↑	12	5	24	0	21	17	
Frankfurt	↑	13	4	14	3	29	14	11
Calgary	↓	14	3	11	4	21	19	
Abu Dhabi	↑	14	3	24	0	29		
Bangalore	↑	14	3	24	0	14		
Hamburg	↑	14	3	24	0	29		
Valencia	↑	14	3	24	0	29		
Los Angeles	↓	19	2	6	14	6	9	5
Stockholm	↓	19	2	8	6	29		15
Moscow	↓	19	2	9	5	14	12	
Boston	↓	19	2	15	2	12	14	15
Tianjin	↑	19	2	24	0	21		
San Francisco	↓	24	1	11	4	9	8	9
Mexico City	↓	24	1	15	2	29	17	17
Mumbai	↓	24	1	15	2	29		
Seoul	↓	24	1	15	2	10	13	17
Berlin	↓	24	1	22	1	14		
Chicago	●	24	1	24	0	14		13
Osaka	●	24	1	24	0	29		
Seattle	●	24	1	24	0	12		
Madrid	↓	32	0	15	2	14	19	11
Orlando	↓	32	0	22	1	14		

The responses were scored with 3 points to each respondent's first choice, 2 points to second choice, and 1 point to third choice.

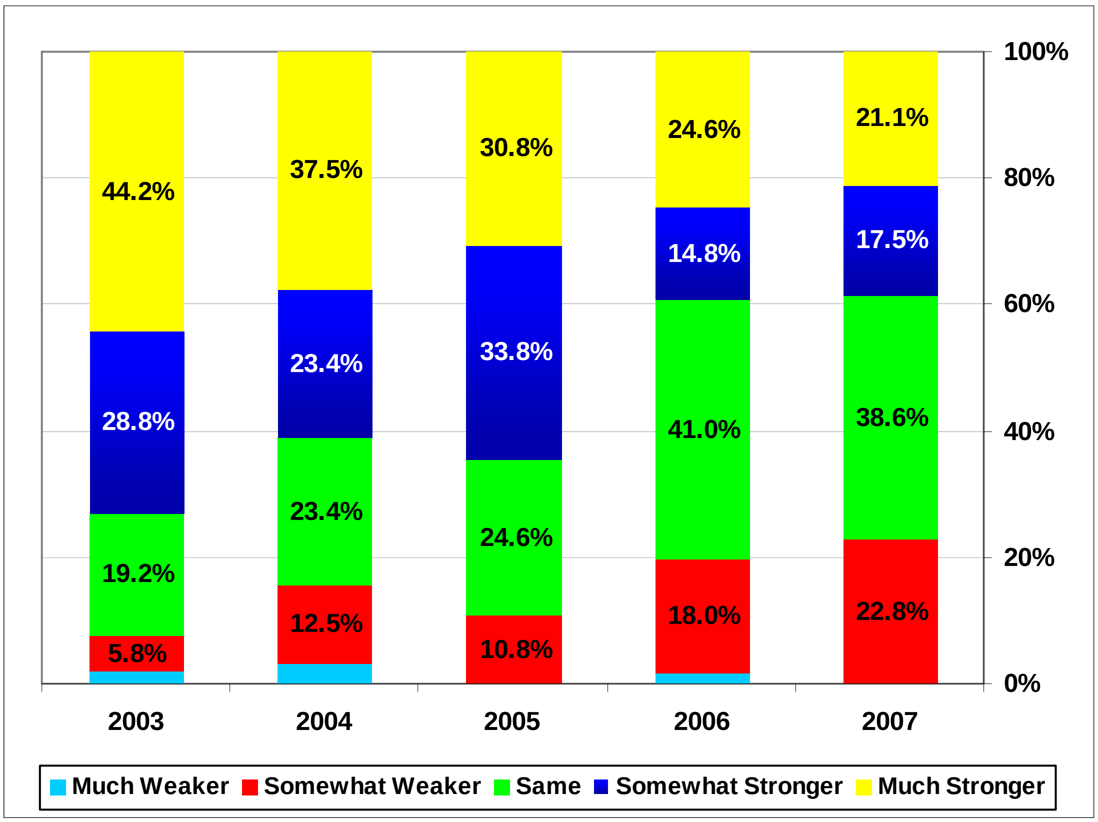
Section 2. Focus on the USA

AFIRE members were asked their opinion with regard to the real estate market within the USA. This section provides unique insights into the perception of the USA real estate market by foreign investors active in this market.

2.1. Appetite for USA Real Estate

Last year, for the first time in four years, less than 40% of AFIRE members reported a stronger appetite for USA real estate relative to other investment opportunities. The "Much Stronger" appetite category continues to decline. Nevertheless, a large majority of AFIRE members continue to favor investment in USA real estate: 77% report at least the same appetite for USA real estate as for alternative opportunities.

Exhibit 6. Appetite for USA real estate investment relative to other opportunities.



The overwhelming majority, 85%, of AFIRE members report no impact of recent geopolitical developments on their USA real estate investments, 10% report increasing their USA allocation in response to changing geopolitical risks around the world.

Recent fluctuations of the USA dollar have prompted a few survey respondents (12%) to increase their USA allocation. Almost everyone else reports no sensitivity of their investment policy to recent developments of the USA dollar exchange rate.

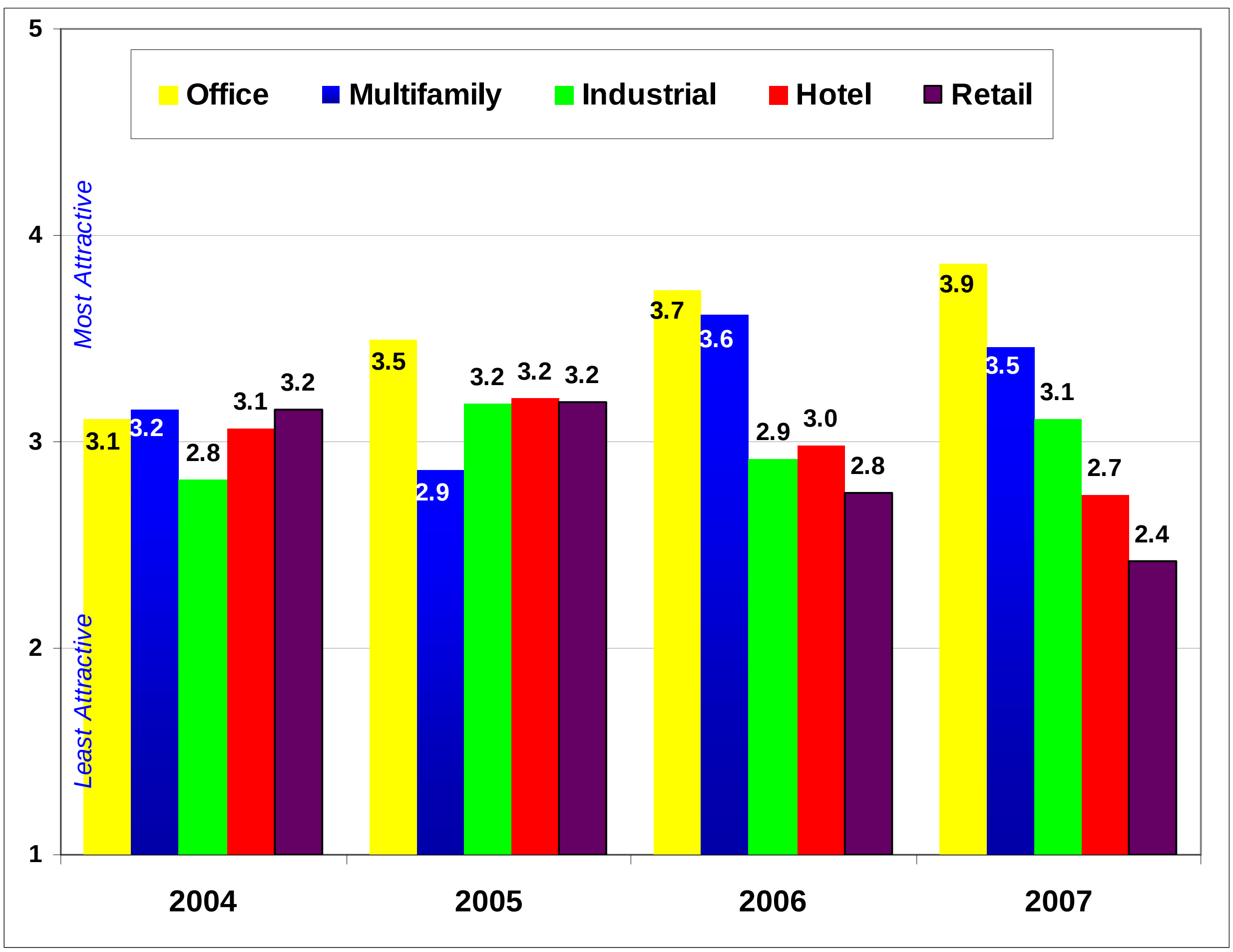
2.2. Ranking USA Property Classes

The ranking of USA property types resembles very much last year's ranking. The dispersion of ratings is more pronounced than last year with office properties at the top of the ranking followed by multifamily properties. Hotel and retail properties continue the downward slide started last year.

Exhibit 7. Ranking of USA property types.

Property Type	Rating Trend	2007 Ranking	2006 Ranking	Mean Rating			
				2007	2006	2005	2004
Office	●	1	1	3.9	3.7	3.5	3.1
Multifamily	●	2	2	3.5	3.6	2.9	3.2
Industrial	↑	3	4	3.1	2.9	3.2	2.8
Hotel	↓	4	3	2.7	3.0	3.2	3.1
Retail	●	5	5	2.4	2.8	3.2	3.2

Exhibit 8. Attractiveness of USA real estate investment property types.



2.3. Ranking USA Cities

New York City comes out again as the top city for real estate investment within the USA. Members clearly rank New York City and Washington, D.C., the number 1 and 2 cities, ahead of Los Angeles and San Francisco, the number 3 and 4 cities, respectively. Seattle, Boston and Chicago attract more attention than last year. They round up the top 7.

Exhibit 9. Ranking of USA cities.

City	Ranking Trend	2007 Rank	2007 Score	2006 Rank	2006 Score	2005 Rank	2004 Rank	2003 Rank
New York City	●	1	98	1	86	2	2	2
Washington, D.C.	●	2	80	2	74	1	1	1
Los Angeles	●	3	26	3	41	3	3	3
San Francisco	●	4	23	4	40	4	4	4
Seattle	●	5	19	5	10	9	15	12
Boston	↑	6	14	7	7	7	8	6
Chicago	↑	7	11	10	4	6	5	5
Las Vegas	↑	8	5	16	0	13	12	
Phoenix	↓	9	3	6	8	10	12	10
Orlando	↓	9	3	7	7	12	12	
Atlanta	↓	11	2	10	4	14	9	9
Denver	↑	11	2	12	2	17	9	13
Houston	↑	11	2	12	2	18		
Miami	↑	11	2	16	0	7	5	8
San Diego	↓	15	1	9	6	5	7	7
Austin	↓	16	0	12	2	10	11	
San Jose	↓	16	0	12	2	16		
Tampa	●	16	0	16	0	14		11

Members were asked to provide a ranking for the three USA cities they rank best for real estate investment. The responses were scored with 3 points for first choice, 2 points for second choice, and 1 point for third choice.

2.4. Competition

AFIRE members were asked which two investor types they believed were their top competitors in acquiring properties in the USA. As last year, the top competitors are domestic pension funds and their advisors, and private individuals

Exhibit 10. Top competitors for acquiring properties in the USA.

Category	Ranking Change	2007 Rank	2007 Frequency	2006 Rank	2005 Rank
Domestic Pension Funds/Advisors	●	1	44%	1	1
Private Individuals	●	2	20%	2	3
Domestic REITs	●	3	15%	3	2
Other Foreign Investors	●	4	11%	4	4
Private Developers	●	5	6%	5	6
Other	●	6	5%	6	5

In terms of foreign competition, for years, AFIRE members have perceived the most active foreign buyers to be coming from Germany, Australia and the Middle East. Last year, Australia grabbed the headlines. This year is "back to normal."

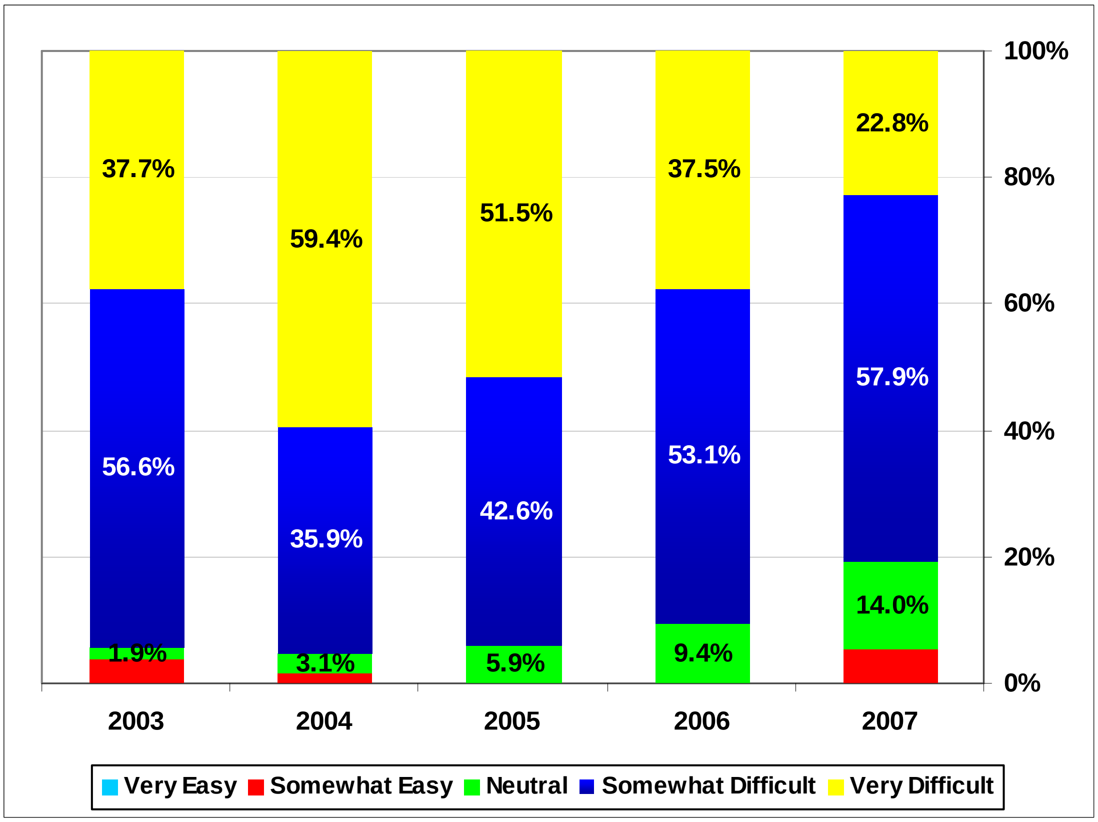
Exhibit 11. Most active foreign buyers of USA real estate.

Country	Ranking Change	2007 Rank	2007 Frequency	2006 Rank	2006 Frequency	2005 Rank	2004 Rank	2003 Rank
Germany	↑	1	33%	2	27%	1	1	1
Australia	↓	2	31%	1	54%	2	2	2
Middle East	↑	3	9%	4	6%	3	3	3
Ireland	↑	4	7%	5	2%	4		
The Netherlands	↓	4	7%	3	8%			

2.5. Looking Forward

AFIRE members were asked to rate the difficulty of finding attractive USA real estate investment opportunities. This year, a much smaller proportion of members consider the investment environment very difficult compared to the past years. Overall, members feel the investment environment in the USA is easier now than it had been in the previous four years.

Exhibit 12. Difficulty of finding attractive USA real estate investment opportunities.



AFIRE members were asked to explain what measures they plan to take in order to successfully place new capital in the USA over the next five years. The majority of the responses mention developing partnerships and joint ventures with local players. A few AFIRE members foresee investing in distressed assets in the near future.

Exhibit 13. Measures taken to successfully place new capital in the USA.

Measures Taken to Successfully Place New Capital in the USA	Rank	Frequency
Partnerships / Joint Venture	1	53%
Value Added / Development	2	22%
Better Execution	3	19%
Pursue Distressed Assets	4	6%

In response to a separate question concerning strategies for the next five years, AFIRE members indicate continued interest in diversification strategies for real estate investment in the USA. Diversification takes many forms, with most members looking into new types of transactions and new property types. Senior housing is mentioned by three members, infrastructure investment is mentioned by two members. Two novelties in this year's answers: Four members mention an interest in distressed assets; three members mention the use of property derivatives.

Section 3. Member Profile

A group of 42 members, primarily Institutional Members provided information about their current and planned real estate investments. This section provides a summary of these members' global and USA portfolio holdings and allocations.

3.1. Real Estate Portfolio Values

Together, the 42 members hold $694 billion worth of real estate assets around the world, with $230 billion invested in the USA. This represents an average global real estate investment of about $16.5 billion with about $5.5 billion in the USA. The USA allocation represents one third of global investments.

Half the respondents report global real estate portfolios valued at $8.7 billion or more, and USA real estate portfolios valued at $2.4 billion or more.

3.2. Real Estate Portfolio Geographic Distribution

On average, the 42 members hold 48% of their real estate portfolio in the USA and Canada, 22% in Western Europe excluding the UK and 12% in the UK. They also hold some real estate in Eastern Europe, Russia, Australia, Japan and more broadly in Asia.

Some members are highly specialized, focusing on their headquarters country.

Exhibit 14. Real estate portfolio geographic distribution.

Category	2007			
	Min.	Max.	Median	Mean
USA & Canada	0%	100%	38%	48%
Western Europe (not UK)	0%	84%	11%	22%
United Kingdom	0%	91%	1%	12%
Eastern Europe	0%	20%	0%	1%
Australia	0%	72%	0%	4%
Japan	0%	93%	0%	7%
Asia (not Japan)	0%	30%	0%	4%
Russia	0%	5%	0%	0%
Other	0%	29%	0%	2%

3.3. Real Estate Portfolio Property Type Distribution – Global

AFIRE members hold primarily office and retail properties around the world. On average, about 40% of their portfolio is in office property, a fifth in retail. The next favorite class is multifamily which makes up about 15% of their portfolios.

A few members are highly specialized in office or retail or multifamily properties.

Exhibit 15. Real estate portfolio property type distribution - Global.

Category	Global 2007 (inc. USA)			
	Min.	Max.	Median	Mean
Office	0.0%	100.0%	39.0%	43.1%
Retail	0.0%	100.0%	19.5%	21.7%
Multifamily	0.0%	100.0%	7.0%	15.3%
Industrial / R&D	0.0%	40.0%	9.5%	9.6%
Hotel / Leisure	0.0%	30.0%	0.0%	4.7%
Other	0.0%	34.0%	0.0%	5.6%

3.4. Real Estate Portfolio Property Type Distribution – USA

In the USA, the same AFIRE members also hold primarily office and retail properties with a slightly greater focus on multifamily properties than on a global basis.

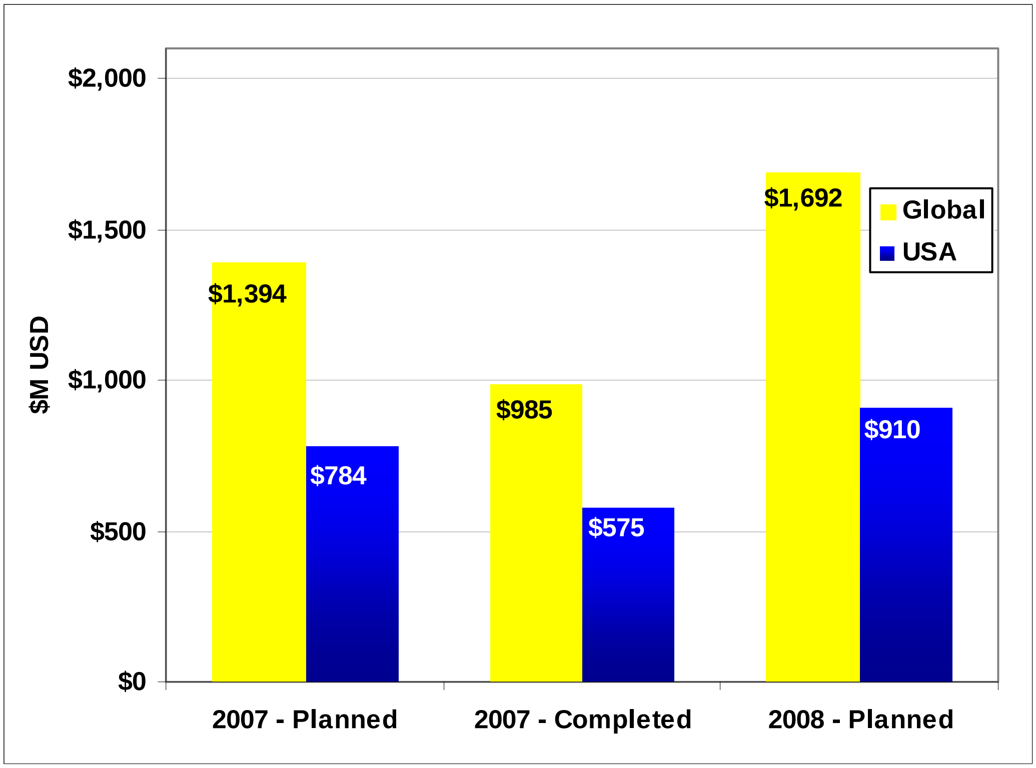
Exhibit 16. Real estate portfolio property type distribution - USA.

Category	USA 2007			
	Min.	Max.	Median	Mean
Office	0.0%	100.0%	35.0%	40.8%
Retail	0.0%	100.0%	15.0%	21.1%
Multifamily	0.0%	100.0%	10.5%	20.4%
Industrial / R&D	0.0%	41.0%	5.0%	8.6%
Hotel / Leisure	0.0%	30.0%	0.0%	4.2%
Other	0.0%	54.0%	0.0%	4.8%

3.5. Planned and Completed Acquisitions of Real Estate

The survey was conducted at the beginning of the fourth quarter. At the time, AFIRE members had completed 70% of their planned global real estate acquisitions for the year and slightly more, 73%, of their planned USA real estate acquisitions. On average, members plan to increase their global acquisitions by more than 20% next year and their USA acquisitions by about 16%.

Exhibit 17. Average planned and complete acquisitions, 2007–08.



3.6. USA Real Estate Investment Vehicles Utilized

AFIRE members were asked to indicate the current USA real estate investment vehicles utilized and how they plan to allocate new capital in 2008. A number of AFIRE members follow highly specialized strategies. A comparison of the figures for 2007 and 2008 does not show any particular shifts in portfolio allocation.

Exhibit 18. USA real estate investment vehicles utilized.

Category	2007 Portfolio Distribution				2008 New Capital Allocations			
	Min.	Max.	Median	Mean	Min.	Max.	Median	Mean
Private Equity - Core	0%	100%	25%	33%	0%	95%	25%	30%
Private Equity - Value Added	0%	100%	15%	26%	0%	100%	18%	28%
Private Equity - Opportunistic	0%	100%	0%	19%	0%	100%	2%	19%
Private Equity - Mixed Strategy	0%	80%	0%	4%	0%	80%	0%	5%
Public Securities	0%	50%	0%	7%	0%	50%	0%	7%
CMBS	0%	80%	0%	4%	0%	65%	0%	4%
Debt - Construction	0%	40%	0%	2%	0%	35%	0%	2%
Debt - Repositioning	0%	10%	0%	0%	0%	20%	0%	1%
Debt - Acquisition	0%	99%	0%	4%	0%	49%	0%	2%
Debt - Refinancing	0%	30%	0%	1%	0%	40%	0%	2%
Debt - Semi-Permanent	0%	18%	0%	1%	0%	18%	0%	0%
Other	0%	2%	0%	0%	0%	5%	0%	0%

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These students will graduate in May 2008. Their resumes are available at http://www.bus.wisc.edu/wcre/profiles/classof2008.asp

About the Center for Real Estate at the University of Wisconsin – Madison

CENTER FOR REAL ESTATE
UW-Madison School of Business

The **University of Wisconsin-Madison James A. Graaskamp Center for Real Estate** was established in 1971 to foster excellence in real estate education, research and outreach through community and professional partnerships. Historically, the Center's main goal has been to serve as a link between the Real Estate faculty and students, alumni, the real estate professional community, governmental agencies and the general public. This core mission continues but has recently expanded to include administering the MBA program in Real Estate. We hope to instill our students with our core values and create a valuable, life-long network for learning and professional growth.

The **Center creates outstanding networking opportunities** for students, board members, alumni, faculty and professionals to meet and share their knowledge and expertise. Events include the Center's Board of Trustees meetings, an Executive-in-Residence lecture series, and programs that are co-sponsored with the Wisconsin Real Estate Alumni Association, Real Estate Club, and private and non-profit organizations. We also provide advising and mentoring to help match students with appropriate career opportunities. Scholarships and fellowships are available to qualified students, along with occasional opportunities to work on consulting projects with faculty.

A key component of center activity is the administration of the **Real Estate MBA**. The MBA program in real estate prepares students for high-level management positions in the industry. The two-year program offers a multi-disciplinary approach to real estate with about half the total coursework in real estate and half in high-level business courses such as finance, accounting, management, strategy and leadership. Required real estate courses include investments and finance, urban economics, valuation, and development. Examples of electives include advanced finance and international real estate. Students take capstone seminars in their second year that expose them to a wide range of high-level cases and concepts. The curriculum includes hands-on projects, and students are required to participate in at least one field trip abroad to learn about real estate in other countries and cultures. We believe that students not only must be rigorously trained in real estate fundamentals but also must acquire skills in critical thinking, leadership, and entrepreneurial management.

For further information, please visit our website at http://www.bus.wisc.edu/wcre/, or contact **Sharon McCabe, Assistant Director of Recruiting/Career Services**, phone (608) 262-8934, email: smccabe@facstaff.wisc.edu.