Association of Foreign Investors in Real Estate

2015 Foreign Investment Survey

Prepared in collaboration with the

James A. Graaskamp Center for Real Estate

at the Wisconsin School of Business

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JAMES A. GRAASKAMP CENTER for REAL ESTATE

Highlights

The stable and secure markets for investment are well established, as are AFIRE members' preference for a foundation of core assets in the USA.

- 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.
- The ranking of the top five countries offering the most stable and secure investments, USA, Germany, UK, Canada and Switzerland, is unchanged from last year.
- New York moved significantly ahead of London as the top global city for investment, but the top three cities remained the same, with San Francisco at third. New York, San Francisco and Houston remain the top three USA cities for the second year.
- Washington DC has continued a downward slide in the ranking of USA cities from ranking first in the 2009 survey to fifth currently.
- Over 90 percent of members plan to maintain or increase the size of their USA portfolio in 2015. A small minority, 5 percent, plan a major net decrease to their USA portfolio.
- Member portfolios have a heavy focus on a core investment strategy with 43 percent reporting a predominantly core strategy and 86 percent having at least 25 percent of their assets in core.
- AFIRE members overall perspective of the market has not changed much in the past year with 69 percent responding that their outlook was about the same. Pessimism has all but disappeared from the responses.

AFIRE members' are looking across much broader geographic regions in search of new opportunities and becoming more interested in value add and opportunistic strategies.

- Within the USA, members identified 20 different cities for investment, up from 15 cities mentioned last year, with Charlotte, Minneapolis, Philadelphia, Phoenix, Silicon Valley and Nashville making the list.
- Globally, members identified 24 countries where they acquired or planned to acquire assets in 2014, up from 16 countries last year and 14 in 2012. The results are similar for planned acquisitions in 2015. This year, members identified 36 different cities globally for real estate investment, up from 25 cities ranked last year.
- More members are planning to decrease their portfolio mix in core assets and increase their mix in value add and opportunistic investments compared to last year.

AFIRE members anticipate an increase in interest rates in 2015 or 2016 at the latest, but expect cap rates to remain relatively stable.

- A majority of AFIRE members, 54 percent, expect the first increase in interest rates by the USA Fed to occur in 2015 with another 37 percent expecting the first increase in 2016. Less than 10 percent expect rates to remain unchanged until 2017 or later.
- However, investors generally expect cap rates to remain stable or change only slightly in 2015. In fact, over 40 percent of respondents anticipate slightly lower cap rates for office and warehouse properties at the end of 2015. Hotel and multifamily property were judged as having a greater risk of cap rate increases than other property types.

Demographic and technological changes pose risks and shape investors preferences within property types.

- Multifamily returned to the top position of preferred property types, followed by industrial, office and retail with hotel as the least favored asset type.
- Within property types, however, investors see dramatic differences in the risk of premature obsolescence due to demographics changes (such as the retirement of Baby Boom generation and growing influence of the Millennial generation) and technological changes.
- Nearly three-fourths of members consider midrise and high rise apartments to be at low risk, but for garden apartments, 58 percent see moderate to high risk of premature obsolescence.
- Ninety-five percent of members consider suburban office to have moderate to high risk of premature obsolescence, whereas 48 percent consider CBD office to be at low risk.
- For retail, 42 percent believe the risk of obsolescence is low for regional malls, but only 22 percent consider it low for strip retail centers. However, a significant minority, nearly one-fourth, view both regional malls and strip retail centers to be at high risk of premature obsolescence.

Internationally, investors are targeting a broader list of markets.

- The UK, Germany and Canada ranked second through fourth, unchanged from last year. China moved up to fifth from twelfth place last year.
- Several additional countries were cited that had not been shown in the rankings in prior years, including Portugal, Chile, Czech Republic, Finland, Italy and New Zealand.
- Ranking of emerging markets considered for acquisitions is well diversified geographically among countries from Latin America, Central and Eastern Europe, and Asia Pacific.
- Members see an opportunity investing into the recovery of the Iberian Peninsula. Spain ranks second among countries providing the best opportunity for capital appreciation with Madrid ranked fifth and Lisbon tenth among global cities for real estate investment. Portugal and Spain tied for ninth in the ranking for executed real estate acquisitions in 2013.
- Latin America also provides investment opportunities with half of the top ten emerging markets considered for acquisition from the region, led by Brazil, Mexico, Chile, Colombia and Peru. Brazil returned to the rankings of countries for capital appreciation, tying Mexico for fifth. Those members who actively invest in the region report stronger intentions to grow their Latin American portfolios than in prior surveys.

China's growing economic stature is expected to have a permanent influence on global real estate investment markets, both as a source of inbound capital and as an investment market.

- Two-thirds of AFIRE members anticipate that China will become the largest source of foreign investment capital into USA real estate. Ten percent think it could occur as soon as 2015.
- Seventy-two percent of respondents see China as a permanent source of high investment volumes into USA real estate. However, about one-third are skeptical that China will become the largest investor and consider the recent surge in investment to be a short-term surge.
- China ranks second among emerging markets considered for investment, fourth among countries with the best opportunity for capital appreciation and fifth among countries targeted for real estate acquisitions in 2015. Shanghai ranks ninth among global cities.

Contents

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Survey Methodology

The 2014 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 trends in economics, demographics and technology.

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 2013 Foreign Investment Survey is 40 percent, which corresponds to 62 of the 155 potential respondents; 51 percent of the 87 Institutional Members and 27 percent of the 68 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 62 member firms who responded to the 2015 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.

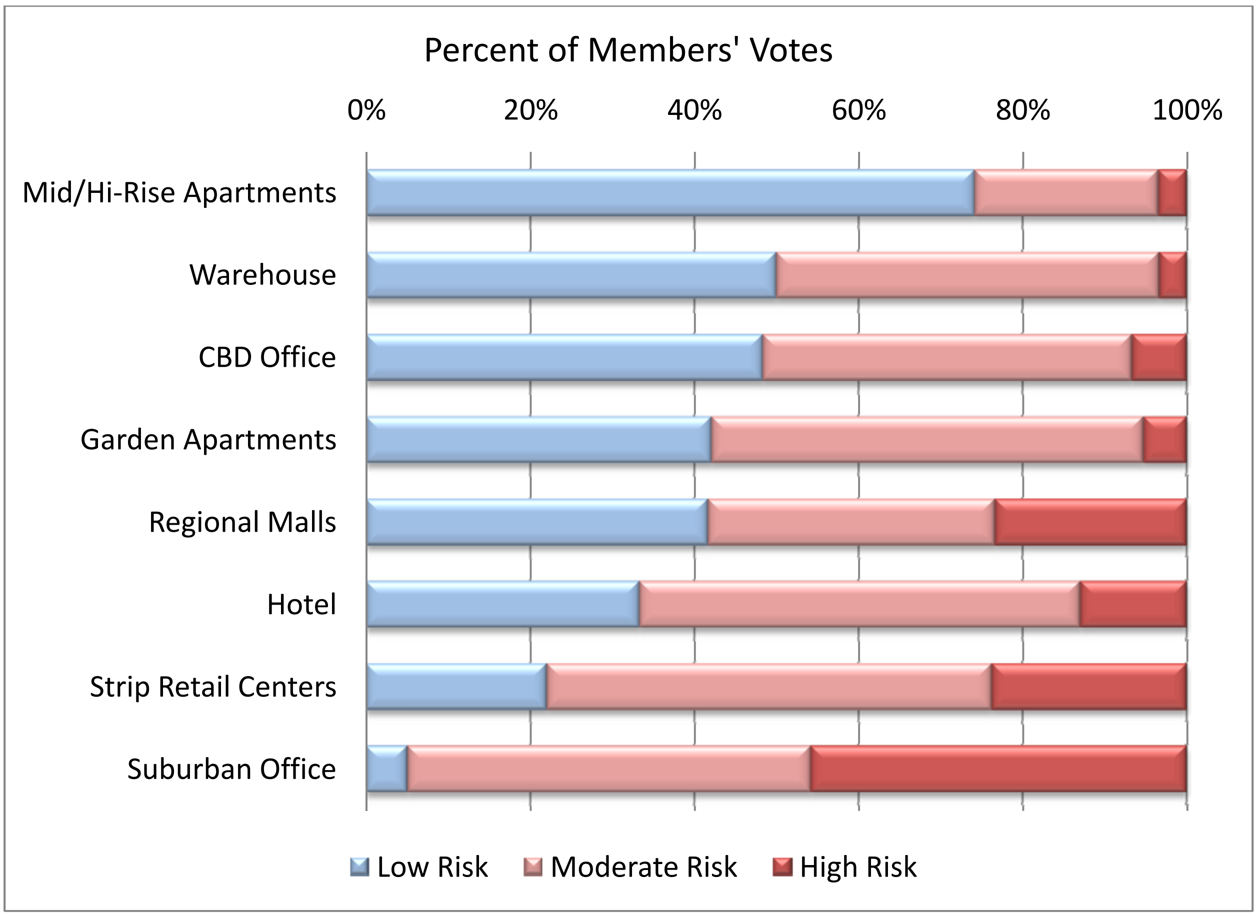
1.1. Current Views on the Real Estate Industry

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

Effect of Demographic and Technological Changes on Existing Real Estate Stock

AFIRE members were asked to consider how demographic changes (such as the retirement of the Baby Boom generation and the growing influence of the Millennial generation), along with ongoing technological changes in our economy, may drive changes in the total demand, optimum location and/or desired building characteristics for various asset classes. We asked them to characterize the risk of premature obsolescence for the existing stock of assets for each of the following property types.

Exhibit 1. Risk of premature obsolescence due to demographic and technological changes - graph.



An overwhelming majority, nearly 3 out of 4 of members, consider midrise and high rise apartments to have low risk of premature obsolescence.

Views are more divided for warehouse, CBD office, garden apartments and regional malls. About one-half consider warehouse or CBD office properties to have low risk. A majority considered garden apartments and regional malls to have moderate to high risk with 23 percent considering regional malls as having high risk.

Strip retail centers are also viewed to be at considerable risk of premature obsolescence with 78 percent considering the risk moderate to high.

Suburban office properties are clearly considered at most risk for obsolescence. All but 5 percent of members consider suburban office properties to have moderate to high risk of obsolescence with 46 percent considering suburban office having a high risk of obsolescence.

Several members pointed out that the level of risk is very dependent upon specific property location and physical characteristics.

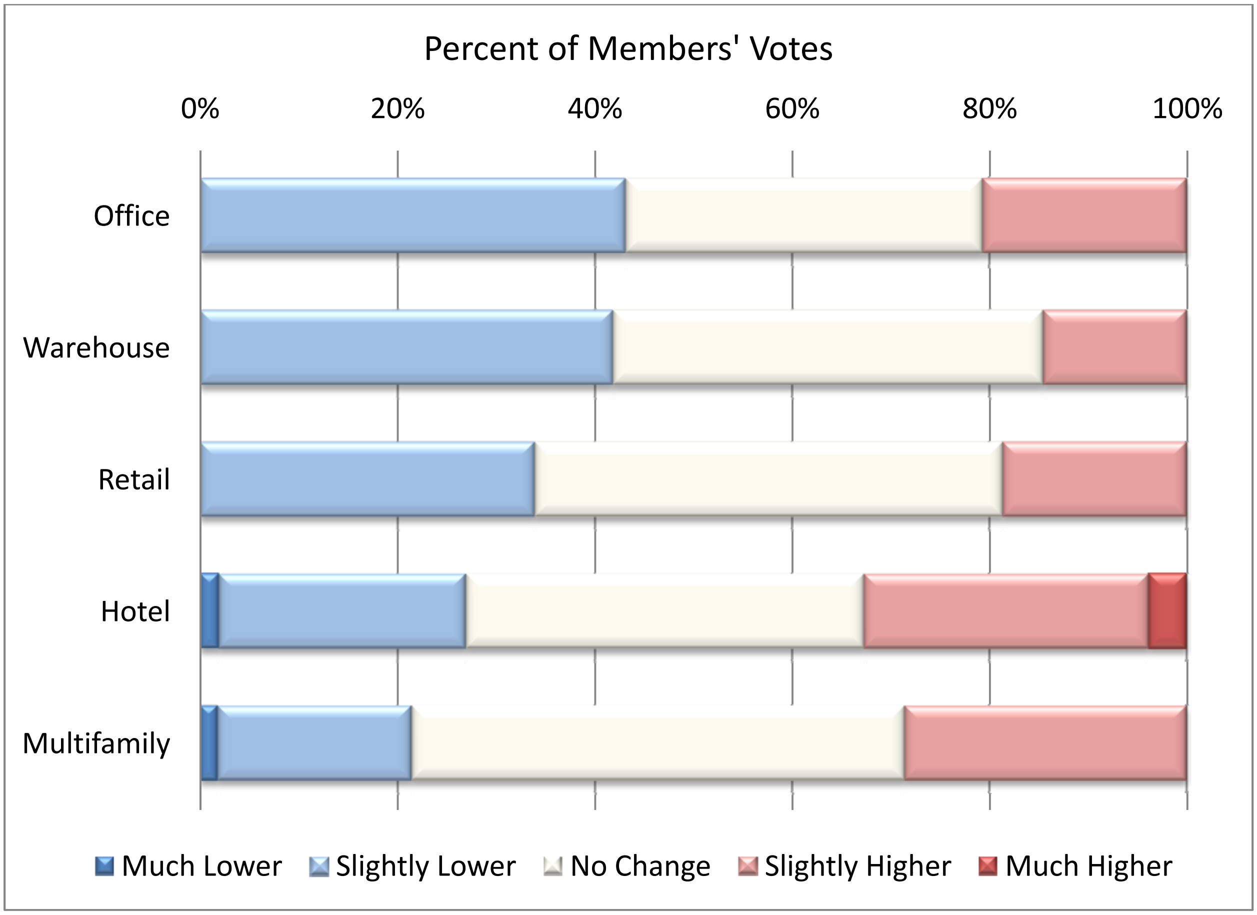
Exhibit 2. Risk of premature obsolescence due to demographic and technological changes.

	Low Risk	Moderate Risk	High Risk
Mid/Hi-Rise Apartments	74%	22%	3%
Warehouse	50%	47%	3%
CBD Office	48%	45%	7%
Garden Apartments	42%	53%	5%
Regional Malls	42%	35%	23%
Hotel	33%	54%	13%
Strip Retail Centers	22%	54%	24%
Suburban Office	5%	49%	46%

Expected Changes in Cap Rates by Year-end 2015

We asked members to look ahead to year-end 2015 and characterize their expectations regarding changes in cap rates from current levels for each of the major property types.

Exhibit 3. Expected changes in cap rates by year-end 2015 - graph.



- In most cases, a plurality of members expect no change in cap rates. For office, 43 percent expect rates to be slightly lower.
- Very few members expect dramatic changes to cap rates by year-end 2015.
- Hotel and multifamily properties were judged as having a greater risk of cap rate increases compared to other properties, however, only a third or less of respondents anticipate an increase. In the case of hotels, a few members think rates could be much higher.

Exhibit 4. Expected changes in cap rates by year-end 2015.

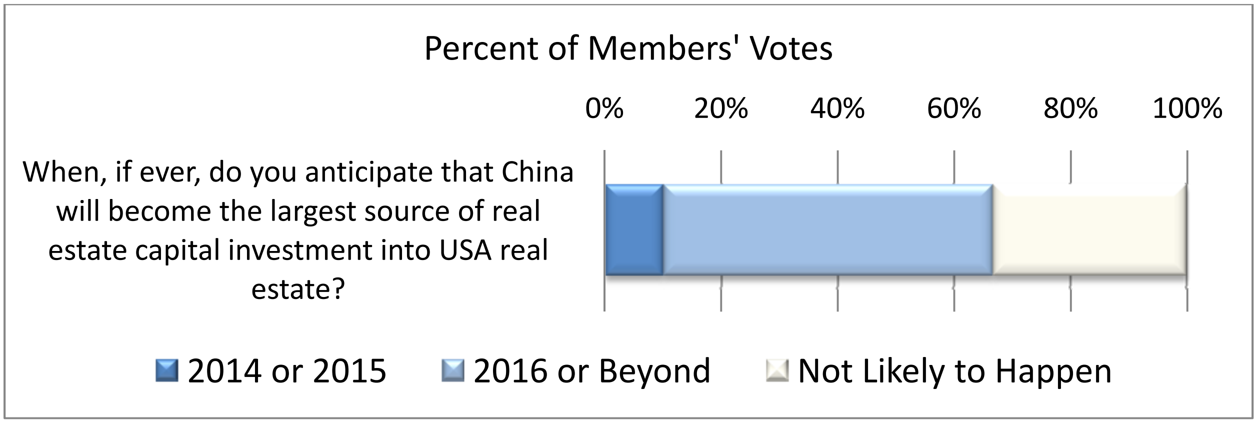
	Much Lower	Slightly Lower	No Change	Slightly Higher	Much Higher
Office	0%	43%	36%	21%	0%
Warehouse	0%	42%	44%	15%	0%
Retail	0%	34%	47%	19%	0%
Hotel	2%	25%	40%	29%	4%
Multifamily	2%	20%	50%	29%	0%

China's Status in USA Real Estate Investment

Considering the surge in cross-border capital flow into USA real estate from China in 2013 and that China soon may overtake the USA as the world's largest economy (in PPP), we asked members their views on this trend.

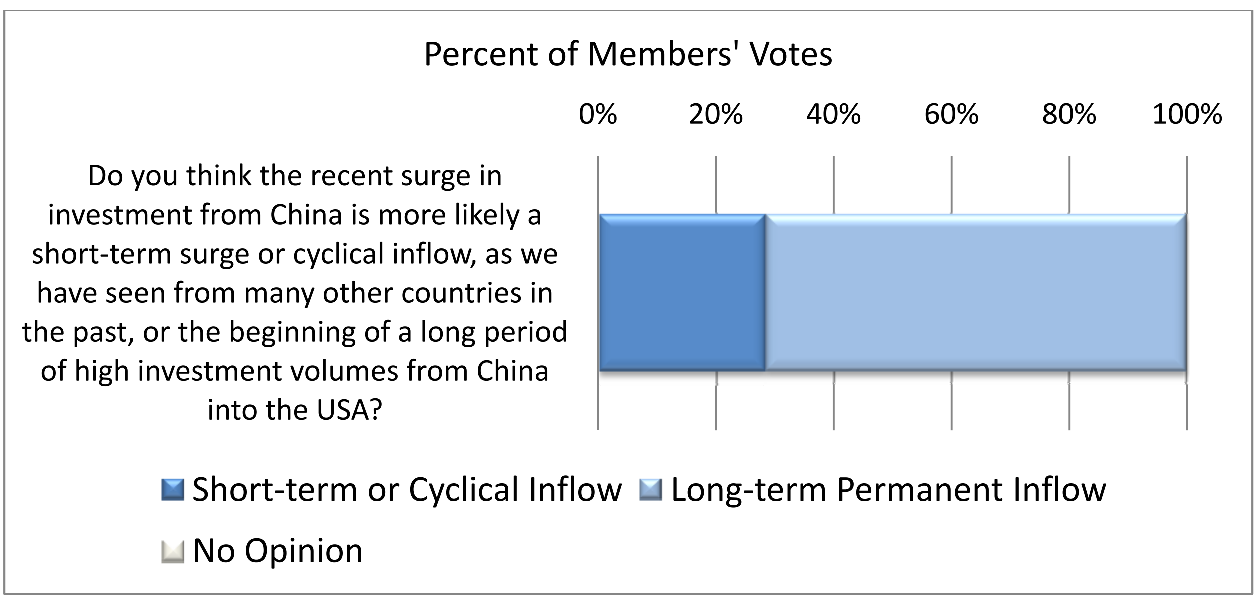
Specifically, we asked when, if ever, members anticipate that China will become the largest source of real estate capital investment into USA real estate.

Exhibit 5. When China may become the largest source of real estate capital investment - graph.



A majority of members, 57 percent, anticipate that China will become the largest source of capital into USA real estate in 2016 or beyond. Ten percent expect it to occur this year. One-third do not think it is likely that China will become the largest source of inbound capital.

Exhibit 6. Are Chinese capital inflows cyclical or a permanent major capital source - graph.



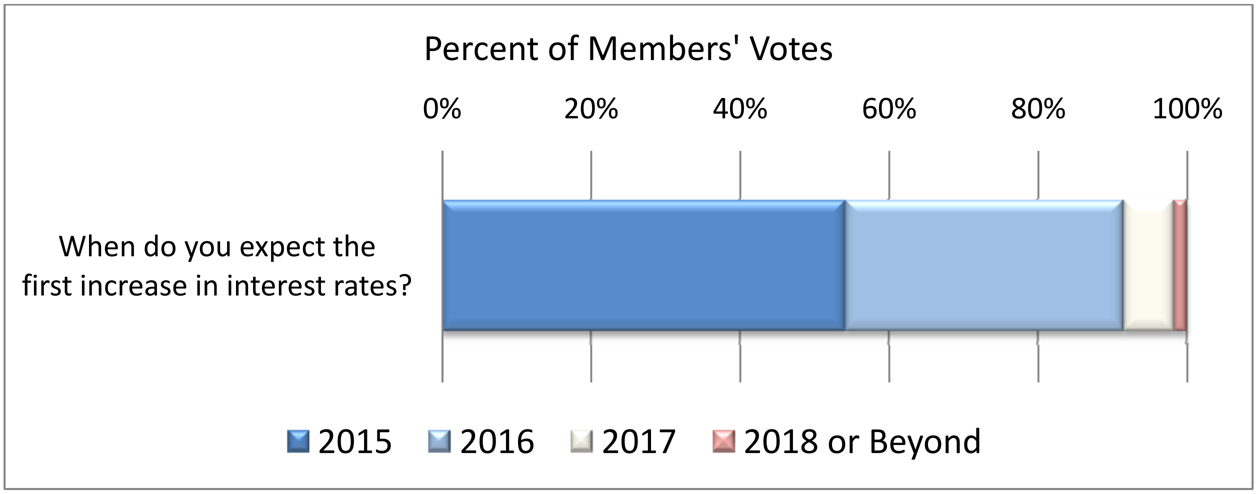
Secondly, we asked members if they think the recent surge in investment from China is more likely a short-term surge or cyclical inflow, as we have seen from many other countries in the past, or the beginning of a long period of high investment volumes from China into the USA.

Seventy-two percent of respondents see China as a permanent source of high investment volumes into USA real estate. Less than one-third think the current increase is a short-term surge or cyclical inflow.

First Increase in Interest Rates by the USA Fed

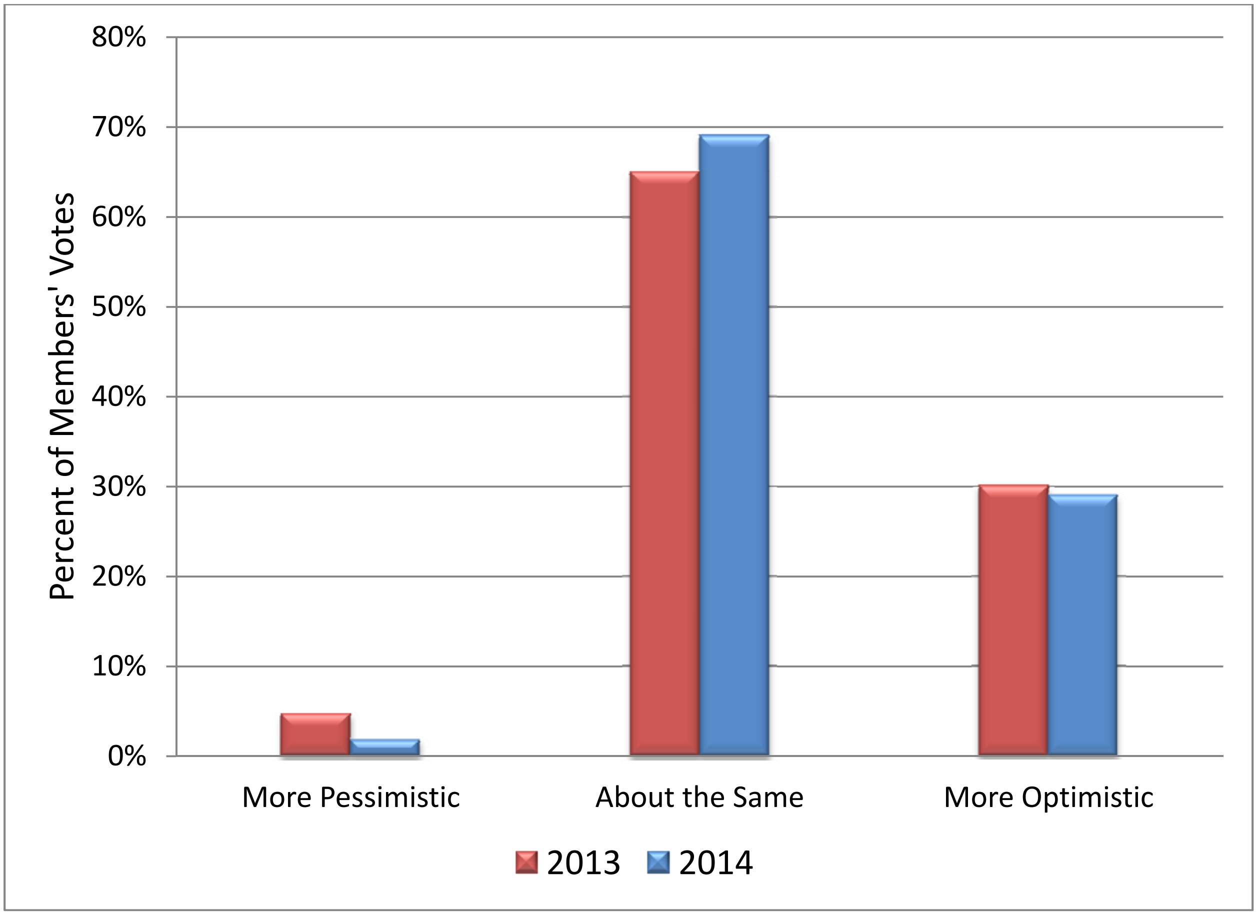
AFIRE members were asked, "When do you expect the first increase in interest rates by the USA Fed?"

Exhibit 7. Expected first increase in interest rates - graph.



A majority of AFIRE members, 54 percent, expect the first increase in interest rates by the USA Fed to occur in 2015 with another 37 percent expecting the first increase in 2016. Less than 10 percent expect rates to remain unchanged until 2017 or later.

Exhibit 8. Changes in perspective on USA real estate markets - graph.



Little has changed regarding the overall perspective of respondents. When asked to rate how their perspective on the USA real estate market has changed since the beginning of the year, 69 percent responded that it was about the same. Pessimism has all but disappeared from the responses and about the same proportion of respondents are more optimistic as in last year's survey.

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 69 percent of responses naming the USA, a slight increase from last year and the highest percentage of any year since the global financial crisis.

The USA continues to hold a large margin over Germany, the second ranked country, although the margin narrowed slightly.

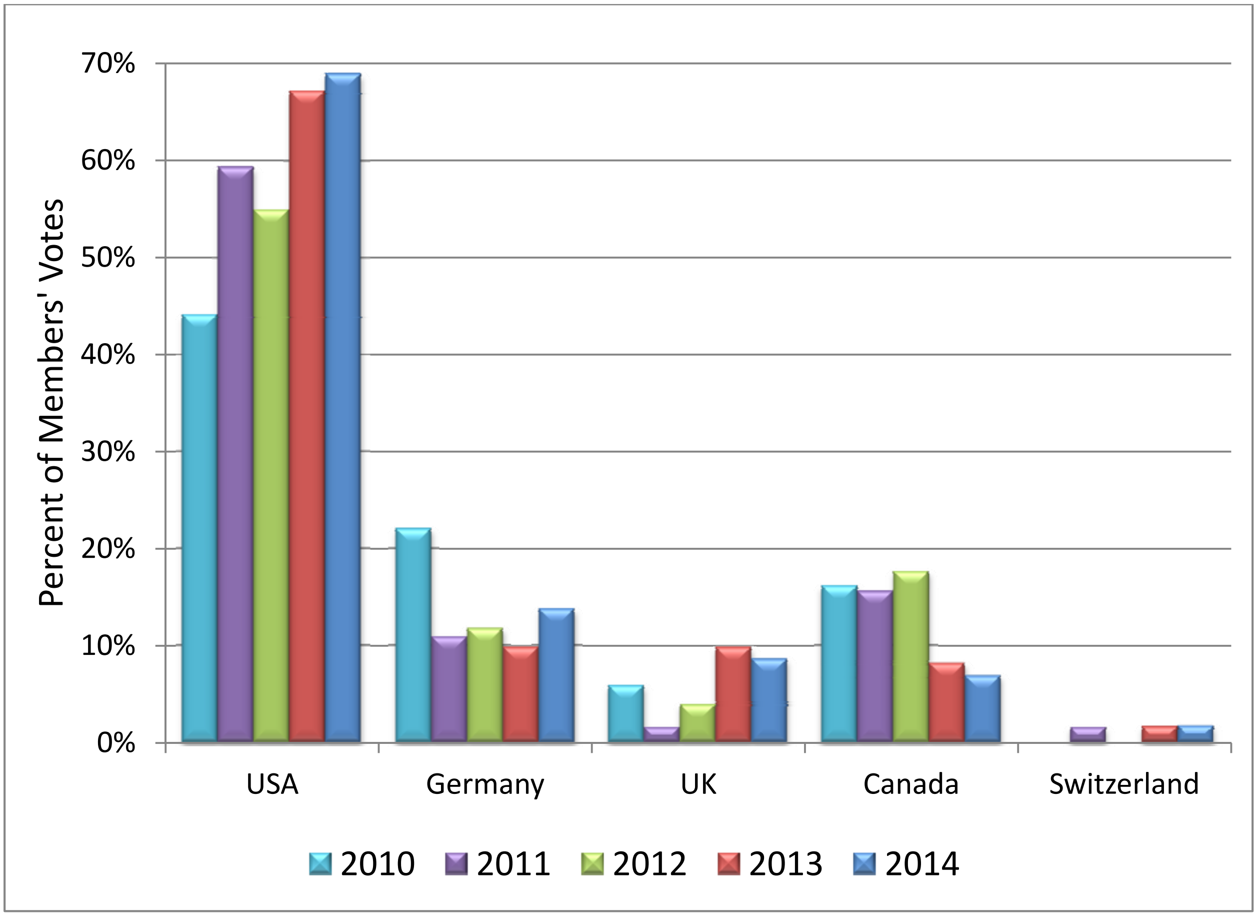
The UK dropped out of its second place tie with Germany to rank third. Australia and Sweden were not mentioned in this year's survey.

Only five different countries were mentioned in the rankings, the fewest in any year since before the global financial crisis.

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

Country	Ranking Trend	2014 Rank	2014 Percent	2013 Rank	2013 Percent	2012 Rank	2012 Percent	2011 Rank	2011 Percent
USA	●	1	69%	1	67%	1	55%	1	59%
Germany	●	2	14%	2	10%	3	12%	3	11%
UK	↓	3	9%	2	10%	5	4%	5	2%
Canada	●	4	7%	4	8%	2	18%	2	16%
Switzerland	●	5	2%	5	2%		0%	5	2%
Australia	↓		0%	5	2%	4	6%	4	6%
Sweden	↓		0%	5	2%	5	4%		0%
Denmark	●		0%		0%	7	2%		0%

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



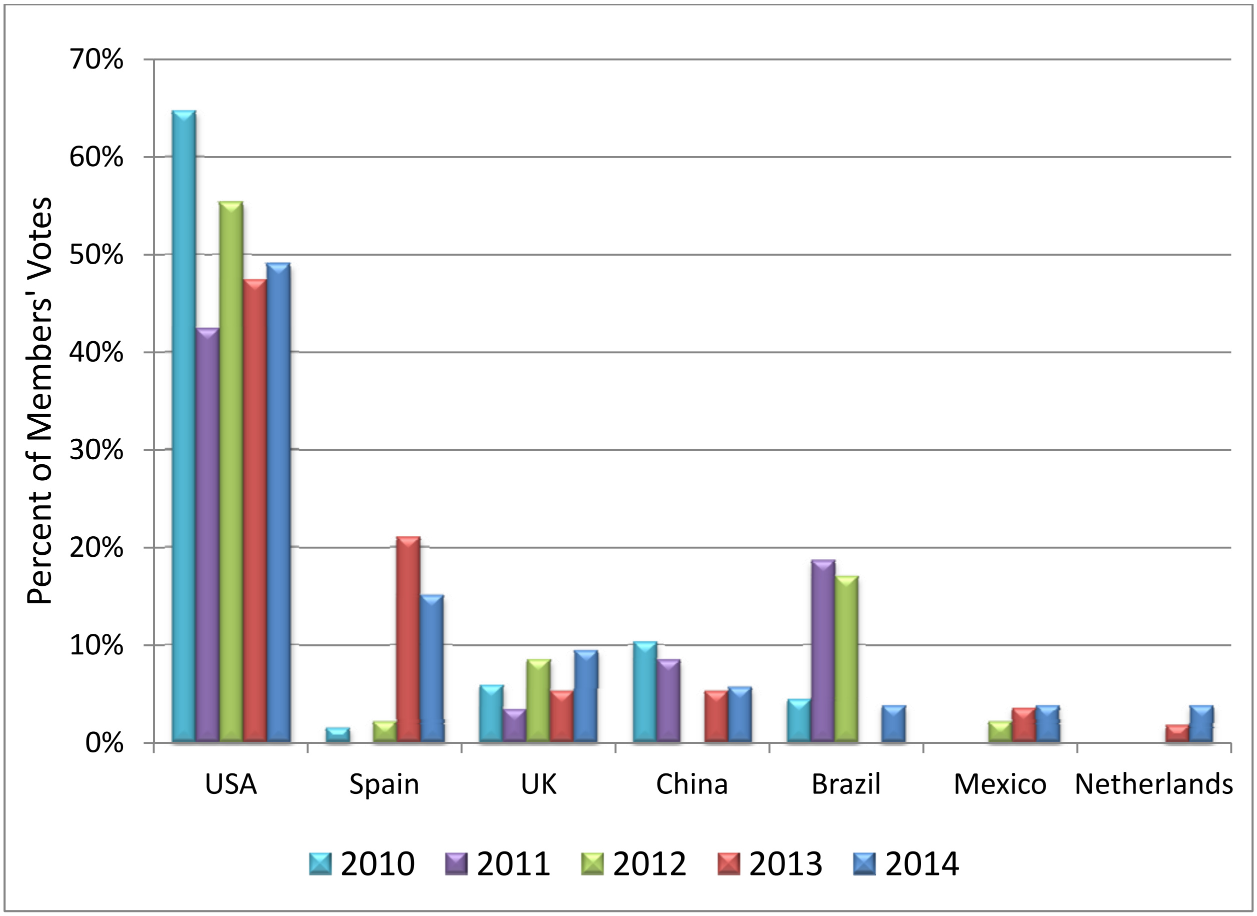
Country Providing the Best Opportunity for Capital Appreciation

The USA continues to rank first as the country providing the best opportunity for capital appreciation by a significant margin.

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

Country	Ranking Trend	2014 Rank	2014 Percent	2013 Rank	2013 Percent	2012 Rank	2012 Percent	2011 Rank	2011 Percent
USA	●	1	49.1%	1	47.4%	1	55.3%	1	42.4%
Spain	●	2	15.1%	2	21.1%	5	2.1%	9	1.7%
UK	●	3	9.4%	3	5.3%	3	8.5%	4	3.4%
China	↓	4	5.7%	3	5.3%		0.0%	3	8.5%
Brazil	↑	5	3.8%		0.0%	2	17.0%	2	18.6%
Mexico	●	5	3.8%	5	3.5%	5	2.1%	9	1.7%
Netherlands	↑	5	3.8%	7	1.8%		0.0%		0.0%
Turkey	↑	8	1.9%		0.0%	4	4.3%	9	1.7%
Australia	↓	8	1.9%	5	3.5%	5	2.1%	4	3.4%
India	↑	8	1.9%		0.0%	5	2.1%	4	3.4%
Japan	↓	8	1.9%	7	1.8%		0.0%		0.0%
Italy	↑	8	1.9%		0.0%		0.0%	9	1.7%
Indonesia	↓		0.0%	7	1.8%	5	2.1%		0.0%
Canada	●		0.0%		0.0%	5	2.1%	4	3.4%
Ireland	●		0.0%		0.0%	5	2.1%	9	1.7%
Chile	↓		0.0%	7	1.8%		0.0%	9	1.7%
France	↓		0.0%	7	1.8%		0.0%		0.0%
Germany	↓		0.0%	7	1.8%		0.0%		0.0%
Asia	↓		0.0%	7	1.8%		0.0%		0.0%
Southeast Asia	●		0.0%	7	1.8%		0.0%		0.0%

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



The USA received just under 50 percent of member's votes, which is near the average score over the past 5 years.

Spain remains in second for the second year, but with a lower score than in 2013.

The UK remains ranked third with a higher score than in 2013.

China dropped out of a tie with the UK to rank fourth.

Mexico, Netherlands, Australia and Japan continue to be mentioned in the results.

Brazil, Turkey and India returned to the list after dropping off last year.

Ranking of Global Cities for Real Estate Investment

New York moved back up to first place after dropping to second last year, the only time it was not ranked first in the past five surveys.

London dropped to second with San Francisco remaining at third.

Tokyo and Madrid moved up from a sixth place tie to rank fourth and fifth, respectively, moving ahead of Houston which slid down to sixth.

Los Angeles dropped considerably, from fourth to tenth.

Berlin, Sydney and Shanghai moved up from being tied at eleventh to rank seventh through ninth, respectively.

Lisbon appeared on the list for the first time at tenth.

Overall, thirty-six cities were named in the survey, more than in any recent year.

Washington DC continued to slide, ranking only fifteenth after ranking first in 2008.

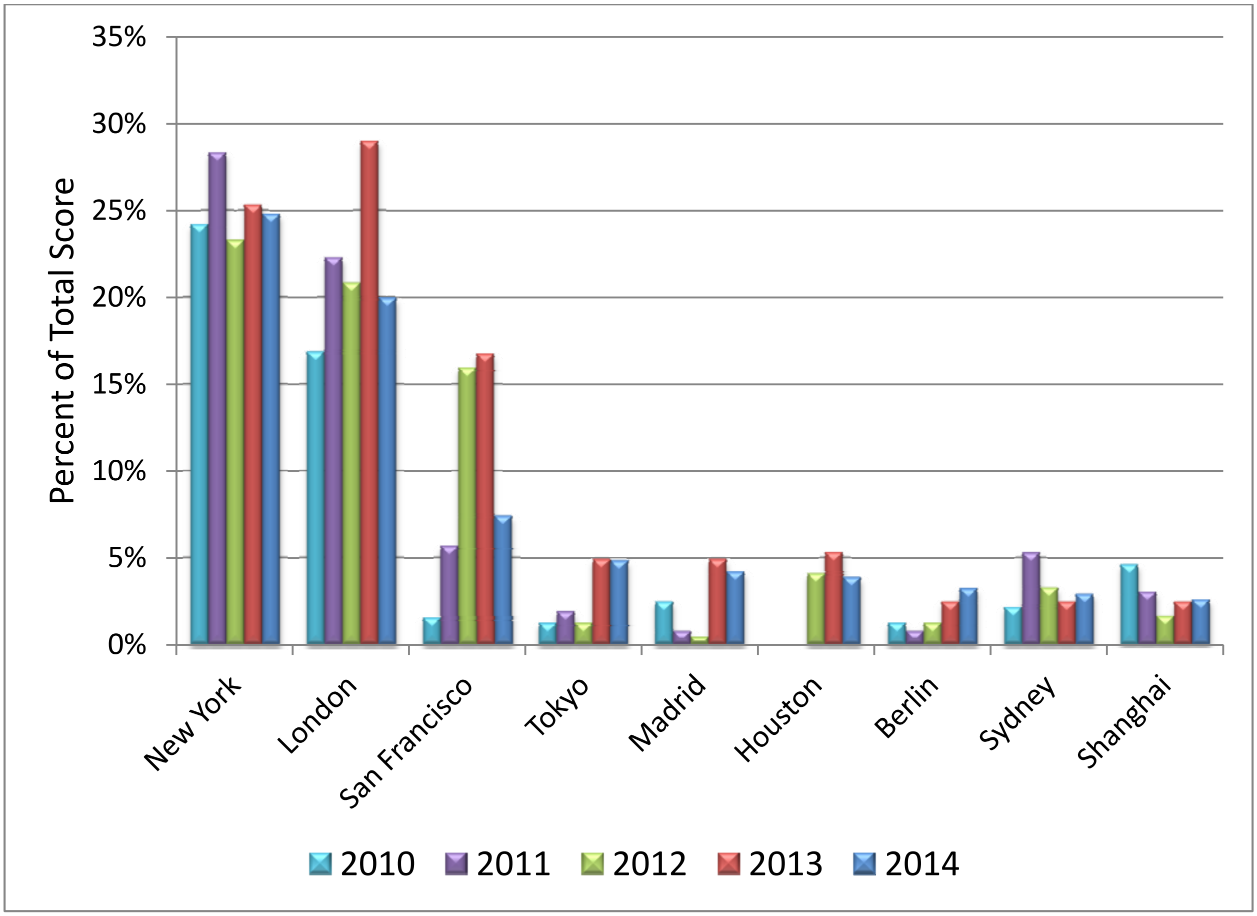
The broad geographic distribution of cities is notable with the USA, Europe and Asia all represented in the top four cities and with top fifteen cities being fairly evenly distributed across these regions.

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

Rank	City	Ranking Trend	2014 Rank	2014 Score	2013 Rank	2013 Score	2012 Rank	2012 Score	2011 Rank	2011 Score
1	New York	↑	1	77	2	62	1	57	1	75
2	London	↓	2	62	1	71	2	51	2	59
3	San Francisco	●	3	23	3	41	3	39	5	15
4	Tokyo	↑	4	15	6	12	14	3	11	5
5	Madrid	↑	5	13	6	12	25	1	21	2
6	Houston	↓	6	12	4	13	5	10		
7	Berlin	↑	7	10	11	6	14	3	21	2
8	Sydney	↑	8	9	11	6	6	8	6	14
9	Shanghai	↑	9	8	11	6	12	4	9	8
10	Lisbon	↑	10	7						
10	Los Angeles	↓	10	7	4	13	14	3	15	3
10	Mexico City	↑	10	7	19	2			28	
10	Munich	↓	10	7	8	11	8	7	13	4
14	Paris	↓	14	6	9	9	6	8	6	14
15	Singapore	↑	15	5	19	2	14	3	10	6
15	Washington DC	↓	15	5	10	8	4	24	3	31
17	Charlotte	↑	17	3						
17	Copenhagen	↑	17	3						
17	Hong Kong	↓	17	3	14	5	19	2	8	11
17	Istanbul	●	17	3	17	3	19	2	28	
17	Lima	↑	17	3						
17	Miami	↓	17	3	15	4	25	1	28	
23	Beijing	↓	23	2	19	2	19	2	15	3
23	Budapest	↑	23	2						
23	Dallas	↑	23	2			19	2	27	1
23	Mumbai	↑	23	2					28	
23	Rio de Janeiro	↑	23	2						
23	Seattle	●	23	2	23	1			27	1
29	Amsterdam	↑	29	1						
29	Atlanta	↓	29	1	19	2	25	1	15	3
29	Austin	↑	29	1						
29	Cologne	↑	29	1						
29	Denver	↑	29	1						
29	Melbourne	↑	29	1						
29	Silicon Valley	↑	29	1						
29	Jakarta	↓	29	1	23	1	19	2		

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, San Francisco and Houston remain the top three cities, ranking first through third, respectively for the second year in a row.

Los Angeles moved one position up to fourth, trading places with Washington DC at fifth.

Atlanta and Chicago both moved up three positions from last year, to sixth and eighth place respectively with Boston unchanged at seventh.

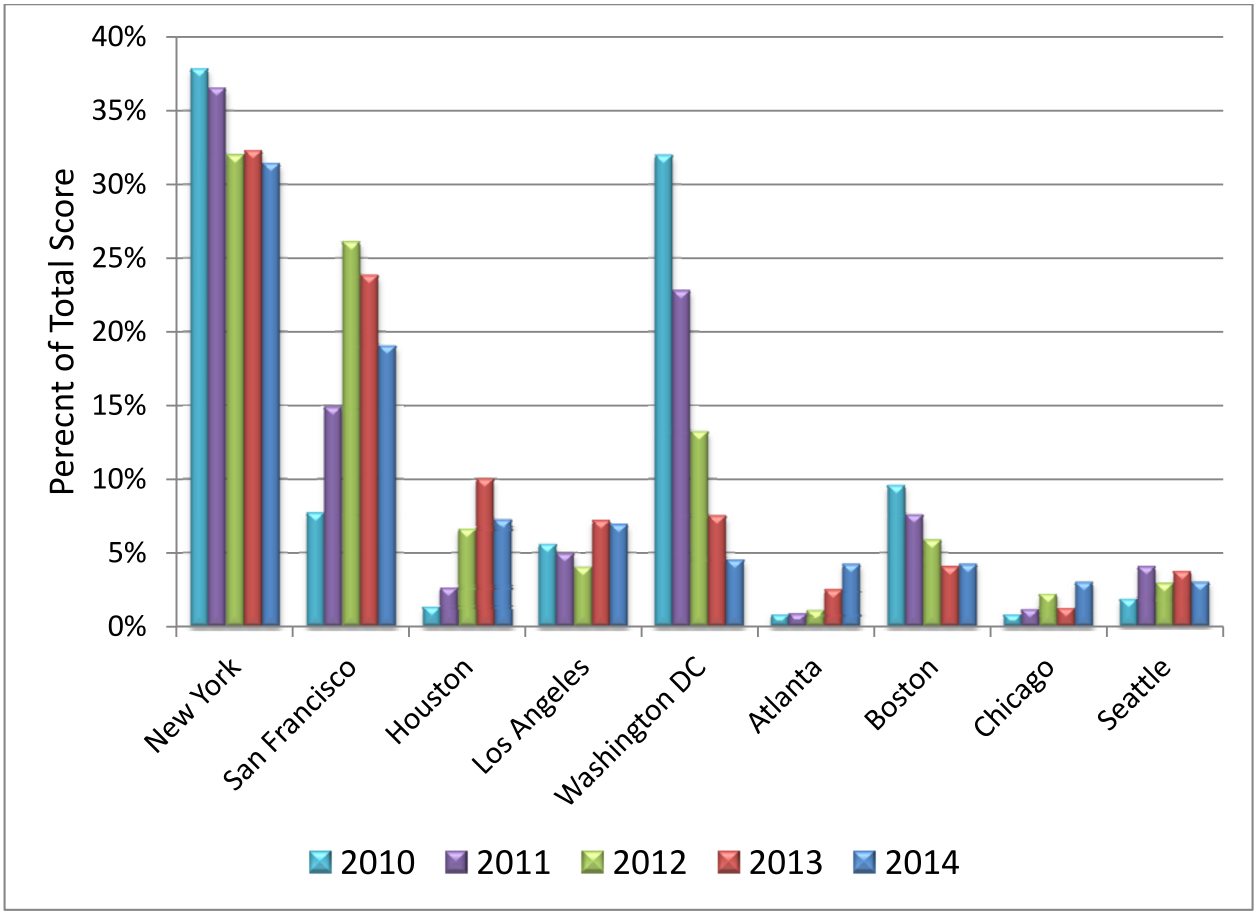
Six markets that were hardly ever mentioned in recent surveys were mentioned this year, including Charlotte, Minneapolis, Philadelphia, Phoenix, Silicon Valley and Nashville.

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

Rank	City	Ranking Trend	2014 Rank	2014 Score	2013 Rank	2013 Score	2012 Rank	2012 Score	2011 Rank	2011 Score
1	New York	●	1	104	1	103	1	87	1	125
2	San Francisco	●	2	63	2	76	2	71	3	51
3	Houston	●	3	24	3	32	4	18	7	9
4	Los Angeles	↑	4	23	5	23	6	11	5	17
5	Washington DC	↓	5	15	4	24	3	36	2	78
6	Atlanta	↑	6	14	9	8	12	3	11	3
6	Boston	●	6	14	6	13	5	16	4	26
8	Chicago	↑	8	10	11	4	8	6	9	4
8	Seattle	↓	8	10	7	12	7	8	6	14
10	Dallas	↑	10	9	11	4	13	1	13	1
10	Miami	↓	10	9	8	9	10	4	9	4
12	Austin	↓	12	8	11	4	9	5	8	7
13	Charlotte	↑	13	6						
13	Denver	↓	13	6	10	6	10	4	11	3
15	Minneapolis	↑	15	4						
16	Philadelphia	↑	16	3						
16	Phoenix	↑	16	3			13	1		
16	Silicon Valley	↑	16	3						
19	Nashville	↑	19	2						
20	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

Multifamily returned to the top position this year moving industrial, office and retail each down one position to second through fourth place, respectively.

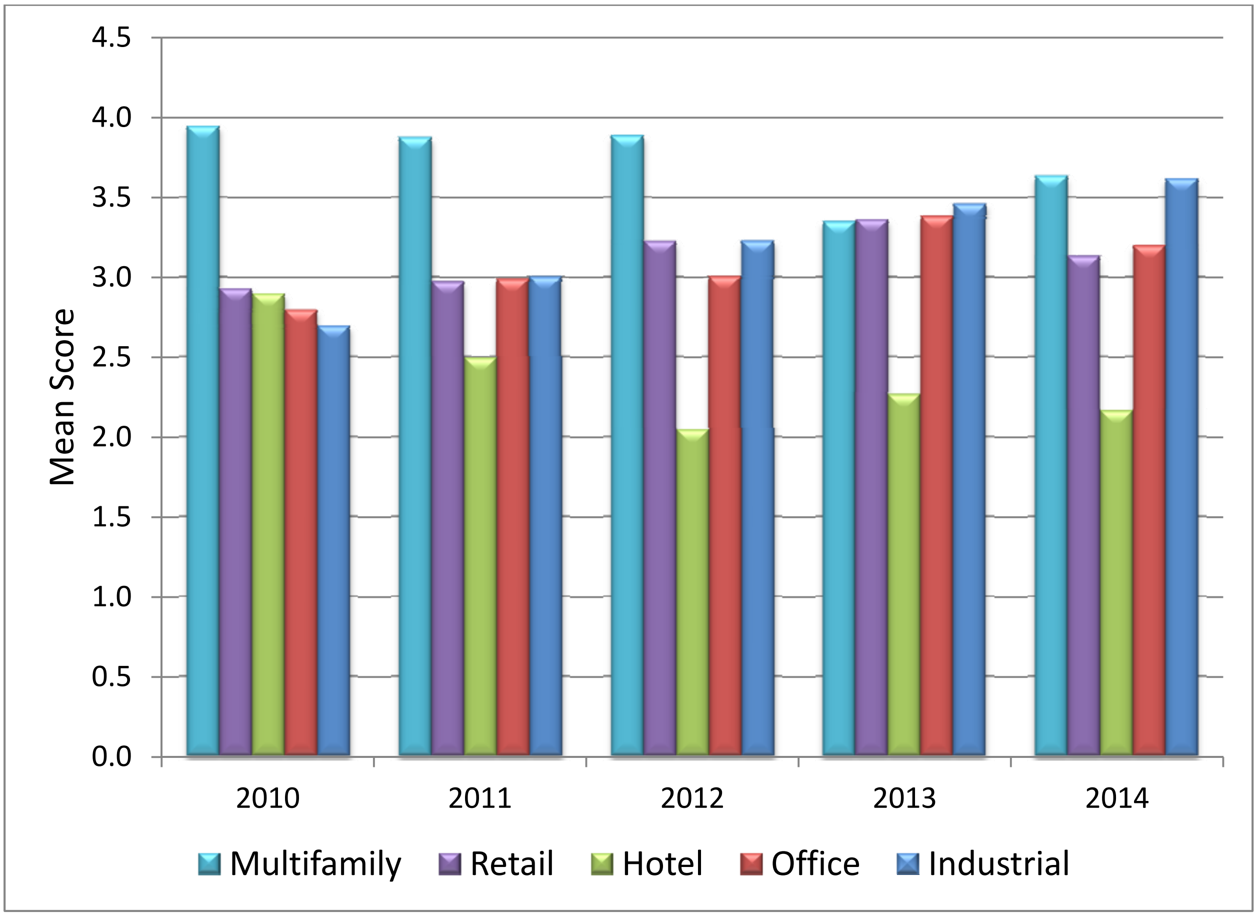
Hotel remains the least favored of the property types by a considerable margin for the fourth consecutive year.

Exhibit 17. Ranking of USA property types.

Property Type	Ranking Trend	Ranking					Mean Rating				
		2014	2013	2012	2011	2010	2014	2013	2012	2011	2010
Multifamily	↑	1	4	1	1	1	3.63	3.34	3.9	3.9	3.9
Retail	↓	4	3	3	4	2	3.13	3.36	3.2	3.0	2.9
Hotel	●	5	5	5	5	3	2.16	2.26	2.0	2.5	2.9
Office	↓	3	2	4	3	4	3.19	3.38	3.0	3.0	2.8
Industrial	↓	2	1	2	2	5	3.61	3.46	3.2	3.0	2.7

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, 2010 – 2014 - 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.

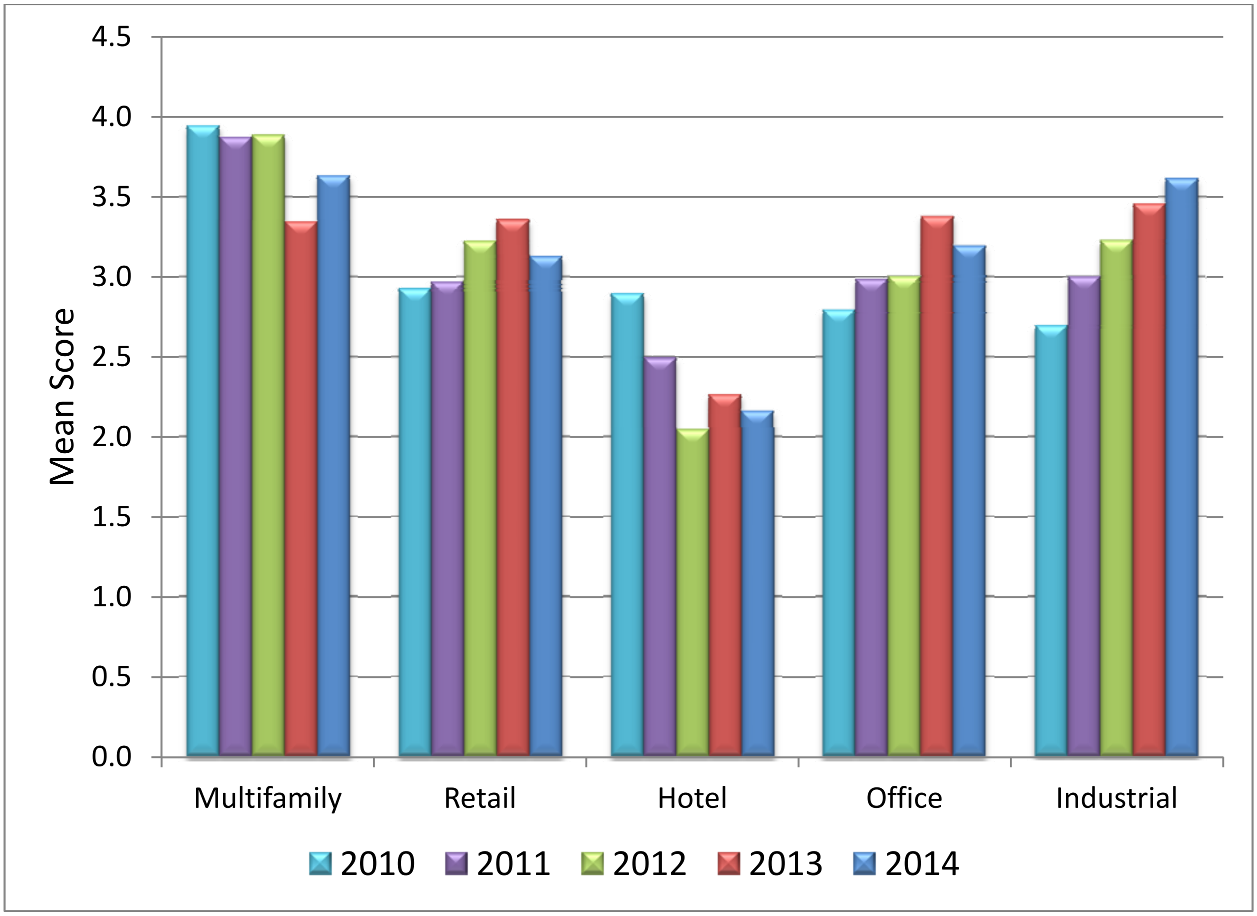
Industrial property has continued on an upward trend for the past four years but was surpassed by a small margin by multifamily.

The modest upward trend of retail and office in past years appears to have moderated some this year.

Multifamily interest rebounded after a decline in the prior year.

Hotel declined slightly.

Exhibit 19. Ranking of USA property types, by property type, 2010 – 2014 - 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.

The difficulty in finding investments seems to have moderated somewhat, although it remains relatively high with 75 percent of respondents finding it very or somewhat difficult to find attractive investments.

Although only a small percentage of members consider it somewhat or very easy to find attractive investment opportunities, the rate has gone up significantly from last year.

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

Investment Opportunities								
Category	2014		2013		2012		2011	
	Count	Percent	Count	Percent	Count	Percent	Count	Percent
Very Difficult	15	25%	10	16%	11	22%	10	16%
Somewhat Difficult	30	50%	41	66%	19	37%	22	36%
Neutral	10	17%	10	16%	14	27%	17	28%
Somewhat Easy	4	7%	1	2%	7	14%	11	18%
Very Easy	1	2%	-	0%	0	0%	1	2%
Total	60	100%	62	100%	51	100%	61	100%

Section 2. AFIRE Members' Investments

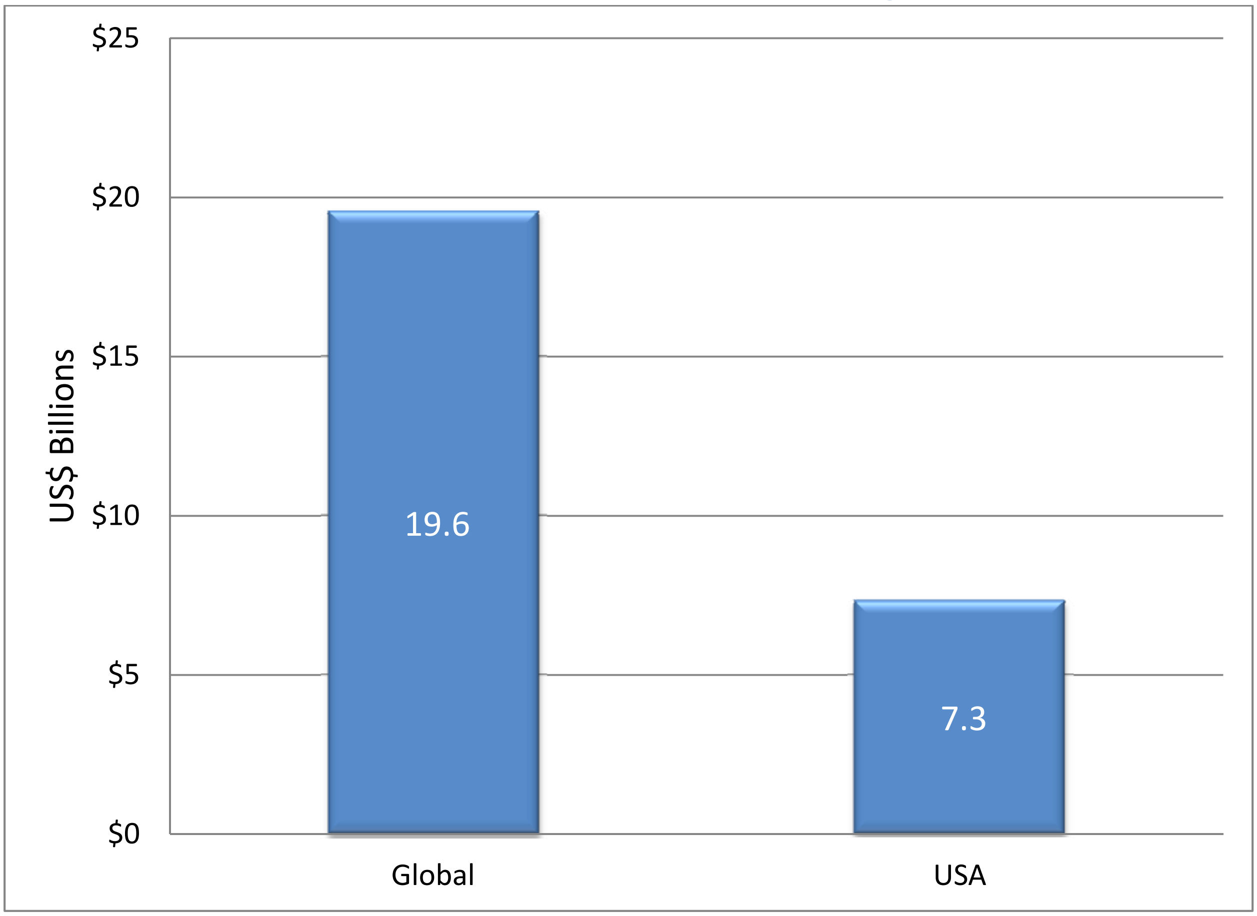
This section covers answers from 44 members whose firms invest capital in real estate through acquisition of equity positions or through lending.

2.1. Real Estate Portfolio

This subset of 44 AFIRE members holds a portfolio of real estate worth over $860 billion as of the fourth quarter of 2013, with about $323 billion invested in USA real estate. This represents an average global real estate portfolio of about $19.6 billion with about $7.3 billion invested in the USA per member.

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

Exhibit 21. Mean real estate portfolio sizes - graph.



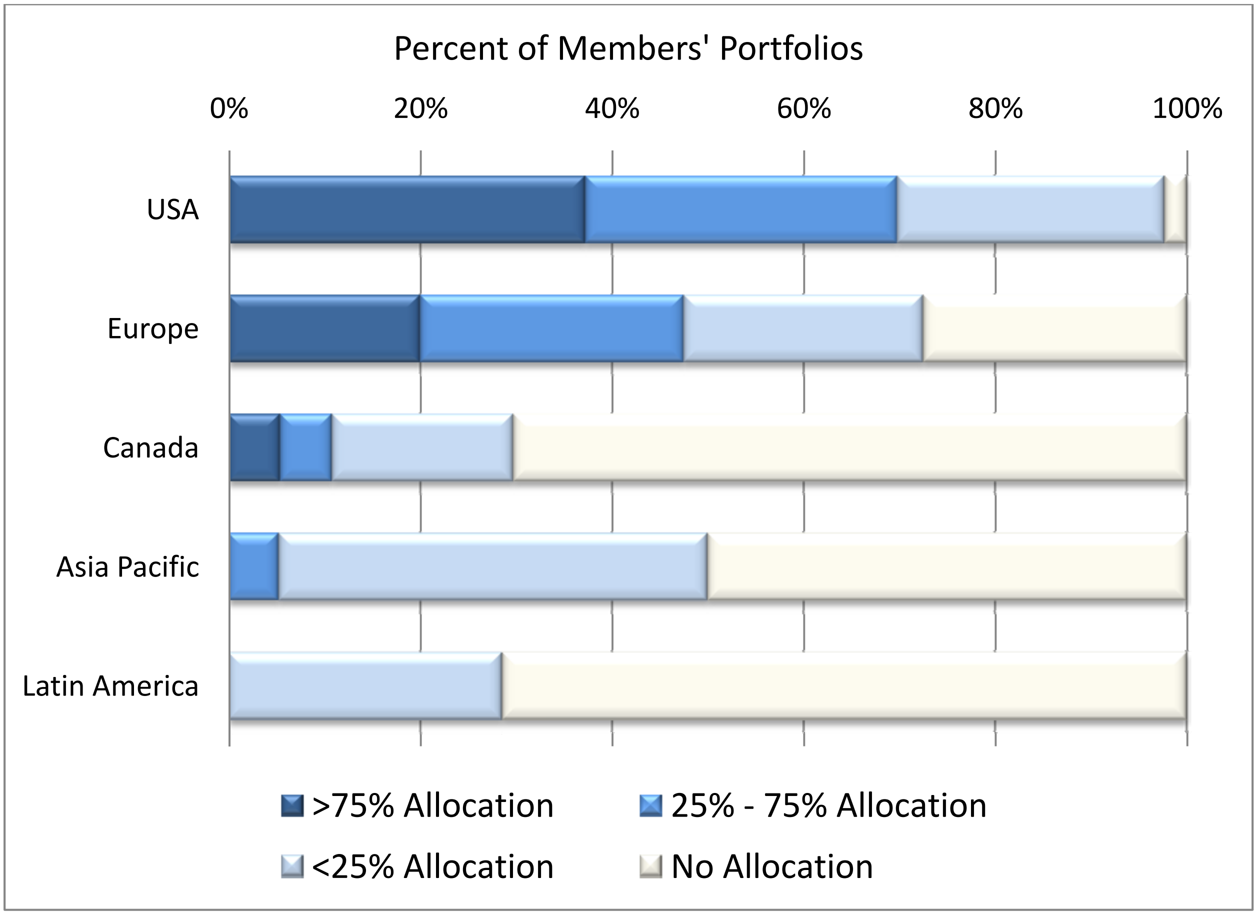
Real Estate Portfolio Geographic Distribution

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, 16 of the 43 portfolios reporting, or 37 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.

- Nearly all members have assets in the USA, as would be expected, but member portfolios are fairly evenly divided among the various allocation ranges.
- Roughly a quarter 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.
- Of the 29 percent of reported portfolios that have assets in Latin America, none have an allocation over 25 percent of the portfolio.
- About 30 percent of AFIRE members reporting 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.

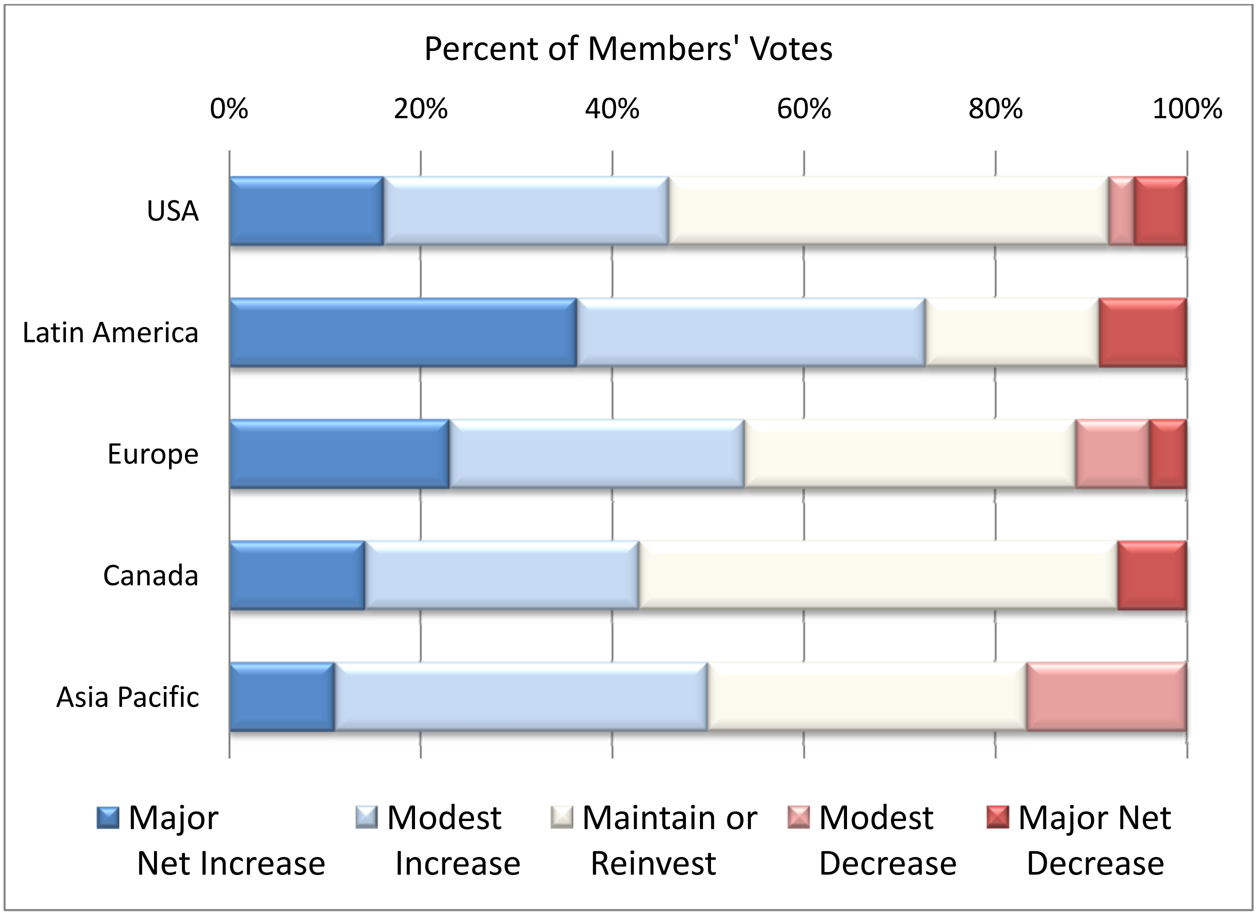
Exhibit 22. Allocation of portfolios by country or region – graph.



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 2015. 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.



Over 90 percent of members plan to maintain or increase the size of their USA portfolio in 2015. A small minority, 5 percent, plan a major net decrease to their USA portfolio.

Unlike the past two years when a large majority of members planned major or modest net increases to their USA portfolios, this year, less than half have plans to increase their USA portfolios.

Only about 29 percent of members report activity in Latin America, but of those that do, over one-third plan to make major net increases and another one-third plan modest increases. This result reflects a stronger intention to grow their Latin American portfolios than reflected in prior surveys.

Last year, over two-thirds of members report an intention for modest to major net increases in their European portfolios, but this year, 54 percent are planning increases.

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

Country or Region	Major Net Decrease	Modest Decrease	Maintain or Reinvest	Modest Increase	Major Net Increase
USA	5%	3%	46%	30%	16%
Latin America	9%	0%	18%	36%	36%
Europe	4%	8%	35%	31%	23%
Canada	7%	0%	50%	29%	14%
Asia Pacific	0%	17%	33%	39%	11%

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, 17 of the 40 portfolios reporting, or 42 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 have a heavy focus on core investment strategy with 43 percent reporting a predominantly core strategy and 86 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.
- Twenty-seven percent report no allocation to opportunistic investment which is lower than the 41 percent reported last year.
- A few members reported other investment strategies, such as real estate securities, or used differing characterizations.

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

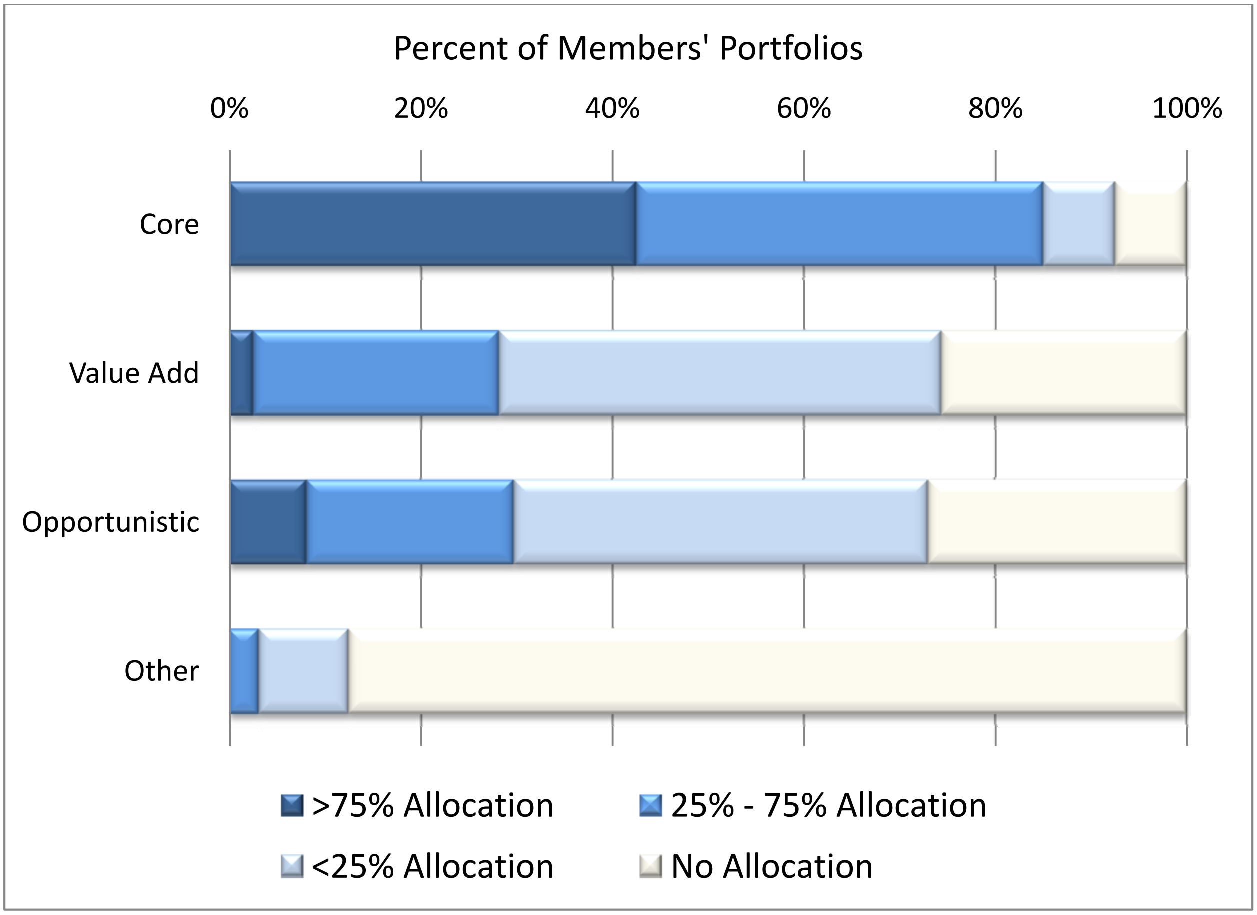


Exhibit 26. Allocation of portfolios by investment strategy or style.

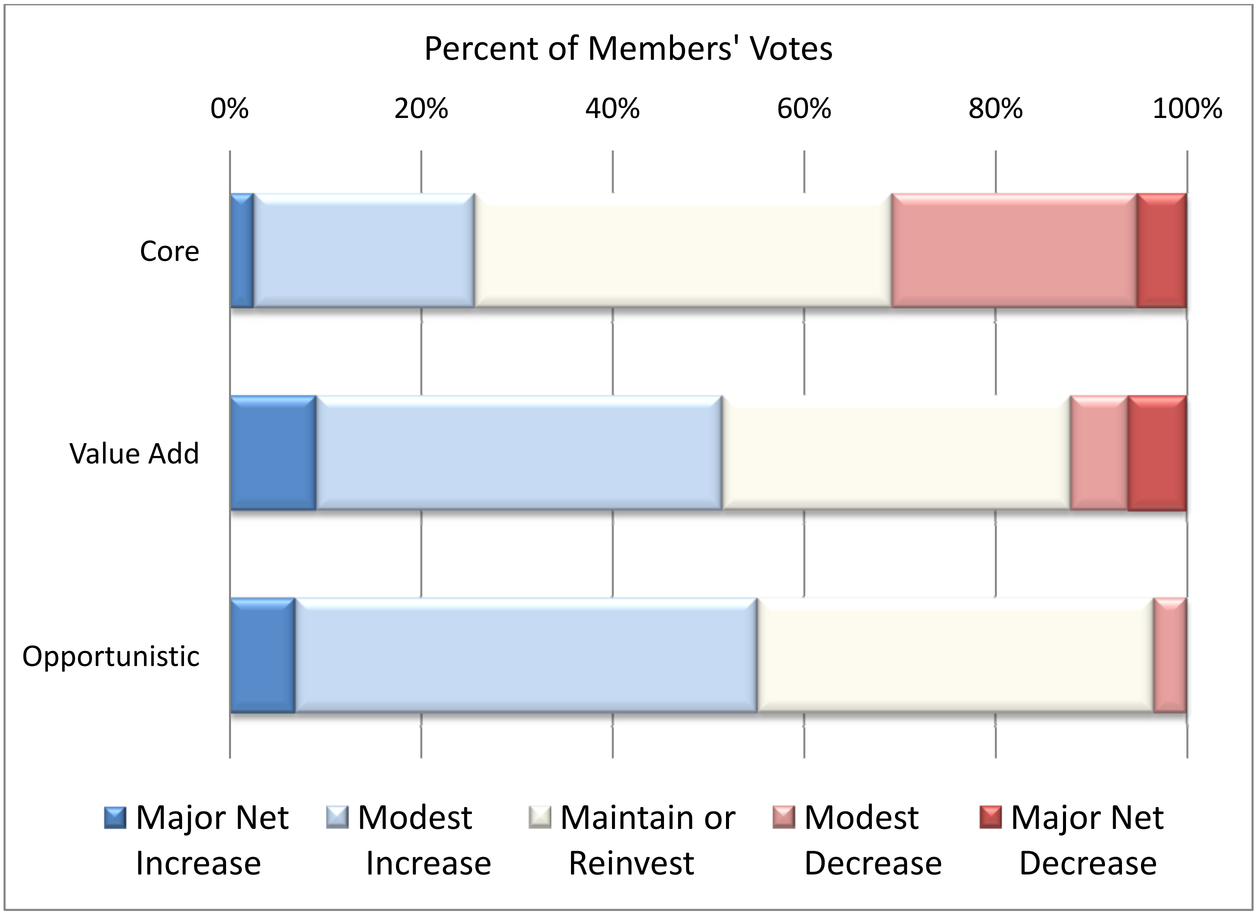
Investment Style	No Allocation	<25% Allocation	25% - 75% Allocation	>75% Allocation
Core	8%	8%	43%	43%
Value Add	26%	46%	26%	3%
Opportunistic	27%	43%	22%	8%
Other	88%	9%	3%	0%

Planned Changes to Investment Strategy or Style

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

- While a plurality of members plan to maintain their current mix of core assets, more members are planning to decrease their core mix than are planning to increase it, which is a significant change from last year when 57 percent planned to increase their core mix with only 11 percent planning a modest decrease. Five percent report plans for a major net decrease in core.
- A majority of member report continued plans to increase their value add mix, similar to last year's results.
- Members report a shift in interest toward opportunistic investment style with 55 percent reporting modest or major increases, compared to just 39 percent last year. Seven percent plan a major net increase, whereas none reported plans for a major increase last year.

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



2.2. Real Estate Investments, 2014 – 2015

The 42 members who reported on their real estate portfolio holdings around the world provided information on their 2014 investments and plans for 2015. This section provides unique insights into their outlook for the global real estate markets.

Countries Targeted for Real Estate Investment in 2014

Members were asked to rank the top three countries in which their firm acquired or planned to acquire real estate in 2014 through lending or equity investments in the order of the amount of funds invested.

The USA was the primary investment target country for over three-fourths of the members. The USA continues to dominate this ranking.

None of the rankings for the top eight countries changed compared to last year.

Several additional countries were cited that had not been shown in the rankings prior years, including Portugal, Chile, Czech Republic, Finland, Italy and New Zealand.

Exhibit 28. Ranking of countries for executed real estate acquisitions in 2014.

	2014 Acquisition		2013 Acquisition	
Country	Rank	Score	Rank	Score
USA	1	104	1	124
UK	2	26	2	31
Germany	3	19	3	23
France	4	12	4	13
Canada	5	9	5	10
Japan	6	7	6	8
Australia	7	6	7	6
China	8	5	8	5
EU	9	4		
Portugal	9	4		
Spain	9	4	13	2
Belgium	12	3		
Netherlands	12	3	9	4
Brazil	14	2	9	4
Chile	14	2		
Czech Republic	14	2		
Poland	14	2	13	2
Switzerland	14	2	13	2
Finland	19	1		
Italy	19	1		
Mexico	19	1	11	3
New Zealand	19	1		
Sweden	19	1	11	3
Turkey	19	1	13	2

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 2015

Members were also asked to rank up to three countries according to investment allocations for 2015. The USA is once again ranked as the number one country for planned real estate acquisitions by a sizable margin.

The UK, Germany and Canada ranked second through fourth, unchanged from last year. China moved up to fifth from twelfth place last year.

Several additional countries were cited that had not been shown in the rankings prior years, including Spain, Chile, New Zealand, Czech Republic, Peru and Portugal.

Exhibit 29. Ranking of countries for planned real estate acquisitions in 2015.

Country	2015 Plans	
	Rank	Score
USA	1	104
UK	2	31
Germany	3	19
Canada	4	11
China	5	7
France	6	5
Japan	6	5
Spain	8	4
Brazil	9	3
Netherlands	9	3
Asia	11	2
Chile	11	2
Europe	11	2
Mexico	11	2
New Zealand	11	2
Sweden	11	2
Switzerland	11	2
Turkey	11	2
CEE	19	1
Czech Republic	19	1
Italy	19	1
Peru	19	1
Portugal	19	1
Singapore	19	1

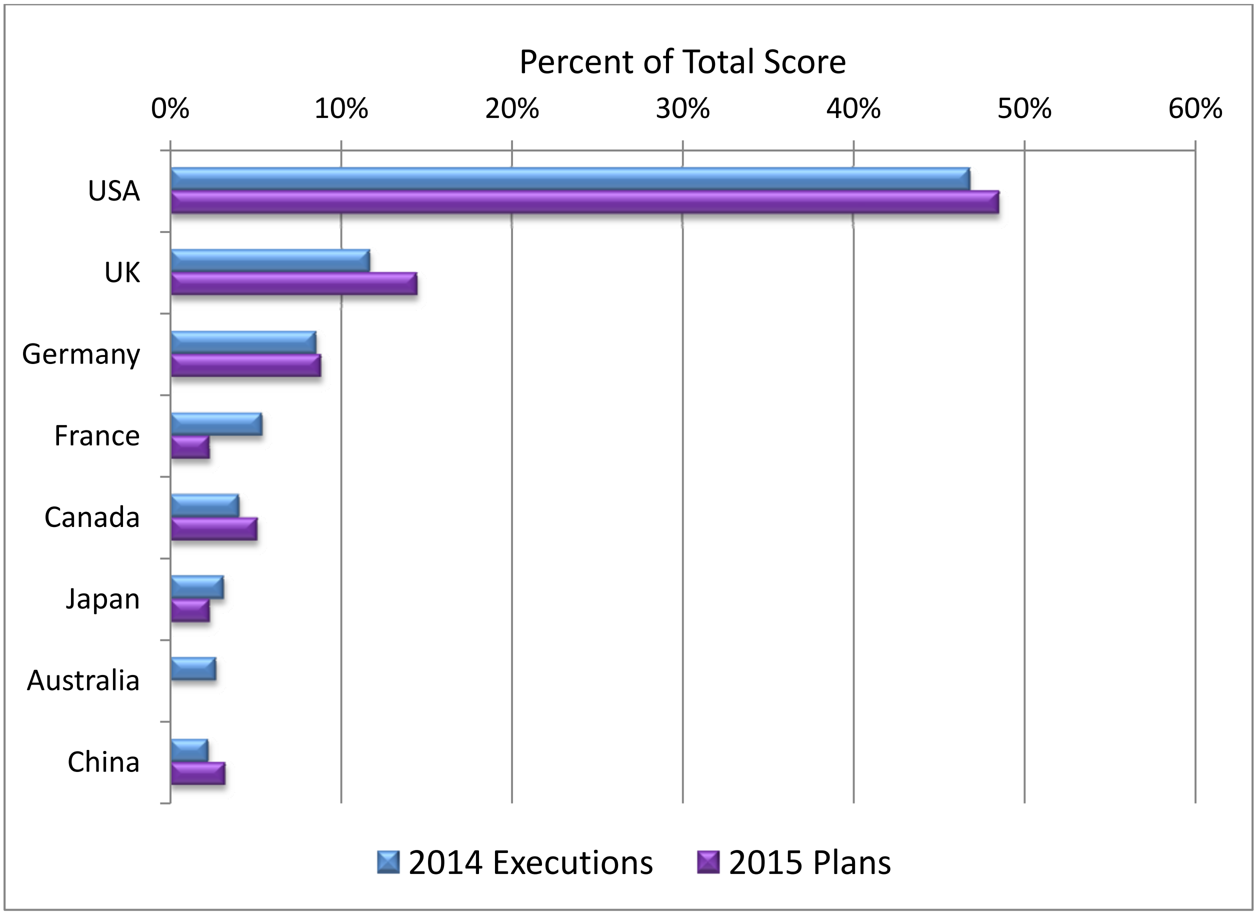
The responses were scored with 3 points to each respondent's first choice, 2 points to second choice, and 1 point for the third choice.

Countries Targeted for Real Estate Investment: Comparing 2014 and 2015

A comparison of the rankings for the years 2014 and 2015 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 eight countries in Exhibit 28.

Exhibit 30. Ranking of countries targeted for real estate acquisitions, 2014 executions and 2015 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, having traded places in the rankings each of the past three years.

In total, half of the top ten countries are in Latin America. Mexico has slowly climbed in the rankings to reach third this year. Three other Latin American countries have continued their climb from being unranked two years ago to top ten rankings this year with Colombia, Peru and Chile ranked fourth, fifth and sixth respectively.

The remainder of the top ten remains unchanged, except that Thailand dropped down in the rankings.

Five of the countries in the bottom half of the rankings are in Southeast Asia, but no single country from this region seems to attract a strong preference among AFIRE members.

Latin American countries account for three of the top four positions in the ranking and have five countries included.

The rankings are fairly well dispersed geographically with five countries from Latin America, six from Central and Eastern Europe and five from the Asia Pacific region.

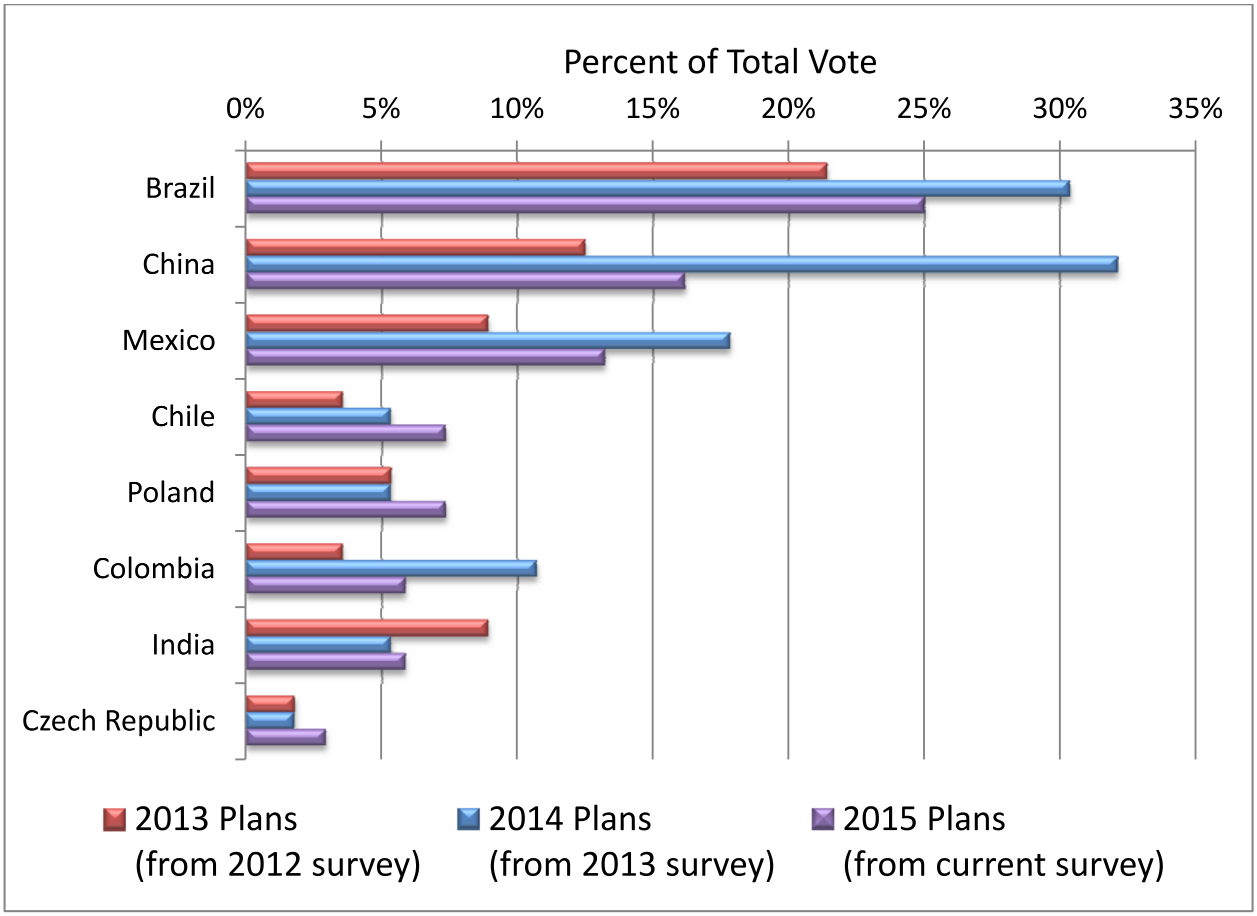
The UAE is the only Middle Eastern country mentioned and no countries from Africa were cited.

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

	2015 Plans (from current survey)		2014 Plans (from 2013 survey)		2013 Plans (from 2012 survey)	
Country	**Rank**	**Score**	**Rank**	**Score**	**Rank**	**Score**
Brazil	1	17	2	17	1	12
China	2	11	1	18	2	7
Mexico	3	9	3	10	4	5
Chile	4	5	6	3	7	2
Poland	4	5	6	3	6	3
Colombia	6	4	4	6	7	2
India	6	4	6	3	4	5
Czech Republic	8	2	17	1	11	1
Peru	8	2	5	4	7	2
Turkey	8	2	6	3	3	6
Australia	11	1				
Central Europe	11	1				
Eastern Europe	11	1				
Indonesia	11	1	6	3		
Malaysia	11	1	11	2	11	1
Romania	11	1	11	2		
UAE	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 our innovative Global Real Estate Master.

The **Graaskamp Center creates outstanding networking opportunities** for board members, alumni, students, faculty and other professionals. Events include the Center's Board of Advisors meetings, a Global Real Estate Markets Conference, 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. The Center provides advising and mentoring for all students, as well as financial support of student activities and a number of scholarships and fellowships.

The two-year **Real Estate MBA** prepares students for high-level management positions in the industry. Students combine a state-of-the-art core business curriculum with a deep multi-disciplinary real estate education including investments and finance, urban economics, valuation, and development. Electives include case study projects, international real estate, and hands-on money management in our Applied Real Estate Investment Track (AREIT) program.

Our innovative **Global Real Estate Master** (GREM) program provides a semester of intensive real estate education to qualified candidates from top business schools from around the world. For all our students, MBAs, GREM, and undergraduate, the Graaskamp Center provides rigorous training and education in real estate fundamentals, fosters skills of critical thinking, leadership and entrepreneurial management, and inculcates the values exhibited by Ely, Graaskamp, and the thousands of graduates and friends of our Program that have contributed to our collective success over the years.

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**.