NATIONAL ASSOCIATION of REALTORS®
Commercial & Global Services

CIPS
certified international property specialist

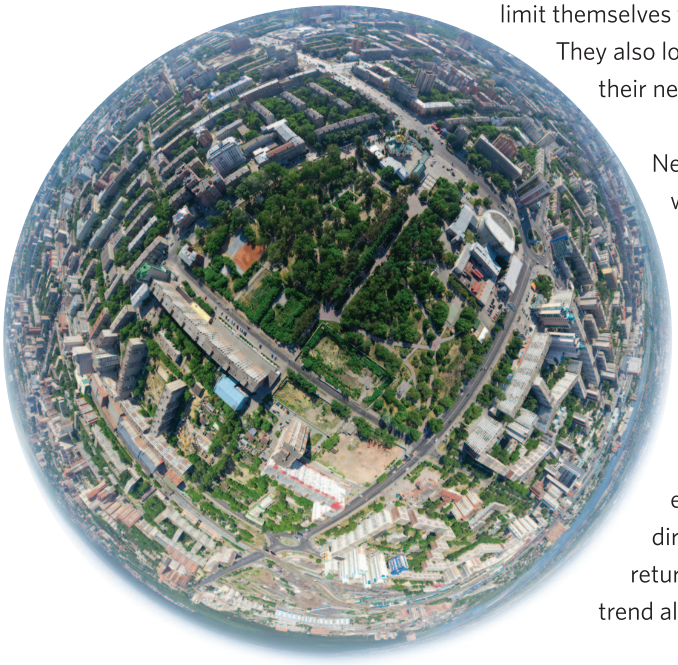
GLOBAL PERSPECTIVES

to local, international & lifestyle real estate

June 2013

INTERNATIONAL INVESTMENTS

The Perspective at 30,000 Feet



Money has always found its way into real estate, but today's investors don't necessarily limit themselves to considering properties in their city, their state or even their country. They also look across borders when searching for investment property that meets their needs.

New technology has made it easy to gather investment and return data worldwide and to transfer funds across borders quickly and efficiently. GoogleEarth allows buyers to zoom down on property half way around the globe to examine its physical features. As international investment has grown, even small individual investors have gained the confidence and motivation to consider purchasing global property.

The trend extends well beyond established global players. International real estate investments are now a major force in many emerging economies, with wealthy investors in Brazil, Russia, India and China directing large amounts of money outside their own borders to find the best returns and to diversify their portfolios. In many instances, the border-crossing trend also extends to a burgeoning middle class.

This issue of *Global Perspectives* takes a look at some of the forces that drive money into international investments, including five major factors that motivate people to invest abroad and five major destinations for international money. Look inside for more details. **GP**

5

FIVE FACTORS MOTIVATING GLOBAL INVESTORS

Is the prospect of a great return what drives all investors? When the investment is real estate, this is certainly one important factor, but far from the complete story. Like other major life decisions, people enter real estate transactions with their own unique set of needs and wants. Here are some of the major factors driving today's global transactions.

1 Investment Visas

Global investors often look for more than an investment vehicle when choosing a destination for their money. The right to stay and travel in a country for extended periods is a powerful motivator for certain individuals. Many countries recognize this and have created visa programs that offer additional benefits to foreigners investing in properties or businesses in their countries.

The EB-5 Visa

Many foreign-born investors would like to live and travel in the U.S. for extended periods, but can't because of visa restrictions. The EB-5 visa is a powerful tool for attracting foreign-born entrepreneurs and investors who are looking for a fast path toward U.S. citizenship and the ability to live here on a conditional permanent basis.

The program's central focus is job creation. Foreign-born individuals who can invest $1 million, or as little as $500,000 in some instances, in commercial enterprises that generate at least 10 American jobs over two years can receive a green card. In addition to job creation, the program benefits the U.S. real estate market because EB-5 card holders must maintain a U.S. residence. (For more details on the EB-5, review the April 2011 issue of *Global Perspectives*.)

Investment Visas in Other Countries

Many other countries also offer visas designed to woo international investors. Some programs are structured to attract specific types of investors, for example entrepreneurs, while others seek cash flow into sectors the government most wants to encourage. Countries may require applicants to meet net worth requirements, others require certain standards of language proficiency and management experience.

A particularly attractive incentive in many Eurozone countries is the ability to travel freely in the Schengen Area, created in 1995

More on Investment Visas

China United Global Real Estate Group is one of NAR's strategic partners operating in China. Their website (caiyouju.com) includes a compilation of investor visa programs around the world. Click on the Overseas Investment and Immigration Information tab to view details for 12 different countries.

Comparing Investment Visa Requirements

Country	Required Investment	Visa Rights
United States	£300,000 new business or £750,000 government bond	• 3-year residency • No Schengen rights
Ireland	€500,000 contribution to a public project, or at least €1,000,000 in bond or business investment	• 5-year residency • No Schengen rights
Latvia	€150,000 property purchase in city or €72,000 property purchase in other areas	• 5-year residency • Work and travel in Schengen Area
Australia	AU$1,500,000 government bond, net worth of AU$2,250,000, and management experience	• 4-year residency • Must reside in Australia for two years after visa is issued

under an agreement signed in Schengen, Luxembourg. Twenty-six European Union countries function as a single country for international travel purposes, creating open common borders. Of the Eurozone countries, only the U.K. and Ireland have opted out of the agreement.

Several European nations seeking international investment in their depressed property markets have leveraged their rights under the Schengen Agreement to attract global funds. Latvia, Spain and Portugal, for example, either have or are in the process of announcing programs that dictate minimum investments in residential properties for attainment of a visa good throughout the Schengen Area.
Other countries maintain higher requirements in return for fewer benefits. For example, to earn an Irish visa you must contribute to a public project benefiting the arts, sports, health or education; or invest in a new or existing Irish business; or invest in a low-return five-year immigrant bond; or in residential property and a government bond. However, because Ireland is not part of the Schengen Agreement its visa only offers travel to Ireland and the U.K.

Australia's investor visa program is more similar to the U.S. model. In return for a sizable investment in the nation's economic growth, investors gain residency so they can enjoy the Australian lifestyle and quality of life.

2 Return on Investment

Most investors expect to achieve some level of return on the money they commit. For some, realizing the greatest return for their risk preference is the primary purchase driver. Markets across the globe offer many choices.

ROI-driven buyers often look for opportunities in residential properties they can rent year-round including single family homes, condos and townhomes. They may be interested in properties in distressed markets which provide appreciation over short- or medium-term timeframes. Commercial office or retail space in hot or up-and-coming urban areas can offer great returns. Hotels and restaurants may appeal to investors with deeper pockets.

Cambodia, for example, has seen huge increases in foreign direct investment. In fact, last year Cambodia received more FDI per person than did China. As China's wages have risen and the labor force has begun shrinking due to the "one child" policy, multinational companies have shifted manufacturing further south to reduce labor costs. People in the Mekong Delta are being lifted out of poverty as employment has grown.

(continued on page 4)

(continued from page 3)

FIVE FACTORS MOTIVATING GLOBAL INVESTORS

"Phnom Penh is hot right now," reports Herb Jahnke, a real estate attorney and broker with China United Global Real Estate Group who is seeing large companies snap up space in the center of the city. Cambodia's rising GDP, expected to grow 7.2 percent in 2013, and inflow from foreign investors is driving supply and demand in the city's office center. Most space in the city has been Grade C, but developers are working on increasing Grade B space and will soon introduce prime Grade A properties.

Appreciation and income potential are not the only factors determining ROI. Exchange rates can greatly affect expected return depending on which currencies are exchanged between the buyer and seller, and the strength of one currency versus another. In Turkey, it's common to transact in multiple currencies like euros, dollars, pounds or the Turkish lira. Buyers and sellers agree to deal in a mutually advantageous currency instead of being tied to one set of exchange rates.

Of course the tax environment also plays heavily into calculating expected ROI. Property, income and estate taxes, as well as the cost of repatriating funds to the buyer's home country could make Latvia more attractive than the U.K., for instance.

3 Higher Education

Wealthy buyers may decide to invest in areas where they would like their children to go to school. For example, buying a house or a condo for four or more years in the depressed American market could be a smart move for the parents of an international student. They may save on boarding expenses while also expecting the property's value to appreciate.

"U.S. universities and colleges are considered among the best in the world," says Jahnke. "Additionally, the current weakness in the dollar may make schools in the U.S. more attractive to some buyers."

However, price may not even be a consideration for high net worth individuals (HNWIs). Families with several generations of wealth may prefer one school over another simply based on family tradition. Status is another factor. HNWIs may want their sons or daughters to attend one of the world's most prestigious universities to help establish their connections within the upper tiers of international society. (For more on international investment in university areas, watch for the August 2013 issue of *Global Perspectives*.)

4 Quality of Life

Factors that make life more enjoyable, safer and more stable can be primary motivations for selecting an international destination, particularly during certain stages of life. For example, middle-class families looking for holiday and second homes might be driven by climate, proximity to nice beaches, availability of shopping, entertainment and restaurants, the cost of living, a clean environment and low crime rates.

Russia now has a vast middle class that is investing in international real estate. A surge in personal income and newly available consumer loans and mortgages has created a group of buyers that now accounts for the majority of Russian overseas investment transactions (though not total amount invested).

The Russian middle class has been primarily interested in holiday accommodations for family use. In Turkey, Spain, Latvia and Bulgaria they are buying flats ranging from $150,000 to $500,000 and many seek credit from local banks. Quality of life is a major driver in the decision to buy abroad. Russian buyers

Understanding International Investor's motivations, including these and other factors, is one way agents with the Certified International Property Specialist (CIPS) designation distinguish themselves on the world stage.

often look for good climate, vacation or seaside locations, low crime rates and peaceful settings in which they may retire later.

Retirees around the world are motivated by quality of life factors. They may be searching for a location with good weather, services and transportation for older adults, a reasonable cost of living, recreation suitable to a less active lifestyle, safe and secure properties, and the availability of health care. "Medical costs in the U.S. are driving retirees to Mexico where they can find great hospitals and quality medical services at affordable prices," says Linda Neil, ABR, PIC, President's Liaison to Mexico, and co-founder of Mexico's first escrow provider The Settlement Company® in Michoacan, Mexico.

5 Status

Prestige of location and/or size of property may be more important to some buyers than ROI. Especially where luxury residences are concerned, international buyers are a significant portion of the market.

Properties in New York and London provide cases in point. The most expensive resale property sold in New York last year went to an international buyer for the full asking price of $88 million. London's highest price topped New York at $121 million, also paid by an overseas buyer.

Trophy properties in major international cities continue to rise in price even when other parts of those markets fall in value. The luxury residential real estate market has followed trends in the luxury goods market, which emerged from the global recession largely unscathed and reaching new heights.

There is strong demand for and a scarcity of high-end inventory in the most attractive international cities, the largest of which tend to be at the crossroads of capital, technology and culture. HNWIs buy in these locations for cultural and leisure purposes, not appreciation when the property is sold.

Status at an Affordable Price

Immensely popular in the early-2000s, fractional ownership programs reached a peak of $2.3 billion in 2007 but were hit hard by the recession. Since then investment has migrated to the top end of the market toward luxury and resort ownership.

For a relatively small investment, a buyer purchases title to a fraction of the ownership in a luxury hotel, resort or development for a fixed time. The buyer is part owner of a company which owns the property. Under the fractional ownership agreement, investors can also use the property annually for vacations, rent out their share of time, and can sell their share of ownership at any time.

"It's a different concept than a timeshare," says developer Robin Barrasford of Barrasford and Bird Worldwide. "The buyer actually purchases and has title to bricks and mortar. They are not buying the right to stay in a property for fixed time periods over a given number of years."

Understanding International Investor's motivations, including these and other factors, is one way agents with the Certified International Property Specialist (CIPS) designation distinguish themselves on the world stage. As international investments flow to worldwide properties from more people and more countries than ever before, global agents are increasingly likely to discover a piece of real estate somewhere in the world that may be perfect for a future client. **GP**

5 FIVE GLOBAL HOTSPOTS

Investor money chases opportunity all over the globe, into markets that can be characterized as holding appeal on a country-wide basis, while other markets attract capital into specific cities and geographic areas that represent micro-opportunities for investment. Here are five major destinations that are pulling investor interest now, plus several up-and-coming markets worth watching.

1 TURKEY

This year the Association of Foreign Investors in Real Estate (AFIRE) ranked Turkey in the top three emerging markets for international real estate investment, and fourth in best opportunity for capital appreciation. Turkey also had the greatest year-to-year increase in intent to invest in the coming year.

Turkey has a strong, growing economy. Its per capita income almost tripled between 2000 and 2010. It is the third fastest-growing economy in the G-20 nations, has a young dynamic population, great weather and high quality of life.

Laws governing foreign ownership in Turkey were broadened in 2012 to allow foreigners from most countries to buy land there. Previously, only citizens of countries where Turks were allowed to buy property could do the same in Turkey. International transactions have increased accordingly.

Investment in Turkey spans many sectors. The Urban Land Institute recently ranked Istanbul fourth among top European cities for investment prospects in 2013, citing hotel, office and retail space as highly attractive sectors. Turkish estate agents are marketing at property exhibitions in London, China, Dubai and Russia. Luxury homes in Istanbul and the Turkish Riviera on the Mediterranean Coast are in high demand by Russian and Chinese buyers, as are less expensive second homes by middle class Europeans.

2 BRAZIL

AFIRE named Brazil as the top emerging market in 2013 and the second best global market for capital appreciation, rankings it also earned in 2012. Opportunities for investors span a wide variety of real estate sectors across the country.

Commercial, retail and hotel properties have soared in Sao Paulo, which has become a stepping stone for international companies reaching out to South American markets. Multinational companies have invested in manufacturing to serve the recently-emerging Brazilian middle class. Energy goliaths have set up facilities in the southeast region where huge oil reserves have been discovered. Meanwhile, luxury residences in Rio de Janeiro and Sao Paulo have become more expensive than similar properties in New York. (See the April 2013 issue of *Global Perspectives* for more on Brazil.)

3 LONDON

Though properties in central London are some of the most expensive in the world, overseas buyers continue to invest in them. According to Christie's International Real Estate, the average price of London homes selling for over US$1million in 2012 was $4,849 per square foot, with a record price of $9,508 per square foot. Christie's estimates that 40 percent of luxury homes sold in 2012 in central London were purchased by foreign buyers.

London continues to attract international investors who want to diversify their portfolios in a stable legal and economic environment, aided by the depreciation of sterling, ongoing capital appreciation and world-class universities.

New-build property has been especially attractive to overseas buyers, particularly from Asia. Knight Frank reports that almost half of the buyers of new construction were from Singapore, Hong Kong, China and Malaysia.

Turkish investors are other key players. Turkey's strong economy has avoided Western Europe's economic woes, and Turks have family and business links to London. Similarly, High Net Worth Indians also have strong ties and look for central London properties. Mayfair, Knightsbridge and Saint John's Wood are prime London neighborhoods for foreign investment.

4 THE HOME COUNTIES

The counties forming a ring around London are home to some of the most beautiful and expensive country estates in the world. The "Downton Abbey" super prime market is in high demand from ultra high net worth individuals (UHNWIs) who want luxury digs close to the city but apart from the urban atmosphere. The Home Counties accounted for 82 percent of super prime country sales in the U.K..

Knight Frank reports that in 2012, 55 percent of prime homes worth £5 million or more were sold to overseas buyers, up from 40 percent in 2011 and 2010. Russians and citizens of formerly Soviet states bought 25 percent of these properties, and Europeans from other countries another 10 percent. Knight Frank cites capital safety, tax advantages and the fall of sterling as reasons overseas buyers find these properties attractive. Prices in areas close to London fare better than those over one and a half hours away.

5 UNITED STATES

Like the U.K., the U.S. is viewed globally as a safe haven for investments. Individual property rights are well codified, the political system is stable and even in recession the economy is one of the most solid in the world. The U.S. is also known for its quality of life, its variety of geographies and climates and its welcoming people.

When the U.S. dollar weakened in the global recession, American property became downright cheap for some foreign investors. Since most expect the market will regain its footing, investors have jumped into the most depressed markets, in some cases becoming a major force.

In the residential market, Canadians are the biggest foreign buyers. They accounted for 24 percent of foreign sales in 2012 and generally seek homes in sunny warm climates. Chinese buyers came in second at 11 percent, primarily purchasing residences near major cities. Mexico, the U.K. and India are also significant players.

U.S. super prime and luxury residential markets have held their prestige but become more affordable for overseas buyers. Prime property in Manhattan has been less than half the price per square foot than comparable property in London. Forty-five percent of luxury homes in Miami went to international buyers in 2012, while in New York, Los Angeles and San Francisco 30 percent or more of buyers hailed from other countries. Top buyers include citizens of China, Russia and Brazil.

Depressed markets for residential income properties have drawn savvy investors. Miami, Phoenix, Detroit and Las Vegas saw significant inflows, especially from Chinese buyers who often bought multiple units and apartment complexes. To see which cities each country's residential buyers search most often on Realtor.com®, go to realtor.org/articles/where-are-global-buyers-searching-in-the-united-states.

Future Hotspots?

Which markets will attract global investors next? Here are several micro-opportunities and other potential growth markets:

- **Phnom Penh, Cambodia** – A new Special Economic Zone is attracting investors who are finding Chinese properties and labor too high.
- **Sydney, Australia** – Chinese are investing in commercial and mixed use developments there.
- **Thailand** – The hotel industry is drawing investors as tourism booms.
- **Costa Rica and Mexico** – American retirees will continue to be attracted to these markets for affordable health care and cost-of-living expenses.
- **Spain and Portugal** – Both countries have announced plans to offer investor visas that allow travel within the Eurozone in exchange for investment in ailing property sectors. Portugal's "golden visa" has already attracted Chinese interest.

Hotspots for global investment will continue to move between countries over the coming years. Currencies will shift, economies will grow and recede, and unexpected bursts of affluence will emerge in unlikely places. There will always be new opportunities to attract investors' interest—hotspots that also provide new opportunities for global real estate agents. **GP**

Did you know...

In central London, 33 percent of international investors buying off-plan (pre-construction) do so for educational reasons? The property is intended as a base for their children attending London's universities.

NATIONAL ASSOCIATION of REALTORS®
Commercial & Global Services

CIPS
certified international property specialist

430 North Michigan Avenue • Chicago, IL 60611-4087
800.874.6500 • www.REALTOR.org

PRSRT STD
U.S. POSTAGE
PAID
PALATINE P&DC, IL
PERMIT NO. 319

New CIPS Webinar Series Helps You Get More Out of *Global Perspectives*

We are pleased to announce the launch of the ***Global Perspectives* Webinar Series**. Led by subject matter experts, the webinars will give you a more detailed look at the topics covered in each issue of your ***Global Perspectives*** newsletter. This new CIPS designee benefit will provide you with a chance to dig deeper and learn how to apply ***Global Perspectives*** content to your own business. You'll have the opportunity to ask our industry experts questions and you'll learn from their experiences.

The webinars will take place during the month in between newsletters and recordings will also be available on the CIPS Personal Marketing Materials page on **REALTOR.org**. Dates/times for the webinars will be communicated with you via email and social media outlets.

Topics scheduled for 2013 include:

May » Turn Your Online Presence into a Global Business Magnet
(recording available) – how to build your web site, blog, and social networks to attract international clients and boost your business. Presented by *Nobu Hata, NAR Director of Digital Engagement*.

July » Global Investment Markets
(following June *Global Perspectives*) What are the most popular investor hotspots? How do they compare to the U.S.? What parameters do investors examine? Where can you find data to facilitate comparisons?

September » University Spotlight
Examine how to cultivate a niche in university-related housing for overseas students *(facilitating access to rentals, housing purchases, and other potential investments)*. We'll discuss how to build connections through popular multicultural and study-abroad programs and other channels.

November » Networking through Global Real Estate Organizations
Make the right connections, primarily face-to-face with other real estate agents. Learn about opportunities available at NAR events and important groups included in the Global Alliances directory, as well as NAHREP, AREAA and other comparable organizations outside the U.S. will be discussed.

December » Retirement Destinations
Examine some limited number of retirement destinations around the world, not limited to U.S. retirees! What areas are attracting buyers, how to counsel clients on what to expect, and making local connections, transaction considerations, and much more!

Stay tuned for more information!