



AFIRE News

The Official Voice of the Foreign Real Estate Industry

International Investors Broaden Investment Strategies

International investors continue to broaden their allocation of investment funds around the world and have adopted innovative strategies to more easily acquire real estate within the most competitive markets. While the US remained the most dominant single market for investment, India ranked highly as a place for capital appreciation. And while the US is perceived to be a difficult place to acquire real estate, the number of respondents who say it is “very difficult” has decreased for the past three years. The 15th annual AFIRE Foreign Investment Survey reflects the attitudes of the members of the Association of Foreign Investors in Real Estate who collectively own \$600 billion of real estate globally and \$185 billion in the US.

“The results of this year’s survey manifest the most global viewpoint our members have ever expressed,” said Mark Preston, president of Grosvenor UK and Ireland, and AFIRE’s newly elected chairman. “The US remains the strongest and safest conduit for cross-border real estate capital, by a substantial margin, 63%. But it is clear that our members are taking advantage of some of the opportunities inherent in emerging markets.”

Global Viewpoint

London remained the top global city for foreign investors for the second year in a row. For the first time, New York City was ranked as number two and supplanted Washington, DC, in that spot. The re-emergence of New York City became

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Interview with AFIRE 2007 Chairman Mark R. Preston

How did your career path lead you to Grosvenor?

I have been at Grosvenor for nearly 18 years and, therefore, came here straight from University where I took a vocational degree (in Land Management) which is the common route in the UK into the property business. Subsequently, I qualified as a chartered surveyor. I had always wanted to work as a principal rather than in the consultancy area and, of the active property companies in the UK, I felt Grosvenor had the best match with my particular approach and also a very high quality portfolio and name.

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the theme of the AFIRE 2007 Winter Conference in February entitled, *New York City: Five Years After*. Washington, DC, fell to fourth place behind Paris. The cities of Munich, Stockholm and Moscow made strong showings this year by moving up the rankings in significant leaps.

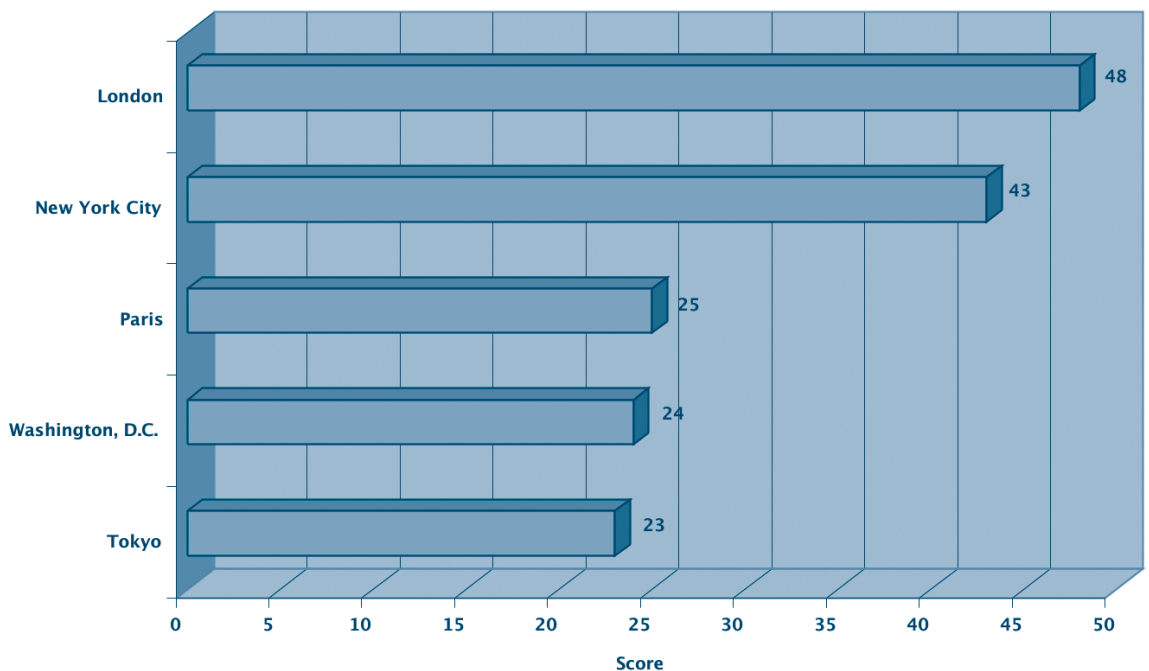
While the US ranked the highest as the most stable and secure country for their investments, the US met with significant competition for the country with the best opportunity for capital appreciation. In a surprise showing, India ranked a very close second to the US with China following closely behind. Germany and Russia formed a second tier of high ranking countries in this category.

In Asia, the most popular countries for

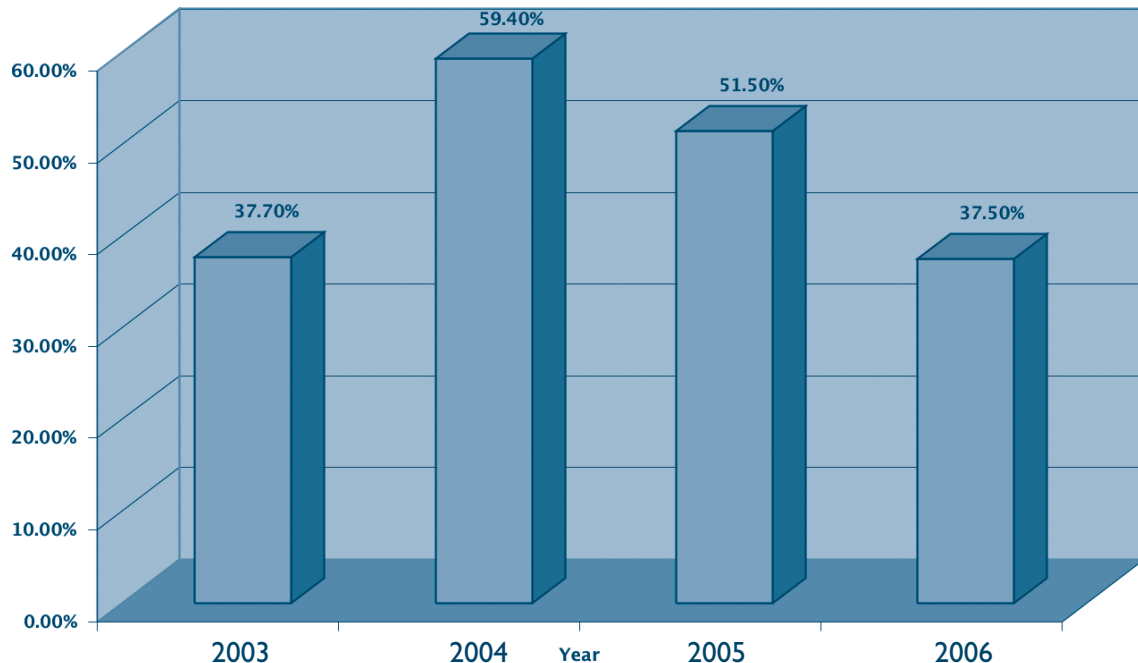
investment are Japan, China and India. While Japan and China have been ranked highly in Asia for the past several years, India jumped several other countries this year to place as number three. In Eastern Europe, the Czech Republic and Poland are the two most popular venues and rank far above the other countries. Hungary declined in the investors' perception while Romania made a dramatic new showing.

While foreign investors are broadening their perspective on global real estate, they still have approximately one half of their existing investments in the US. Fully 90% of their portfolios are distributed among the US, Western Europe and the UK. Offices are the preferred product type of the foreign investor comprising approximately 50% of

Top 5 Global Cities for Real Estate Investment – 2006



Percentage of Respondents Finding It "Very Difficult" to Find Attractive US RE Opportunities



their portfolios. Retail is the second most favored product type.

US Loosens Up

Two years ago, 60% of the foreign investors said it was "very difficult" to find attractive real estate investments in the US. Today, only 37.5% say it is "very difficult." What has made the difference in the past two years? Have the foreign investors merely given up on finding opportunities in the US?

The median planned acquisitions for 2007 per survey respondent show an increase of 43% over their 2006 actual transactions on a global basis. Their targeted acquisitions for the US show a median increase of 53% over 2006 actual levels. As is the case for 2006, they plan to invest half of their capital into the US. Clearly they are not backing away from the US market. What is going on then?

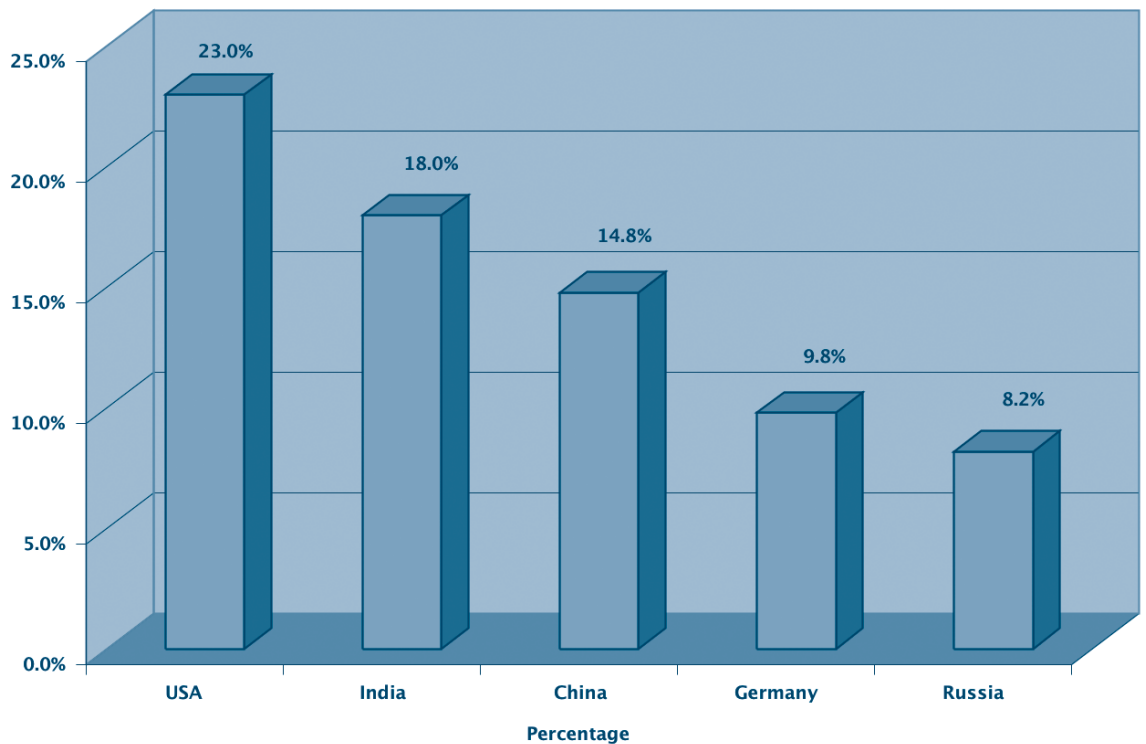
In general, it appears that the foreign investor is willing to take on slightly more risk in the US market. Value-added real estate now makes up 25% of their strategy

for 2007. Five years ago this category did not even exist in their responses and "core" investments made up 70% of their targeted acquisitions. Today, core makes up only 40%.

This new willingness to take on slightly more risk is being achieved by adding new property types to their portfolios. New property types were listed by 30% of the respondents as a part of a new US investment strategy. These new products include infrastructure, resorts, senior housing, and research and science parks. Development was advocated by 20%. A number of firms indicated new financial strategies such as entity level acquisitions.

The members are employing several measures to successfully place capital into the US. By far the most popular strategy is developing relationships with local real estate firms to acquire off market properties. A further extension of this strategy and one employed by almost a third of the respondents is to develop joint venture relationships with local firms.

Top 5 Countries for Capital Appreciation – 2006



Among the traditional product types, offices are a clear favorite. US offices have experienced a steady rise from the bottom of the charts four years ago to capture the number one preference two years in a row. In an even more dramatic turnaround, multi-family housing is the second favorite product in the US, rising rapidly from last place just one year ago. And in the reverse role, US retail has plummeted to the least favorite product type from the number one position two years ago. These changes in product preferences illustrate the dynamics of the US market and the flexibility of the foreign investor's strategies.

Top US Cities

The re-emergence of New York City to capture the favorite city for real estate investment in the US is a remarkable story. Five years have gone by since the 9/11 tragedy nearly crippled New York City's economy and shook the confidence of the

entire nation. Lower Manhattan experienced an exodus of corporate tenants seeking safety and available space, while Midtown Manhattan real estate rebounded in the wake of their displacement. The resilience of the New York City economy has proven itself as major foreign and domestic investors continue to make significant bets on it.

Washington, DC, the most favored city for five years, is now in second place, albeit a close second to NYC. Los Angeles and San Francisco complete the top four choices. While many other cities received favorite votes, no other city came close to these four. In summary, it appears that foreign investors have a preference for coastal cities in a bi-coastal strategy. Two on the East Coast (New York City and Washington, DC) and two on the West Coast (Los Angeles and San Francisco). The cities of Seattle and Phoenix, while clearly not within the top four, experienced strong gains in the past couple of years.

Coming to America

In the view of AFIRE members, German investors have supplied the bulk of the most active foreign investors in the US for the past five years. Beginning in 2005, this dominant position was shared with Australian investors and to a lesser extent with Middle Eastern investors. The latest assessment by AFIRE members is that the majority of active investors in the US will be Australian along with a significant component of German investors. Interestingly, some German investors have been net sellers, especially of offices, over the past year, while other Germans are net buyers.

Summary

International investors are adopting new strategies to invest capital and maximize yields. While spreading the wealth more widely, the US continues to be the safest and most secure country for their investments. However, in the race for capital appreciation, the US is being challenged by a growing number of real estate markets around the world. More traditional international real estate investors can take comfort in the fact, however, that the favorite global cities for real estate investment are still London, New York City, Paris and Washington, DC, and not yet Shanghai, Mumbai or Dubai.★

2002 Annual Meeting Speaker Becomes US Secretary of Defense



2002 AFIRE Chairman **David Sherwood** meets with former CIA Chief **Robert Gates** before he addressed the 2002 AFIRE Annual Meeting in San Francisco. In December 2006, Gates was confirmed by the US Senate as the new Secretary of Defense.