ASSOCIATION OF FOREIGN INVESTORS IN REAL ESTATE

2016 FOREIGN INVESTMENT SURVEY

RELEASED: January 2016

Prepared in collaboration with the James A. Graaskamp Center for Real Estate at the Wisconsin School of Business

WISCONSIN SCHOOL of BUSINESS

JAMES A. GRAASKAMP CENTER for REAL ESTATE

Highlights

The combination of the current low yield, high valuation environment with the prospect of increasing interest rates has AFIRE members approaching 2016 with caution.

- While 85 percent of members view the market as being about the same as last year, the remainder are evenly split between being more pessimistic and more optimistic. The optimistic outlook that prevailed in recent years among 30 percent of members has ended.
- An increase in interest rates was identified as the event that posed the greatest risk of triggering a downturn. It was also considered the most likely event to occur.
- In 2016, members expect that cap rate compression will end and rates may reverse slightly.
- When asked about the greatest risks for investing in USA real estate in 2016, the prevailing concern regarded the low yield, high current valuation conditions coupled with the prospect of interest rate increases and cap rate expansion.
- Members viewed office property as the property type that would be most affected by an increase in interest rates with 62 percent ranking it as the first or second most affected property type.
- Warehouse and hotel were ranked as the property types least likely to be affected, with a majority of members ranking these properties either fourth or fifth.
- Members also cited concerns about oversupply in certain markets and the possibility of an economic slowdown.
- Finding attractive investment opportunities has become significantly more difficult with over one-third reporting that it is very difficult to find attractive investments and over 80 percent finding it somewhat or very difficult to find opportunities.

Despite the challenge of finding attractive investment opportunities and caution regarding interest rates, AFIRE members continue to view the USA real estate market as the preferred market for investment.

- The USA continues to rank first both as the country having the most stable and secure investment markets and as the country providing the best opportunity for capital appreciation.
- When asked about investment opportunities in USA real estate, members cited the USA's stable, transparent and liquid markets, the resiliency of the USA economy and relative safety compared to alternative global investment opportunities.
- Ninety-five percent of members plan to maintain or increase the size of their USA portfolio in 2016.

Within the USA, AFIRE members are finding investment opportunities in secondary markets and across a broad spectrum of property specific and niche opportunities.

- When asked about the greatest opportunities for investing in USA real estate, many members identified secondary markets as offering better value and higher yields than primary markets.
- A wide variety of property specific and niche opportunities were cited as well, such as CBD office in secondary markets, urban infill, multifamily in prime urban centers and targeting tech markets. Other opportunities were identified in value add and development, as well as in debt markets and capital restructuring.
- When members were asked to rate property types in terms of those that offer the most attractive direct and indirect investment opportunities in the USA, multifamily and industrial property tied for first place.
- In the ranking of USA cities for real estate investment, New York continues to reign as the preferred USA city for real estate investment. A sharp increase in interest for Los Angeles combined with a decline in interest for San Francisco resulted in Los Angeles moving up two positions to second with San Francisco sliding down to fourth.
- Houston had the most significant decline in investor interest, sliding from third to eleventh place. Houston also experienced the greatest decline in ranking for global cities, falling from sixth place to 27th place, barely earning a mention in the results.
- Overall, the list of cities identified did not change much, but Oakland and Raleigh were newcomers to the list this year.
- Although many current opportunities may be in secondary or niche sectors, member portfolios remain heavily focused on core investment with 43 percent reporting a predominantly core strategy and 84 percent having at least 25 percent of their assets in core. Most portfolios have some value add component, but few portfolios are predominantly value add.
- Last year, more members planned to decrease their core mix than planned to increase it, which was a significant change from the prior year. That trend appears to have reversed with those planning to increase their core portfolios outnumbering those planning to decrease it by a ratio of over two to one.

European countries show strength in the rankings, both as stable markets and for capital appreciation.

- Although still a distant second to the USA, Germany continues to strengthen its hold on its second place ranking as a stable and secure market. Among global cities, Berlin moved up from seventh to fourth.
- Several other European cities show a growing interest among investors, including Paris at fifth place and Amsterdam in ninth.
- London continues to rank second among global cities, behind New York, and the UK remains the third most stable and secure market.
- For capital appreciation, four European countries, Spain, Ireland, UK and Netherlands, rank third through sixth, respectively.

The primary global markets remain unchanged, but investors continue to look broadly for opportunities, with Latin America, led by Brazil, a focus among emerging markets.

- The top eight countries targeted for investment, USA, UK, Germany, Canada, France, Australia, Japan and China, remain unchanged and generally in the same order. Peru, South Korea, Colombia and Luxemburg were additions to the rankings this year.
- Canada ranks fourth among stable and secure markets, despite a continuing slow decline in the scoring. In Canada, although two-thirds of members plan to maintain or increase their portfolios, one-third plan to decrease their Canadian portfolio sizes. Twenty-one percent of members plan a major net decrease. This represents a significant change from last year when only 7 percent reported plans to decrease their Canadian portfolio.
- The thirty-eight cities receiving mention for best global cities for investment are the most since before the financial crisis, suggesting a continued broadening of the geographic focus of members.
- For markets with the best opportunity for capital appreciation, Brazil moved up dramatically to second place from fifth place last year and being unranked in 2013. Brazil leads the ranking of emerging markets considered for investments with four other Latin American countries, Chile, Mexico, Peru and Colombia ranking in the top seven.

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Survey Methodology

The 2016 Foreign Investment Survey was designed by AFIRE and the James A. Graaskamp Center for Real Estate at the Wisconsin School of Business.

To maintain comparability with past results, the survey included core questions from prior surveys. The survey was also updated to include questions addressing current interests of the AFIRE Membership. In particular this year, questions were redesigned to address current economic and real estate market trends.

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. Overall, AFIRE member firms have an estimated $2 trillion or more in real estate assets under management globally.

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 was comprised of questions addressing real estate portfolio market values, investment allocations and capital flows. This section was aimed primarily at the AFIRE Institutional Membership.

The overall response rate for the 2016 Foreign Investment Survey is 32 percent, which corresponds to 55 of the 170 potential respondents; 42 percent of the 97 Institutional Members and 19 percent of the 73 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 appropriate, results from earlier Annual Member Surveys are shown for comparison purposes.

AFIRE and the James A. Graaskamp Center for Real Estate at the Wisconsin School of Business would like to thank the 55 member firms who responded to the 2016 survey. For more information regarding any data presented in this report, please contact Lexie Miller, AFIRE Managing Director, or Joe Walsh, Wisconsin School of Business. Contact information is provided at the end of the report.

Section 1. AFIRE Members' Opinions

The first section of the survey asks all AFIRE members for their opinion on a number of issues that relate to global real estate investment. This section provides unique insights into the worldview of both foreign investors active in the USA and their USA advisors.

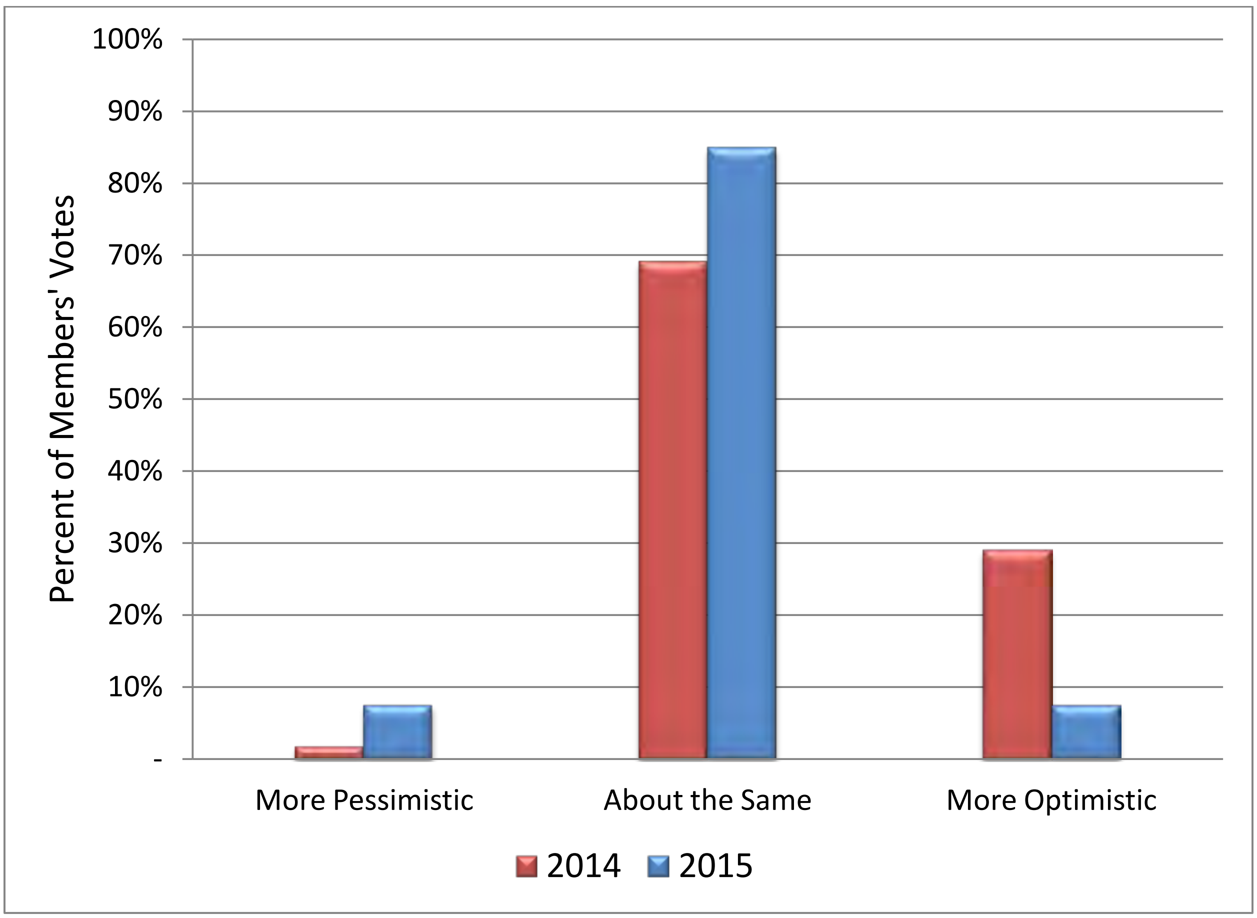
1.1. Current Views on the Real Estate Industry

Members were asked several questions regarding current key issues in the real estate industry and expectations for the future.

Changes in Overall Perspective on the USA Real Estate Market

The optimistic outlook that prevailed the past several years has ended. When asked to rate how their perspective on the USA real estate market has changed since the beginning of 2015, 85 percent of members see the market about the same with the remainder evenly split between being more pessimistic or more optimistic.

Exhibit 1. Changes in perspective on USA real estate markets – graph.



Over the 3 prior years, of the 30 percent or more of members whose perspective had changed, the overwhelming majority were more optimistic. This year, the more optimistic view faded.

Events that Pose the Greatest Risk of Triggering a Downturn in the USA Investment Market

We asked members to rank the three events that pose the greatest risk of triggering a downturn in the USA investment market in 2016. We also asked them to assess the likelihood of each event occurring.

Exhibit 2. Events that pose the greatest risk of triggering a downturn.

Rank	Question	1st	2nd	3rd	Score	Unlikely <30%	Possible 30-70%	Expected >70%
1	Interest Rate Increases	29%	13%	20%	63	10.0%	47.5%	42.5%
2	USA Economic Slowdown	14%	25%	15%	52	46.3%	51.2%	2.4%
3	External Shock (war, disaster, calamity, etc)	20%	10%	17%	48	32.4%	59.5%	8.1%
4	China Economic Slowdown	10%	23%	15%	44	11.8%	52.9%	35.3%
5	Oversupply of Space	8%	10%	9%	26	48.3%	41.4%	10.3%
6	Decline in Rents and Occupancy Rates	6%	6%	7%	18	59.3%	37.0%	3.7%
7	Decline in Foreign Investment	8%	2%	0%	14	63.6%	31.8%	4.5%
8	Economic Slowdown in Other Regions	2%	4%	11%	12	12.5%	79.2%	8.3%
9	Decline in Domestic Investment	0%	4%	7%	7	78.3%	21.7%	0.0%
10	Currency Exchange Rate	2%	2%	0%	5	15.8%	68.4%	15.8%

The responses were scored with 3 points to the event ranked first, 2 points to the event ranked second, and 1 point to the event ranked third in each respondent's view.

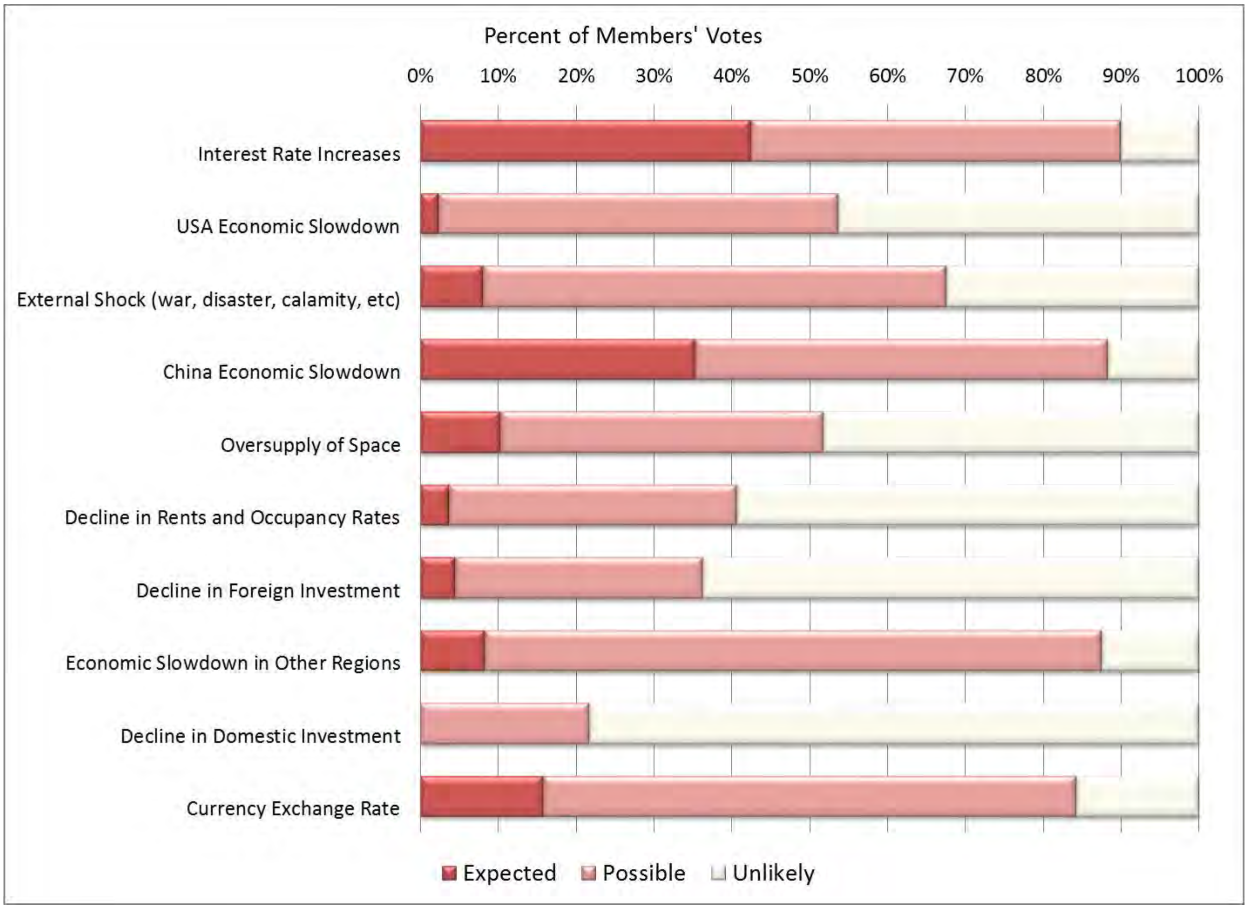
An increase in interest rates was identified as the event that posed the greatest risk of triggering a downturn. It was also considered the most likely of the events to occur.

Economic slowdown in the USA ranked second with economic slowdown in China ranking fourth.

An external shock, such as a war, disaster or calamity ranked third among the risks identified, but was not considered very likely to occur in 2016.

After these top four events, the scores dropped significantly.

Exhibit 3. Likelihood of events that pose the greatest risk of triggering a downturn – graph.



The risk ranking discussed above incorporates both the probability and the impact of an event. In addition to ranking the risks, we asked members to assess the likelihood of each of the events.

Interest rate increases is ranked as the greatest risk and also considered the most likely to occur. Ninety percent of respondents consider an interest rate increase to be possible or expected.

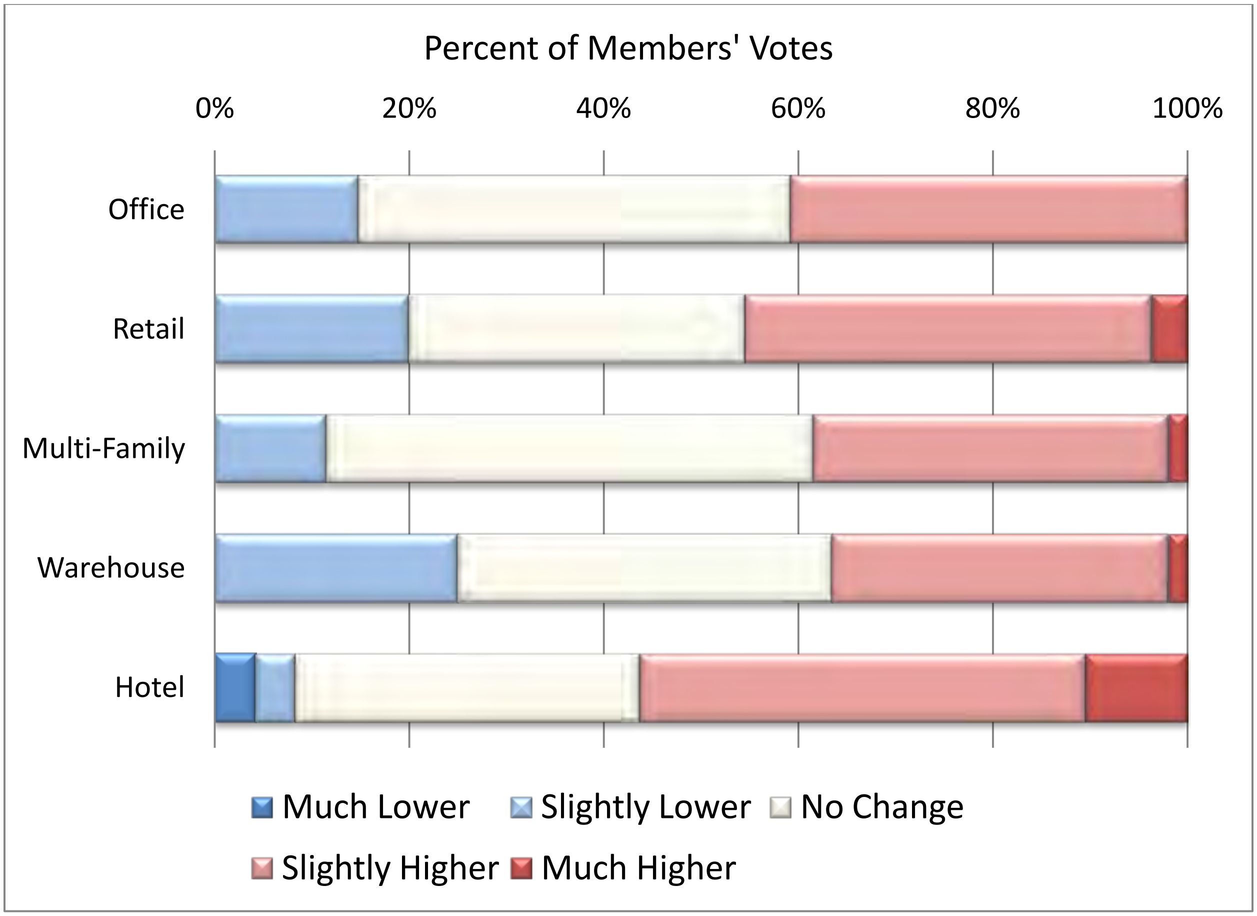
Although a USA economic slowdown or economic shock are considered the second and third greatest risks, respectively, very few members expect either event to occur, although over half consider it a 30 to 70 percent probability.

Economic slowdown in China is considered a much more realistic likelihood with just a slightly lower probability than an interest rate increase.

Expected Changes in Cap Rates by Year-end 2016

We asked members to look ahead to year-end 2016 and characterize their expectations regarding changes in cap rates from current levels for each of the major property types.

Exhibit 4. Expected changes in cap rates by year-end 2016 – graph.



- Members expect that, in 2016, cap rate compression will end and rates may even reverse slightly.
- Across property types, about 4 out of 5 members expect cap rates to remain unchanged or increase slightly in 2016.
- Very few members expect cap rates to be much higher by the end of 2016.
- Expectations have clearly shifted since last year, when a plurality of members expected no change and the remainder were evenly split between those expecting slight increases and slight decreases. This year, fewer members expect cap rates to remain the same or decline slightly with roughly 40 percent expecting cap rates to increase slightly in 2016.
- Hotel, retail and office show the largest increase in this sentiment, but the view on warehouse remains relatively neutral.

Exhibit 5. Expected changes in cap rates by year-end 2016.

Property Type	Much Lower	Slightly Lower	No Change	Slightly Higher	Much Higher
Office	0%	15%	44%	41%	0%
Retail	0%	20%	35%	42%	4%
Multifamily	0%	12%	50%	37%	2%
Warehouse	0%	25%	38%	35%	2%
Hotel	4%	4%	35%	46%	10%

Property Types That Will Be Most Affected by an Increase in Interest Rates

AFIRE members were asked to rank property types in order of those that would be most affected by an increase in interest rates.

Exhibit 6. Property types most affected by an increase in interest rates.

Property Type	Ranking	Mean Rating
Office	1	3.6
Retail	2	3.2
Multifamily	3	2.9
Hotel	4	2.6
Warehouse	5	2.5

Members viewed office property as quite clearly the property type that would be most affected by an increase in interest rates with 62 percent ranking it as the first or second most affected property type.

Warehouse and hotel were ranked as the property types least likely to be affected, with a majority of members ranking these properties either fourth or fifth.

Retail property was decidedly in the middle of the rankings with a plurality ranking it third and few ranking retail property as either the most or least likely to be affected.

Interestingly, members were split regarding the impact of interest rates on multifamily property. Members tended to view it as either highly likely to be affected or unlikely to be affected. These bifurcated viewpoints tended to offset each other, resulting in multifamily ranking in the middle even though very few members, only 8 percent, ranked it in the middle.

Greatest Risks and Greatest Opportunities for Investing in USA Real Estate

We asked members two open-ended questions, allowing them to express how they view the greatest risks and greatest opportunities for investment in 2016.

Exhibit 7. Greatest risks for investing in USA real estate in 2016 – graphic.

When asked, "what are the greatest risks for investing in USA real estate in 2016," several broad themes emerged, but, by far, the most common risk cited by members is concern over the current low cap rate, high value environment coupled with the prospect that increasing interest rates could result in cap rate expansion. Over half of the comments received touched on this basic theme. Some of the comments members used to characterize the situation are paraphrased as follows:

- Buying at low cap rate with short term capital. Rising rates will negatively impact future yields.
- Cap rate expansion.
- Going-in low purchase yields will not grow during the life of the investment if rent growth stalls.
- High values and low cap rates, interest rate increases, competition from foreign capital.
- Over valuation.
- Interest rate and cap rate increase.
- Overpaying for assets due to the extreme competition today.
- High prices of commercial and multifamily.
- Significant interest rates increase.

- Prices for core assets that continue to rise well above prior peak levels and well in excess of reproduction costs.
- Low cap rates in major markets are making it more compelling to build vs. buy.
- Potential bubbles in certain regional markets.
- High pricing level combined with historically low interest rates.

Other recurring themes cited as risks, including some paraphrased comments used to characterize them, include:

- Economic slowdown and weak demand growth
  - Economic slowdown (7 occurrences).
  - Sustaining job growth.
  - Over estimation of rental and economic growth.
  - Unrealistic expectations for rent and NOI growth that will disappoint in terms of exit pricing.
  - Reduced growth assumptions.
- Oversupply
  - Oversupply (8 occurrences).
  - Potential overbuilding of real estate product in certain locations.
  - Potential oversupply in certain markets.
- Demand changes
  - Retail impact of alternative buying technology.
  - Shift in occupier habits (creative office space, live, work, play environments, etc.).
- Currency fluctuation (3 occurrences)
- Government and political policy concerns
  - Dysfunctional US government, lack of funding to build/maintain infrastructure, low/declining public school systems.
  - Uncertainty/change due to presidential election.
  - Political gridlock seems to have no end and will likely have no end until November of next year.

Exhibit 8. Greatest opportunities for investing in USA real estate in 2016 – graphic.

When asked, "what are the greatest opportunities for investing in USA real estate in 2016," respondents had a wide range of ideas to share. We categorized the responses into five general topics and included some of the paraphrased comments members used to characterize the situation.

- Many members broadly cited the USA real estate market in general, with its economic growth, demographic growth and stability, as providing the greatest opportunity for investing.
  - While there are slight clouds on the horizon, the US economy seems to be fundamentally sound and speculative development has been in check.
  - Resiliency of US economy, demographic profile.
  - US position as safe haven when there are external shocks.
  - Relative safety of principal and positive yield relative to alternative global investment opportunities.
  - Stable, transparent and liquid market.
  - Stable, secure markets with promising returns; positive economic growth.
- Secondary markets in the USA were identified as having good opportunities.
  - Buying very well located and newish assets in secondary markets at or below replacement cost in most product types would be an opportunity.
  - Secondary markets can offer better value and higher yields.
  - CBD office in secondary markets, hospitality and suburban office.

- Secondary markets.
- Growing third-tier markets.
- Undersupply in some specific, secondary markets.

- Property specific and niche opportunities exist across asset types and geographies in certain sectors or locations.
    - CBD office in secondary markets, hospitality and suburban office.
    - Infill industrial and urban retail.
    - Rising rates for multifamily which will correlate to raising rents.
    - Continued expansion of retail, specifically in urban locations.
    - Self-storage and hotels.
    - Industrial real estate supported by strong industrial market fundamentals, limited new supply and favorable demand drivers.
    - Industrial, office in tech markets.
    - Multifamily in prime urban centers New York, Washington DC and San Francisco.
- Value add and development opportunities, moving up the risk curve, is another frequently mentioned strategy.
    - Development will be better than buying above replacement cost. Development is easier in US than many other countries.
    - Lease to core/build to core strategies that offer attractive risk-adjusted returns relative to core.
    - Redevelopment and expansion of Class A assets.
    - Development of build-to-suit assets, and value investing in office, industrial, multifamily, and retail.
    - Second-tier city value add investments.
    - Value add in select secondary markets.
    - Shift in occupier habits (creative office space, live, work, play environments, etc.).
    - Development – build to core.
    - Repositioning/value add investments in A locations.
- Real estate debt investing, as well as other strategies in the capital markets, provide opportunities as well.
    - High yield, non-gateway market debt strategies including mezzanine, CMBS levered IO and participating loans.
    - Debt and junior debt.
    - Stretch first mortgages and mezzanine debt.
    - Capital stack restructuring and repositioning of assets.
    - Disconnects between public and private real estate.

1.2. The USA in the Global Real Estate Marketplace

The USA continues to be the country that AFIRE members view as having the most stable and secure investment markets. They also continue to view the USA as the country providing the best opportunity for capital appreciation.

Country Providing the Most Stable and Secure Real Estate Investments

The USA continues to rank first for countries providing the most stable and secure real estate investments with 60 percent of responses naming the USA. The USA continues to hold a large margin over the second ranked country, Germany.

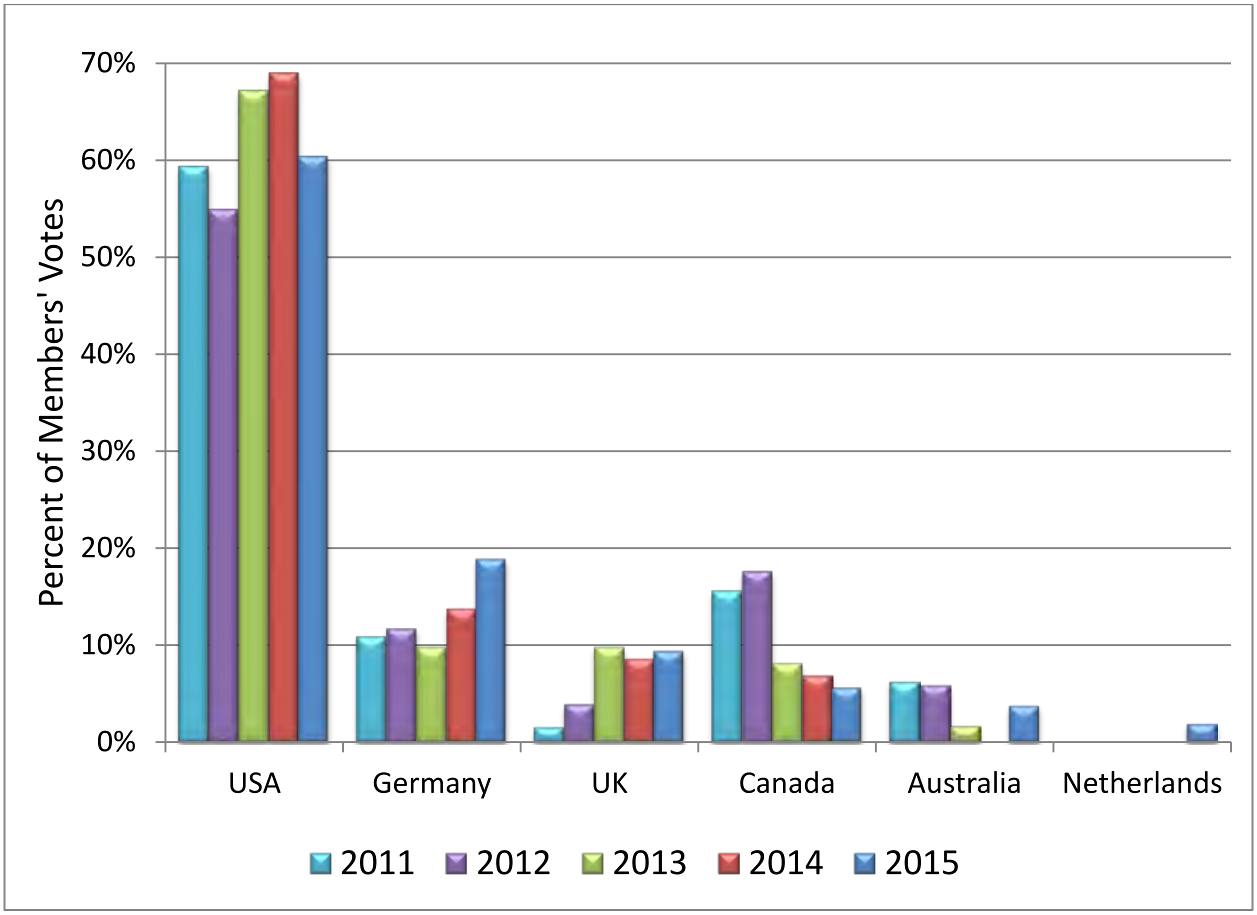
With UK and Canada filling out the top four, the ranking of the top four countries is unchanged from last year.

Australia and Netherlands received mention this year, but Switzerland did not.

Exhibit 9. Country providing the most stable and secure real estate investments.

Country	Ranking Trend	2015 Rank	2015 Percent	2014 Rank	2014 Percent	2013 Rank	2013 Percent	2012 Rank	2012 Percent
USA	●	1	60%	1	69%	1	67%	1	55%
Germany	●	2	19%	2	14%	2	10%	3	12%
UK	●	3	9%	3	9%	2	10%	5	4%
Canada	●	4	6%	4	7%	4	8%	2	18%
Australia	↑	5	4%	-	-	-	2%	4	6%
Netherlands	↑	6	2%	-	-	-	-	-	-
Switzerland	↓	7	-	5	2%	5	2%	-	-
Sweden	↑	7	-	-	-	-	2%	5	4%
Denmark	↑	7	-	-	-	-	-	7	2%

Exhibit 10. Country providing the most stable and secure real estate investments – graph.



The USA has garnered 60 percent or more of the vote for the past 3 years. Although still a distant second, Germany continues to strengthen its hold on second place while Canada continues to slowly decline in the scoring.

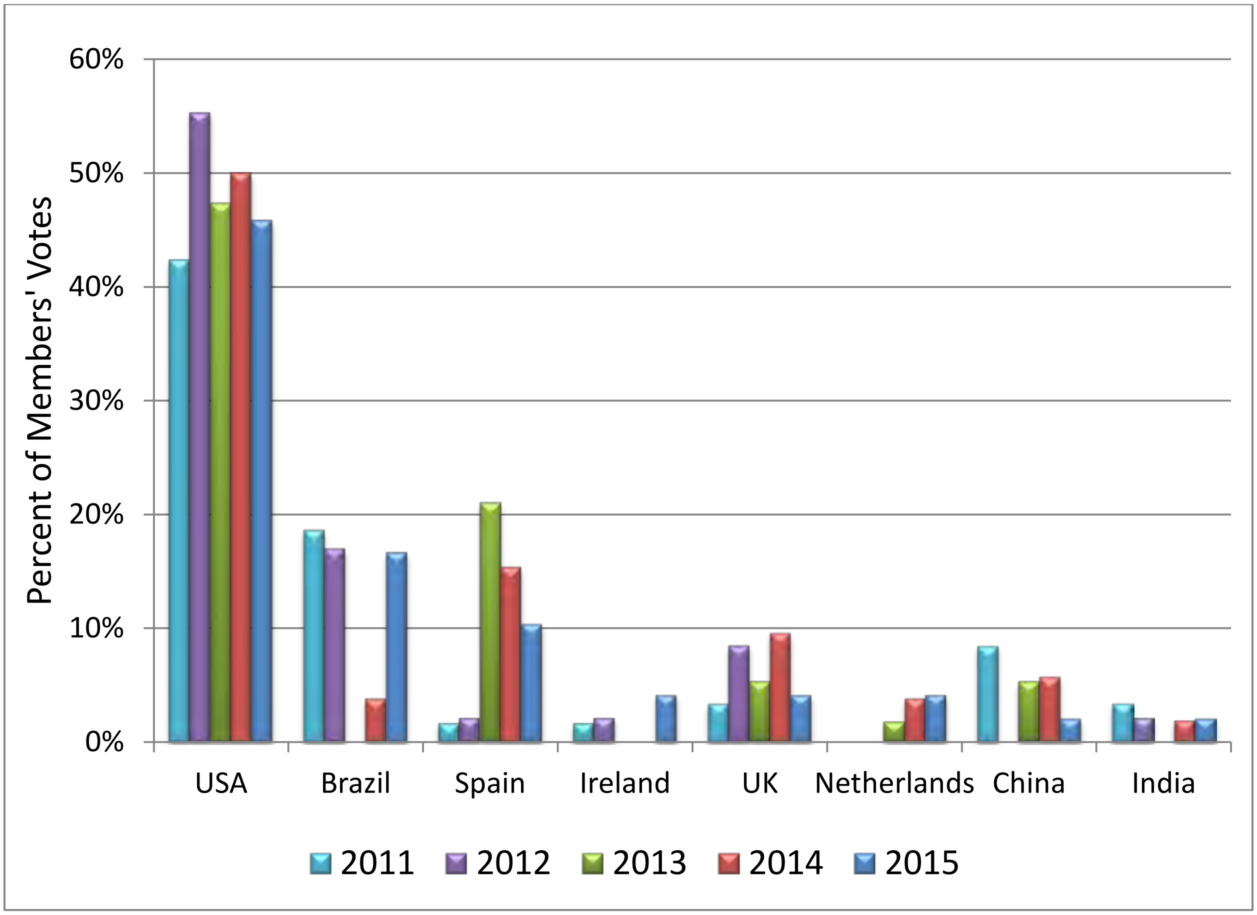
Country Providing the Best Opportunity for Capital Appreciation

The USA continues to rank first as the country providing the best opportunity for capital appreciation by a significant margin, although the margin narrowed slightly from last year.

Exhibit 11. Country providing the best opportunity for capital appreciation.

Country	Ranking Trend	2015 Rank	2015 Percent	2014 Rank	2014 Percent	2013 Rank	2013 Percent	2012 Rank	2012 Percent
USA	●	1	46%	1	50%	1	47%	1	55%
Brazil	↑	2	17%	5	4%	-	-	2	17%
Spain	↓	3	10%	2	15%	2	21%	5	2%
Ireland	↑	4	4%	-	-	-	-	5	2%
UK	↓	4	4%	3	10%	3	5%	3	9%
Netherlands	↑	4	4%	5	4%	7	2%	-	-
China	↓	7	2%	4	6%	3	5%	-	-
India	↑	7	2%	8	2%	-	-	5	2%
Germany	↑	7	2%	-	-	7	2%	-	-
Peru	↑	7	2%	-	-	-	-	-	-
Poland	↑	7	2%	-	-	-	-	-	-
Singapore	↑	7	2%	-	-	-	-	-	-
Russia	↑	7	2%	-	-	-	-	-	-
Mexico	↓	-	-	5	4%	5	4%	5	2%
Japan	↓	-	-	8	2%	7	2%	-	-
Turkey	↓	-	-	8	2%	-	-	4	4%
Italy	↓	-	-	8	2%	-	-	-	-

Exhibit 12. Country providing the best opportunity for capital appreciation – graph.



The USA received 46 percent of member's votes, which is a bit below the average score over the past 5 years.

Brazil moved up dramatically to second place from fifth place last year and being unranked in 2013.

Spain dropped down one place with scores that have continued to decline the past 3 years.

Ireland returned to the ranking at fourth place after receiving no votes the past two years.

UK, Netherlands, China and India continue to be mentioned in the results.

Germany, Peru, Poland, Singapore and Russia received votes this year after receiving no votes last year.

Mexico, Japan, Turkey and Italy dropped out of the rankings this year.

Ranking of Global Cities for Real Estate Investment

New York held its first place ranking for the second year, remaining ahead of second ranked London.

Los Angeles bounced back after its decline last year, moving up from tenth to third on the list, displacing San Francisco, which fell to fifth place.

Berlin moved up from seventh to fourth, leading the way of several European cities that show a growing interest among investors, including Paris at fifth place and Amsterdam in ninth.

Tokyo at seventh, and Sydney tied for ninth, round out the top ten, although each dropped from last year's rankings.

Houston experienced the greatest decline, falling from sixth place to 27th place, barely earning a mention in the results.

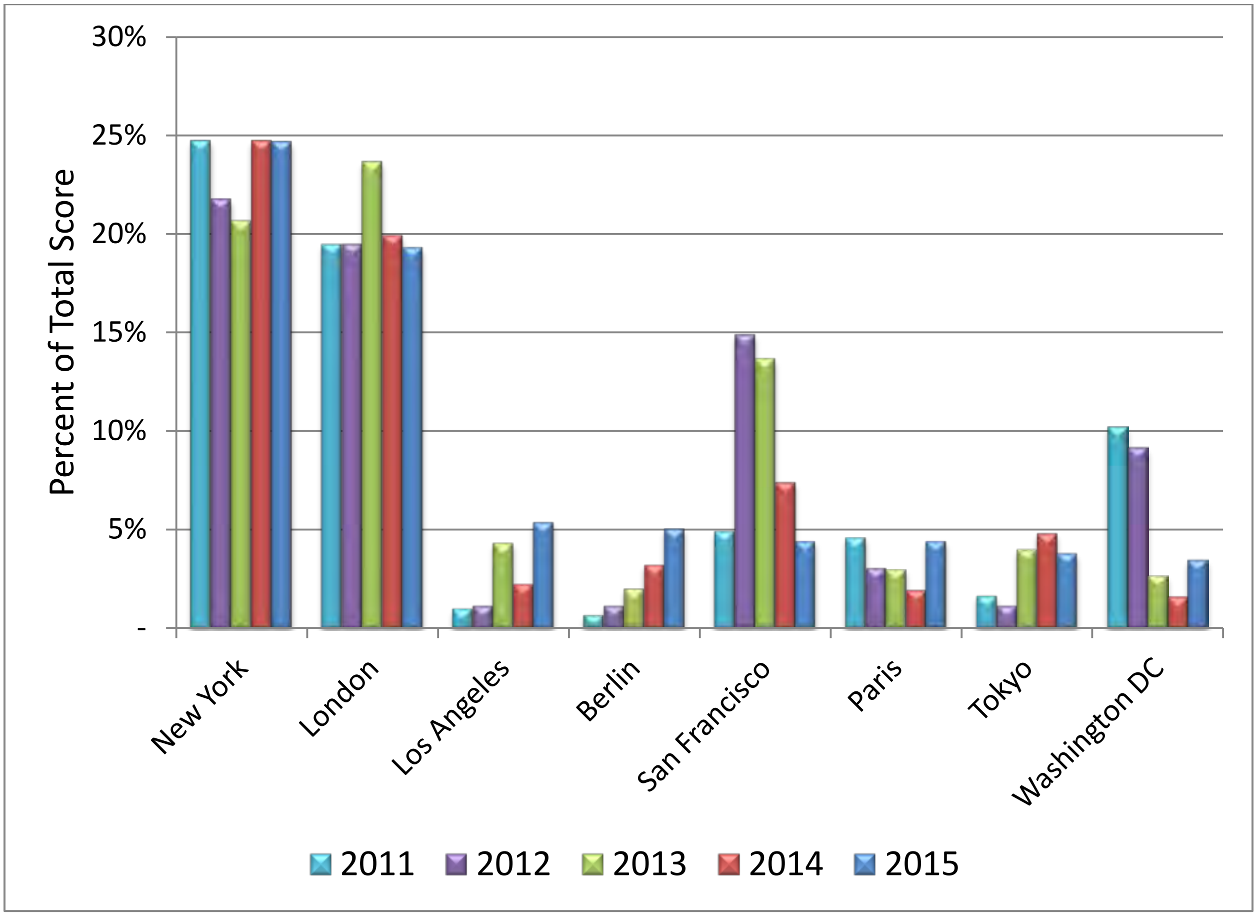
The thirty-eight cities receiving mention are the most since before the financial crisis, suggesting a continued broadening of the geographic focus of members.

Exhibit 13. Ranking of global cities for real estate investment.

Rank	City	Ranking Trend	2015 Rank	2015 Score	2014 Rank	2014 Score	2013 Rank	2013 Score	2012 Rank
1	New York	●	1	78	1	77	2	62	1
2	London	●	2	61	2	62	1	71	2
3	Los Angeles	↑	3	17	10	7	4	13	14
4	Berlin	↑	4	16	7	10	11	6	14
5	San Francisco	↓	5	14	3	23	3	41	3
5	Paris	↑	5	14	14	6	9	9	6
7	Tokyo	↓	7	12	4	15	6	12	14
8	Washington DC	↑	8	11	15	5	10	8	4
9	Sydney	↓	9	10	8	9	11	6	6
9	Amsterdam	↑	9	10	0	0	0	0	0
11	Madrid	↓	11	8	5	13	6	12	25
12	Munich	↓	12	7	10	7	8	11	8
13	Sao Paulo	↑	13	5	0	0	26	0	11
13	Atlanta	↑	13	5	29	1	19	2	25
15	Mexico City	↓	15	4	10	7	19	2	31
15	Dallas	↑	15	4	23	2	26	0	19
17	Shanghai	↓	17	3	9	8	11	6	12
17	Istanbul	●	17	3	17	3	17	3	19
17	Frankfurt	↑	17	3	0	0	26	0	12
17	Dublin	↑	17	3	0	0	26	0	31
17	Austin	↑	17	3	0	0	0	0	0
17	Barcelona	↑	17	3	0	0	0	0	0
17	Hong Kong	●	17	3	17	3	14	5	19
17	Lisbon	↑	17	3	0	0	0	0	0
25	Seoul	↑	25	2	0	0	26	0	31
25	Copenhagen	↑	25	2	0	0	0	0	0
27	Houston	↓	27	1	6	12	4	13	5
27	Miami	↓	27	1	17	3	15	4	25
27	Singapore	↓	27	1	15	5	19	2	14
27	Seattle	↓	27	1	23	2	23	1	31
27	Toronto	↑	27	1	0	0	15	4	14
27	Boston	↑	27	1	0	0	17	3	9
27	Calgary	↑	27	1	0	0	26	0	31
27	Chicago	↑	27	1	0	0	26	0	31
39	Denver	↑	39	0	0	0	0	0	0
27	Luxembourg	↑	27	1	0	0	0	0	0
27	Lima	↑	27	1	0	0	0	0	0
27	Dubai	↑	27	1	0	0	0	0	0
27	Oakland	↑	27	1	0	0	0	0	0

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

Exhibit 14. Ranking of global cities for real estate investment – graph.



1.3. Focus on the USA

Ranking of USA Cities for Real Estate Investment

New York continues to reign as the preferred USA city for real estate investment.

A sharp increase in interest in Los Angeles combined with a decline in interest in San Francisco resulted in Los Angeles moving up two positions to second with San Francisco sliding down to fourth.

Houston had the most significant decline in investor interest, sliding from third to eleventh place.

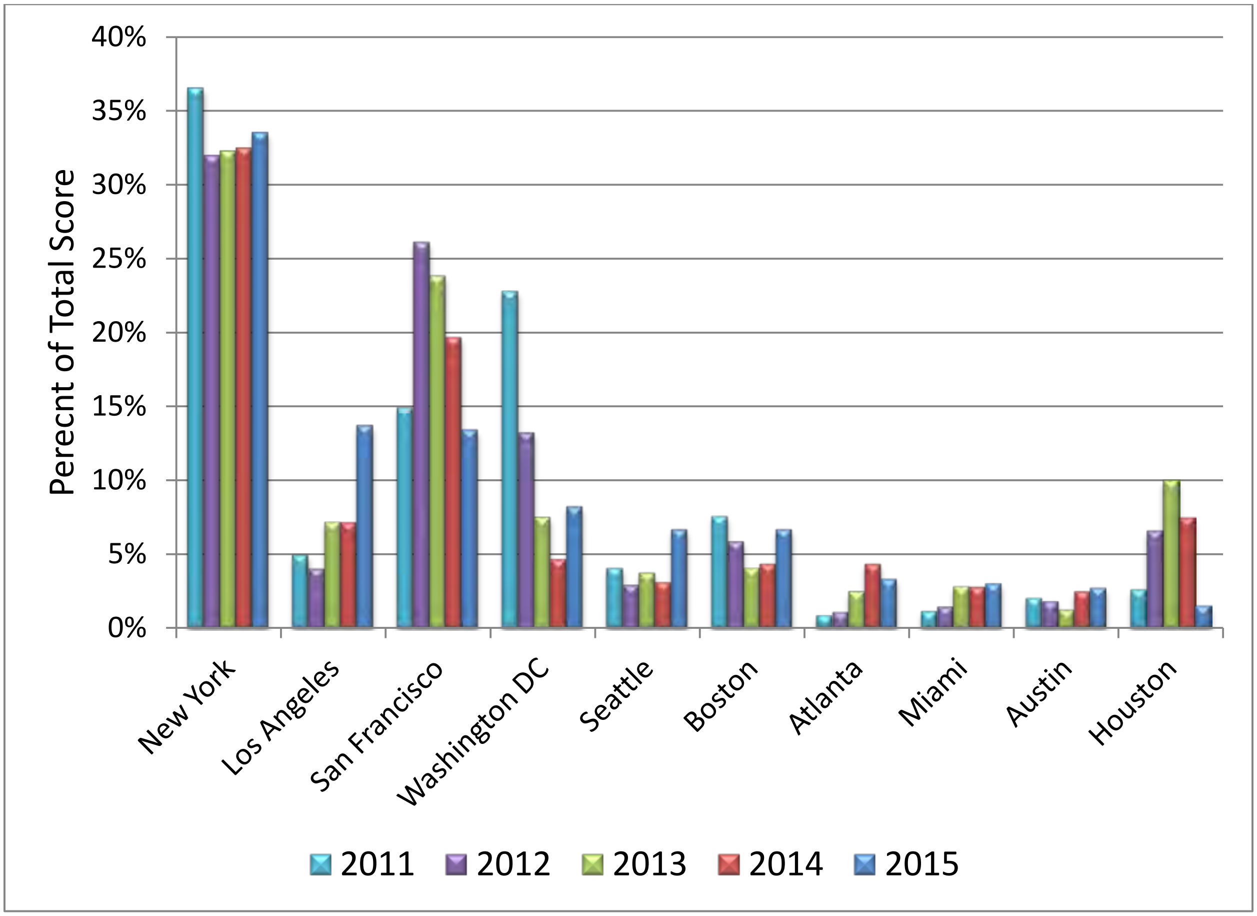
Washington, Seattle, Boston and Atlanta fill out fourth through seventh place, respectively.

Exhibit 15. Ranking of USA cities for real estate investment.

Rank	City	Ranking Trend	2015	2015	2014	2014	2013	2013	2012	2012
			Rank	Score	Rank	Score	Rank	Score	Rank	Score
1	New York	●	1	110	1	104	1	103	1	87
2	Los Angeles	↑	2	45	4	23	5	23	6	11
3	San Francisco	↓	3	44	2	63	2	76	2	71
4	Washington DC	↑	4	27	5	15	4	24	3	36
5	Seattle	↑	5	22	8	10	7	12	7	8
5	Boston	↑	5	22	6	14	6	13	5	16
7	Atlanta	↓	7	11	6	14	9	8	12	3
8	Miami	↑	8	10	10	9	8	9	10	4
9	Austin	↑	9	9	12	8	11	4	9	5
10	Dallas	●	10	6	10	9	11	4	13	1
11	Chicago	↓	11	5	8	10	11	4	8	6
11	Houston	↓	11	5	3	24	3	32	4	18
13	Denver	●	13	4	13	6	10	6	10	4
14	Minneapolis	↑	14	2	15	4	-	-	-	-
14	Oakland	↑	14	2	-	-	-	-	-	-
14	Philadelphia	↑	14	2	16	3	-	-	-	-
17	Phoenix	↓	17	1	16	3			13	1
17	Raleigh	↑	17	1	-	-	-	-	-	-
-	San Diego	↑	-	-	20	1	15	1		

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

Exhibit 16. Ranking of USA cities for real estate investment – graph.



Ranking of USA Property Types

When members were asked to rate property types in terms of those that offer the most attractive direct and indirect investment opportunities in the USA, multifamily and industrial property tied for first place.

Except for a brief drop in 2013, multifamily property has consistently been the preferred property type over the past 5 years with industrial typically second.

Office and retail property are virtually tied as well for third and fourth place.

Hotel has consistently been the least favored property type in the survey.

Exhibit 17. Ranking of USA property types.

Property Type	Ranking Trend	Ranking					Mean Rating				
		2015	2014	2013	2012	2011	2015	2014	2013	2012	2011
Multifamily	●	1	1	4	1	1	3.45	3.63	3.34	3.9	3.9
Retail	↑	3	4	3	3	4	3.13	3.13	3.36	3.2	3.0
Hotel	●	5	5	5	5	5	2.02	2.16	2.26	2.0	2.5
Office	↓	4	3	2	4	3	3.09	3.19	3.38	3.0	3.0
Industrial	↑	1	2	1	2	2	3.45	3.61	3.46	3.2	3.0

The responses were scored with 5 points to each respondent's first choice, 4 points to second choice, and so on down to one point to the fifth choice.

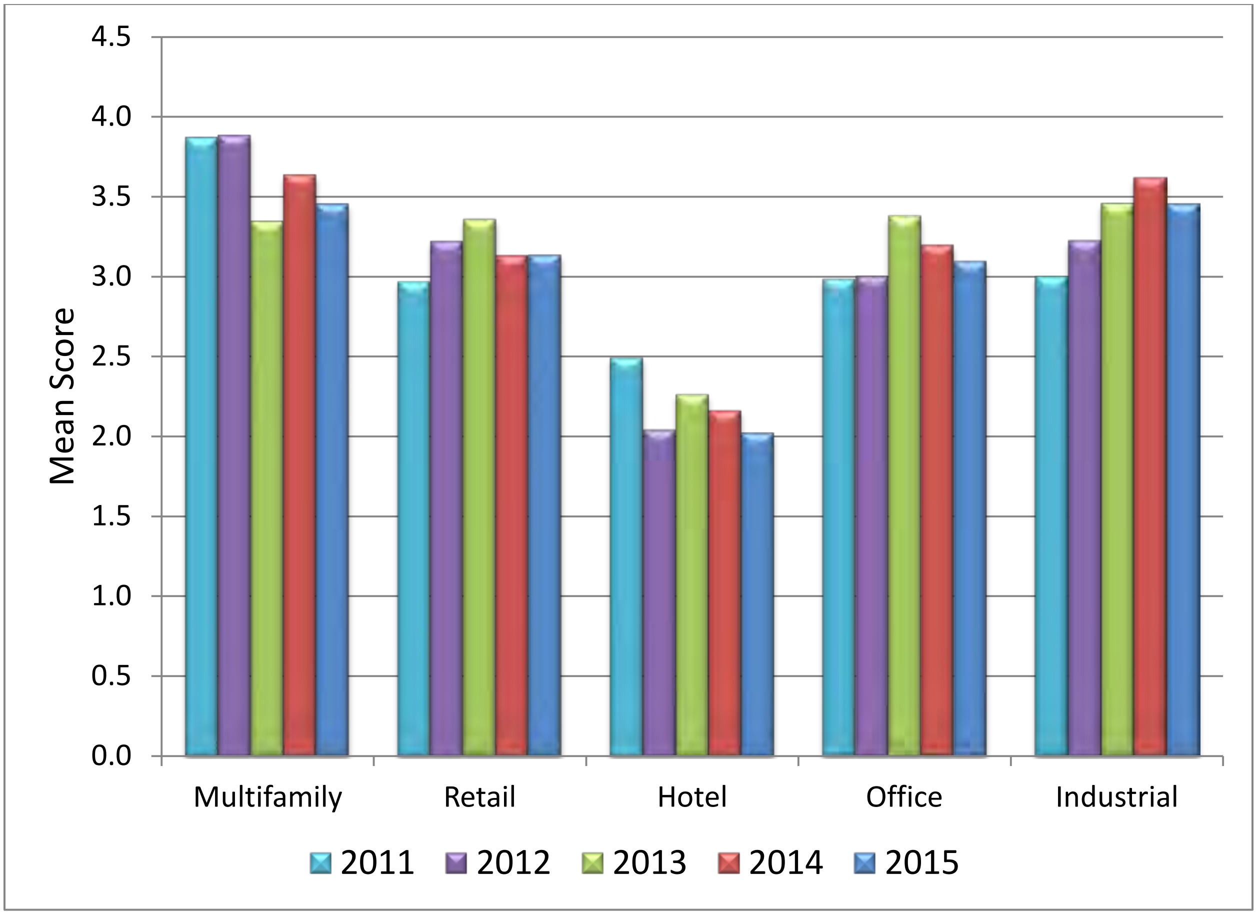
Exhibit 18. Ranking of USA property types, by year, 2011 – 2015 – graph.

The responses were scored with 5 points to each respondent's first choice, 4 points to second choice, and so on down to one point to the fifth choice.

The continual upward trend of industrial property in the survey has abated somewhat this year, although a modest decline in scores for multifamily has resulted in the tie for first place in the rankings.

Hotel declined slightly.

Exhibit 19. Ranking of USA property types, by property type, 2011 – 2015 – graph.



The responses were scored with 5 points to each respondent's first choice, 4 points to second choice, and so on down to one point to the fifth choice.

Difficulty of Finding Attractive USA Real Estate Investment Opportunities

AFIRE members were asked to rate the difficulty of finding attractive USA real estate investment opportunities.

Finding attractive investment opportunities has become significantly more difficult with over one-third reporting that it is very difficult to find attractive investments and 80 percent finding it somewhat or very difficult to find opportunities. Only two percent report that it is somewhat easy and none find it very easy to find opportunities.

Exhibit 20. Difficulty of finding attractive USA real estate investment opportunities.

Category	2015	2014	2014	2011
	Percent	Percent	Percent	Percent
Very Difficult	35%	25%	16%	22%
Somewhat Difficult	45%	50%	66%	37%
Neutral	18%	17%	16%	27%
Somewhat Easy	2%	7%	2%	14%
Very Easy	-	2%	-	-
Total	**100%**	**100%**	**100%**	**100%**

Section 2. AFIRE Members' Investments

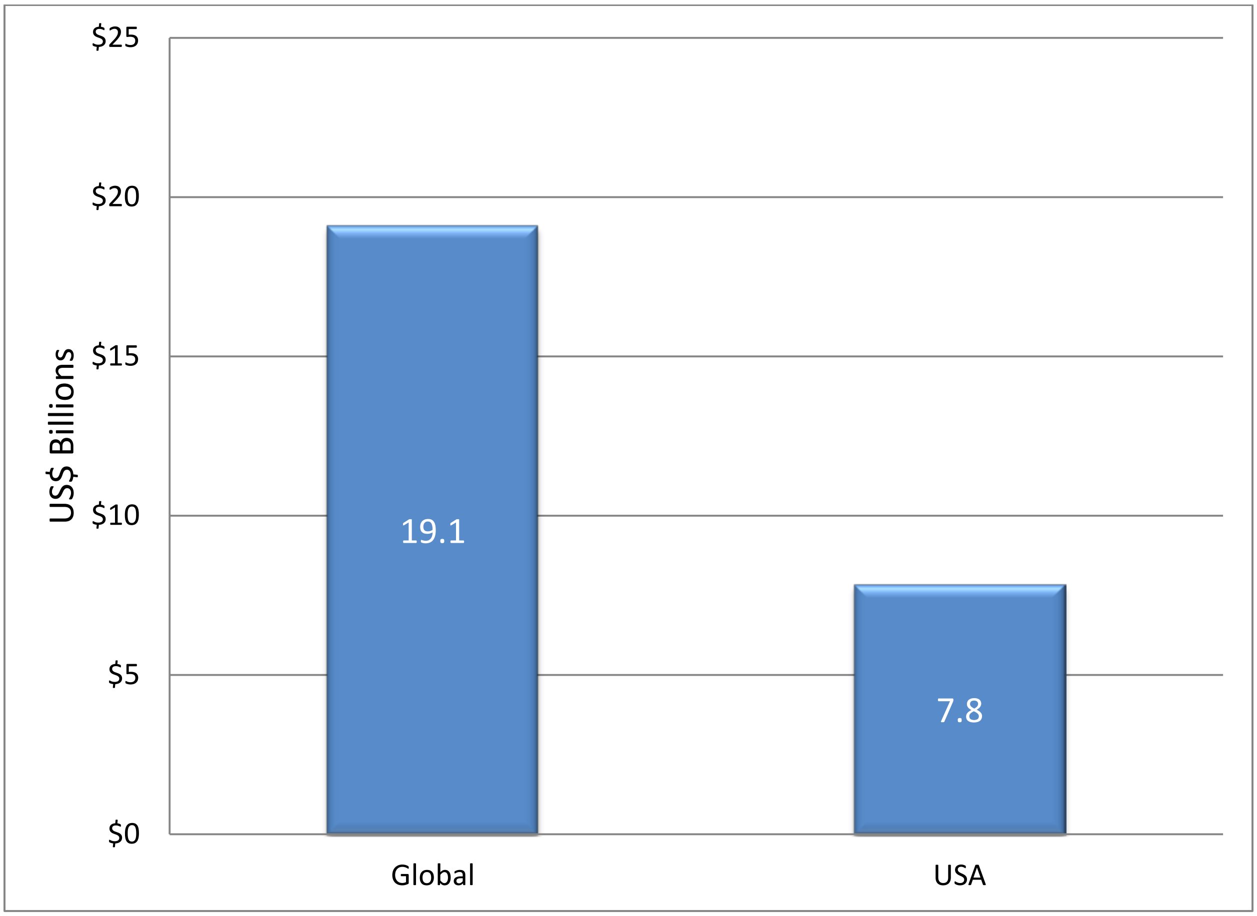
This section covers answers from 41 members whose firms invest capital in real estate through acquisition of equity positions or through lending.

2.1. Real Estate Portfolio

This subset of 41 AFIRE members holds a portfolio of real estate worth over $782 billion as of the fourth quarter of 2015, with about $321 billion invested in USA real estate. This represents an average global real estate portfolio of about $19.1 billion with about $7.8 billion invested in the USA per member.

About half of the respondents report global real estate portfolios valued at $10 billion or more, and USA real estate portfolios valued at $2 billion or more.

Exhibit 21. Mean real estate portfolio sizes – graph.



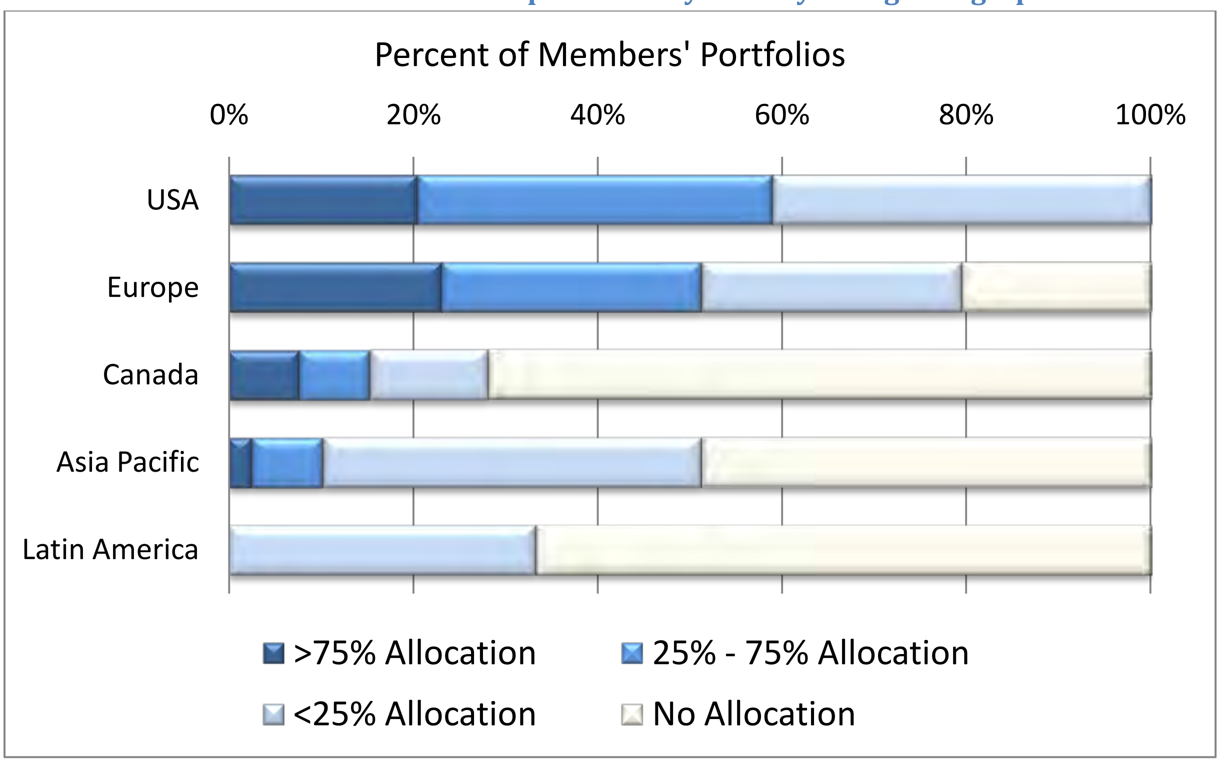
Real Estate Portfolio Geographic Distribution

As a measure of their current geographic portfolio distribution, members reported the percentage of their assets invested in the USA, Canada and other regions of the world.

Then, for each country or region, we tallied the number of portfolios having an asset allocation within various weight ranges. For example, 8 of the 39 portfolios reporting, or 20.5 percent, have more than 75 percent of their assets invested in the USA. A few useful insights emerge from the portfolio allocations that were reported.

- All members have assets in the USA, as would be expected, but member portfolios are fairly evenly divided among the various allocation ranges.
- Roughly two out of every five of the reporting portfolios have less than 25 percent of their assets in the USA. Most of these are predominantly (i.e., have more than 75 percent of their assets) invested in Europe or Canada.
- Just one-third of members have assets in Latin America, but none report having greater than 25 percent of their portfolios allocated to the region.
- About 21 percent of AFIRE members report have assets in Canada.
- Similarly, about 50 percent of AFIRE members reporting have assets in the Asia Pacific region, but the majority that do have only a small percentage of their assets in the region.

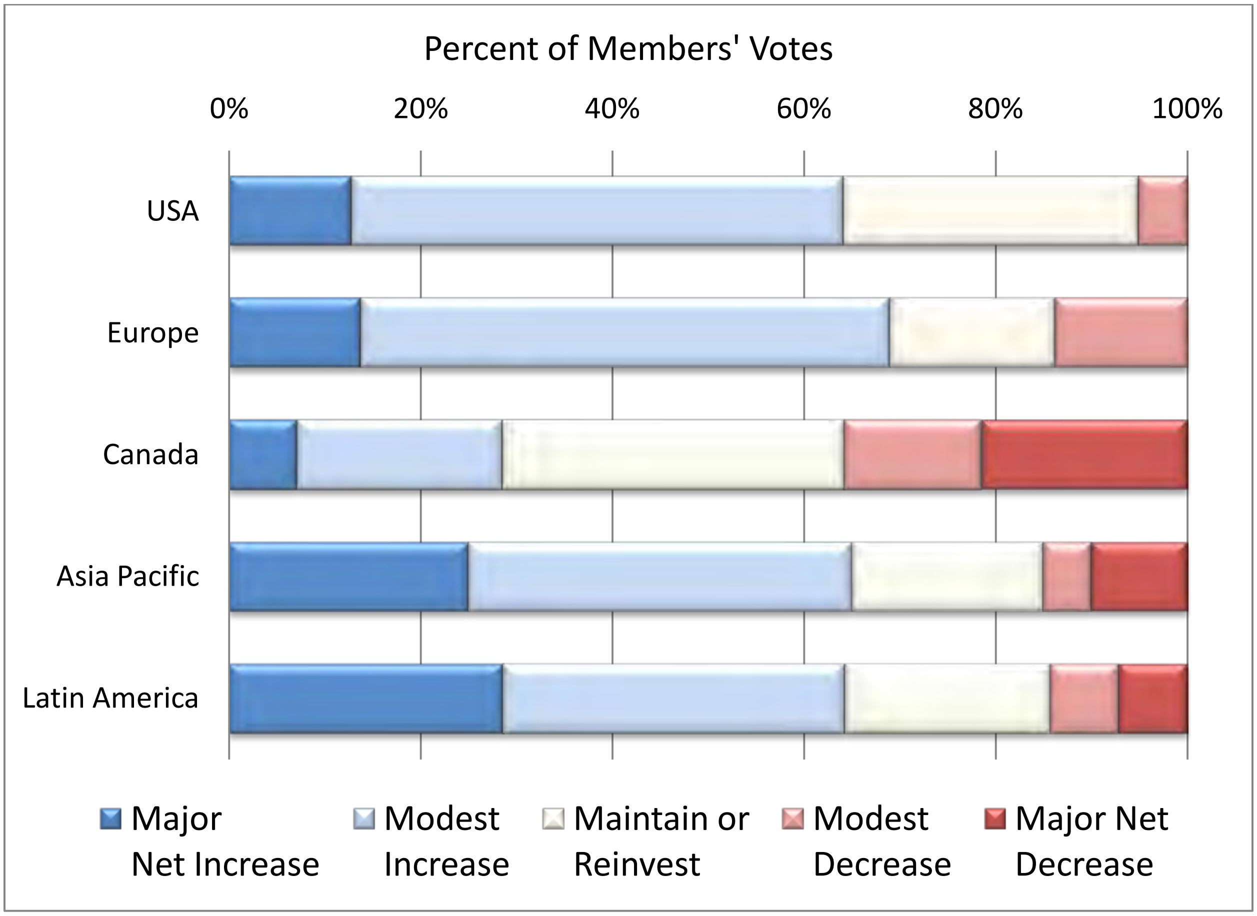
Exhibit 22. Allocation of portfolios by country or region – graph.



Planned Changes to Global Portfolio Allocations

We asked AFIRE members to characterize the planned changes to the size of their portfolios in each country or region for 2016. The following table summarizes the relative scale and direction of their planned portfolio moves.

Exhibit 23. Planned changes to the size of portfolios by country or region – graph.



Ninety-five percent of members plan to maintain or increase the size of their USA portfolio in 2016 with none planning a major decrease in allocation to USA real estate.

Around 85 percent of members plan to maintain, reinvest or increase their portfolios in Europe, Asia Pacific and Latin America.

In Canada, although two-thirds plan to maintain or increase their portfolios, one-third plan to decrease their Canadian portfolio sizes with 21 percent of members planning a major net decrease. This represents a significant change from last year when only 7 percent reported plans to decrease their Canada portfolio.

Exhibit 24. Planned changes to the size of portfolios by country or region.

Country/Region	Major Net Decrease	Modest Decrease	Maintain or Reinvest	Modest Increase	Major Net Increase
USA	0%	5%	31%	51%	13%
Europe	0%	14%	17%	55%	14%
Canada	21%	14%	36%	21%	7%
Asia Pacific	10%	5%	20%	40%	25%
Latin America	7%	7%	21%	36%	29%
Middle East	0%	0%	0%	0%	0%
Africa	0%	0%	0%	0%	0%

Real Estate Portfolio Investment Strategy or Style

We asked AFIRE members to provide their current allocation to various investment strategies. Specifically, members reported the percentage of their assets invested in core, value add, opportunistic, or in other strategies.

Then, for each investment strategy or style, we tallied the number of portfolios having an asset allocation within various weight ranges. For example, 16 of the 37 portfolios reporting, or 43 percent, have more than 75 percent of their assets invested in core assets. A few useful insights emerge from the portfolio allocations that were reported.

- Member portfolios continue to have a heavy focus on core investment strategy with 43 percent reporting a predominantly core strategy and 84 percent having at least 25 percent of their assets in core.
- Most portfolios have some value add component, but few portfolios are predominantly value add.

Exhibit 25. Allocation of portfolios by investment strategy or style – graph.

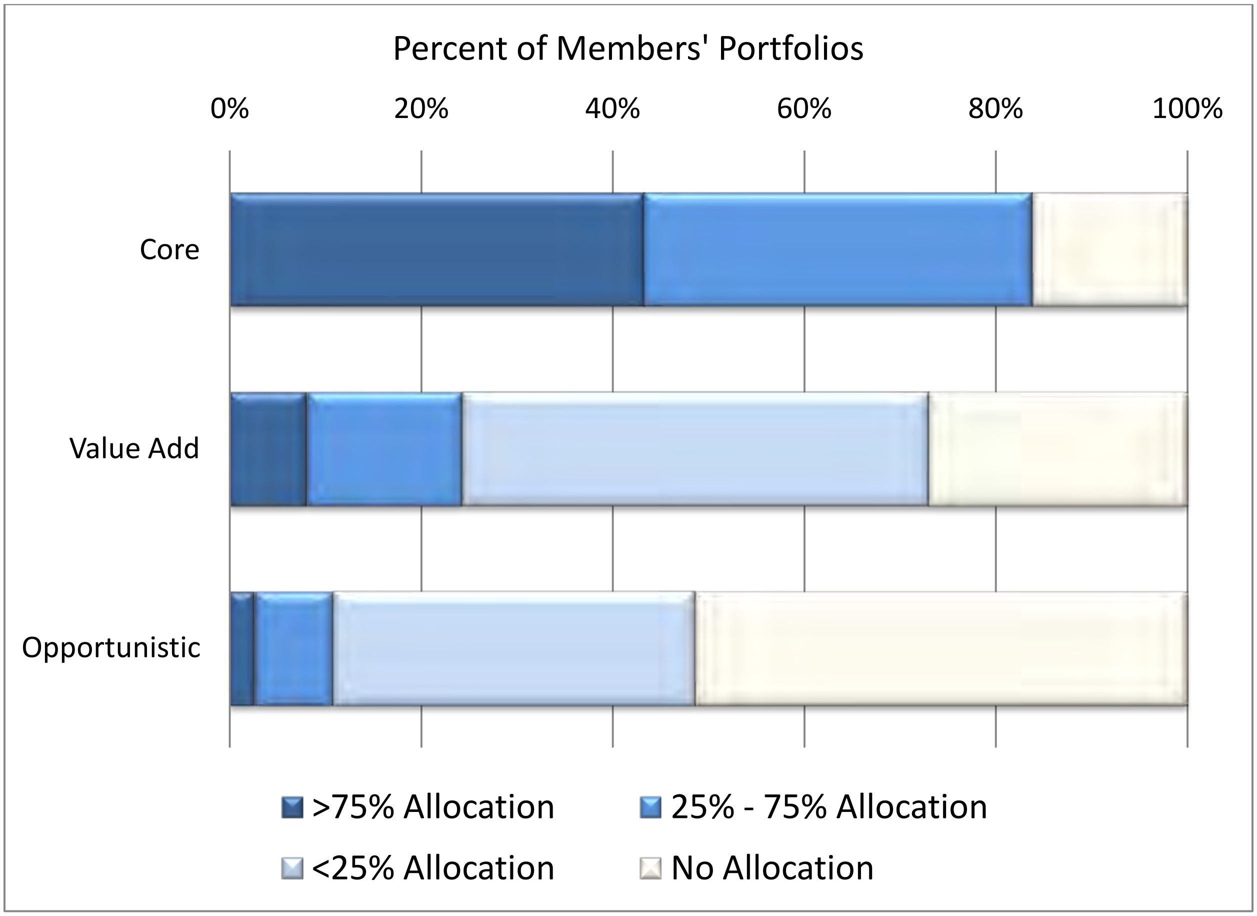


Exhibit 26. Allocation of portfolios by investment strategy or style.

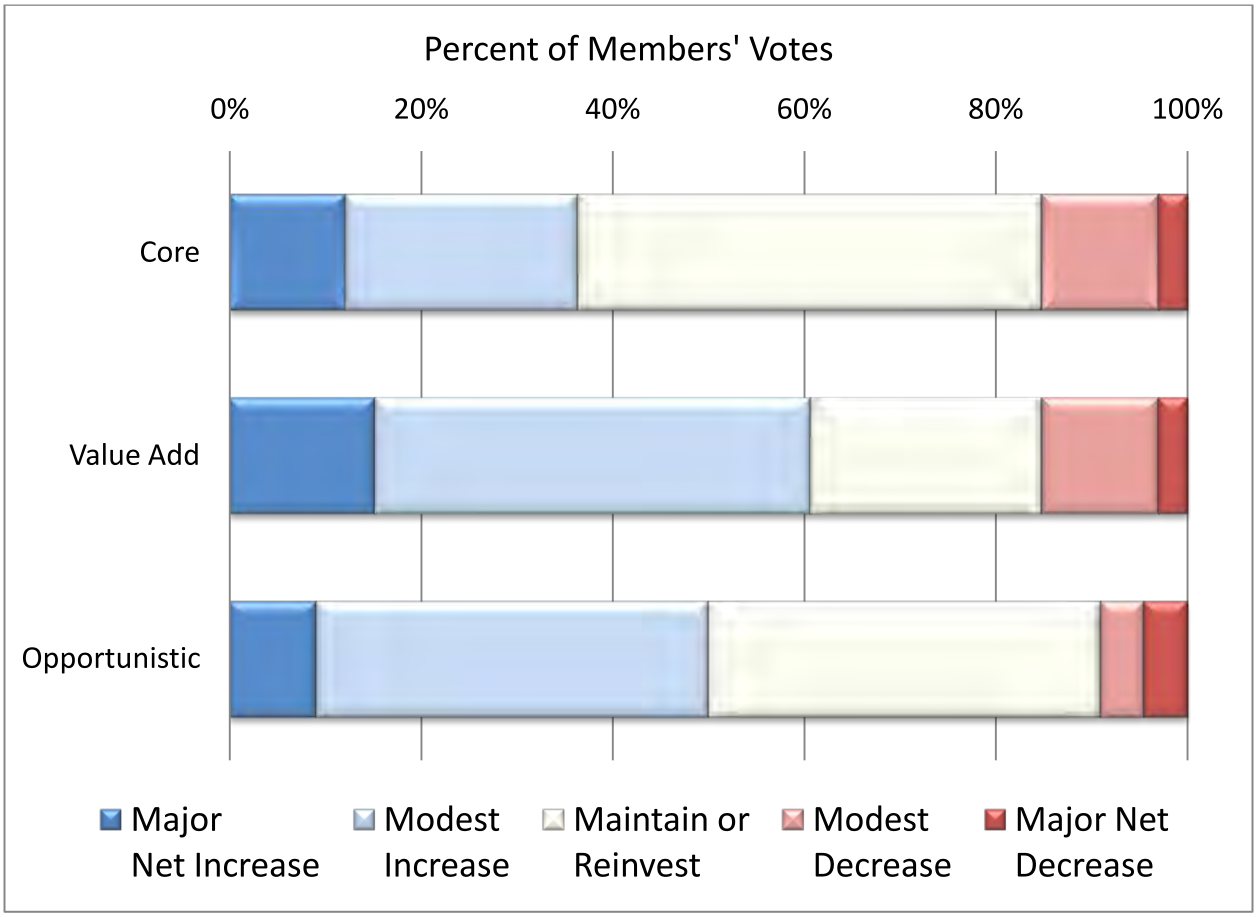
Investment Style	No Allocation	<25% Allocation	25% - 75% Allocation	>75% Allocation
Core	16%	0%	41%	43%
Value Add	27%	49%	16%	8%
Opportunistic	51%	38%	8%	3%

Planned Changes to Investment Strategy or Style

AFIRE members were asked to characterize planned changes to the mix of investments styles within their portfolios.

- Last year, more members planned to decrease their core mix than planned to increase it, which was a significant change from the prior year. That trend appears to have subsided with those planning to increase their core portfolios outnumbering those planning to decrease it by a ratio of over two to one.
- Plans to increase opportunistic allocations have declined modestly from last year.
- A majority of member report continued plans to increase their value add mix, similar to last year's results.

Exhibit 27. Planned changes to investment strategy or style – graph.



2.2. Real Estate Investments, 2015 – 2016

The 41 members who reported on their real estate portfolio holdings around the world provided information on their 2015 investments and plans for 2016. This section provides unique insights into their outlook for the global real estate markets.

Countries Targeted for Real Estate Investment in 2015

Members were asked to rank the top three countries in which their firm acquired or planned to acquire real estate in 2015, through lending or equity investments, in the order of the amount of funds invested.

The USA was the primary investment target country for about two-thirds of the members. The USA continues to dominate this ranking.

The top three in the rankings, USA, UK and Germany, maintained their position from last year and the same countries hold the top eight positions.

Several countries were cited that had not been shown in the rankings in recent years, including Peru, Colombia, South Korea and Luxembourg.

Exhibit 28. Ranking of countries for executed real estate acquisitions in 2015.

Country	2015 Acquisition		2014 Acquisition	
	Rank	Score	Rank	Score
USA	1	98	1	104
UK	2	42	2	26
Germany	3	20	3	19
Canada	4	13	5	9
France	5	11	4	12
Australia	6	5	7	6
China	6	5	8	5
Japan	6	5	6	7
Poland	6	5	14	2
Netherlands	10	4	12	3
Belgium	11	3	12	3
Peru	12	2		0
South Korea	12	2		0
Switzerland	12	2	14	2
Colombia	15	1		0
Finland	15	1	19	1
Italy	15	1	19	1
Luxembourg	0	0		0
Spain	15	1	9	4
Turkey	15	1	19	1
Brazil	0	0	14	2
EU Countries	0	0	9	4
Mexico	0	0	19	1
Sweden	0	0	19	1

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

Countries Targeted for Real Estate Investment in 2016

Members were also asked to rank up to three countries according to investment allocations for 2016. The USA is once again ranked as the number one country for planned real estate acquisitions by a sizable margin.

The UK, Germany, Canada, China, France and Japan ranked second through seventh, respectively, which was unchanged from last year's ranking.

Exhibit 29. Ranking of countries for planned real estate acquisitions in 2016.

Country	2016 Plans	
	Rank	Score
USA	1	104
UK	2	32
Germany	3	25
Canada	4	12
China	5	7
France	6	6
Japan	6	6
Australia	8	5
Netherlands	9	4
Turkey	10	3
Brazil	11	2
Luxembourg	11	2
Mexico	11	2
Peru	11	2
South America	11	2
Switzerland	11	2
Colombia	17	1
Eastern Europe	17	1
Italy	17	1
New Zealand	17	1

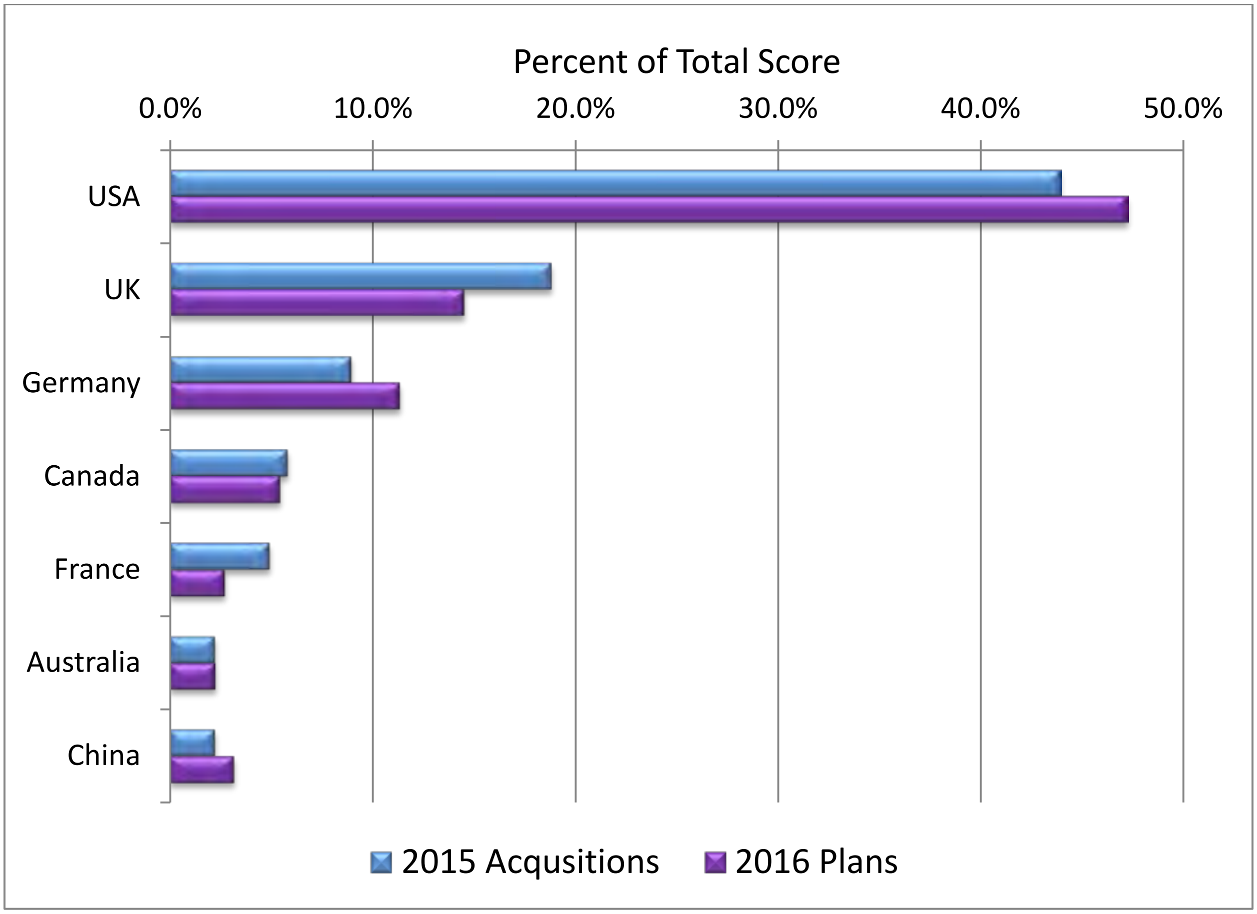
The responses were scored with 3 points to each respondent's first choice, 2 points to second choice, and 1 point for the third choice.

Countries Targeted for Real Estate Investment: Comparing 2015 and 2016

A comparison of the rankings for the years 2015 and 2016 provides a picture of the current investment trends. The USA remains the top destination for many AFIRE members.

The graph below reports the scores obtained by the top seven countries in Exhibit 28.

Exhibit 30. Ranking of countries targeted for real estate acquisitions, 2015 executions and 2016 plans – graph.



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

Emerging Markets Considered for Real Estate Investment in the Near Future

AFIRE members were asked to report up to six emerging markets they are considering for real estate investments going forward.

Brazil and China rank first and second, respectively, the same as last year, and they have been the top two countries for the past 5 years.

Five of the top seven countries are in Latin America.

India moved up one place from sixth to fifth this year.

Four peripheral European countries made the list: Spain, Turkey, Poland and Romania.

Vietnam and Africa were also mentioned in this year's survey for the first time.

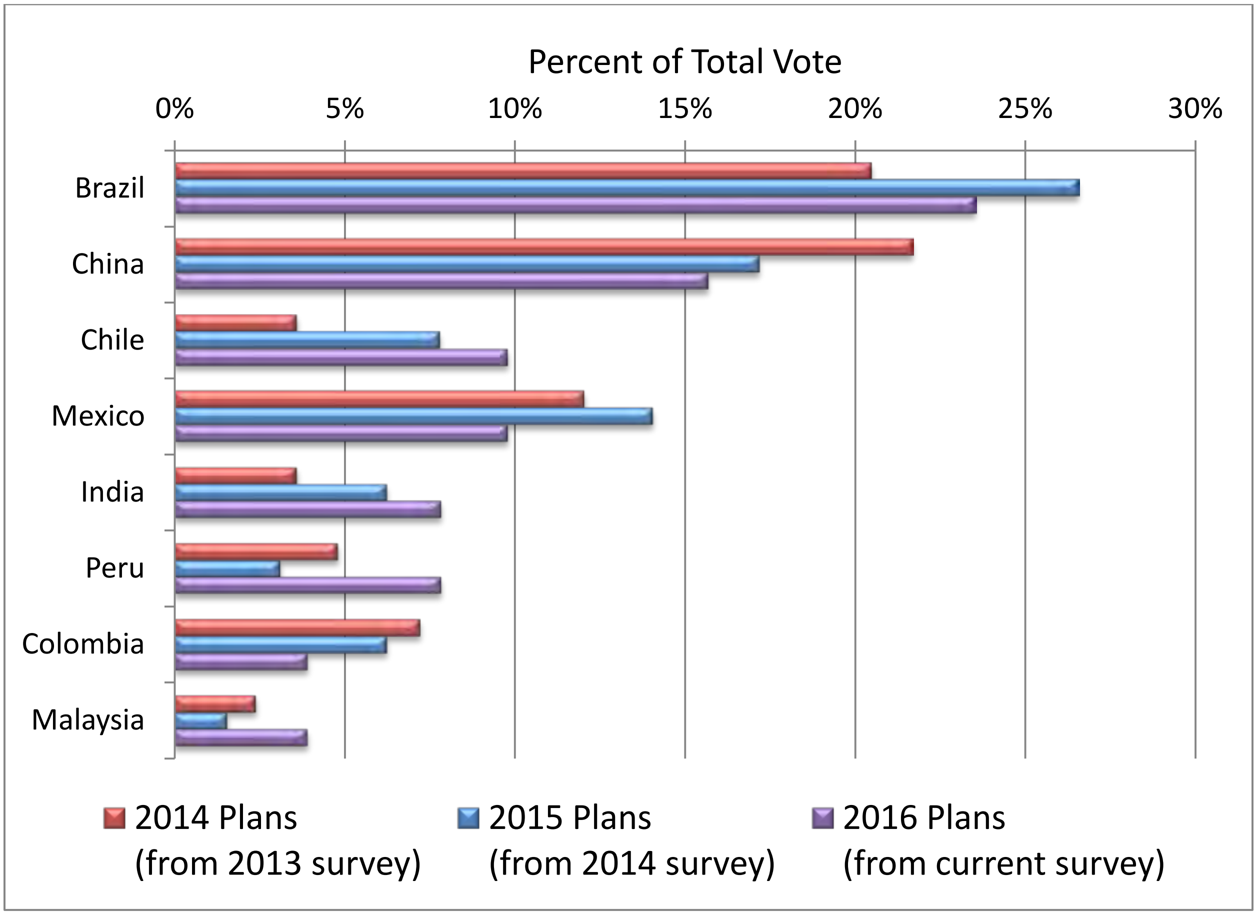
No Middle Eastern countries were cited.

Exhibit 31. Emerging markets considered for real estate investments in the near future.

Country	2016 Plans (from current survey)		2015 Plans (from 2014 survey)		2014 Plans (from 2013 survey)	
	Rank	Score	Rank	Score	Rank	Score
Brazil	1	12	1	17	2	17
China	2	8	2	11	1	18
Chile	3	5	4	5	6	3
Mexico	3	5	3	9	3	10
India	5	4	6	4	6	3
Peru	5	4	8	2	5	4
Colombia	7	2	6	4	4	6
Malaysia	7	2	11	1	11	2
Spain	7	2	0	0	0	0
Turkey	7	2	8	2	6	3
Africa	11	1				
Hong Kong	11	1	0	0	0	0
Poland	11	1	4	5	6	3
Romania	11	1	11	1	11	2
Vietnam	11	1				

The scores indicate how many members mentioned each country or region.

Exhibit 32. Emerging markets considered for real estate investments in the near future – graph.



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The **Wisconsin School of Business James A. Graaskamp Center for Real Estate** has a long history of real estate education, research and outreach, dating back a century to Professor Richard T. Ely, who led the development of the first truly rigorous academic real estate curriculum and who created the Center for Land and Public Utility Economics that was renamed the James A. Graaskamp Center for Real Estate in 2007 to honor one of our field's most inspirational teachers, innovative thinkers, and ethical forces. The Graaskamp Center fosters constructive links between faculty, students, alumni, the real estate professional community, and others involved in the real estate process. The Center administers Wisconsin's MBA program in Real Estate, and provides important support to the undergraduate program, as well as to our innovative Global Real Estate Master.

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For further information, please visit our website at http://bus.wisc.edu/centers/james-a-graaskamp-center-for-real-estate, or contact **Joe Walsh, joewalsh@bus.wisc.edu**.