COMMERCIAL REAL ESTATE INTERNATIONAL BUSINESS TRENDS 2019

National Association of REALTORS®

The Voice for Real Estate®

COMMERCIAL Real Estate REALTOR® NATIONAL ASSOCIATION *of* REALTORS®

Commercial Real Estate International Business Trends 2019

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1 INTRODUCTION

ECONOMIC ENVIRONMENT

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Commercial real estate transactions among international clients purchasing/selling or leasing property in the United State are influenced by global and U.S. economic and commercial real estate market conditions.

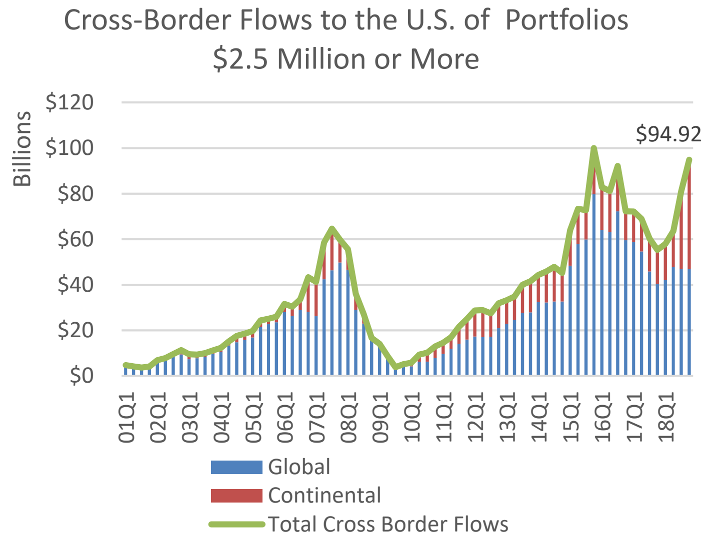
On the global front, 2018 offered a mix of highs and lows, stemming from continued geopolitical shifts, increased trade tensions, demographic changes and accelerating technological disruptions. Global economies started 2018 on an upbeat note, as the International Monetary Fund upgraded its forecast of GDP. However, as the year wore on, divergent trends emerged, underlined by differing monetary policies at major central banks. While the U.S. Federal Reserve continued on its quantitative tightening path, which it commenced in earnest in 2016, the European Central Bank (ECB), along with other central banks in the European Union (EU) maintained more accommodative policy stances, with rates hovering near the zero lower bound. The ECB announced last year that it would scale back its €2.5 trillion ($2.85 trillion) bond-buying program by December 2018, in an effort to wind down some of its monetary supports. While the bank stuck to its timeline, Mario Draghi, the bank's President warned in his speech on January 15th of this year at the European Parliament that the Eurozone economy had hit an unexpected soft patch.

This was further underscored a few weeks ago, as the IMF downgraded its 2019 global economic forecast from 3.7 percent to 3.5 percent, citing slowing growth in China and Europe. The Brexit process is still ongoing in the United Kingdom (UK). While the UK economy did not experience a dramatic decline, its performance is projected to come in below expectations. For other EU economies, 2018 was expected to offer moderate growth, with peripheral countries notching faster gains.

In the Asian region, economic growth remained on a solid upward path in 2018, even with the moderation in Chinese GDP gains. While China's monetary policy remained accommodative, the country's GDP rose by only 6.6 percent in 2018, the weakest annual increase since 1990. India's economy continued its growth pattern, while other Asian economies—Indonesia, Malaysia, Philippines, South Korea, Thailand and Vietnam among them—reflected the strength of their larger neighbors.

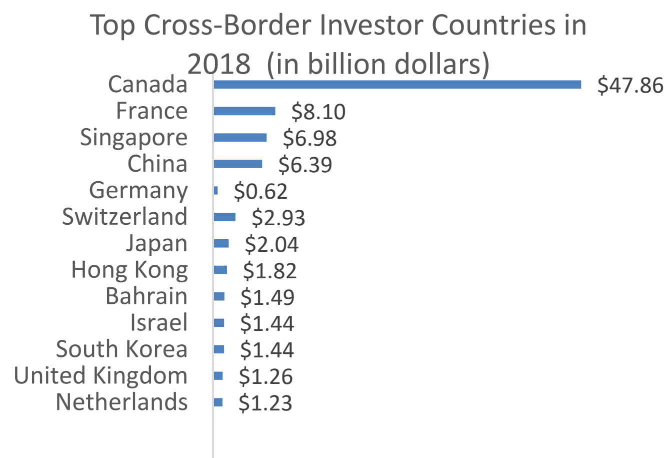
In the Americas, economic trends underscored continued and tight-knit trade bonds. Canada posted solid economic gains, while Mexico's economy took a more moderate path. During the year, Canada and Mexico remained engaged in renegotiating the North American Free Trade Agreement with the United States. While the US imposed tariffs on Canadian steel, the three countries' discussions reached a concrete conclusion with the re-named United States-Mexico-Canada Agreement (USMCA).

Meanwhile, the U.S. gross domestic product expanded at a stronger pace of 2.9 percent in 2018, from 2.2 percent in 2017, with private consumption and investment spending receiving a boost from the lower income and corporate tax rates under the Tax Cuts and Jobs Act that took effect January 1, 2018. However, the trade tensions between the United States and China, Canada, Mexico, and Europe during most of 2018 weighed on investor confidence in 2018, which was reflected in the greater volatility of the stock market. The shutdown on the U.S. federal government during December 22, 2018 –January 25, 2019, the longest shutdown in US history, created more jitter in the financial market and investors.



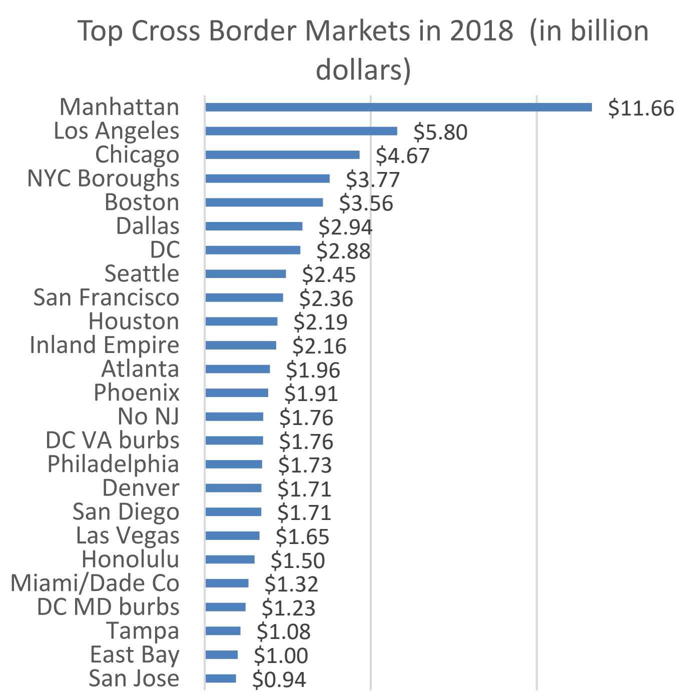
MID TO LARGE CAP CROSS-BORDER COMMERCIAL ACQUISITIONS

According to Real Capital Analytics, $94.9 billion of capital flowed into the United States in 2018 for the acquisition of commercial properties and portfolios of $2.5 million or more, accounting for 17 percent of total domestic ($476.4 bn) and cross-border ($94.9 bn) flows of $571.39 billion. Of the $94.9 billion in cross-border flows, $48.06 billion came from Canada. Compared to 2017, cross-border flows rose 72 percent from the $55.3 billion level in 2017, with the increase mainly coming from capital from Canada.

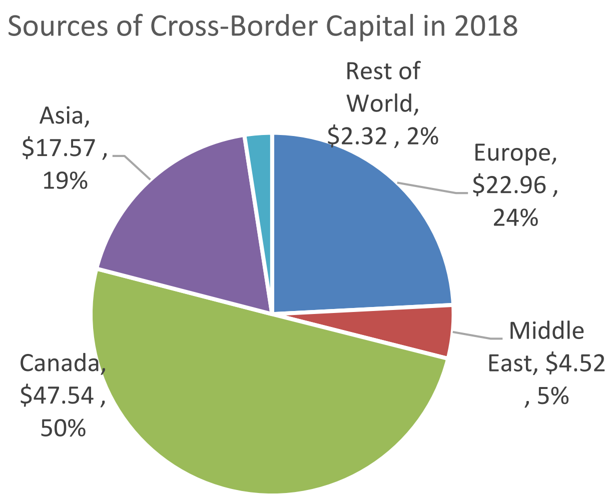


Canada accounted for half of the cross border capital ($47.54 billion), flowed by Europe ($22.96 bn, or 24 percent), then Asia ($17.57 bn, or 19 percent), the Middle East ($$4.5 bn, or 5 percent), and other countries ($2.32 bn, or 2 percent).

The major destinations of cross-border capital were Manhattan and the New York City Boroughs (($15.4 bn), Los Angeles ($5.8 bn), Chicago ($4.7 bn), and Boston ($3.6 bn).

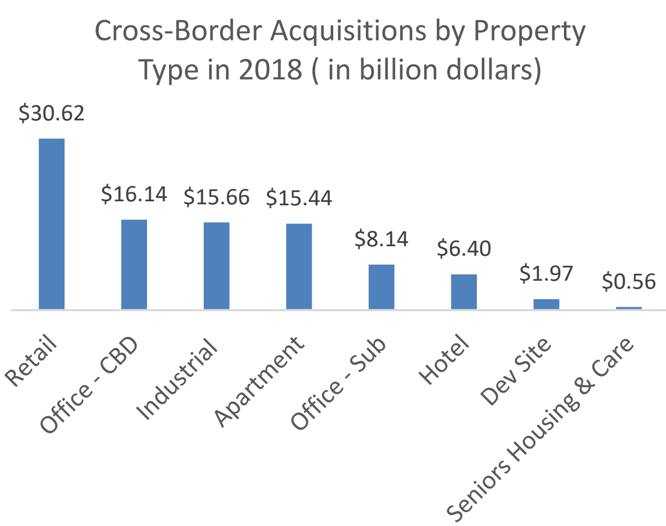


Cross-border capital flowed into all property types, led by retail ($30.6 bn), office in a central business district ($16.14 bn), industrial ($15.7 bn), and apartments ($15.4 bn). Public (sovereign) capital comprised half of cross-border flows.



COMMERCIAL MARKET COVERAGE OF SURVEY

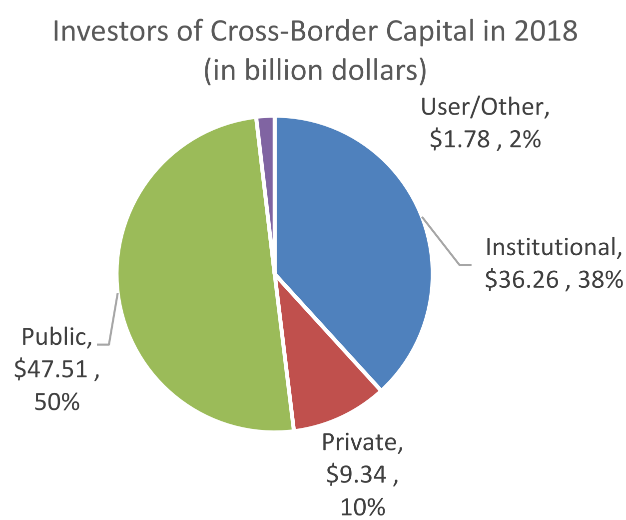
In contrast to the commercial market transactions reported by RCA ($2.5 million and above), most REALTORS® who specialize in commercial real estate managed investment deals averaging less than $2.5 million per deal, frequently located in secondary and tertiary markets. The *Commercial Real Estate International Business Trends 2019* focuses on this significant segment of the economy and real estate markets.



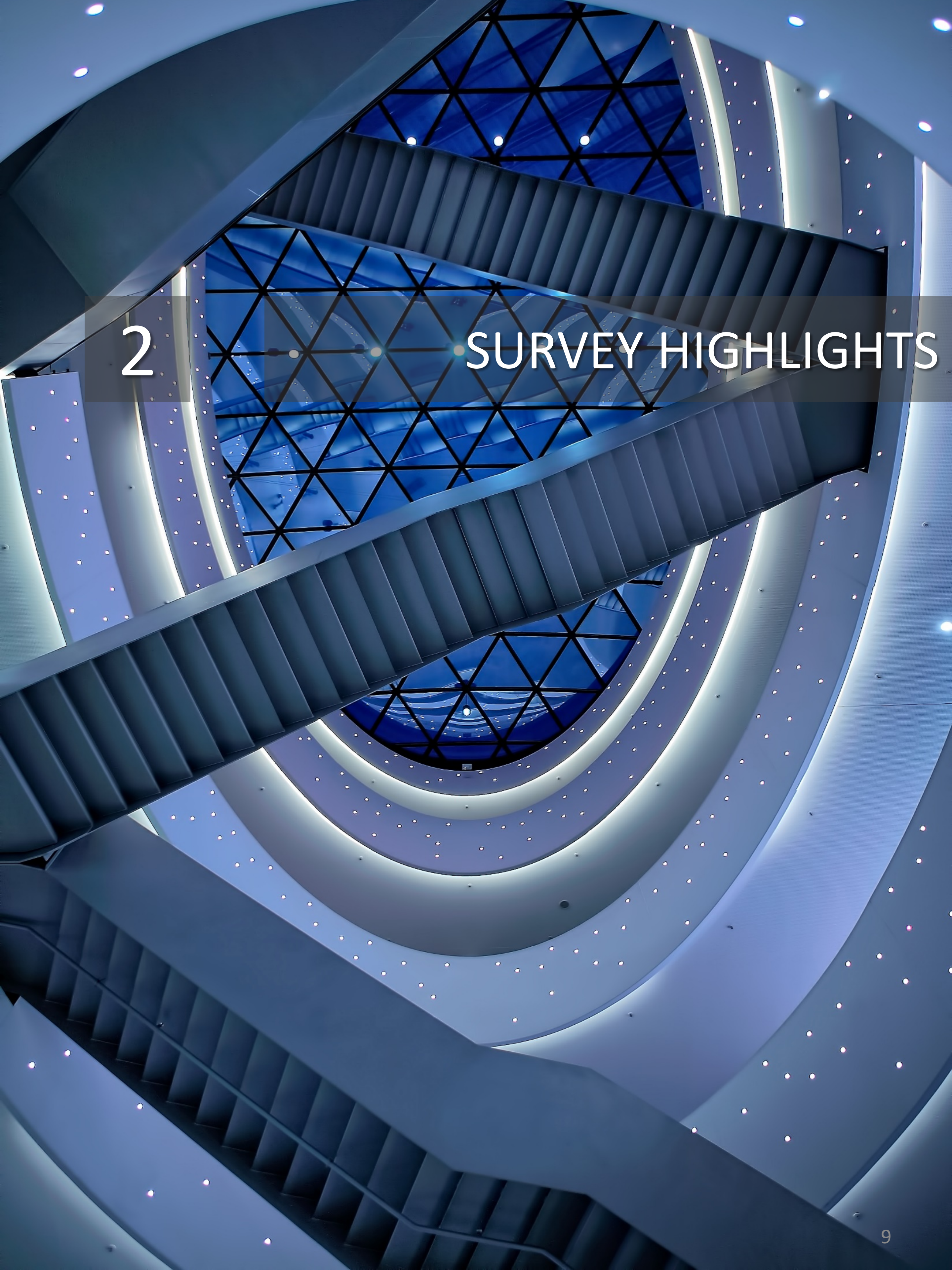
The responses gathered from a survey of REALTORS® engaged in commercial real estate transactions indicates a similar slowdown in property acquisitions in the small cap market, leasing activity, and appraisal valuations.

In this survey, the term international or foreign client refers to two types of clients:

Non-resident foreigners (Type A): Non-U.S. citizens with permanent residences outside the United States. These clients typically purchase property for investment, vacation, or visits of less than six months to the United States on non-immigrant visas.



Resident foreigners (Type B): Non-U.S. citizens who are recent immigrants (less than two years at the time of the transaction) or non-immigrant visa holders who reside for more than six months in the United States for professional, educational, or other reasons.



2 SURVEY HIGHLIGHTS

Commercial market transactions involving international clients slowed in 2018 compared to 2017. REALTORS® engaged in commercial real estate. REALTORS® reported slower investment (purchases), leasing, and appraisal activity.

- NAR estimates **$4.8 billion in commercial transactions** with foreign clients in 2018 among REALTORS® typically engaged in small-cap commercial transactions, a decrease from past year's $7.8 billion (2016) and $6.7 billion (2017). International transactions made up **three percent** of an estimated $159 billion in small cap commercial transactions.

- Respondents who closed an international transaction completed a median of **one buyer-side** international transaction (two in 2017) with a median value per transaction of **$650,000** ($975,000 in 2017)

- Respondents who closed transactions with international sellers had a median of one **seller-side** international sales (two in 2017), with a median value per transaction of **$950,000** ($1 million in 2017)

- Among 2% of respondents whose primary business was leasing, **10%** of respondents completed a **lease agreement** for an international client (19% in 2017), with a median of **one** lease (two in 2017) and a median gross lease value of **$162,500** ($200,000 in 2017).

- 43% of space **leased** by international clients was **under 2,500 square feet** (26% in 2017).

- Among 3% of respondents whose primary business was conducting appraisals, 3% reported working with an international client (8% in 2017).

- **19%** of survey respondents experienced an **increase in the number of international clients looking to buy** (25% in 2017).

•Region of REALTORS®' most frequent international client:

- Asia	34%
- Americas	29%
- Europe	20%
- Middle East	10%
- Oceania	2%
- Unknown	3%

Top Countries – **Buyer-Side** Commercial Real Estate Investments in U.S. (by share of responses)

- 1. China
- 2. Canada
- 3. Mexico
- 4. Germany
- 5. India
- 6. Israel
- 7. United Kingdom
- 8. Venezuela
- 9. Vietnam
- 10. Italy

• Top U.S. destination states – **Buyer-Side** (by share of responses)

- 1. Florida
- 2. Illinois
- 3. Texas
- 4. California
- 5. Georgia
- 6. New York
- 7. Virginia
- 8. Hawaii
- 9. Maryland
- 10. Nevada
-11. New Jersey
-12.Oklahoma

3 SURVEY RESULTS

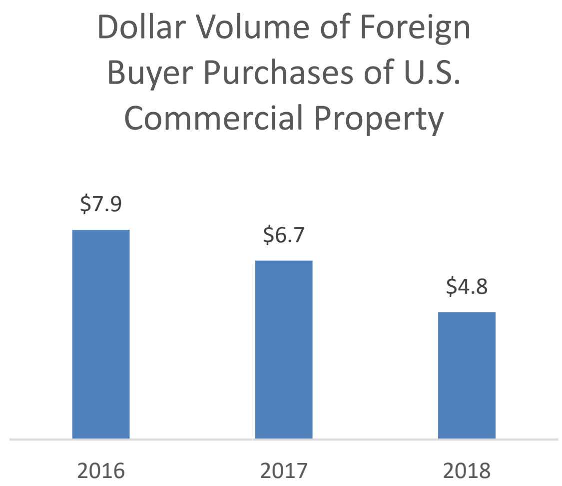
INTERNATIONAL INVESTMENT ACTIVITY

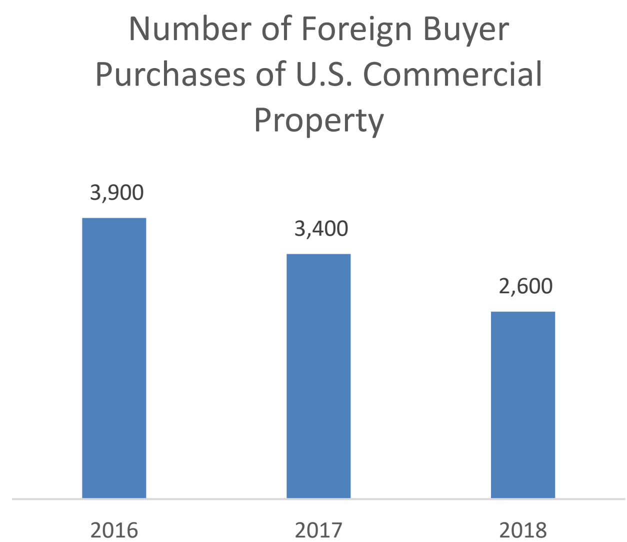
NAR estimates $4.8 billion in commercial transactions with foreign clients in 2018 among REALTORS® typically engaged in small-cap commercial transactions, a decrease from past year's $7.8 billion (2016) and $6.7 billion (2017). International transactions made up three percent of an estimated $159 billion in small cap commercial transactions.

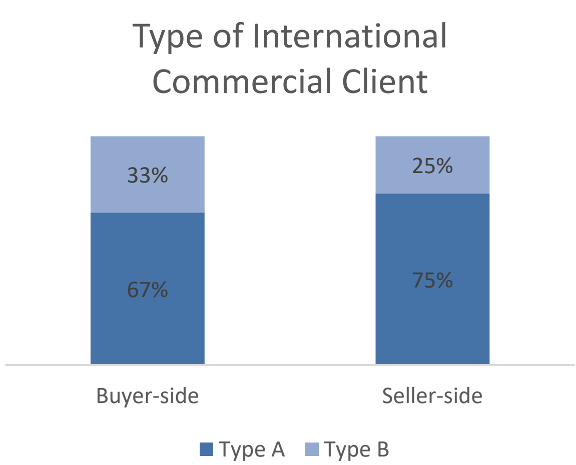
In terms of number of properties purchased, international clients purchased 2,600 commercial properties, also a decline from the level of past years (3,900 in 2016 and 3,400 in 2017).

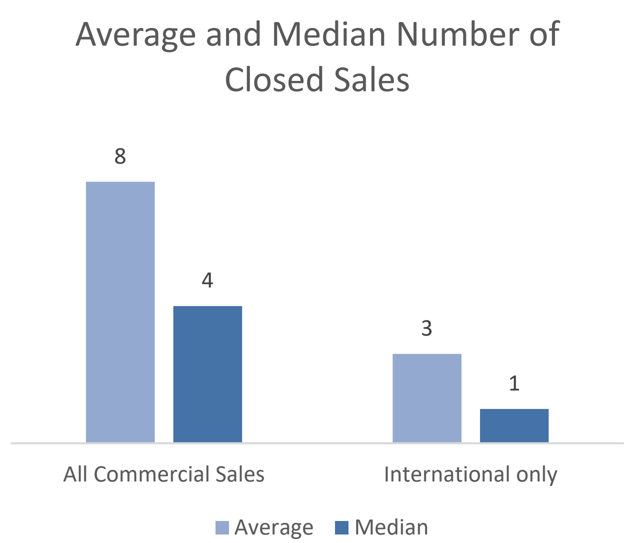
Majority of foreign buyers and foreign sellers of commercial property primarily resided abroad (Type A): 67 percent among foreign buyers and 75 percent among foreign sellers.

Among respondents who closed an international commercial transaction, the median was one sale (two in 2017) and the average was three transactions (two in 2017).





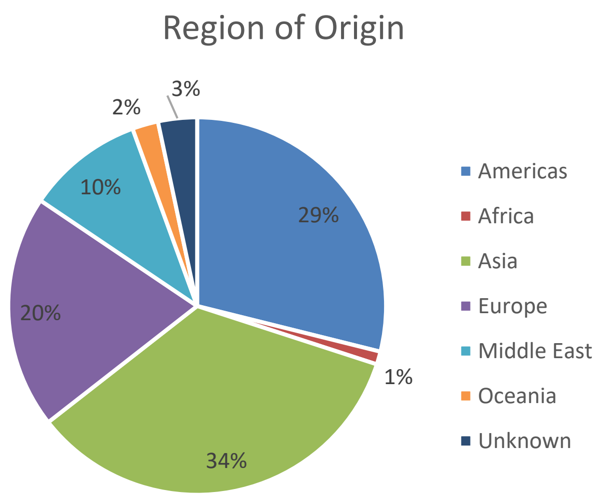


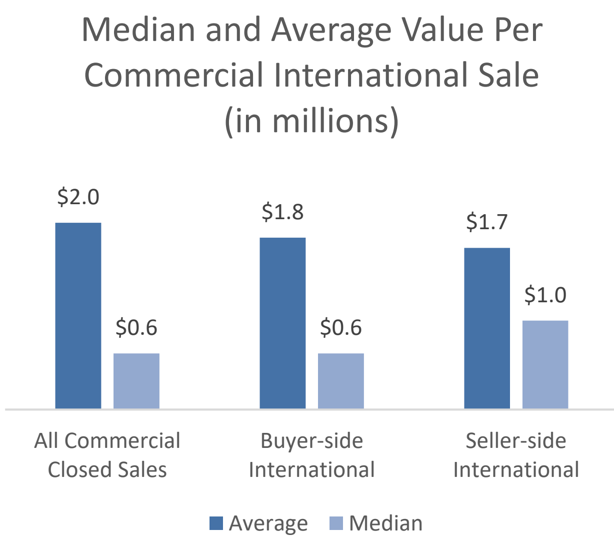


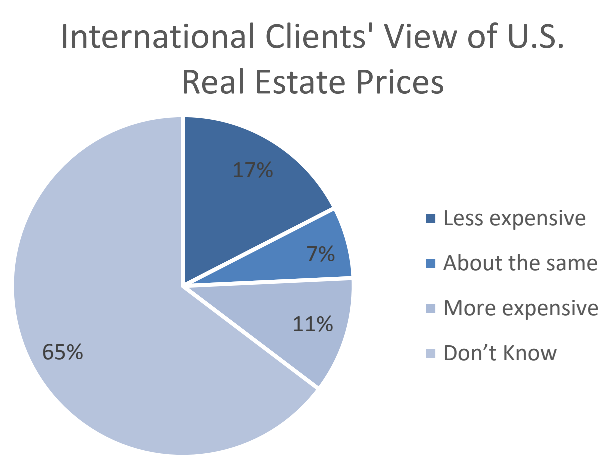
Among foreign buyers, the median value per transaction was $600,000, also the median value of all completed commercial transactions. Among foreign sellers, the median value per international transaction was $1 million. The average values per transaction are higher than the median values: $1.8 million among foreign buyers, $1.7 million among foreign sellers, and $2 million among all commercial transactions.

Price is not the only factor affecting the decision to purchase. In fact, majority of REALTORS®' international clients found U.S. commercial real estate markets to be more expensive compared to prices in their home country. Only 24 percent of respondents reported that international clients view U.S. prices to be about the same or less expensive than prices in their home country (30 percent in 2017).

International commercial buyers come from across the world: Asia (34 percent; 28 percent in 2017), Americas, which includes Canada and Latin America (29 percent; 25 percent in 2017), Europe (20 percent; 29 percent in 2017), Middle East (10 percent; 12 percent in 2017), Oceania (2 percent; 1 percent in 2017), and from other countries that were not identified by respondents (3 percent; 6 percent in 2017).



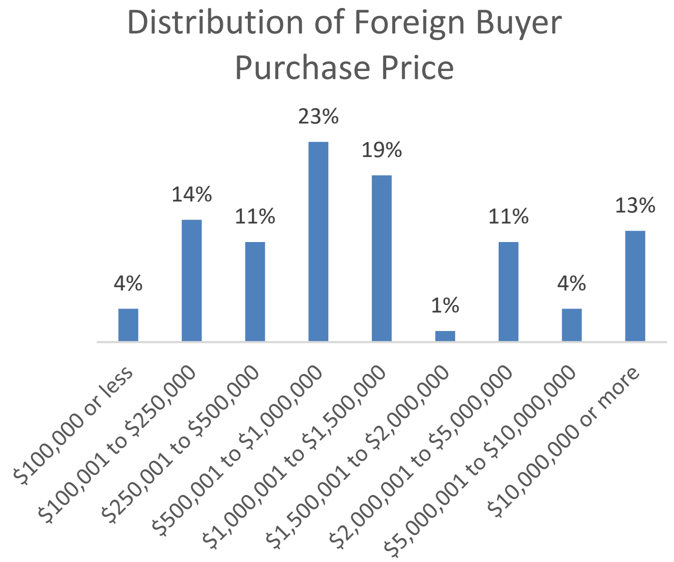




By country of origin, foreign buyers— both Type A and Type B—came from China (21 percent), Canada (7 percent), Mexico (6 percent), Germany (5 percent), India (5 percent), Israel (5 percent), United Kingdom (5 percent), Venezuela (5 percent), Vietnam (5 percent), and Italy (4 percent).

The top state destinations were Florida (20 percent),Illinois (13 percent), Texas (11 percent), and California (9 percent). Other top destinations were Georgia, New York, Virginia, Hawaii, Maryland, Massachusetts, Nevada, New Jersey, and Oklahoma.

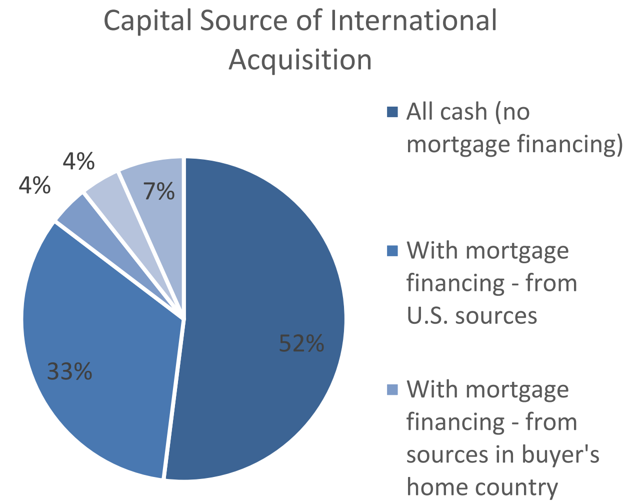
Foreign buyers purchased different types of properties, so prices paid varies. Among the respondent's most recent buyers, fifty-percent purchased properties worth $1 million and below. Thirteen percent purchased properties worth $10 million and below, which are most properties in high-priced areas or high-priced commercial units.



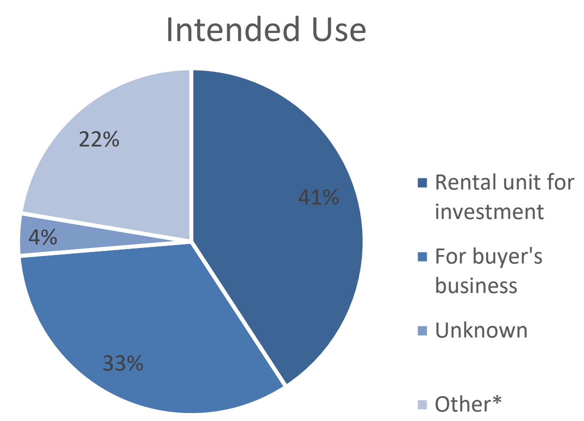
About half of commercial foreign buyers, 52 percent, made an all-cash purchase (70 percent in 2017), and 25 percent obtained financing from a U.S. source.

International commercial buyers purchased across a variety of property types: apartment (19 percent), retail (16 percent), land (12 percent), Industrial (11 percent), office (9 percent), hotel (9 percent), and other types.

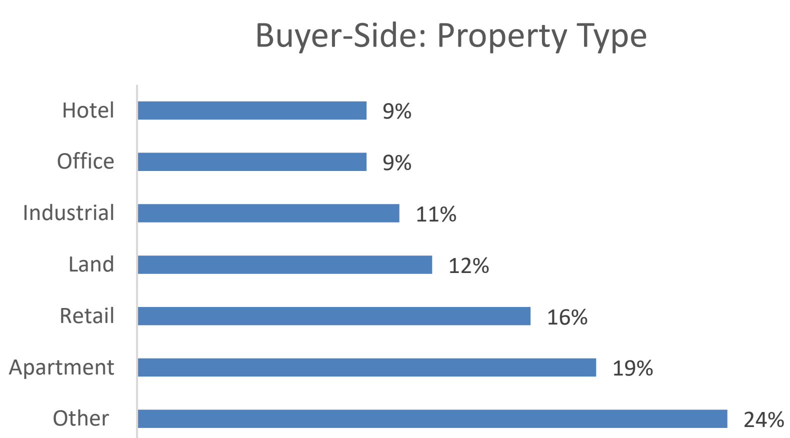
Among commercial international buyers, 41 percent purchased the commercial property as an investment (39 percent in 2017), and 33 percent purchased the property for a business they participate in (34 percent in 2017). The Other category, which accounted for 22 percent (16 percent in 2017), includes a purchase of the property for residential and business-related uses.



*Other includes lease arrangement and seller financing



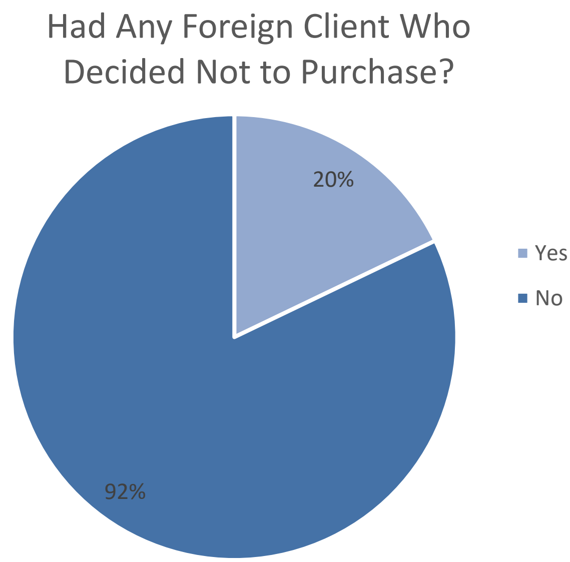
*Other includes residential rehab, boarding school, second-

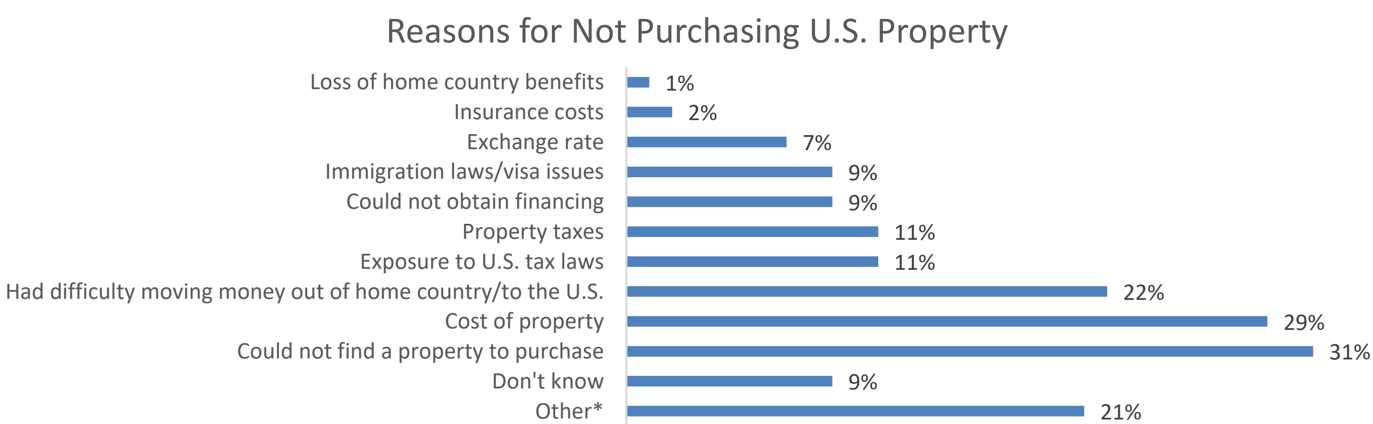


*Other includes properties such as medical, land, church, multi-family, school, vacation home, single-family rental unit

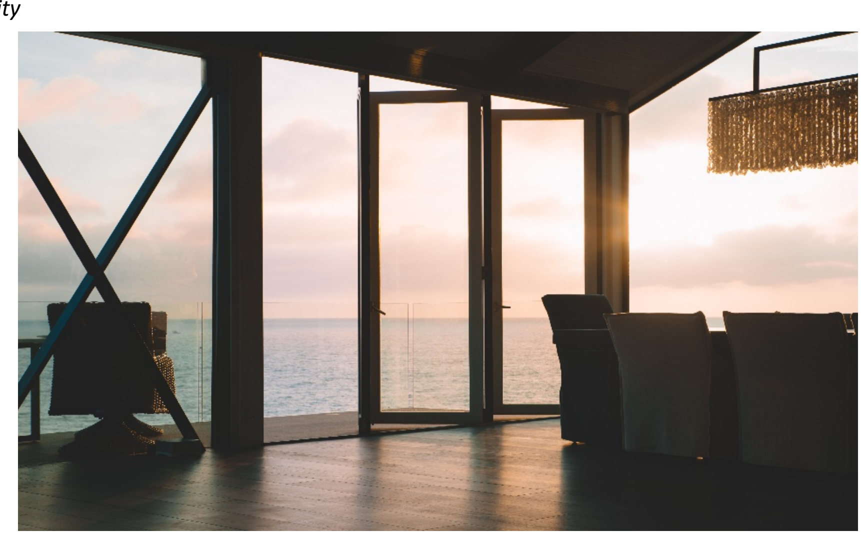
One in five international clients decided not to purchase U.S. commercial properties in 2018 (17 percent in 2017).

Among respondents who had any client who decided not to purchase property, 31 percent reported that the buyer “could not find a property.” Other major reasons cited were related to the cost of the property and exchange rate changes (36 percent), difficulty moving money out of the country (22 percent), tax-related issues (22 percent), immigration/visa (9 percent), and difficulty obtaining financing (9 percent). A higher fraction of respondent reported tax related issues in 2018 compared to 2017 (17 percent), moving money (17 percent in 2017), cost and exchange rate (30 percent).





**Other includes factors like economic and political uncertainty, offer was not acceptable, government regulations, not the right investment opportunity*



International Investment Activity

BUYER SIDE		SELLER SIDE	
Median number of transactions	1	Median number of transactions	1
Median value	$600,000	Median value	$950,000
Referral sources			
Personal contact	31%	Personal contact	22%
Former client	13%	Referred by a previous client	22%
Referred by previous client	12%	Website/Internet (paid ad)	9%
From a business contact in the U.S	12%	Signs/Ads on boards/yards	9%
Website/Internet organic search	6%	Was a former client	4%
Signs/Ads on boards/yards	6%	From a business contact outside the U.S.	4%
From a business contact outside the U.S.	5%	From a business contact in the U.S.	4%
Website/Internet (paid ad)	3%	Other, please specify	26%
Other, please specify	12%	Website/Internet organic search	*
Online referral sources			
Own (agent's) website	19%	Own (agent's) website	41%
My firm’s or franchise's website	11%	Commercial listing service: LoopNet	9%
Commercial listing service: LoopNet	10%	Unknown	9%
Unknown	10%	My social media	5%
Other broker’s website	9%	Client's home country's real estate internet portal	5%
My social media	4%	Other	32%
Realtor.com	3%	My firm’s or franchise's website	*
Other online real estate websites (e.g., Google/Yahoo/Newspaper/Craiglist etc.)	1%	My firm or franchise's social media	*
Commercial listing service: Other	1%	Other broker’s website	*
Client's home country's real estate internet portal	1%	Realtor.com	*
Other	30%	Other online real estate websites (e.g., Google/Yahoo/Newspaper/Craiglist etc.)	*
My firm or franchise's social media	*	Commercial listing service: Commercial Search	*
Commercial listing service: Commercial Search	*	Commercial listing service: Other	*
Global region of origin			
Asia	34%	Middle East	8%
Americas	29%	Europe	12%
Europe	20%	Asia	24%
Middle East	10%	Americas	40%
Oceania (Australia and surrounding islands)	2%	Unknown	16%
Africa	1%	Africa	*
Unknown	3%	Oceania (Australia and surrounding islands)	*

*Note: Responses comprised less than 1%.

International Investment Activity - continued

BUYER SIDE		SELLER SIDE	
Top countries of origin			
China	21%	China	14%
Canada	7%	Canada	14%
Mexico	6%	Mexico	9%
Germany	5%	India	9%
India	5%	Bahrain	9%
Israel	5%	Argentina	5%
United Kingdom	5%	Dominican Republic	5%
Venezuela	5%	Japan	5%
Vietnam	5%	Philippines	5%
Italy	4%	France	5%
Australia	2%	Germany	5%
Brazil	2%	Poland	5%
France	2%	United Kingdom	5%
Japan	2%	Egypt	5%
		Australia	5%
		Unknown	9%

Top U.S. Destination States			
Florida	20%	Florida	18%
Illinois	13%	Illinois	14%
Texas	11%	California	11%
California	9%	Texas	11%
Georgia	4%	New York	7%
New York	4%	Alabama	4%
Virginia	4%	Alaska	4%
Hawaii	3%	Arizona	4%
Maryland	3%	Georgia	4%
Massachusetts	3%	Maryland	4%
Nevada	3%	Massachusetts	4%
New Jersey	3%	Minnesota	4%
Oklahoma	3%	Mississippi	4%
		Nevada	4%
		Ohio	4%
		Wyoming	4%

*Note: Responses comprised less than 1%.

International Investment Activity - continued

BUYER SIDE		SELLER SIDE	
Sale price of property			
$100,000 or less	4%	$100,000 or less	11%
$100,001 to $250,000	14%	$100,001 to $250,000	14%
$250,001 to $500,000	11%	$250,001 to $500,000	14%
$500,001 to $1,000,000	23%	$500,001 to $1,000,000	18%
$1,000,001 to $1,500,000	19%	$1,000,001 to $1,500,000	14%
$1,500,001 to $2,000,000	1%	$1,500,001 to $2,000,000	7%
$2,000,001 to $5,000,000	11%	$2,000,001 to $5,000,000	18%
$5,000,001 to $10,000,000	4%	$5,000,001 to $10,000,000	4%
$10,000,000 or more	13%	$10,000,000 or more	0%
Property type			
Apartment	19%	Apartment	22%
Retail	16%	Land	22%
Land	12%	Retail	19%
Industrial	11%	Hotel	11%
Hotel	9%	Industrial	11%
Office	9%	Office	4%
Other	24%	Other	11%
Intended use of property			
Commercial rental property for investment	41%	Commercial rental property for investment	27%
Commercial property for business	33%	Commercial property for business	23%
Other	4%	Other	8%%
Unknown	22%	Unknown	42%

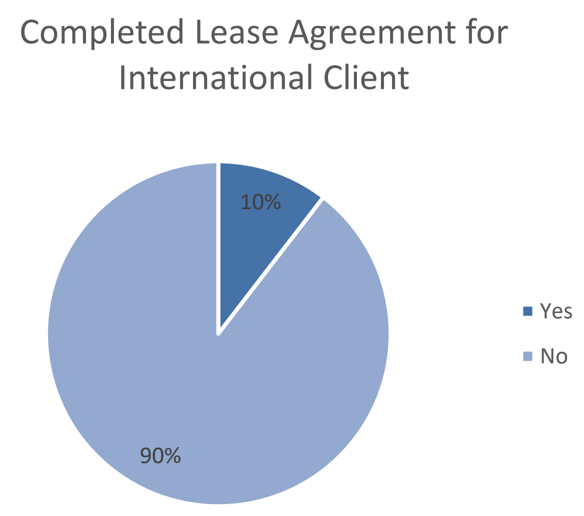
INTERNATIONAL LEASING ACTIVITY

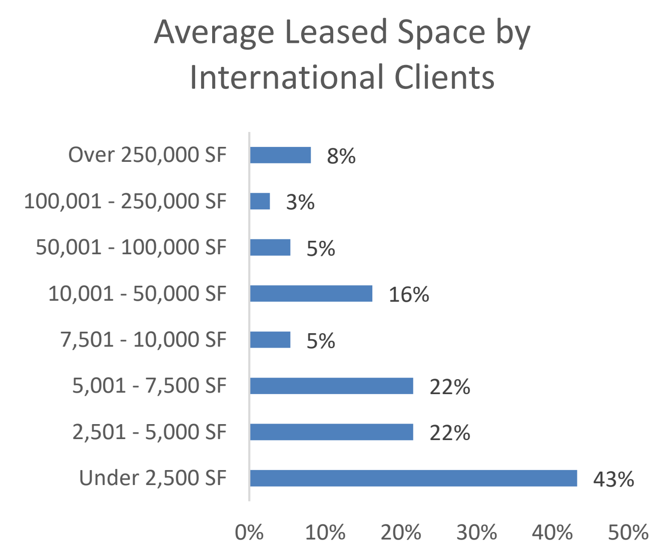
Among the two percent of respondents who were engaged in commercial leasing transactions in 2018, only 10 percent reported closing a lease for an international client (19 percent in 2017). The median was one lease transaction (two in 2017).

The median annual gross lease value per transaction for international lease transactions was $162,500 ($200,000 in 2017).

Mirroring REALTORS®' focus on smaller markets and properties, a significant share of leased space was under 2,500 square feet, accounting for 43 percent of survey responses (26 percent in 2017).

Lease terms for international clients were in line with general U.S. market trends. Three-year leases comprised the majority of lease terms among international clients, at 27 of leases (36 percent in 2017).





INTERNATIONAL APPRAISAL ACTIVITY

During 2018, of the three percent of REALTORS®' specializing in commercial appraisals who responded to the survey, three percent reported they were engaged with international clients (8 percent in 2017).

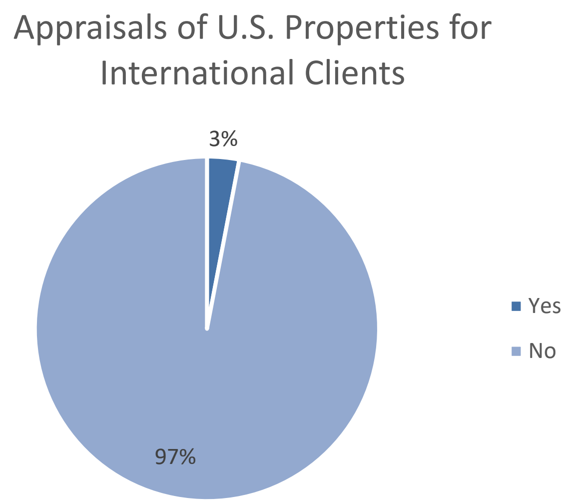
Respondents reported having completed a median of two appraisals for their clients (two appraisals in 2017).

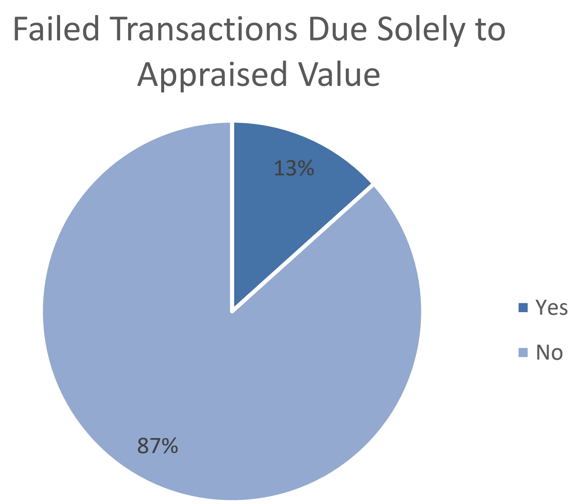
The incidence of failed transactions due to appraised value being lower than the price rose to 13 percent (8 percent in 2017). Limited survey data indicated that appraisal issues arose at a loan-to-value of 70 to 80 percent (90 percent in 2017).

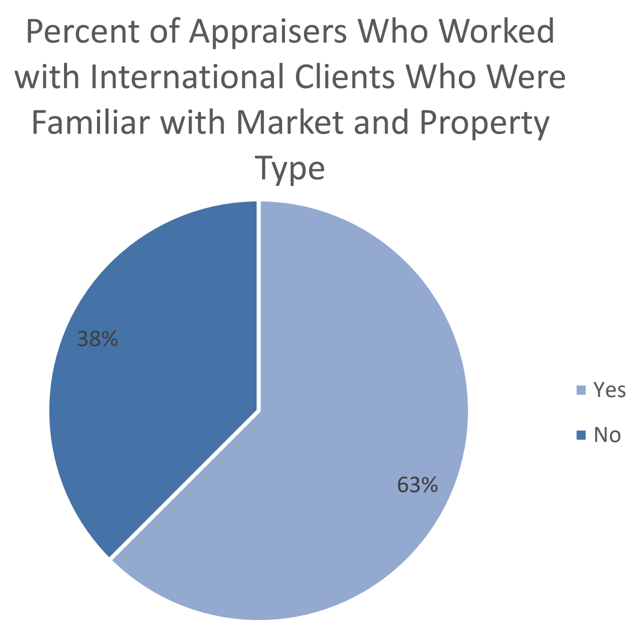
Appraisal problems were related to net operating income concerns, fiscal issues with the property, lack of comparable sales, and wire transfer problems.

Among appraisers who worked with international clients seeking quality appraisers, 63 percent reported their clients were familiar with the local market and property type.

Appraisal issues Reported by Respondents
Net operating income concerns
Deteriorating fiscal issues with property
Bank appraisal issues
Lack of comparable sales
Buyer and seller difference of opinion
Overvalued seller price
Local banks' ability to accept wire transfers
High land values



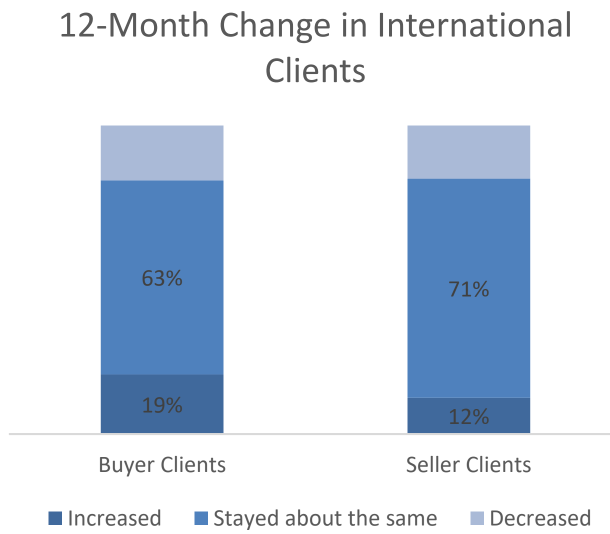


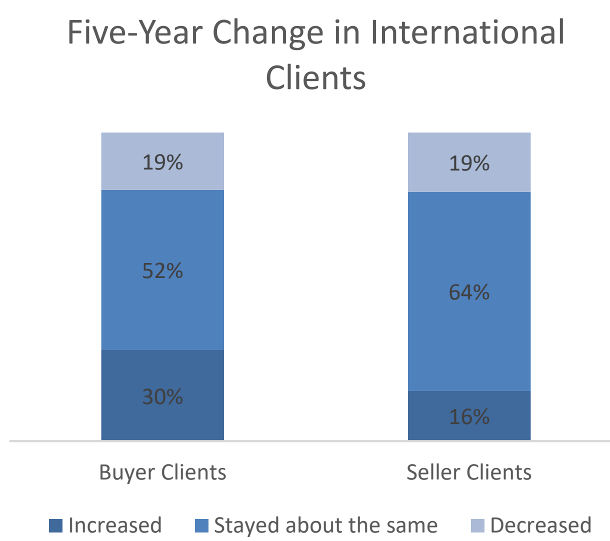


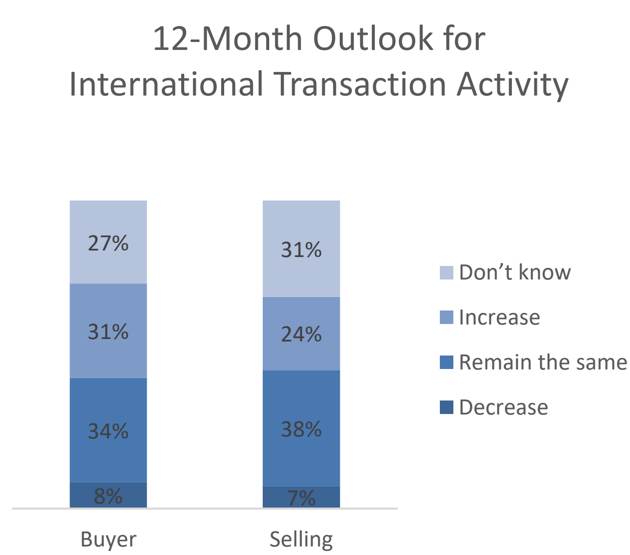
OUTLOOK

Regarding international client activity in 2018, 19 percent of survey respondents experienced an increase in the number of international clients looking to buy (25 percent in 2017), while 12 percent experienced an increase in the number of international clients seeking to sell (15 percent in 2017). Interest of international clients seeking to buy or sell appears to have eased in the past 12 months compared to conditions during the last five years, which is indicated by the higher fraction of respondents who reported an increase in clients seeking to buy (30 percent; 35 percent in 2017) and seeking to sell (16 percent; 20 percent in 2017).

Based on survey data, 31 percent of survey takers expect an increase in international buying clients in the next 12 months (34 percent in 2017, and 24 percent expect an increase in international selling clients in the next 12 months (26 percent in 2017). Considering that international transactions are impacted by several factors, including political, economic, and regulatory events, both in the United States and abroad, approximately one third of respondents responded “don’t know” for each of the outlook for buying and selling activity.







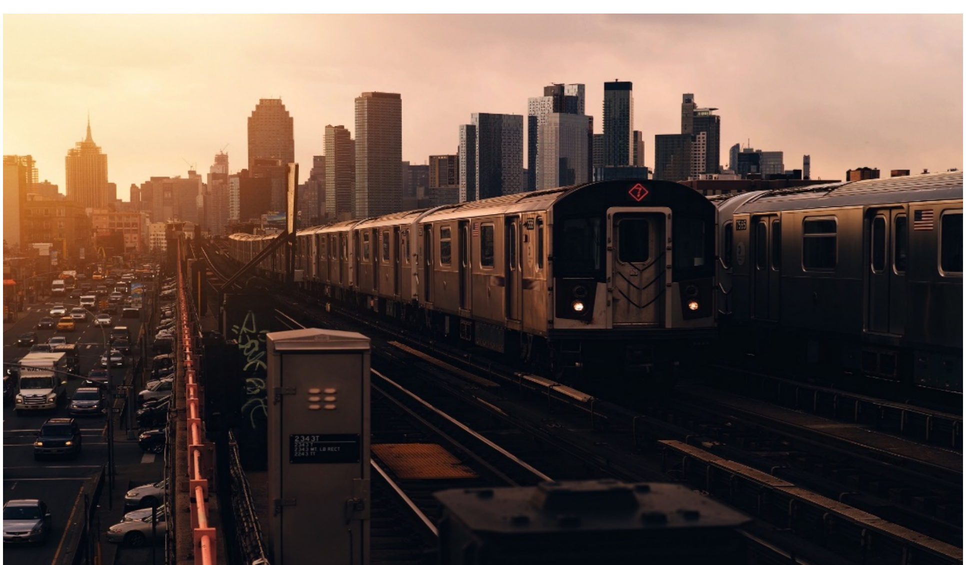
SURVEY METHODOLOGY

In December of 2018, NAR sent out the online survey to nearly 70,000 REALTORS® with an interest in commercial real estate. The objective of the survey was to gather information about their commercial transactions with international clients during the period January –December 2018. A total of 1,511 responses were received for an overall response rate of 2 percent.

NAR also collaborated with Mainstreet Organization of REALTORS® in Chicago, and 244 responses were received and combined with the NAR national survey to form the complete set of responses.

The margin of error for estimating proportions (using 50 percent sample estimate) at the 95 percent level of confidence is 2.3 percent. The margin of error for sub-groups estimates (sales, leasing, and appraisals) will be higher.

The primary measure of central tendency used throughout the report is the median, the middle point in the distribution of responses to a particular question. The report also employs frequency distributions, to display the number of observations within a given interval.



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