

NATIONAL ASSOCIATION OF REALTORS®

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# COMMERCIAL REAL ESTATE INTERNATIONAL BUSINESS TRENDS 2017

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*The Voice for Real Estate®*



NATIONAL  
ASSOCIATION *of*  
REALTORS®

**Commercial Real Estate International Business Trends 2017**

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# INTRODUCTION

## INTRODUCTION

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Viewed through the rearview mirror, 2016 proved to be a tumultuous year. From Rio's Summer Olympics highs to continued military conflict lows, and from a surprising Brexit to a lively and unexpected United States (U.S.) presidential campaign, the year offered sudden turns and sharp corners. Economically, the world continued at a soft tempo, as evidenced by the extraordinary measures taken by several central banks to dip into negative interest rate territory in bids to stimulate growth. The U.S. continued as a relative bright spot—even at the moderate 1.6 percent annual gross domestic product growth.

Amid global uncertainty and economic moderation, international commercial real estate transactions experienced a slowdown. Total global sales volume for investment properties totaled \$825.7 billion in 2016, according to Real Capital Analytics (RCA). The figure represented a 15 percent decline year-over-year. In the U.S., large cap investment sales reached \$488.6 billion in 2016, an 11 percent drop from 2015 levels. In light of the low global yields, international investors remained active in U.S. commercial markets, as evidenced by the 14 percent share of total volume registered by cross-border investors in 2016. Cross-border capital focused primarily on hotel, office and development properties during the year, mostly in major metropolitan areas. Foreign investors became increasingly active in secondary and tertiary markets, accounting for close to 10 percent of investment sources in each of the markets, respectively. Strengthening economies, rising employment and solid cash flows for income-producing properties have elevated the profiles of cities like Austin, Denver, Nashville, and Las Vegas.

In contrast to the large cap commercial market transactions reported by RCA, 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 2017* focuses on this significant segment of the economy and real estate markets.

Based on data from a national survey, REALTORS® were active in cross-border commercial real estate transactions during 2016. Highlighting the rising interest in smaller capitalization markets, 20 percent of survey respondents reported closing an investment sale involving international clients. Respondents completed a median of one buyer-side international deal in 2016, and two seller-side international transactions. In addition, 22 percent of REALTORS® who answered the survey indicated they completed a lease agreement on behalf of an international client during the year. Business relationships were at the core of REALTORS® transactions, with personal contacts, former clients and previous client referrals comprising the majority of investment sources. While 60 percent of international transactions were closed with cash, over 30 percent of deals involved debt financing from U.S. sources.



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# SURVEY HIGHLIGHTS

## SURVEY HIGHLIGHTS

- **69%** of respondents closed commercial real estate deals in 2016
- REALTORS® closed an average of **5 commercial transactions**
- The overall **median** sale transaction was **\$650,000**, while the **average** transaction was **\$2.3 million**
- **20%** of respondents closed a sale involving **international** clients/investors
- **60%** of **international** investments were financed with **cash**; **34%** of deals were financed with **debt** from U.S. sources
- Respondents completed a **median of one buyer-side international** transaction, with a **median** value of **\$1.0 million**, while the **average** transaction was valued at **\$2.0 million**
- Survey respondents indicated a **median of two seller-side international** sales in 2016, with a **median** value of **\$550,000** (average value of **\$3.2 million**)
- **22%** of respondents completed a **lease** agreement for an **international** client in 2016, with a **median** gross lease value of **\$105,000** (average of **\$626,000**)
- Region of REALTORS® most frequent international client:
  - Americas **28%**
  - Asia **26%**
  - Europe **22%**
  - Middle East **14%**
  - Africa **0%**
  - Oceania **0%**
  - Unknown **10%**
- Top Countries – **Buyer-Side** Commercial Real Estate Investments in U.S. (by share of responses)
  - 1. China
  - 2. Mexico
  - 3. United Kingdom
  - 4. Venezuela
  - 5. Canada
  - 6. France
  - 7. Israel
  - 8. South Korea
  - 9. United Arab Emirates
  - 10. Vietnam
- Top U.S. destination states – **Buyer-Side** (by share of responses)
  - 1. Florida
  - 2. Texas
  - 3. California
  - 4. New York
  - 5. Arizona
  - 6. Ohio
  - 7. Alabama
  - 8. Michigan
  - 9. Mississippi
  - 10. Nevada
- **38%** of REALTORS® reported that **international** clients purchased rental properties for **investment**; **35%** acquired it for **business use**
- **27%** of space **leased** by **international** clients was under 2,500 square feet
- Over the past five years, **47%** of survey respondents experienced an **increase** in the number of **international** clients
- **40%** of REALTORS® who responded to the survey expect **international buying** activity to **increase** during 2017





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## SURVEY RESULTS

## SURVEY RESULTS

### General Characteristics

During 2016, 69 percent of REALTORS® who responded to the survey completed a commercial real estate transaction. An additional 19 percent of respondents indicated that they had clients but did not complete any transactions.

Survey respondents reported that they closed a median of five sale transactions during the year. The median commercial sale for REALTORS® who answered the survey was \$650,000.

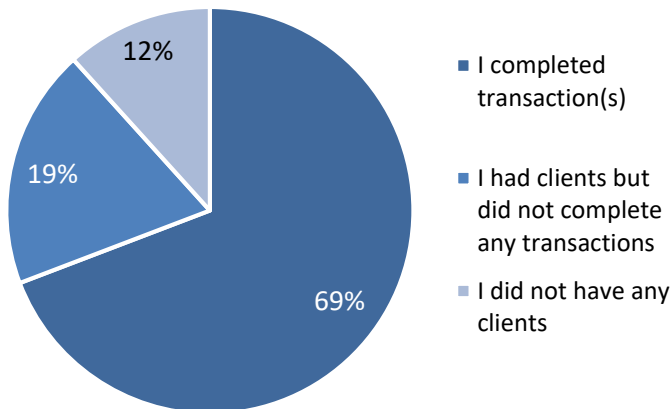
The survey data indicate that 39 percent of members specialize in sales and leasing. Members who specialize in sales-only accounted for 36 percent of total respondents. Property management was the main specialty for nine percent of members, with appraisal and just leasing accounting for four percent, each.

### International Investment Activity

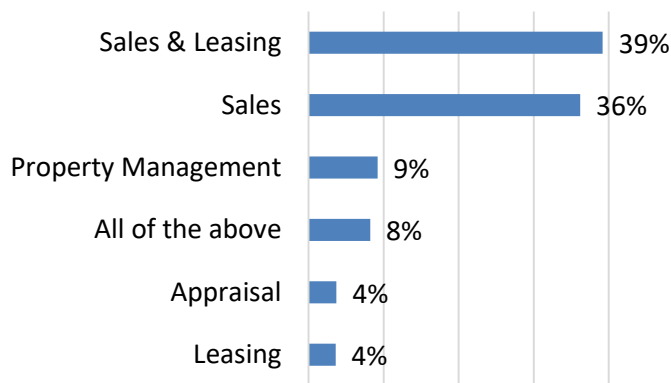
REALTORS® engaged in commercial real estate have been actively involved with international clients, with 20 percent of members reporting closing international deals, based on historical data. During 2016, the share of members with international transactions continued at 20 percent.

Respondents reported closing a median of one international transaction in 2016. A little over four-in-ten REALTORS® completed at least one buyer-side international transaction during the year. Approximately one-in-four survey respondents indicated closing a seller-side transaction, with the remainder engaged in both buyer-side and seller-side deals. Values of international commercial real estate acquisitions were in line with REALTORS® markets. Respondents reporting median buyer-side sales prices of \$1,000,000, and median seller-side prices of \$550,000.

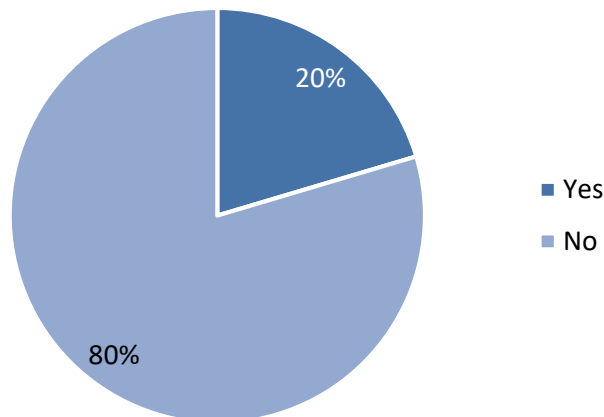
**Exhibit 1: Commercial Real Estate Activity**



**Exhibit 2: Commercial Real Estate Specialty**



**Exhibit 3: Sale Transactions Involving International Clients**



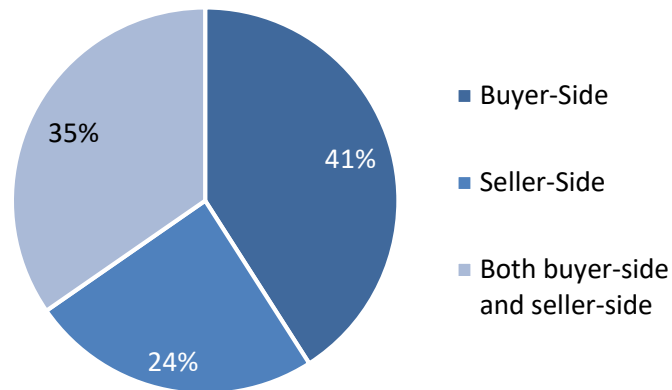
## SURVEY RESULTS

### International Investment Activity - continued

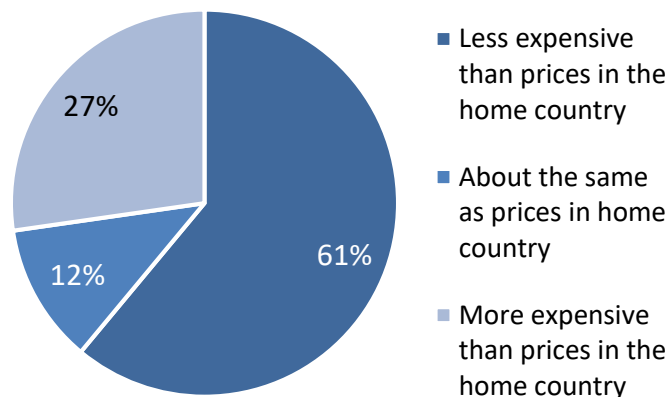
REALTORS®' international clients found U.S. commercial real estate markets a good value in 2016. Based on survey data, 61 percent of respondents' clients considered U.S. prices to be less expensive than prices in their home countries. Over one-in-ten REALTOR® clients thought prices were on par, while close to a third of international clients found U.S. prices higher than those in their home countries.

Nearly one-in-four international clients decided not to purchase U.S. commercial properties in 2016. Over 35 percent of those who chose not to buy cited lack of inventory as a main reason, echoing broader trends in U.S. markets. The high cost of property was the second main reason for not purchasing, accounting for 21 percent of responses. Loss of home country benefits and U.S. property taxes tied for third place, with 14 percent of responses each. Insurance costs were a reason for 12 percent of clients, followed by exposure to U.S. tax laws, as well as Immigration laws and visa issues.

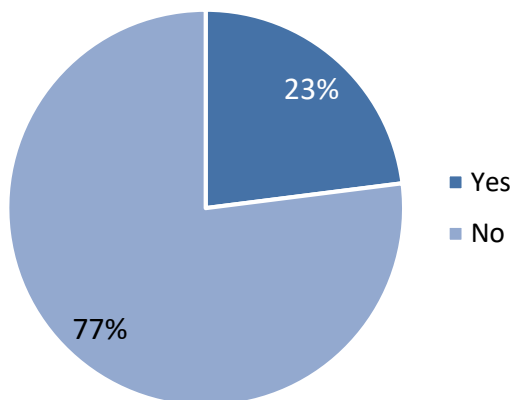
**Exhibit 4: Type of International Sale Transaction**



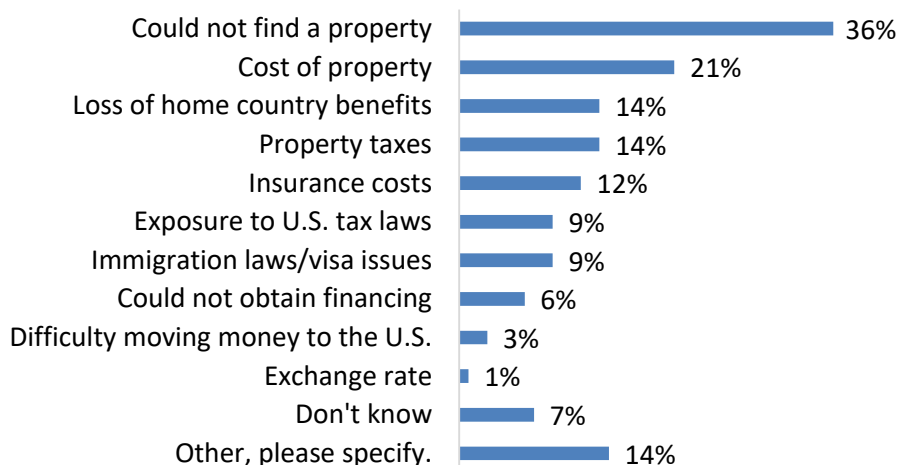
**Exhibit 5: International Clients' View of U.S. Real Estate Prices**



**Exhibit 6: International Clients Decide Not to Purchase**



**Exhibit 7: Reasons for Not Purchasing U.S. Property**



**International Investment Activity - continued**

BUYER SIDE		SELLER SIDE	
Median number of transactions	1	Median number of transactions	2
Median value	\$1,000,000	Median value	\$550,000
<b>Referral sources:</b>			
Previous client referral	21%	Personal contact	27%
Personal contact	18%	Former client	23%
Former client	10%	Previous client referral	18%
U.S. business contact	8%	Outside U.S. business contact	9%
Website/Organic search	7%	U.S. business contact	5%
Website/Paid ad	7%	Signs/ads on boards/yards	5%
Outside U.S. business contact	6%	Website/Organic search	0%
Signs/ads on boards/yards	6%	Website/Paid ad	0%
Walked into office	1%	Walked into office	0%
<b>Online referral sources:</b>			
Unknown	18%	Own (agent's) website	27%
My firm's/franchise's website	15%	Unknown	18%
Commercial listing: LoopNet	14%	Own (agent's) social media	14%
Own (agent's) website	13%	My firm's/franchise's website	9%
Own (agent's) social media	5%	Client's country's real estate internet portal	*
Other online real estate websites	4%	Commercial listing service: CommercialSearch	*
My firm/franchise's social media	1%	Commercial listing service: LoopNet	*
Commercial listing: CommercialSearch	1%	Commercial listing service: Other	*
Commercial listing: Other	1%	My firm/franchise's social media	*
Client's country's real estate internet portal	1%	Other broker's website	*
Other broker's website	*	Other online real estate websites	*
Realtor.com	*	Realtor.com	*
<b>Global region of origin:</b>			
Americas	28%	Americas	36%
Asia	26%	Asia	20%
Europe	22%	Europe	20%
Middle East	14%	Middle East	12%
Unknown	10%	Unknown	8%
Africa	*	Oceania (Australia & surrounding islands)	4%
Oceania (Australia & surrounding islands)	*	Africa	*

\*Note: Responses comprised less than 1%.

**International Investment Activity - continued**

BUYER SIDE			SELLER SIDE	
<b>Top countries of origin:</b>				
China		17%	China	15%
Mexico		14%	Brazil	10%
United Kingdom		7%	Canada	10%
Venezuela		7%	France	10%
Canada	South Korea	4%	Mexico	10%
France	United Arab Emirates	4%	Australia	5%
Israel	Vietnam	4%	Belgium	5%
Argentina	Greece	2%	Denmark	5%
Germany	India	2%	India	5%
<b>Countries with less than 2% of transactions:</b>			Israel	5%
			Switzerland	5%
Austria	Iran	Russia	Turkey	5%
Barbados	Italy	Spain	Venezuela	5%
Brazil	Japan	Sweden		
Croatia	Kuwait	Switzerland		
El Salvador	Netherlands	Turkey		
Indonesia	Pakistan	Yemen		
<b>Top U.S. destination states</b>				
Florida: 26%		26%	Florida	38%
Texas: 19%		19%	Texas	17%
California: 8%		8%	Michigan	8%
New York: 6%		6%	Arizona	4%
Arizona: 4%		4%	California	4%
Ohio: 4%		4%	Colorado	4%
Alabama: 2%		2%	Idaho	4%
Michigan: 2%		2%	Louisiana	4%
Mississippi: 2%		2%	Missouri	4%
Nevada: 2%		2%	Montana	4%
New Mexico: 2%		2%	New York	4%
North Carolina: 2%		2%	Ohio	4%
Pennsylvania: 2%		2%		
<b>States with less than 2% of transactions:</b>				
Colorado	Indiana	Missouri		
Georgia	Iowa	Montana		
Hawaii	Louisiana	New Hampshire		
Idaho	Maine	Tennessee		
Illinois	Maryland	Virginia		

**International Investment Activity - continued**

BUYER SIDE		SELLER SIDE	
<b>Sale price of property</b>			
\$100,000 or less	4%	\$100,000 or less	0%
\$100,001 to \$250,000	8%	\$100,001 to \$250,000	17%
\$250,001 to \$500,000	20%	\$250,001 to \$500,000	17%
\$500,001 to \$1,000,000	22%	\$500,001 to \$1,000,000	25%
\$1,000,001 to \$1,500,000	9%	\$1,000,001 to \$1,500,000	8%
\$1,500,001 to \$2,000,000	8%	\$1,500,001 to \$2,000,000	4%
\$2,000,001 to \$5,000,000	22%	\$2,000,001 to \$5,000,000	17%
\$5,000,001 to \$10,000,000	2%	\$5,000,001 to \$10,000,000	0%
\$10,000,000 or more	4%	\$10,000,000 or more	13%
<b>Capital sources</b>			
All cash (no mortgage financing)	60%		
With mortgage financing - U.S. sources	34%		
With mortgage financing - sources in buyer's home country	1%		
Unknown	4%		
Other	1%		
<b>Property type</b>			
Other	23%	Land	30%
Retail	20%	Office	17%
Apartment	19%	Retail	13%
Industrial	18%	Other	13%
Land	11%	Apartment	9%
Office	6%	Hotel	9%
Hotel	4%	Industrial	9%
<b>Intended use of property</b>			
Commercial property for business	35%	Commercial rental property for investment	30%
Commercial rental property for investment	38%	Commercial property for business	26%
Other	15%	Other	35%
Unknown	12%	Unknown	9%
<b>International Client Type</b>			
TYPE A: non-U.S. citizens who primarily reside outside the U.S.	64%	TYPE A: non-U.S. citizens who primarily reside outside the U.S.	62%
TYPE B: non-U.S. citizens in the U.S. on non-immigrant visas (diplomats, foreign students & foreign workers)	36%	TYPE B: non-U.S. citizens in the U.S. on non-immigrant visas (diplomats, foreign students & foreign workers)	38%

## SURVEY RESULTS

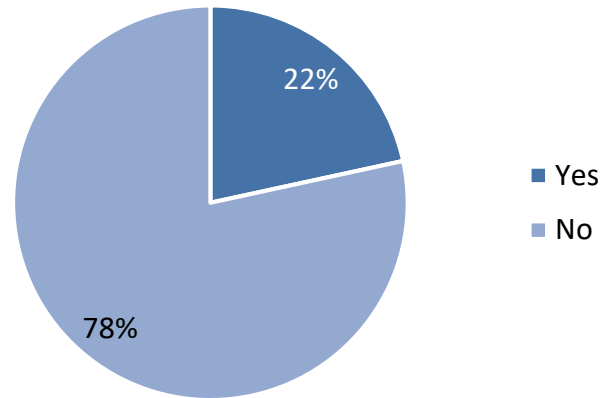
### International Leasing Activity

REALTORS®’ also engaged in commercial leasing transactions in 2016 on behalf of international clients, with over 20 percent of survey respondents indicating closed leases. Respondents reported completing a median of two lease transactions during the year. The median gross lease value for international lease transactions was \$105,000.

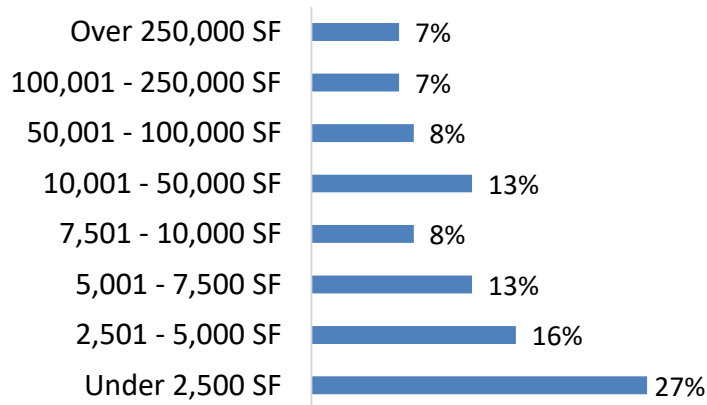
Mirroring REALTORS®’ focus on smaller markets and properties, a significant share of leased space was under 2,500 square feet, accounting for close to 27 percent of survey responses. The “2,501 – 5,000 square feet” category comprised 16 percent of responses, followed by a tie between the “5,001 – 7,500 square feet” and “10,001 – 50,000 square feet” categories, each accounting for 13 percent of total.

Lease terms for international clients were in line with general U.S. market trends. Three- and five-year leases comprised the majority of lease terms, with 27 percent of total, each. Leases with terms of less than one year made up 20 percent of survey responses, followed by one-year leases, which accounted for 12 percent of total.

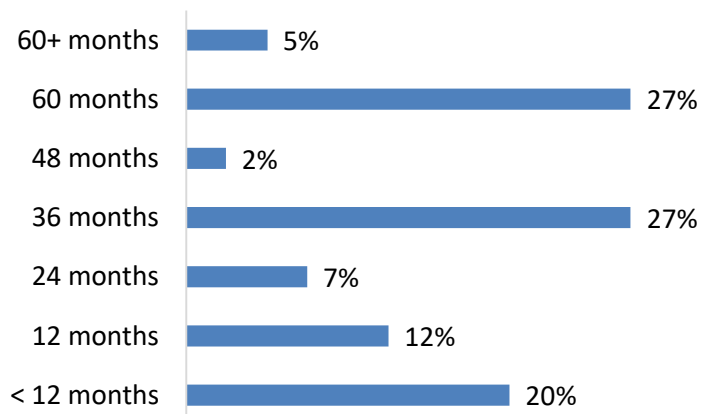
**Exhibit 8: Completed Lease Agreement for International Client**



**Exhibit 9: Average leased space by international client(s)**



**Exhibit 10: Average lease term of international clients**



## SURVEY RESULTS

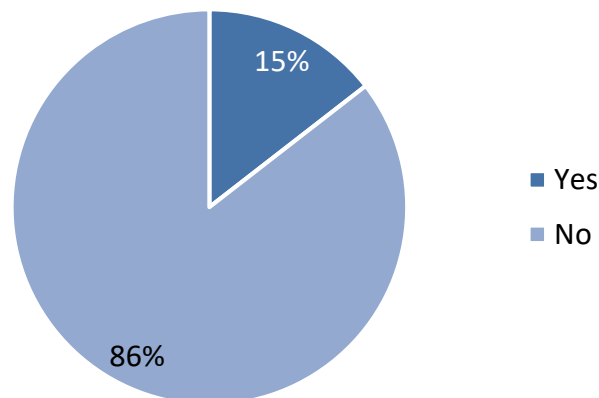
### International Appraisal Activity

During 2016, 15 percent of REALTORS® specializing in commercial appraisals who responded to the survey were engaged with international clients. Respondents reported having completed a median of two appraisals for their clients.

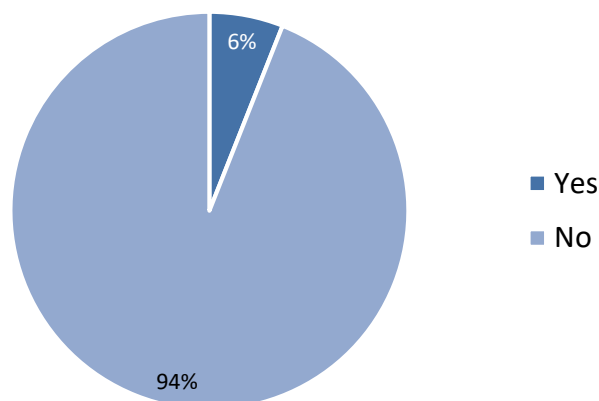
The incidence of failed transactions due to appraised value being lower than the price, was generally below the trends for U.S. clients, accounting for only six percent of total responses. Survey data indicated that most appraisal issues arose at a loan-to-value median value of 78 percent.

The main reasons for appraisal problems with international transactions were declining net operating incomes, deteriorating fiscal issues with the properties, and economic obsolescence of the buildings. Lack of energy efficiency and environmental conditions were cited by 11 percent and seven percent of respondents, respectively.

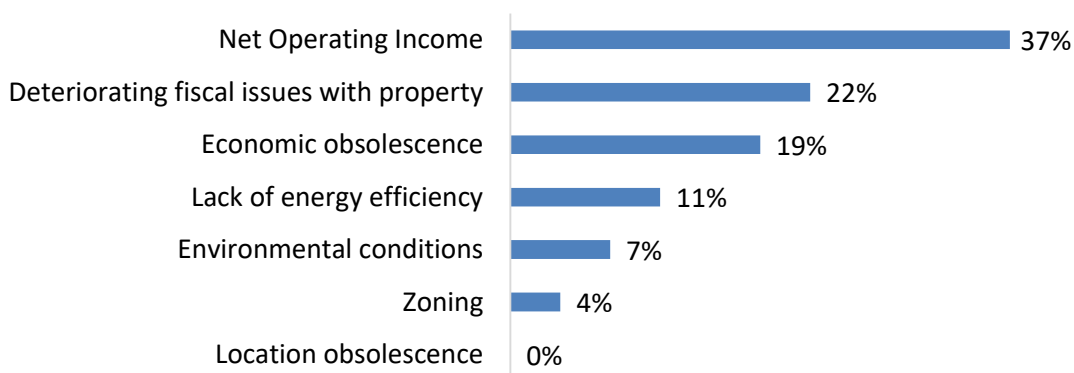
**Exhibit 11: Appraisals of U.S. Properties for International Clients**



**Exhibit 12: Failed Transactions Due Solely to Appraised Value**



**Exhibit 13: Reasons for Appraisal Issues Involving International Transactions**





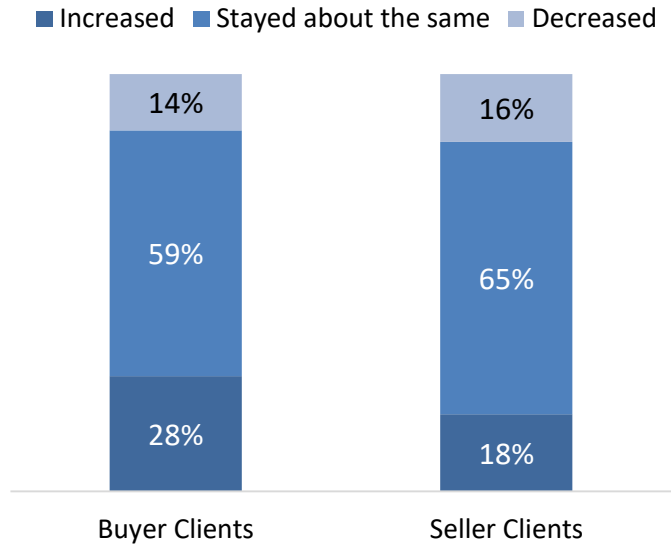
## SURVEY RESULTS

### Outlook

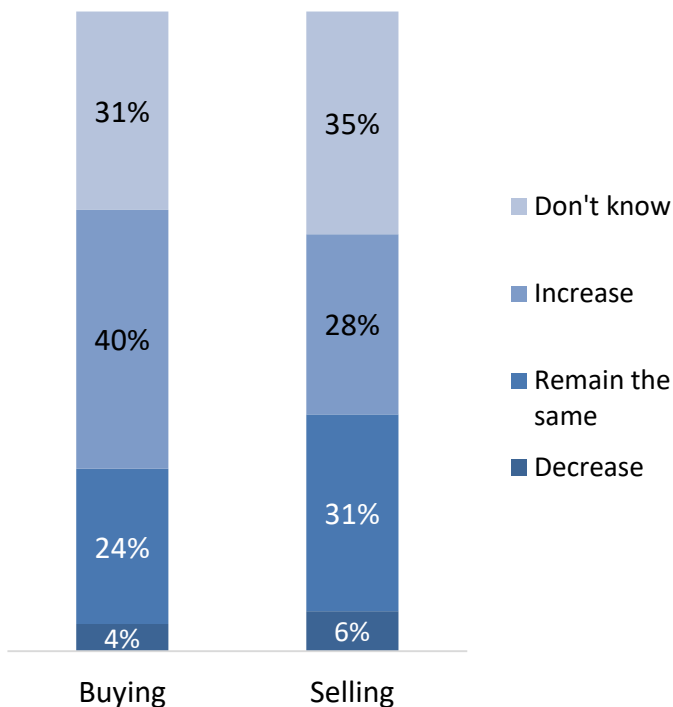
Over the past five years, 47 percent of survey respondents experienced an increase in the number of international clients looking to buy. The number of international clients selling commercial properties in the U.S. increased for 60 percent of respondents. The trends accelerated over the short term, with one-year changes in clients displaying higher percentages for both buyer- and seller-side.

Based on survey data, 40 percent of survey takers expect an increase in international buying clients. A majority of REALTORS® who responded to the survey expect selling activity by international clients to stay mostly the same or increase during 2017.

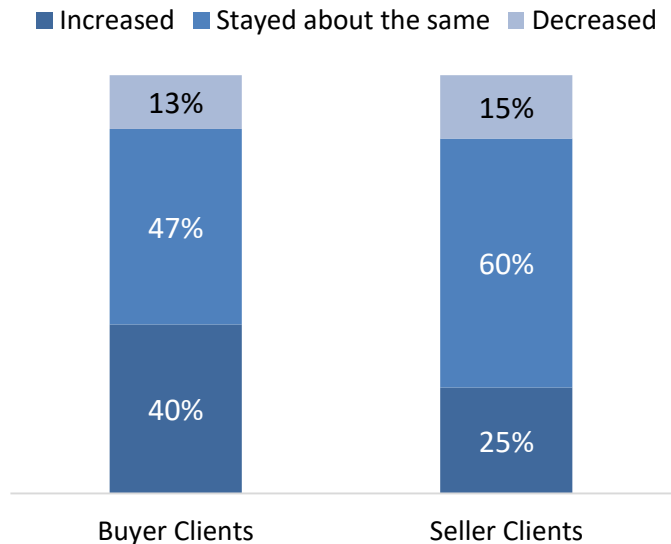
**Exhibit 14: 12-Month Change in International Clients**



**Exhibit 16: 12-Month Outlook for International Transaction Activity**



**Exhibit 15: 5-Year Change in International Clients**



## **Methodology of NAR's 2017 Commercial Real Estate International Business Survey**

In December of 2016, NAR invited a random sample of 64,448 REALTORS® with an interest in commercial real estate to fill out an online survey. A total of 1,125 responses were received for an overall response rate of 1.7 percent.

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.





The National Association of REALTORS®, “The Voice for Real Estate,” is America’s largest trade association, representing 1.2 million members, including NAR’s institutes, societies and councils, involved in all aspects of the real estate industry. NAR membership includes brokers, salespeople, property managers, appraisers, counselors and others engaged in both residential and commercial real estate. The term REALTOR® is a registered collective membership mark that identifies a real estate professional who is a member of the National Association of REALTORS® and subscribes to its strict Code of Ethics. Working for America's property owners, the National Association provides a facility for professional development, research and exchange of information among its members and to the public and government for the purpose of preserving the free enterprise system and the right to own real property.

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