



# AFIRE News

*The Official Voice of the Foreign Real Estate Industry*

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## 2005 AFIRE Survey Results Released

Even though the appetite for US real estate remains extremely high and consistent, foreign investors in cross-border real estate will spread their capital more globally in 2006 than in previous years, according to the results of the annual foreign investor's survey released recently by the Association of Foreign Investors in Real Estate (AFIRE). The survey respondents said their 2006 acquisition plans call for approximately \$45 billion to be spent globally with 47 percent allocated to the US.

In total, AFIRE members have approximately \$475 billion invested globally. The distribution of these global assets has gradually shifted with the portion in North America dropping below 50 percent for the first time. The percentage invested in Western Europe and the UK increased in the past year. And in spite of the emerging interest in Asia, the portion actually invested in Asia remained unchanged

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## AFIRE Conference Attendance Policy

As you have noticed at recent meetings, our numbers have grown tremendously. In many ways that is a positive turn of events. However, in an effort to maintain the intimate/private club atmosphere of our meetings, the Board of Directors approved new guidelines for meeting attendance which take effect in January 2006.

In the past, attendance limitations were in effect only at the Annual Meeting and only for Associate and Supporting members. In the future, these limitations will be in effect for all meetings and for all member categories. Please see the chart below.

Type	# of delegates who can attend any meeting*	# of complimentary attendees
Institutional	3	1
Associate	2	1—primary delegate only
Supporting	2	1

We look forward to another exciting year of AFIRE conferences. Please contact us if you have any questions.

*\*This does not include the brunches at MIPIM and EXPO REAL.*

## 2005 AFIRE Survey Results Released

*continued from page 1*

in 2005, new investment there possibly being offset by increased investments in other places.

Although the foreign investor's acquisition plans call for a larger portion of their portfolios to be invested outside the US, their broader-based plans do not always come to fruition. While completed acquisitions in 2005 in the US almost exactly matched their acquisition plans of a year ago, completed global acquisitions missed their goals by 20 percent. In fact, actual acquisitions in the US in 2005, representing approximately \$20 billion\*, were slightly greater than in 2004 and nearly equal the amount respondents indicate they will spend in the US in 2006. So even with a perceived difficulty in finding good opportunities in the US and in spite of laying plans for further global diversification, there continues to be a tremendous velocity of acquisition activity in the US. The reduced portfolio percentages in the US may be partially explained by the fact that many foreign investors in the US have become sellers, not buyers.

*\*This number includes partial responses not calculated in the final survey results.*

### **Top Global Cities Named, London Back on Top**

London was once again back on the top of the list for foreign investors, having toppled Washington, DC, which held the honor for three straight years.

London was barely edged out in last year's survey, but commanded a decisive lead this year. The recent compression of yields in the London market is indicative of the renewed interest in the city.

This is not to say that Washington, DC is no longer interesting. Washington, DC ranked second and was closely followed, even tied, with New York City. In spite of the interest in these cities, the previously mentioned difficulty of finding good opportunities weighs heavily upon the results. Paris also remains a very popular city, ranking number four. For the past five years, Paris has consistently maintained a ranking in the top five cities.

Tokyo broke into the ranks of the top five cities in last year's survey and remained in the top five this year, although its position has dropped slightly. This may be further indication of a growing competition for Tokyo product from the burgeoning domestic J-REIT industry.

In an increasing global real estate market, it is interesting to note that two European, two North American, and one Asian city comprise the top five global cities.

### **Emerging Markets**

Tokyo's top-five ranking is not surprising considering survey respondents' preference for Japanese real estate within Asia. Survey

respondents indicated that among Asian countries, Japan was preferred first followed closely by China and Singapore. Hong Kong, as a separate market, ranked next in a second tier which includes Korea, India and Australia. No other Asian countries were considered.

Likewise, in Eastern Europe, the top tier of investment countries includes three nations, the Czech Republic, Poland and Hungary. However, the desirability of the other Eastern

European countries falls off dramatically from there. Although newly mentioned this year, Turkey barely moved the needle of interest among survey respondents.

Office and retail appear to be the favorite product types in Eastern Europe with a preference for offices gaining over retail in 2005. Industrial and logistics seems to have dropped slightly in importance and an interest in hotels has emerged.

### Capital Appreciation

The motivation to invest in emerging markets is fueled by the desire for better yields which usually is derived from capital appreciation of the investments rather than cash returns. Yet, the US has ranked consistently number one for capital appreciation for the past five years, although the size of this lead has shrunk in the past several years.

In fact, the countries other than the US that are ranked next in line often tell a more interesting story. In the past year, Japan has dropped in ranking for capital appreciation to be replaced by China. Although it is not the first year to appear near the top of this list, the significant showing by China in 2005 indicates that



the country is gaining acceptance by a particularly conservative group of institutional investors. And the fact that Germany is viewed as the third most desirable country for capital appreciation may seem ironic to some domestic German investors.

### Born in the USA

The leading country in the world regarded as having the “most stable and secure investments” is the US. This assessment has been consistent for the seven years in which this question has appeared on the survey. Nevertheless, in 2005, the positive ranking of the US took a giant leap upward and 75 percent of the respondents said the US was the most stable and secure country. The stable and secure reputation may account for the degree of difficulty in finding good investment opportunities. Over 50 percent of our members said it was “very difficult.” In fact, almost 95 percent said it was at least “somewhat difficult.” No one said it was

“somewhat” or “very” easy.

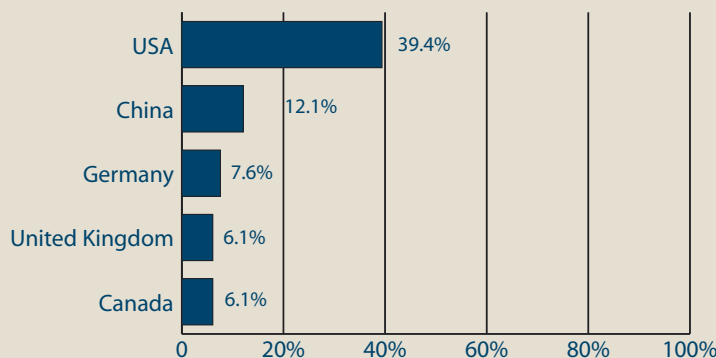
In spite of these difficulties, approximately 65 percent of respondents said they had a “stronger appetite” for US real estate. This sentiment is even higher than last year. And where is this appetite directed? Washington, DC is still considered the number one city for US investments and has held this position for five years. Of continuing interest, however, is the fact that New York City, after holding a significantly distant second place, is quickly closing the gap at number two. With some movement within the ranks, the favorite US cities among foreign investors have remained stable over the past several years and include San Francisco and Los Angeles. This year a new city, San Diego, was voted number five. As a gateway city for imports from Asia, as well as Mexico, this city has gained prominence.

After several years of languishing behind other product types, office buildings are again the darling of foreign

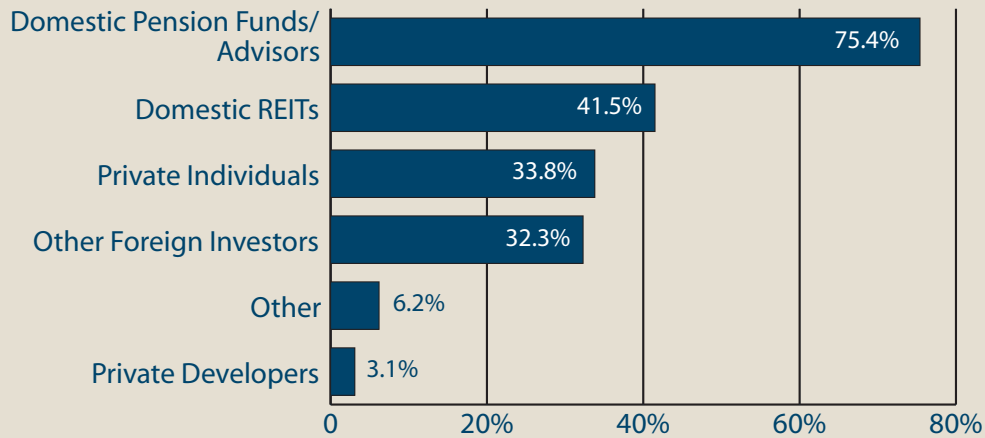
investors. And in a complete reversal, multi-family residential is the least desirable, falling from the top of the list a few years ago. Also perhaps in a first, hotels are the second most favored product, a sign of the growing tightness in this market.

Which countries are the largest foreign investors in the US? If

### Top Five Countries Providing the Best Opportunity for Capital Appreciation



## Top Competitors for Acquiring Properties in the US



"Other" Competitors: Opportunity Funds, Managed Funds, CMBS, Life Insurance

you said, Germans, you would be only partially correct. In 2006, according to 40 percent of the respondents, Australian investors are anticipated to become the most active investors in US real estate. While Germans will remain a force, the rising awareness of the Australians is startling. Coincidentally, the AFIRE chairman for 2006, Mark Baillie of Macquarie Real Estate, Inc., hails from Australia. The newest country to make its presence felt on the survey is Ireland. AFIRE will conduct its first ever conference in Dublin in May of 2006.

This excerpt from the December edition of *Capital Trends Monthly* published by Real Capital Analytics, Inc. underscores this trend. "Investment from the world's smallest continent has more than doubled in 2005. Australians became the largest buyers of strip centers and also acquired billions of

office and industrial properties as well. Still, Australians account for less than 40 percent of offshore buyers in the US. Foreign acquisitions will exceed \$21 billion this year, up 50 percent, as the universe of foreign buyers grew much larger and more diverse in 2005."

### Investment Strategies

Everyone agrees that competition for real estate investment is strong in the US. But who are the major competitors? Domestic US pension funds were listed as the major competitors in acquiring property in the US by 75 percent of the survey respondents. This fact alone is evidence that real estate is fast becoming an acceptable institutional asset class. As a comparison, in the late 90's their strongest competitors were public REITs and private investors.

To balance the difficulty of finding good opportunities in the US with the

continuing appetite for US real estate, the majority of foreign investors are emphasizing joint ventures and building relationships with local partners. This strategy is being pursued by 40 percent of the investors.

As a longer term strategy for a US investment, more development projects seemed to be favored by most foreign investors. Coupled with almost 25 percent of the investors expressing a strategy of more diversification in products, markets and value-added real estate, the next five years of activity by foreign investors in the US should prove to be exciting indeed.

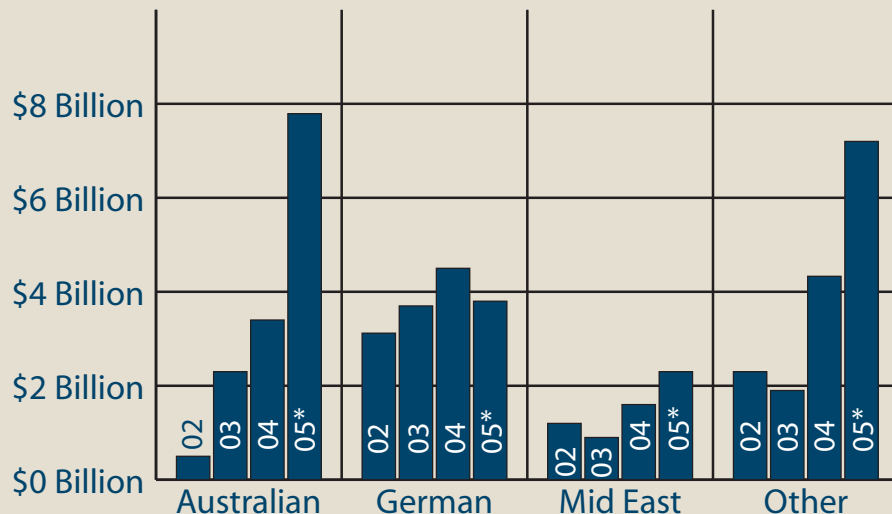
Finally, the continued interest in US acquisition volume is exemplified by the fact that as an organization, AFIRE added more new members in 2005 than in any year in the past 10 years. Membership grew by almost 15 percent, mostly still European in origin. And any

## Top New USA Real Estate Investment Strategies Over Next Five Years

1.	Development	14.3%
2.	Joint ventures	11.4%
3.	Geographic diversification	10.0%
4.	Product type diversification	8.6%
5.	Multifamily/Residential	7.1%
5.	Value-added	7.1%

projections for future investment activity must bear in mind those foreign investors newly arrived on the scene that have yet to be counted. ★

## Direct Foreign Acquisitions of US Commercial Real Estate



Source: Real Capital Analytics