FOREIGN INVESTMENT IN THE ATLANTA REAL ESTATE MARKET

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Submitted to the Department of Urban Studies and Planning
and the Department of Architecture
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October, 1988

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ABSTRACT

Our research represents one part of a continuing joint study by the National Association of Realtors and the Massachusetts Institute of Technology Center for Real Estate Development which explores foreign investment in U.S. real estate. The purpose of the research is to examine the motives and objectives of foreign investors in order to understand their impacts on the U.S. real estate markets. Investment activities in six cities were analyzed: Washington, D.C., Los Angeles, Chicago, Phoenix, Honolulu, and Atlanta. This thesis focuses on Atlanta, and many of our conclusions are supplemented by the findings in the other cities.

Central to our research is the question "Do foreign investors in U.S. real estate differ from their American counterparts?" Our significant findings include the following: Atlanta is a "port-of-entry" city for many foreign investors; foreign investors are opportunistic in capitalizing on real estate opportunities in the Atlanta market, they are willing to take on development risk, and they have geographically diversified into other Southeastern markets; the foreign investor is not as long-term oriented as commonly held, and does not pay noticeable higher prices for real estate; the foreign investor tends to be highly capitalized, and has evolved to resemble his domestic counterpart; the Japanese are cautiously approaching the Atlanta market; currency fluctuations and the stock market crash had little impact on foreign investment in real estate; foreign investment will provide opportunities for the U.S. real estate brokerage community; and most importantly, foreign investment is here to stay.

In summary, we believe that the longer foreign investors are in the United States, the more they behave like domestic investors. The foreign influence will be felt in most large American cities, as foreign firms expand their operations beyond simple investments and become involved in all aspects of the real estate industry.

Thesis supervisor: Lawrence S. Bacow
Title: Associate Professor, Law and Environmental Policy

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Our appreciation goes to the National Association of Realtors who sponsored this research as part of an ongoing study of foreign investment, and to the Center for Real Estate Development for their support during the program.

And to Professor Lawrence S. Bacow, who gave us direction and kept us on the right path and made the effort an enjoyable experience, here's to you.

Finally, a special thanks to our families for putting up with and supporting us over the last year. It would have been impossible without you.

BIOGRAPHICAL NOTES

OSCAR L. DALTON, III (LENNY)

Lenny graduated from the University of Texas at Austin in May, 1980 with a B.B.A. in Finance. Prior to coming to MIT in September, 1987, he worked for Dalton Development, which he formed in early 1981. The company initially specialized in developing upper-end townhome projects and completed five such projects. Early in 1983, the company diversified into subdivision development in exclusive Houston neighborhoods for million dollar homes. His responsibilities over the years have included locating development opportunities, conducting market studies, overseeing design, securing financing, obtaining regulatory approvals, supervising construction, and handling marketing. He is a real estate broker and is pursuing his CCIM designation.

HAROLD R. DeMOSS, III (CHIP)

Chip graduated from the Texas A&M University in December, 1979 with a B.B.A. in Accounting. He started out in 1980 with the Houston office of Coopers & Lybrand, an international CPA firm. While there, he was responsible for the planning and administration of audit engagements with clients in the real estate, construction and energy industries. In 1984, he left public accounting to go to work for Florida Land Company, a central Florida land developer, as their controller. Later, his company was bought by the publishing firm of Harcourt Brace Jovanovich, Inc., and HBJ Land Company was formed to manage and market the company's real estate holdings. As controller, he was responsible for all financial reporting and accounting matters of the companies, and was involved with project feasibility studies and marketing programs. He is a real estate broker and a certified public accountant.

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CHAPTER 1

INTRODUCTION

During the past eight to ten years, foreign investors have entered the U.S. real estate market in large numbers. Their early purchases have been concentrated in major cities that have traditionally been attractive to institutional investors, both foreign and domestic. New York, Los Angeles, and Washington, D.C. have each attracted significant amounts of foreign capital. In at least one of these cities - Los Angeles - foreigners now own more than half the office space in the central business district [63]. As investment grade properties in the major cities have become scarcer, some observers have theorized that foreign investors will have to look to smaller, less prominent urban centers to satisfy their appetite for U.S. property [9]. Prices will be bid up in the major port cities, yields bid down, and investors will begin to find it attractive to invest in other parts of the country.

This thesis seeks to test this hypothesis by examining foreign real estate activity in Atlanta, Georgia. In contrast to New York City, Los Angeles, and Washington, D.C., Atlanta is generally not viewed as an international financial center or a gateway to the U.S. Instead, it is a regional center, the gateway to the Southeast.

Research Objectives

This paper examines the Atlanta real estate market to answer a number of basic questions: What is the magnitude of foreign investment in Atlanta? Why are foreign investors attracted to the city? What product types are they buying and in what locations? Do they behave any differently from domestic investors and developers? What are their plans for the future? How have their activities changed over time? How do they structure their deals? Have they been affected by economic conditions such as currency fluctuations and the stock market crash?

This thesis is part of a continuing study of foreign investment in U.S. real estate sponsored by the National Association of Realtors (the "NAR") and the Massachusetts Institute of Technology Center for Real Estate Development. In 1987, the first year of the study, the researchers looked at foreign real estate investments in Los Angeles, Chicago, and Washington, D.C. This year, Atlanta, Honolulu, and Phoenix are being analyzed and the studies of Los Angeles, Chicago, and Washington, D.C. are being updated.

Methodology

Following an extensive literature search on foreign investment, we identified the individual properties in the Atlanta area that were owned by foreign investors. This information was obtained from governmental reports (Endnote 1), brokers, attorneys, accountants, investment advisors, developers, and other individuals in the Atlanta area who were knowledgeable on the subject. Once the specific transactions were identified, we then contacted the principals involved. Each foreign investor interviewed was asked to identify properties owned, describe its entry into the U.S. real estate market, outline the deal structures and return requirements, and describe what attracted them to Atlanta and what their intentions were for the future. In total, over 25 people were interviewed for this study.

Consistent with last year's study, a foreign-owned property was defined as one where the foreign interests control at least fifty percent of the equity in the property. Also included were properties where foreign lenders held convertible debt, as this represents another form of equity investment.

Limitations

As with any study, there are limitations to our research, resulting from time constraints and the willingness of people to disclose data. We are confident that properties identified as foreign-owned are correctly identified. We are certain that there are transactions that we have overlooked. Thus, to the extent that we have erred, we have underreported foreign investment in Atlanta.

Organization

Chapter 2 provides an overview of foreign investment in the U.S. that is based upon a review of the literature and the results of the parallel studies of the other cities involved in this project. Chapter 3 describes the city of Atlanta, looks at how the city has evolved, and briefly details the current real estate markets in the area. The characteristics that attract foreign investors to Atlanta are explored in Chapter 4. Chapter 5 contains a comprehensive listing of the properties that we identified as being foreign-owned. The profiles of three significant foreign investors are described in Chapter 6. Chapter 7 presents the significant findings of this thesis and the implications for future foreign investment in Atlanta and the U.S. as a whole.

ENDNOTE

1. There is a system in place in the U.S to track the extent of foreign investment, not only in real property, but also for all other types of investments (stocks, bonds, joint ventures, etc.). The International Investment Survey Act of 1976 calls for mandatory reporting by foreign investors in a benchmark survey that is to be performed every five years. Administered by the Bureau of Economic Analysis (the "BEA") of the U.S. Department of Commerce, the first survey took place in 1980 and the second in 1987. The survey is confidential, and individual names and transactions are not revealed; however, the nature, amount and location (by state) of the investments are reported. The results of the 1987 survey will not be available until sometime in 1989. During the interim years, the BEA statistically estimates the aggregate dollar value of new foreign investment by sampling individual firms annually. The preliminary estimates for 1986 should be available in June of 1988.

   Separate from the BEA, the Office of Trade and Investment Analysis (the "TIA") in the International Trade Administration of the U.S. Department of Commerce collects and identifies data on an annual basis on specific foreign investment transactions. A major portion of the data and information is derived from public secondary sources such as newspapers, magazines, and business and trade journals, as well as from the public files of Federal regulatory agencies. The aggregate data totals in this report are not strictly comparable to those in the annual report prepared by the BEA, primarily because of the BEA's mandatory reporting requirements which tend to provide a more comprehensive coverage. Because of budgetary and manpower restraints, the TIA recognizes that their data is often incomplete and does not in any way represent the entire scope of foreign investments. We used these reports as a starting point in our research and verified the listed transactions when possible [35].

CHAPTER 2

AN OVERVIEW OF FOREIGN INVESTMENT IN THE UNITED STATES

FOREIGN INVESTMENT IN THE UNITED STATES

After decades of buying up the rest of the world, the United States faces an invasion of foreign investors wielding devalued dollars. Each week, newspapers report that another piece of the economy has been sold to a foreign investor. For each of these headline-making deals, there have been hundreds of smaller deals that aren't reported. Who are these foreign investors and why are they investing in the U.S.?

The most active investors today are the Japanese. A study by Kenneth Laventhol & Co. fixed the 1987 real estate investment level of Japanese ventures at $12.77 billion, up 70% from 1986's $7.53 billion [33]. However, they were not the first foreigners to realize the potential of investment here. In fact, there have been previous waves of foreign capital that have arrived on our shores.

Great Britain began the first surge of investment when exchange controls were lifted in 1979. This was soon followed by heavy investment from the Netherlands and West Germany. In the late 1970's, OPEC nations were investing petrodollars in U.S. energy cities and Latin American money was being invested in Florida and Texas. It was at this time that the Japanese began to acquire properties in Hawaii and California.

Foreign capital flows into markets that provide the best return for a given level of risk. Therefore, certain U.S. investments appear to have higher risk adjusted returns when compared to those in other countries. Anthony Downs argues that this discontinuity generates arbitrage opportunities which attract foreign capital [28]. Over time, because of the increased number of foreign investors that are active in the market, any discontinuity that exists would likely disappear, as the price of capital increases or the yields bid down.

Foreign capital flows to the U.S. in many ways. These inflows can be broken down into two categories: portfolio investments and direct investments. The largest share of private foreign capital inflows are directed into portfolio investments. This broad category of financial assets includes deposits in U.S. banks, purchases of U.S. securities (treasury bills, etc.) and purchases of U.S. corporate stocks and bonds for their yield potential (as opposed to ownership potential.)

The remaining share of foreign capital inflows are committed to direct investments in U.S. industry and real estate. According to the U.S. Commerce Department, foreign direct investment is defined as the direct or indirect ownership by a foreign entity of 10% or more of the voting securities of an incorporated business enterprise, or a 10% or more interest in real property [35].

Foreign investors are expected to send an estimated $150 billion into the U.S. economy in 1988. Three-quarters of this (about $110 billion) will be directed into portfolio investments, like U.S. Treasury securities or corporate bonds. The remaining quarter ($40 billion) will be invested directly into U.S. industries, including purchases of U.S. real estate which could total over $10 billion in 1988 [39].

FOREIGN INVESTMENT IN REAL ESTATE

How much U.S. real estate do foreign investors own? Salomon Brothers Inc. estimates that total foreign investment in developed real estate is just over 1% of the total value of such property [28]. Hence, foreign ownership of U.S. real estate is still relatively small in comparison with the overall size of the market.

However, foreign investors have focused their purchases upon relatively narrow parts of U.S. real estate markets. They have purchased mainly office buildings, hotels, resorts, and a few regional shopping centers. Foreign investors have chosen mainly downtown locations in major cities. As a result, their impact upon the few markets containing such properties has been much greater than the total size of their purchases would indicate [28].

Foreigners currently own substantial interests in over 23 million s.f. of office space in the Los Angeles central business district, or over 60% of the total space available. By comparison, foreigners own approximately 25% of the

Washington, D.C. central business district, and foreign ownership in Chicago appears to comprise about 20% of the downtown market [63].

Many different markets are starting to feel the impact of offshore investors. Foreigners are looking to other cities and other types of products as the yields on premier downtown properties are being driven downward from competitive bidding. Furthermore, at least in Los Angeles, the high concentration of foreign ownership has thinned the ranks of properties available for purchase by new investors. More and more, foreigners are taking on development risk as they become increasingly more familiar with the new markets and product types, and as existing product becomes harder to locate.

<u>WHY ARE FOREIGNERS INVESTING IN U.S. REAL ESTATE?</u>

There are numerous reasons why foreigners are attracted to investment in the U.S. and to real estate in particular. These reasons include:

"Safe Haven" for Capital. The United States is considered by foreign investors to be among the safest political and economic climates in the world. They see the U.S. as a safe place to invest and preserve capital for the long term.

Exchange Rate Differentials. The decline of the value of the dollar relative to other currencies has made the prices of dollar-denominated assets appear very low.

However, U.S. real estate prices, even absent any dollar decline, are far below the prices of similar properties in Japan and Western Europe. For example, the price per square foot of vacant office land in downtown Tokyo can reach $21,000 compared to $300-400 for a prime downtown office property in a major U.S. city [39]. Also, the precipitous drop of the dollar has reduced the perceived risk of further devaluation in the dollar's value.

Lack of Good Domestic Opportunities. Foreign countries, including Japan, the Netherlands, Germany, and England, have few domestic real estate investment opportunities. Land is scarce, and there is a low turnover rate for investment grade properties within foreign markets.

The U.S. Trade Deficit. The large trade surpluses enjoyed by a number of countries have produced tremendous liquidity to fund U.S. acquisitions. In 1987, Japan's current account surplus amounted to an estimated $87 billion [91].

Portfolio Diversification. The United States provides a much larger market than is found in most foreign countries. And due to the liquidity of our real estate market, there are numerous opportunities to acquire different property types in varied locations.

Higher Yields. The U.S. market appears to provide superior returns relative to many foreign markets. The general interest rate structures in many foreign nations are lower than those in the United States. This tends to reduce yields on all types of investments commensurately. In the United States, owners of real estate can often capture cash yields between 8-10%. According to analysts at Jones Lang Wooten, yields in London average between 4-5.5%, in the Netherlands 6-6.75%, and in Japan between 2-3% [19]. Additionally, leveraged yields on U.S. investments financed with foreign funds are available because borrowing costs are lower in some countries. However, these yields are subject to exchange rate risks.

Liquidity. Due to the size of the U.S. market, high quality downtown office properties turn over more frequently than do properties in many overseas markets. Foreign investors are reassured to know that a deep market exists for these properties should conditions unique to the investor necessitate a sale of such real estate holdings.

Tax Advantages. The U.S. tax code still offers some significant advantages to foreign investors in relation to the tax treatment they would receive at home. For example, the recovery period for commercial real estate under tax reform is now 31.5 years. By contrast, Japanese investors face a 65 year recovery period back home. Japanese investors also face a more serious capital gains tax at home. The Tax Reform Act (TRA) of 1986 also helped stimulate foreign interest in U.S. real estate by repealing the 1980 Foreign Investment in Real Property Tax Act (FIRPTA). FIRPTA had imposed taxes on foreign sellers of U.S. property and onerous reporting and withholding requirements.

The TRA also eliminated most of the tax shelter advantages available to U.S. investors. This change hurt domestic real estate syndicators who were among the primary competitors to foreign investors. Additionally, tax reform motivated many Americans to sell their properties before the end of 1986 because of the increase in the capital gains tax and the enactment of passive loss limitations.

Relaxed Regulations. Some foreign nations have recently relaxed previously restrictive regulations on investment in other countries by their domestic institutions, thus providing greater freedom to invest in the United States.

STOCK MARKET CRASH

The volatility of the stock market, demonstrated by the October 19, 1987 crash that saw the Dow Jones index fall 508 points, should strengthen real estate equity's role in pension portfolios, according to Real Estate Research, a publication of New York-based Goldman, Sachs & Co.

During the fall of 1987, Cushman & Wakefield Inc. and Louis Harris & Associates conducted a study of Japanese institutions. One-third of the interviews were conducted following the October 19 stock market downturn. According to the study, comparison of data collected before and after this date reveals no conclusive evidence of change in overall market direction due to the stock market crash. Arthur J. Mirante II, Cushman & Wakefield president and chief executive officer, was quoted in the National Real Estate Investor, "The recent events in the stock market have not dampened the Japanese zest for U.S. properties, which they recognize as a relatively safe investment" [57].

Ken Miller, president of Miller Marketing Network, was also quoted in the National Real Estate Investor as saying, "Foreign investors are looking to real estate as an alternative to the unstable American stock market. The riskier Wall Street looks, the more solid real estate investments appear to the foreign buyers" [24]. Since the crash of October 19, several Japanese firms, including Mitsui Real Estate Development, Kumagai Gumi Co., and Daiichi America Real Estate have engaged in real estate transactions in the United States.

ENDNOTE

1. According to Anthony Downs of the Brookings Institute, foreign investors expect yields across the world to eventually converge. He says that at the moment, U.S. property yields are high. Many foreign buyers are buying property under the assumption that the whole structure of U.S. real estate prices is too low relative to the income-earning power of U.S. property. Therefore, foreign investors expect prices to rise and are investing in order to take advantage of the arbitrage opportunities [45].

CHAPTER 3

THE ATLANTA REAL ESTATE MARKETS

Atlanta, the capital of Georgia, is located in the foothills of northern Georgia. The city is blanketed with trees and crisscrossed by freeways, and is a community made up of towns, cities, and counties. Some of the country's most beautiful residential areas are located in the Atlanta suburbs. With a mild climate and no natural boundaries to limit expansion, a survey of over 400 chief executive officers in America's largest corporations declared Atlanta to be the best place to locate a business in the United States [67].

HISTORICAL BACKGROUND

Modern-day Atlanta began in 1837 at the point of a railroad surveyor's stake in a pine clearing. Originally named Terminus, it later became Marthasville in honor of a daughter of the Georgia governor who was instrumental in obtaining the railroad charter. Peachtree Street was originally a trail along the Chattahoochee River that linked Terminus with the Indian trading post of Standing Peachtree. Renamed in 1845 for the Western and Atlantic Railroad, the town grew into an important railway and manufacturing center. It became the Confederate arsenal during the Civil War, and was reduced to ruins after Sherman's occupation in

1864. The city was rebuilt, and later became the commercial capital of the Southeast [5].

THE ATLANTA ECONOMY

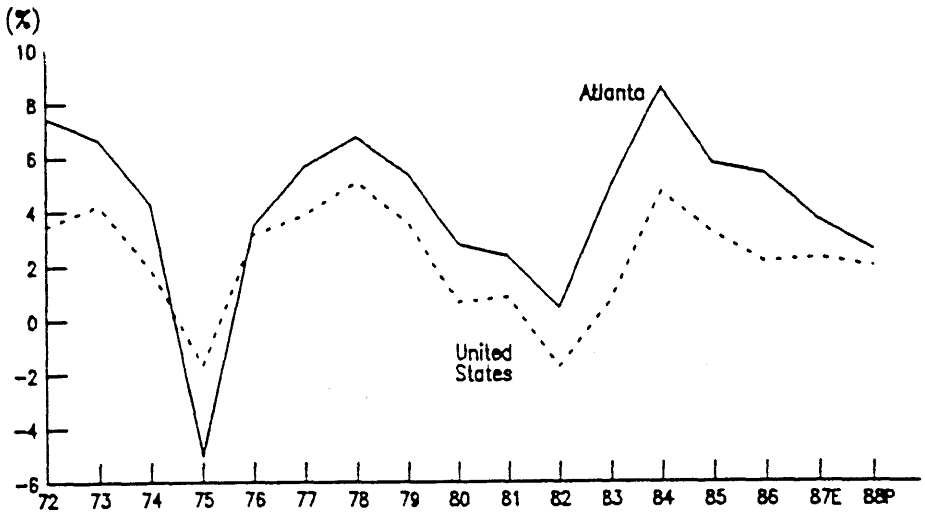
The official Atlanta Metropolitan Statistical Area ("MSA") consists of eighteen counties that encompass 5,148 square miles. Seven counties, Fulton, DeKalb, Gwinnett, Cobb, Clayton, Douglas, and Rockdale, form the Atlanta Regional Commission statistical area, which is often referred to as "urban Atlanta" [17].

With a population of 2.6 million, Atlanta is the Southeast's largest economy and serves as the region's commercial and distribution center. Trailing Atlanta in population are Florida's largest cities of Tampa (1.9 million), Miami (1.8 million), and Ft. Lauderdale (1.2 million). Charlotte, North Carolina (1.1 million) is the next largest metropolitan area in the region [49].

Employment Growth: Atlanta's employment growth stands at 4% (1987 figure), down from the post-recession peak of 8% in 1984 [49]. However, since the late 1970's, Atlanta's employment growth has consistently exceeded the nation's overall growth rate (Figure 3-1). Atlanta is number one out of the fifteen largest metropolitan areas in the U.S. in terms of percentage increase of employment growth (from October 1982 to October 1987). In absolute job gains over the same period, Atlanta ranks third behind Los Angeles and

Washington, D.C. [49].

Total Nonagricultural Employment Growth — Atlanta Metropolitan Statistical Area versus the United States, 1972-88P (Year-to-Year Percentage Change, Annual Data)



E Salomon Brothers Inc estimate. P Salomon Brothers Inc projection.
Sources: U.S. Bureau of Labor Statistics, Wharton Econometric Forecasting Associates and the Georgia State University Economic Forecasting Center.

Figure 3-1.

Unemployment in Atlanta has declined from a high of 9.0% in 1975 to 4.1% at the end of 1987. This compares to the 1987 national average of 6.1% [17]. Buoyed by the strong employment growth, Atlanta's total annual personal income growth rate of 12% (from 1980 to 1987) also exceeded the national average of 8% [49].

Unlike cities such as Detroit and Houston, no one industry dominates Atlanta's economy. One of the keys to the city's continued growth is its diversity, particularly in service industries. Wholesale and retail trade, Atlanta's largest employment sector, accounts for 28% of total jobs (Figure 3.2) [49]. The service sector now accounts for 23% of all jobs, and projections show that one of every four jobs created in the next 30 years will be in the service industries [17] [49].

Employment Concentrations — Atlanta Metropolitan Statistical Area versus the United States, September 1987[a] (Employment in Thousands, Annualized)

Employment Sector	Atlanta MSA Sep 87[a]	Atlanta MSA Share of Total	United States Sep 87[a]	United States Share of Total	Atlanta MSA Share of U.S.	Atlanta Concentration Relative to U.S.[b]
Total	**1,377**	**100.0%**	**101,379**	**100.0%**	**1.4%**	**1.0**
Office Intensive	255	18.5%	15,158	15.0%	1.7%	1.2
• Finance, Insur. & Real Estate	97	7.1	6,530	6.4	1.5	1.1
• Business Services	102	7.4	5,017	4.9	2.0	1.5
• Legal, Membership, & Misc.	56E	4.1	3,611	3.6	1.6	1.1
Services	321	23.3%	23,874	23.5%	1.3%	1.0
• Office Intensive	158E	11.4	8,628	8.5	1.8	1.1
• Nonoffice Intensive	164	11.9	15,246	15.0	1.1	0.8
Wholesale and Retail Trade	385	28.0%	23,918	23.6%	1.6%	1.2
• Wholesale Trade	134	9.8	5,766	5.7	2.3	1.7
• Retail Trade	251	18.2	18,152	17.9	1.4	1.0
Transportation & Pub. Utilities	111	8.0%	5,331	5.3%	2.1%	1.5
• Transportation	71	5.1	3,111	3.1	2.3	1.7
Manufacturing	192	14.0%	19,019	18.8%	1.0%	0.7
Construction	81	5.9%	4,995	4.9%	1.6%	1.2
Government	188	13.6%	16,979	16.7%	1.1%	0.8

[a] Annual rate for the 12 months ending September 1987.
[b] The location quotient equals the ratio of the Atlanta share of total employment to the U.S. share of total employment. For example, the relative concentration for office-intensive employment is 18.5/15.0 = 1.2.
E Salomon Brothers Inc estimate.
MSA Metropolitan Statistical Area.
Sources: U.S. Bureau of Labor Statistics, Wharton Econometric Forecasting Associates and Salomon Brothers Inc.

Figure 3-2.

Atlanta is doing quite well; however, the rapid growth of the 1970's and 1980's is expected to slow. The Georgia State University Economic Forecasting Center ("Georgia State") predicts that Atlanta's employment growth will slow from an average of 4.0% in 1987 to 2.6% in 1988 and 2.8% in 1989 [49]. Absolute employment declines are expected in some sectors, while smaller gains compared to recent years are expected in trade and services sectors. Georgia State's forecasted 1988 gain of 36,000 jobs is over two-thirds of the 1987 gain of 53,000 and just under half of the 1983-1986 annual average of 77,000 [49]. The slowdown in growth can already be felt in real estate industry, as starts of announced projects slow [17].

Population Growth: Atlanta's population continues to grow, as is indicated by the 1987 increase of 3.7%. Corporate Research, an Atlanta consulting firm, predicts that almost 70% of the region's estimated population growth between 1980 and 2010 will be from in-migration. This will serve to keep Atlanta's median age younger than the national average, and will contribute to a higher proportion of single-person households in the area [17].

Cobb and Gwinnett counties, to the north of the city, are the fastest growing areas. Together, they accounted for 31% of the increased population in 1987 [17]. This was more than double that of any other county in the Atlanta region. Gwinnett County had the highest percentage gain of any county for the fourth straight year, and remains the nation's fastest growing large county [49] [17]. Fulton County, with a population of 640,000, is the largest county, followed by DeKalb (520,000), Cobb (392,000), and Gwinnett (274,000) [49].

Transportation: Atlanta is one of only five cities in the U.S. where three major interstate highways intersect (I-75, I-85, and I-20) [49]. The Perimeter Highway (I-285) encircles Atlanta and connects its communities.

The Metropolitan Atlanta Regional Transit Authority ("MARTA") provides light rail and bus service to the communities. Planned extensions do not include Cobb or Gwinnett counties because voters there elected not to participate in the MARTA system [49]. The airport, Midtown and Buckhead are the only markets other than Downtown that are currently served by MARTA.

Hartsfield International Airport, the nation's largest airport in size and the world's second busiest airport, is one of the important factors that enables Atlanta to serve as a national distribution center [49]. The airport is the area's largest enterprise, employing over 35,000 people. Corporate Research, the Atlanta consulting firm, considers it the "single most important factor in the city's overall economic growth" [17]. Hartsfield serves as a regional hub for Delta and Eastern Airlines, and international service is available to Europe and Japan. Nonstop flights are scheduled to Amsterdam, Brussels, Frankfurt, London, Munich, Stuttgart, Shannon, Paris, Tokyo, and Zurich [49].

Atlanta rests at the crossing of two main railroad lines that connect Washington, D.C. to New Orleans and Cincinnati to Jacksonville. Freight deliveries from Atlanta can reach over half of the nation in just three days [49].

Metropolitan Atlanta Real Estate Markets

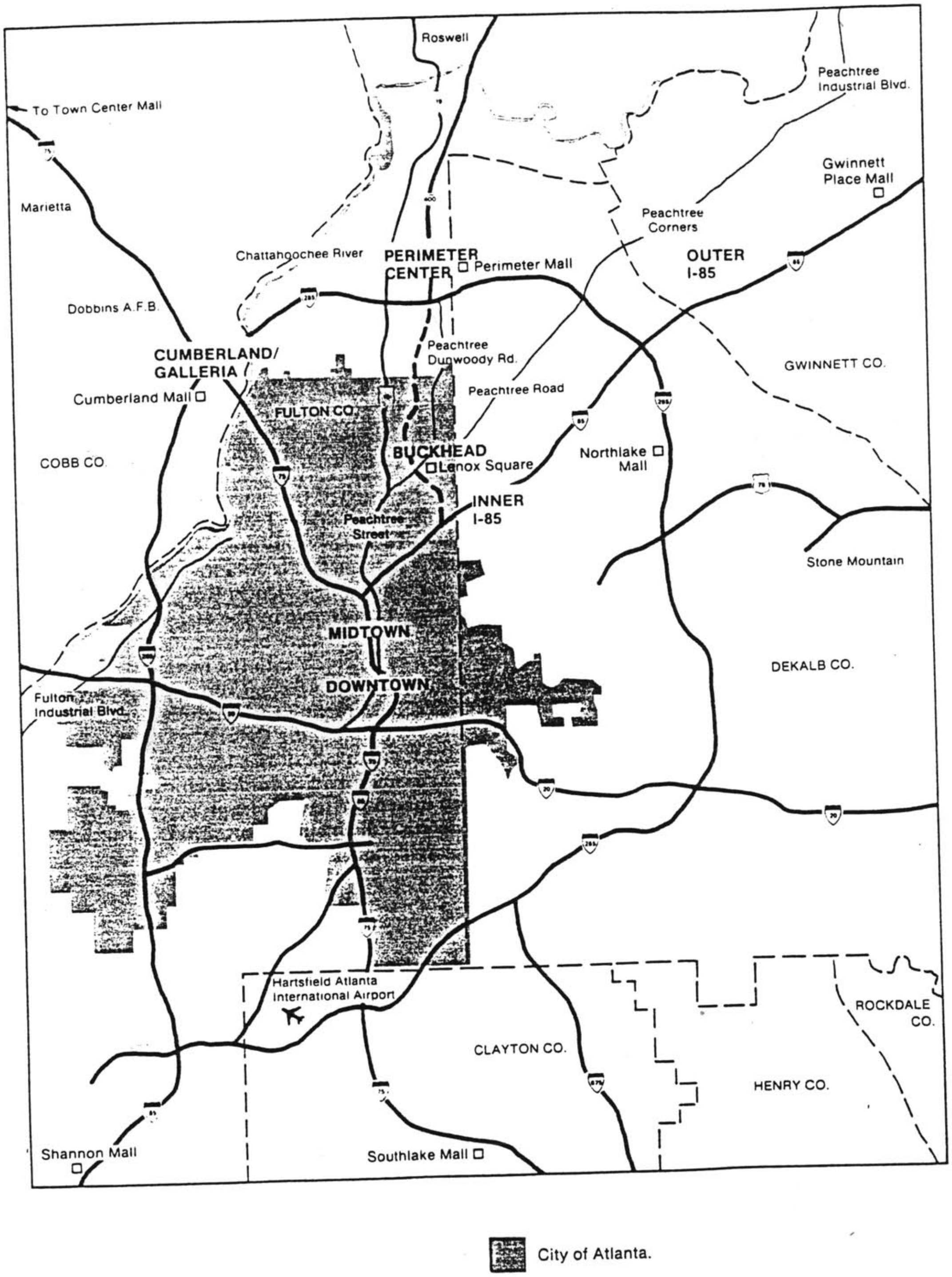


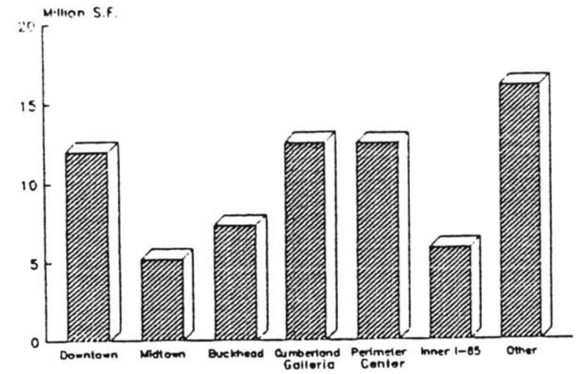
Figure 3-3. Source: Salomon Brothers Inc.

Prospects for the Future: Atlanta's major strengths include a diversified economy, outstanding transportation facilities, and its quality of life characteristics. The economic diversification and strong service orientation have served to protect the region from national economic downturns. In addition to employment opportunities and quality of life considerations, housing costs remain low compared to other cities. With the typical three bedroom house priced at $100,000 in 1986, Atlanta's housing costs are well below those of other large metropolitan areas such as Washington, D.C. ($144,000) and Boston ($213,000) [49].

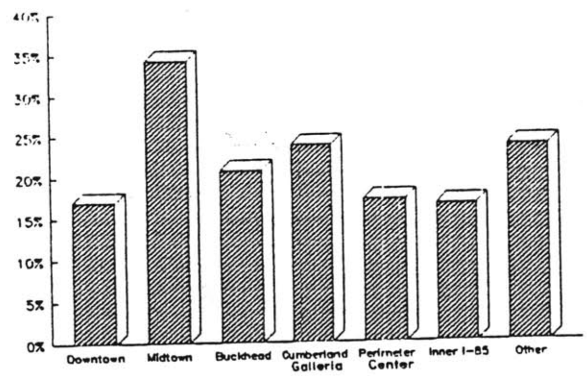
But a strong economy and rapid expansion has its costs. Atlanta's growth is also characterized by traffic congestion, sewer moratoriums and zoning battles. Although these negative aspects may inhibit development temporarily, the long-term prospects for Atlanta are favorable.

THE REAL ESTATE MARKETS

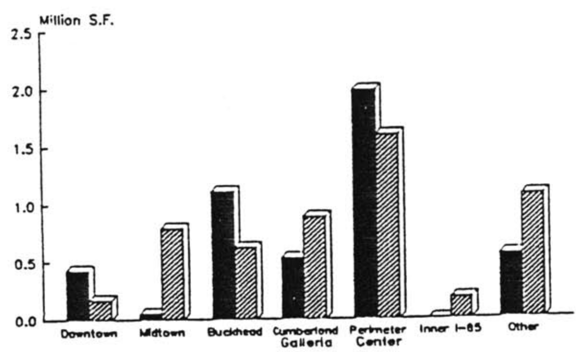
Office: Atlanta ranks as the nation's seventh largest office market. The suburban centers, usually anchored by regional malls and located near affluent residential areas, have served to displace Downtown Atlanta as the dominant office market. Within these suburban centers, national developers have constructed premium quality office buildings to such an extent that the city's speculative office inventory has doubled to more than 70 million square feet over the past six years [49].



Atlanta Office Space By Sector
December 31, 1987

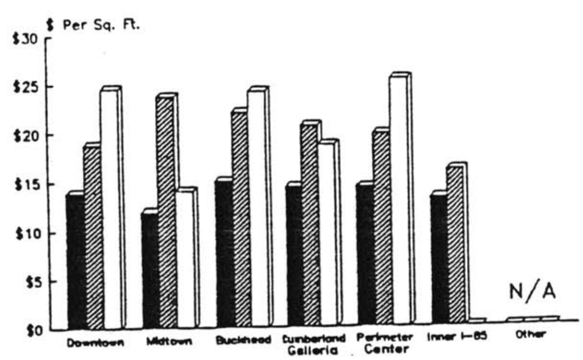


Atlanta Office Vacancy Rates
December 31, 1987



Office Space Under Construction
at 12/87 and Absorption During 1987

Under Const. Absorption



Average Quoted Office Rents
December, 1987

Class B Class A Under Const.

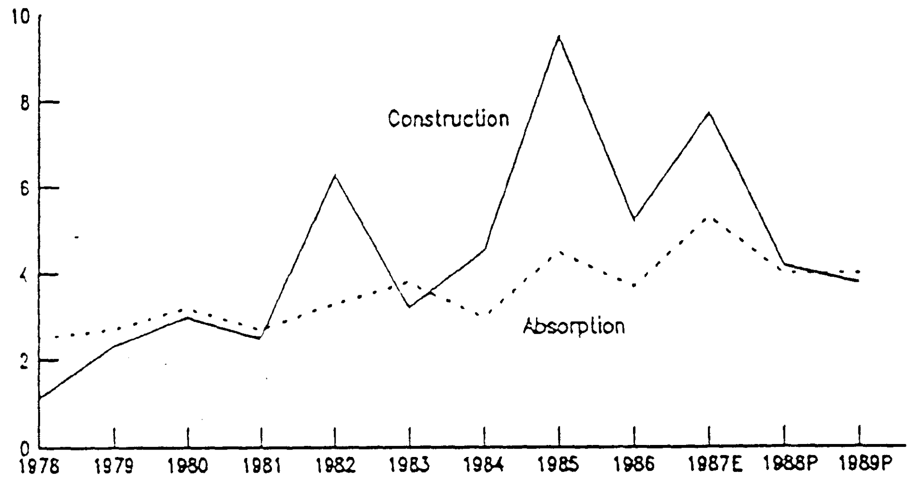
Figure 3-4. Atlanta Office Market Statistics. Source: Carter & Associates

Outside of Downtown, the sub-markets in Atlanta are generally categorized into five areas: Midtown, Inner I-85, Perimeter Center, Buckhead, and Cumberland/Galleria (Figure 3-3). Cumberland/Galleria and Perimeter Center each surpassed Downtown in total inventory in 1987 [14].

Each office sub-market has catered to a particular tenant base. Downtown is characterized by legal and banking firms; Buckhead has a predominance of securities, investment and financial services firms; and Perimeter Center is Atlanta's corporate hub (Figure 3-4). With the relocation of RJR Nabisco from North Carolina, Atlanta now has eight major Fortune 500 companies with headquarters in the area. More than 400 of the Fortune 500 industrial companies have some type of corporate presence in Atlanta (headquarters or sales office) [49].

REIT-financed overbuilding forced Atlanta's vacancy rate to 30% in 1974-75; however, a combination of steady employment growth along with a decline in new product between 1975 and 1980 helped drive the rate down to 10%. The low rate triggered new construction, forcing the vacancy rate above 20% in 1985. At that time, completions peaked at 9.5 million s.f. In contrast, the completions were more than double 1985's absorption of 4.5 million s.f. The record pace continued into 1987 when an astounding 5.3 million square feet were absorbed; however, the projected slowdown in office employment growth should limit absorption to a yearly average of 4.0 million square feet in 1988-89.

Metropolitan Atlanta Office Market Construction Completions versus Absorption, 1978-89P (Square Footage in Millions; Annual Data)



Metropolitan Atlanta Office Vacancy Rates, 1978-89P

E Salomon Brothers Inc estimate. P Salomon Brothers Inc projection.
Sources: Carter & Associates and Salomon Brothers Inc.

Figure 3-5.

The vacancy rate hit 21.4% in 1987, but it is expected to drop to 19% by the end of 1989 when construction and absorption should equalize for the first time since 1983 (Figure 3-5) [49] [14].

Quoted rents average $16-23 p.s.f. for Class A space and $11-15 p.s.f. for Class B space. These rates are currently being discounted 15-30%. The highest price known to have been paid for an Atlanta office building was $195 p.s.f. When land, buildout, and carrying costs are taken into account, total development cost to build in a prime suburban location is about $140 p.s.f. [49].

Retail: Retail space in the Atlanta market is generally divided into the categories of regional, convenience/specialty, neighborhood, community and downtown. Regional malls continue to show strong sales activity in Atlanta. The specialty centers have suffered, and developers have realized that a convenient location alone does not compensate for the drawing power of an anchor. Retail developers have tried to differentiate their unanchored centers by targeting upscale specialty tenants. Because these retailers are in short supply and high demand, the developers have been unable to maintain the proper tenant mix, and are now offering generous inducements to less attractive retailers in an attempt to fill the centers [34]. In contrast, the neighborhood center, usually anchored by a grocery store, has flourished in recent years in Atlanta. The reason for this is primarily the number and quality of competing grocers in the area [34].

The community center appears to be the hot product of the future in Atlanta. The typical center is in excess of 150,000 s.f., open air, and generally has two or more anchor tenants. Developers feel that a heavily-anchored community center can attract tenants from a neighborhood center because a grocery store simply cannot generate as much traffic as the combination of retailers found in a community center [34].

Downtown retailing has been sparked by the $16 million renovation of the retail portion of the Peachtree Center complex. The recent restoration of the Healy Building added a tri-level galleria to the Downtown market. Rouse Development and city of Atlanta officials are involved in the redevelopment of Underground Atlanta, hoping to re-create Baltimore's Harborplace [17].

The retail market, especially the small specialty center, is somewhat overbuilt; however, occupancy is not a problem at major malls, and at least one new regional mall could get closer to starting in 1988. Regional mall vacancy rates are typically less than 5%, while strip center vacancy rates vary widely by market (0-40%). Targeted areas for new regional malls are in peripheral sites - north along Georgia 400, east and west on I-20 outside I-285, and south side of Atlanta [17].

Typical retail rents in the Atlanta area for malls are $20-50 p.s.f., and for strip centers are $10-18 p.s.f.

[49]. Capitalization rates for regional centers are 5.5-6%, while 9-10% is typical for well-anchored, well-located strip centers. The smallest neighborhood centers trade in the 10-12% range [49].

Hotel and Convention: The 1988 Democratic Convention will draw attention to the hotel market in Atlanta, even though the city averages 1,500 conventions and 10 million visitors a year [17]. The 1.8 million square foot Georgia World Congress Center, the Apparel and Merchandise Marts, and the high technology mart now under construction combine to make Atlanta the third largest convention site after New York and Chicago [49]. Actually, conventions account for only 12% of Atlanta's hotel trade - business travelers account for 40% and group travelers account for 17.8% [17].

Atlanta has over 43,000 rooms in 242 hotels. The Downtown area has the largest concentration with over 9,200 rooms in 16 hotels. Average room occupancy was 64% in 1986. This figure is expected to fall in 1987 and 1988 as another 3,500 rooms are completed [17]. However, as the number of new starts slows, developers anticipate an upward trend in 1989. Expansion opportunities exist in the downtown World Congress Center, and suburban locations are being promoted for local group meetings [17].

Residential: Low interest rates and in-migration help to provide a strong housing market in Atlanta. Although it is considered an urban center, Atlanta does not have the high-density development that is characteristic of most large cities where the supply of land is constrained. Here, land is plentiful, and therefore affordable. Auto commuting times are short. These factors combine to make single-family housing the strongest segment of the residential market - detached single-family houses make up about 76% of Atlanta's total housing market [17].

The north side of Atlanta benefits most, as residential growth follows office and retail developments outward from the city. The southern proximity of the airport and the resulting aircraft noise have tended to attract industrial uses and limit residential development in the area. Since first-time homebuyers now account for 50% of the market, there is pressure in the market for houses under $100,000. As a result, there is a strong demand for additional cluster and semi-detached houses [17].

The Atlanta condominium market is overbuilt. The one exception is the high-rise projects along Peachtree Street from Midtown to Buckhead where pre-sales have been significant.

The rental market continues to be strong, again due to the continued in-migration of new employees. Affordability has become a major issue, as the north side of Atlanta has an abundance of luxury projects that cater to upwardly mobile singles and childless couples. Older complexes, in an attempt to find a niche in the market, are shifting to an emphasis on families. The number of units being added each year is declining due to the lack of funds from potential investors who are apprehensive of the existing 2-3 year supply, and because there have been fewer conversions of apartments to condominiums.

Because of the extensive growth in Cobb and Gwinnett counties, there have been problems with overloaded infrastructure, including restrictions on sewer and water hookups. Development interest has shifted to other sections of the north side until the problems are solved.

Industrial: As the major transportation hub and distribution center for the Southeast, Atlanta has generated a market for business parks and flex space. Most business park developments occur in the area from Peachtree Corners over to I-85. Warehouse/industrial developments are concentrated in the southern portion around I-285, around to I-20 West, including the airport and Camp Creek Parkway. The airport area has become the major focus for new development, characterized by the new Atlanta Tradeport. There has always been a demand for bulk warehouse space. The trend has been that as land prices rise, developers are moving further out of the city in an attempt to provide new projects at reasonable prices [17].

With an understanding of foreign investment in general, and a brief look at the Atlanta real estate markets, we will now see how the two combine to bring foreign capital to Atlanta.

CHAPTER 4

FOREIGN INVESTMENT IN ATLANTA REAL ESTATE

> "International Investors in Atlanta Just Like You and Me."
>
> Title of recent article in the Atlanta Business Chronicle [89]

The Atlanta real estate market is literally inundated with foreign investment. In our research, we found that foreign capital has played a significant role in the Atlanta real estate market since the early 1970's. The most significant foreign players have been the Europeans, Australians, and Canadians.

WHY ATLANTA?

There seem to be two major groups that make up foreign investment in Atlanta. The first group is composed of large funds that are in other major U.S. cities and who see Atlanta as a means of Sunbelt diversification. Being primarily investors and having purchased major properties in other cities, they are slowly expanding to the cities that are not considered international financial centers or major port-of-entry cities. Atlanta ranks high among these so-called 'second-tier' cities.

The second group is made up of smaller companies that see themselves as niche players who want to be in Atlanta as a way of avoiding fiercer competition in the bigger markets. Several companies mentioned not wanting to compete with the Hines and Trammell Crows of the world. These companies tended to specialize in smaller projects, and are active in development. We will see examples of both of these groups in Chapter 5.

For the Europeans, Atlanta's location in the eastern time zone allows for ease of communication with their parent companies during office hours. Additionally, Atlanta's proximity to other Southeastern markets such as Nashville, Memphis, Charlotte, Jacksonville, Orlando, and Tampa makes Atlanta a perfect point from which to diversify into other Sunbelt cities.

The convenience of Hartsfield International Airport is a primary motivating factor. Marteen Kuik of Euram Resources, a Dutch developer explains [123]:

> "Before there was nonstop service to Amsterdam, coming to Atlanta was very aggravating. Europeans were required to stop over at Kennedy and go through customs with the masses of people. It was like a zoo."

Now, foreign investors from all over the globe can conveniently fly nonstop into Atlanta. The connections to other U.S. cities make it that much better.

A significant number of foreign companies have been attracted by Atlanta's strategic location, transportation assets, and other quality of life attributes. Kuik relates:

> "Atlanta has won the battle to become the capital of the Southeast. There is the potential for tremendous growth here."

Boyd Simpson, President of L.J. Hooker of Australia adds [131]:

> "Atlanta conveys a welcome feeling to foreigners. It has the attitude that it wants to help, rather than put up barriers."

Forty-one countries currently have over $4.3 billion invested in 1,057 facilities statewide, much of it in Atlanta. This number includes some 250 manufacturing operations. The total manufacturing and non-manufacturing employment at foreign companies is over 55,000. There are approximately 30 foreign banks doing business in Atlanta. Trade, tourist, and cultural offices are operated by 15 countries [44]. Therefore, Atlanta has a strong international community that acts as a magnet to other foreigners who want to establish a U.S. presence.

NATIONALITY AND BUSINESS ACTIVITY

Foreign investors have been significant players in the Atlanta real estate market since the early seventies. Over this time, they have diversified into many different product types, scattered throughout the city. Many have established their U.S. headquarters in Atlanta and are staffed by American personnel. And some of these foreign companies are vertically integrated into construction, brokerage and property management. In Atlanta, we found it difficult to differentiate a foreign investor from his domestic counterpart.

Presently, the most active foreign investors in the Atlanta real estate market are from The Netherlands, United Kingdom, West Germany, Canada, and Australia. Also present are investors from Austria, France, Switzerland, Sweden, Belgium, Spain, Portugal, India, Greece, Singapore, South Africa, and Saudi Arabia . Aside from one purchase 10 years ago (the Equitable Building), the Japanese are just making it to Atlanta. They have been studying the market over the past year and are just starting to "put their chips on the table."

The foreign investors in Atlanta are composed of pension funds, insurance companies, publicly traded conglomerates, fund advisors and intermediaries, banks and wealthy individuals. Many of them take an active role in their real estate while others are passive.

It is difficult to generalize about the activities of any one of these investor types or nationalities. Just as there is no such thing as a "typical" domestic investor, there is no such thing as a typical foreign investor or a typical deal.

TYPES OF PROPERTY, GEOGRAPHIC DIVERSITY, AND VERTICAL INTEGRATION

The property types that foreign investors are involved in are as diverse as the countries that are doing the investing. In fact, it is difficult to find a segment of the market in which foreign investors do not have a significant presence. Foreign influences are felt in the office building, business and industrial park, shopping center, regional mall, hotel and residential sectors.

TABLE 4-1. ATLANTA OFFICE PROPERTIES INVOLVING FOREIGN INVESTORS

FOREIGN ENTITY	NATIONALITY	DESCRIPTION	LOCATION	SIZE
VG	WEST GERMANY	FIRST ATLANTA TOWER	DOWNTOWN	900,000 SF
HEERY/BALFOUR BEATTY	UNITED KINGDOM	999 PEACHTREE	MIDTOWN	610,000 SF
ASAHI MUTUAL LIFE	JAPAN	EQUITABLE BLGD.	DOWNTOWN	580,300 SF
WILMA SOUTHEAST	NETHERLANDS	RIVEREDGE SUMMIT	CUMB/GALL.	465,000 SF
DUTCH INSTITUTIONAL H.C.	NETHERLANDS	GALLERIA 200	CUMB/GALL.	435,000 SF
NORO	NETHERLANDS	GALLERIA 100	CUMB/GALL.	410,000 SF
TRIZEC	CANADA	PEACHTREE CENTER TOWER	DOWNTOWN	403,200 SF
LAING PROPERTIES	UNITED KINGDOM	LENNOX TOWERS	BUCKHEAD	369,000 SF
DUTCH INSTITUTIONAL H.C.	NETHERLANDS	PALLISADES	N. CENTRAL	364,000 SF
LAING PROPERTIES	UNITED KINGDOM	*	*	
LINDHOM	UNITED KINGDOM	COASTAL STATES	DOWNTOWN	337,000 SF
CONFIDENTIAL	SWEDEN	*	*	
ALZCUMAN, SALCH	KUWAIT	ATLANTA CENTER	DOWNTOWN	307,000 SF
SKANSKA	SWEDEN	CORPOREX CENTER	N. WEST	305,000 SF
VIB	NETHERLANDS	2100 RIVEREDGE	CUMB/GALL.	255,000 SF
HISTORIC URBAN EQUITIES	CANADA	NBG BLDG.	N. WEST	235,800 SF
MARK III	WEST GERMANY	GLENRIDGE CENTRE	PERIMETER CT	233,000 SF
EURAM	NETHERLANDS	HEALY BLDG.	DOWNTOWN	200,000 SF
STAAL BANK	NETHERLANDS	*	*	
CONFIDENTIAL	CONFIDENTIAL	1275 PEACHTREE	MIDTOWN	144,000 SF
CONFIDENTIAL	WEST GERMANY	RIVEREDGE ONE	CUMB/GALL.	128,000 SF
TAYLOR WOODROW	UNITED KINGDOM	21 EDGEWOOD AVE.	DOWNTOWN	126,500 SF
LAING PROPERTIES	UNITED KINGDOM	INTERCHANGE	PERIMETER CT	118,000 SF
LEHNDORFF MANAGEMENT	WEST GERMANY	ANCHOR BANK	DOWNTOWN	118,000 SF
CAPCOUNT AMERICA	UNITED KINGDOM	CRESCENT	N. EAST	115,700 SF
HISTORIC URBAN EQUITIES	CANADA	WILLIAM OLIVER	DOWNTOWN	102,000 SF
MARK III	WEST GERMANY	1765-THE EXCHANGE	PERIMETER CT	89,000 SF
CONFIDENTIAL	CONFIDENTIAL	ROYAL PHOENIX	AIRPORT	70,000 SF
HISTORIC URBAN EQUITIES	CANADA	FLATIRON BLDG.	DOWNTOWN	42,000 SF
POOL-GARANT	NETHERLANDS	3146 NE EXPRESSWAY	INNER I-85	33,000 SF
NORO	NETHERLANDS	NATIONAL DATA	N. EAST	81,200 SF
				7,576,700 SF

This list is not intended to represent all properties with foreign involvement, and the information contained herein may contain inaccuracies.

Table 4-1 shows that 10 buildings amounting to approximately 3,116,000 s.f. of the 11,992,000 s.f. [14] of office space in Downtown Atlanta are owned either wholly, or in part, by foreign investors. This amounts to over 25% of the total space. With the Japanese reportedly looking at a few major projects with over 1 million s.f. each, this number could change drastically in a short time.

In many cities this would be the whole story. But, Atlanta is a city with no center. Its office market consists of many sub-markets that are spread throughout the city. Many of these sub-markets are actually comparable in size to the Downtown market. This fact has forced most foreign real estate investment into the sub-markets outside of Downtown Atlanta. Our research found over 150 properties with foreign involvement, and only 12 properties were located Downtown.

There is much foreign involvement in business and industrial parks (Table 4-2). Laing Properties, a British company, and The Noro Group, a Dutch fund advisor, are the major players in this segment. A major joint venture between a Dutch company and two Japanese firms is building a free trade zone business park near the airport in south Atlanta.

TABLE 4-2. ATLANTA BUSINESS PARK PROPERTIES INVOLVING FOREIGN INVESTORS

FOREIGN ENTITY	NATIONALITY	DESCRIPTION	LOCATION	SIZE
NORO	NETHERLANDS	6 OFFICE WAREHOUSES	VARIOUS	1,200,000 SF
NORO	NETHERLANDS	NEWMARKET BUS. PARK	N. WEST	825,000 SF
LAING PROPERTIES	UNITED KINGDOM	NEWMARKET BUS. CTR.	N. WEST	600,000 SF
LAING PROPERTIES	UNITED KINGDOM	LAKESIDE CENTRE	N. WEST	313,000 SF
CONFIDENTIAL	CONFIDENTIAL	COLONY CENTER BUS. PARK	N. EAST	224,000 SF
CONFIDENTIAL	CONFIDENTIAL	COBB CORPORATE CTR.	COBB CO.	196,000 SF
CONFIDENTIAL	CONFIDENTIAL	ROYAL PHOENIX	AIRPORT	150,000 SF
SEEFRIED PROPERTIES	AUSTRIA	SULLIVAN ROAD	SOUTH	125,000 SF
WILMA SOUTHEAST	NETHERLANDS	ATLANTA TRADEPORT	AIRPORT	123,300 SF
EURAM	NETHERLANDS	SNAPFINGER TECH CTR.	EAST I-20	112,000 SF
POOL-GARANT	NETHERLANDS	"	"	
SEEFRIED PROPERTIES	AUSTRIA	"	"	
CONFIDENTIAL	SINGAPORE	OFFICE PARK	S. DEKALB	60,000 SF
CONFIDENTIAL	CONFIDENTIAL	AIRWAY BUSINESS CTR.	AIRPORT	60,000 SF
CONFIDENTIAL	SINGAPORE	OFFICE PARK	S. DEKALB	50,000 SF
SEFRI	NETHERLANDS	ATLANTA IND. PARK	SOUTH	36,000 SF
				4,074,300 SF

This list is not intended to represent all properties with foreign involvement, and the information contained herein may contain inaccuracies.

The influence of foreign investors is felt in the regional mall sector of the market where two major malls are held by two foreign funds (Table 4-3). Private investors, through their American advisors, are very active in the smaller neighborhood and specialty centers.

TABLE 4-3. ATLANTA RETAIL PROPERTIES INVOLVING FOREIGN INVESTORS

FOREIGN ENTITY	NATIONALITY	DESCRIPTION	LOCATION	SIZE
HEXALON	NETHERLANDS	PERIMETER MALL	PERIMETER CT	1,300,000 SF
UK LASALLE	UNITED KINGDOM	CUMBERLAND MALL	CUMB/GALL.	1,200,000 SF
LEHNDORFF MANAGEMENT	WEST GERMANY	GREENBRIAR MALL	SOUTH	639,071 SF
NORD	NETHERLANDS	LINDBURG PLAZA	BUCKHEAD	378,982 SF
WILSHIRE & HOOVER	SINGAPORE	PONCE SQUARE	MIDTOWN	300,000 SF
CONFIDENTIAL	EUROPEAN	BRIARCLIFF VILLAGE	N. EAST	189,000 SF
L.J.HOOKER	AUSTRALIA	SHOPPING CENTER	COBB CO.	180,000 SF
NORD	NETHERLANDS	GWINNETT CROSSINGS	GWINNETT CO.	154,258 SF
CONFIDENTIAL	WEST GERMANY	PIEDMONT-PEACHTREE CROSSING	BUCKHEAD	150,736 SF
NORD	NETHERLANDS	ROSWELL VILLAGE	N. CENTRAL	150,330 SF
CONFIDENTIAL	WEST GERMANY	"	"	
CONFIDENTIAL	WEST GERMANY	PEACHTREE BATTLE	BUCKHEAD	144,431 SF
CONFIDENTIAL	CONFIDENTIAL	LOEHMAN'S PLAZA	BUCKHEAD	140,000 SF
CONFIDENTIAL	WEST GERMANY	GEORGETOWN	N. ATLANTA	121,896 SF
L.J.HOOKER	AUSTRALIA	SHOPPING CENTER	N. FULTON CO	119,000 SF
NORD	NETHERLANDS	DUNWOODY VILLAGE	N. CENTRAL	114,265 SF
KAN AM	WEST GERMANY	GWINNETT MARKET FAIR	GWINNETT CO.	108,297 SF
NORD	NETHERLANDS	MARSHALL'S PLAZA	N. CENTRAL	99,740 SF
CONFIDENTIAL	WEST GERMANY	HOWELL MILL VILLAGE	CENTRAL ATL.	98,386 SF
CONFIDENTIAL	WEST GERMANY	BRANNON SQUARE	ROSWELL	88,573 SF
CONFIDENTIAL	WEST GERMANY	CROMWELL SQUARE	SANDY SPRING	78,110 SF
NORD	NETHERLANDS	CENTRE COURT	N. CENTRAL	65,856 SF
CONFIDENTIAL	WEST GERMANY	WEST PACES FERRY	BUCKHEAD	60,674 SF
CONFIDENTIAL	EUROPEAN	KENNESAW PROMENADE	ATLANTA	40,000 SF
CONFIDENTIAL	WEST GERMANY	BRIARCLIFF-LAVISTA	N. EAST	39,201 SF
NORD	NETHERLANDS	PARAN PLACE	N. WEST	28,000 SF
CAPCOUNT AMERICA	UNITED KINGDOM	PIEDMONT PLAZA	N. EAST	25,000 SF
				6,013,806 SF

This list is not intended to represent all properties with foreign involvement, and the information contained herein may contain inaccuracies.

While not as prevalent, there is some investment on the part of foreigners in the hotel sector (Table 4-4). Japan Airlines has just broken ground on a Nikko Hotel in Buckhead. This is in line with the company's custom of establishing a hotel in each of its destination cities. The Ibis and the Northwest Atlanta Hilton are two more examples of foreign involvement. The total foreign share is estimated to be less than 5% of the market.

TABLE 4-4. ATLANTA HOTEL PROPERTIES INVOLVING FOREIGN INVESTORS

FOREIGN ENTITY	NATIONALITY	DESCRIPTION	LOCATION	SIZE
JAPAN DEVELOPMENT CORP.	JAPAN	NIKKO (UNDER CONST)	BUCKHEAD	375 ROOMS
SEFRI	FRANCE	DAYS INN	BUCKHEAD	300 ROOMS
SPHERE N.A.	FRANCE	IBIS	DOWNTOWN	260 ROOMS
NESTLES/STOUFFERS	SWITZERLAND	PINE ISLAND	LANIER	250 ROOMS
LAING PROPERTIES	UNITED KINGDOM	NW ATLANTA HILTON	N. CENTRAL	222 ROOMS
CONFIDENTIAL	GREECE	INTERCONT. (UNDER CONST)	BUCKHEAD	371 ROOMS
CONFIDENTIAL	INDIA	"	"	
				1,778 ROOMS

This list is not intended to represent all properties with foreign involvement, and the information contained herein may contain inaccuracies.

The multi-family residential market is dominated by Post Properties, with over 20 apartment complexes throughout the city (Table 4-5). Private investors provide a large portion of the foreign capital that is utilized in this sector.

TABLE 4-5. ATLANTA RESIDENTIAL PROPERTIES INVOLVING FOREIGN INVESTORS

FOREIGN ENTITY	NATIONALITY	DESCRIPTION	LOCATION	SIZE
A.C TOH INVESTMENTS	SINGAPORE	LAKESIDE CENTER	BUCKHEAD	226 UNITS
CONFIDENTIAL	BELGIUM	*	*	
MARUBENI	JAPAN	*	*	
SEFRI	FRANCE	NORTHSIDE CIRCLE	N. WEST	220 UNITS
OBHAYASHI	JAPAN	APARTMENT COMPLEX	N. CENTRAL	212 UNITS
LAING PROPERTIES	UNITED KINGDOM	SUMMIT AT LENOX	BUCKHEAD	176 UNITS
URAMEX	SPAIN	ANSLEY PARK	MIDTOWN	127 UNITS
CONFIDENTIAL	PORTUGAL	*	*	
CONFIDENTIAL	SINGAPORE	APARTMENT COMPLEX	CENTRAL	120 UNITS
CONFIDENTIAL	CONFIDENTIAL	ART CENTER TOWN	MIDTOWN	118 UNITS
CONFIDENTIAL	BELGIUM	HOME PARK SCHOOL	MIDTOWN	150 UNITS
LAING PROPERTIES	UNITED KINGDOM	5 DIFFERENT PROPERTIES	VARIOUS	1,500 UNITS
CONFIDENTIAL	BELGIUM	CORUM (APTS/CONDOS)	N. ATLANTA	550 UNITS
LAING PROPERTIES	UNITED KINGDOM	HUNTCLIFF (APTS/CONDOS)	N. CENTRAL	248 UNITS
HISTORIC URBAN EQUITIES	CANADA	APARTMENT COMPLEX	N. CENTRAL	72 UNITS
CONFIDENTIAL	WEST GERMANY	LULWATER ESTATE (CONDOS)	MIDTOWN	48 UNITS
CONFIDENTIAL	SWITZERLAND	ANSLEY (CONDOS)	MIDTOWN	250 UNITS
POST PROPERTIES	EUROPEAN	20 DIFFERENT PROPERTIES	VARIOUS	7,000 UNITS
				11,017 UNITS

This list is not intended to represent all properties with foreign involvement, and the information contained herein may contain inaccuracies.

Finally, there is a great deal of land in the Atlanta area that is held by foreign investors and developers (Table 4-6). L.J. Hooker, an Australian company, is very active in residential and mixed-use development. Many tracts held by foreigners have been rezoned to higher uses, awaiting the right development opportunity. L.J. Hooker has a major mixed-use project planned for Midtown. The Dutch Institutional Holding Company is involved in the 191 Peachtree office building in Downtown, and the Tradeport joint venture has major plans for its project. In another major play, numerous investors have banked land adjacent to the contemplated southward extension of Georgia 400.

TABLE 4-6. ATLANTA LAND DEVELOPMENTS INVOLVING FOREIGN INVESTORS

FOREIGN ENTITY	NATIONALITY	DESCRIPTION	USE	LOCATION	SIZE
ROTHMAN	CANADA	RESIDENTIAL UNITS	MF	MIDTOWN	558 UNITS
LAING PROPERTIES	UNITED KINGDOM	MAYFAIR	MF	MIDTOWN	6 ACRES
MITSUI	JAPAN	ATLANTA TRADEPORT	BP	AIRPORT	3,500,000 SF
SHIMIZU CONSTRUCTION	JAPAN	"	"	"	
WILMA SOUTHEAST	NETHERLANDS	"	"	"	
CONFIDENTIAL	CONFIDENTIAL	OFFICE PARK	BP	N. WEST	70,000 SF
LAING PROPERTIES	UNITED KINGDOM	HIGHLANDS PARKWAY	BP	N. WEST	1,000 ACRES
L.J.HOOKER	AUSTRALIA	MEDLOCK BUS. CTR.	BP	N. EAST	587 ACRES
L.J.HOOKER	AUSTRALIA	WESTFORK BUS. CTR.	BP	ATLANTA	550 ACRES
LAING PROPERTIES	UNITED KINGDOM	CAMP CREEK PARKWAY	BP	SOUTH	155 ACRES
LAING PROPERTIES	UNITED KINGDOM	PEACHTREE CORNERS	BP	GWINNETT CO.	70 ACRES
CONFIDENTIAL	CONFIDENTIAL	OFFICE PARK	BP	N. WEST	18 ACRES
L.J.HOOKER	AUSTRALIA	I-85 & SHAWNEE RIDGE	IP	SOUTH	992 ACRES
A.C TOH INVESTMENTS	SINGAPORE	ATLANTA INT'L INDUST. PARK	IP	SOUTH	300 ACRES
L.J.HOOKER	AUSTRALIA	SOUTHSIDE DIST. CTR.	IP	AIRPORT	65 ACRES
L.J.HOOKER	AUSTRALIA	10TH STREET	MU	MIDTOWN	20 ACRES
ROSTLAND	CANADA	MIXED-USE PROJECT	MU	LENOX	15 ACRES
CONFIDENTIAL	WEST GERMANY	BUCKHEAD PLACE	OB	BUCKHEAD	1,232,000 SF
DUTCH INSTITUTIONAL H.C.	NETHERLANDS	191 PEACHTREE	OB	DOWNTOWN	1,200,000 SF
LAING PROPERTIES	UNITED KINGDOM	PALISADES	OB	PERIMETER CT	700,000 SF
LAING PROPERTIES	UNITED KINGDOM	INTERCHANGE	OB	PERIMETER CT	200,000 SF
WILMA SOUTHEAST	NETHERLANDS	CENTRUM AT GLENRIDGE	OB	PERIMETER CT	177,000 SF
MARK III	WEST GERMANY	PLANNED OFFICE BLDG.	OB	PERIMETER CT	165,000 SF
TAYLOR WOODROW	UNITED KINGDOM	OFFICE PARK	OB	COBB CO.	87 ACRES
CONFIDENTIAL	EUROPEAN	CUMBERLAND CENTER-PHASE III	OB	CUMB/GALL.	15 ACRES
WILMA SOUTHEAST	NETHERLANDS	PLANNED OFFICE BLDG.	OB	PERIMETER CT	9 ACRES
L.J.HOOKER	AUSTRALIA	BROOKHAVEN STATION	OB	N. CENTRAL	5 ACRES
DUTCH INSTITUTIONAL H.C.	NETHERLANDS	RAVINIA	OB	PERIMETER CT	2 ACRES
L.J.HOOKER	AUSTRALIA	PRE-DEVELOPMENT	RT	N. GWINNETT	230,000 SF
L.J.HOOKER	AUSTRALIA	PRE-DEVELOPMENT	RT	N. COBB CO.	180,000 SF
EQUIPROP	SOUTH AFRICA	FUTURE SHOPPING CENTER	RT	LANIER	13 ACRES
L.J.HOOKER	AUSTRALIA	VARIOUS	SF	VARIOUS	2,000 ACRES
CONFIDENTIAL	SAUDI ARABIA	CAMP CREEK RESIDENTIAL	SF	SOUTH	960 ACRES
CONFIDENTIAL	CONFIDENTIAL	SUBDIVISION	SF	ATLANTA	352 ACRES
EURAM	NETHERLANDS	CLUSTER HOUSING	SF	DOWNTOWN	30 UNITS
MONARCH DEVELOPMENT	UNITED KINGDOM	SUBDIVISION DEVELOPMENT	SF	VARIOUS	400 UNITS
CONFIDENTIAL	WEST GERMANY	PEACHTREE-MAPLE TRACT	OB	BUCKHEAD	7 ACRES
CONFIDENTIAL	EUROPEAN	HAVERTY'S/TABER	OB	ATLANTA	5 ACRES
CONFIDENTIAL	EUROPEAN	AKERS MILL	OB	ATLANTA	3 ACRES
CONFIDENTIAL	WEST GERMANY	LAND PARCEL	OB	LENOX	3 ACRES
CONFIDENTIAL	WEST GERMANY	STOPLIGHT TRACT	OB	BUCKHEAD	2 ACRES
CONFIDENTIAL	WEST GERMANY	AMOCO-JOINER TRACT	OB	BUCKHEAD	2 ACRES
TRANS O FLEX	WEST GERMANY	MOORES MILL CLUB/I-75	CL	N. WEST	12 ACRES

MF - MULTI-FAMILY RESIDENTIAL
BP - BUSINESS PARK
IP - INDUSTRIAL PARK
MU - MIXED-USE
SF - SINGLE-FAMILY RESIDENTIAL
CL - CLUB
OB - OFFICE BUILDING
RT - RETAIL

This list is not intended to represent all properties with foreign involvement, and the information contained herein may contain inaccuracies.

Our research found that some foreign investors have vertically integrated into numerous aspects of the real estate development process. We found them doing land development, design management, construction or construction management, leasing and brokerage, and property management (including landscape installation).

To get a feel for the different players and to show the different ways in which they operate, we have profiled in the next chapter four different investors who are active in the Atlanta real estate market.

CHAPTER 5

PROFILES OF FOREIGN INVESTORS IN ATLANTA

We have chosen to illustrate four different investors that represent the diversity of foreign influence in the Atlanta market. Included are a large, well-capitalized pension fund from Holland, a diversified investment/development company that is owned by a publicly-traded corporation from England, and a privately-held Dutch merchant builder. We have also taken a brief look at the Japanese investors that are active in the market. Each of these investor groups has characteristics that make it unique to the Atlanta market.

DUTCH INSTITUTIONAL HOLDING COMPANY, INC. ("DIHC") [133]

"Dutch Money Helps Downtown Soar."

Recent article in Atlanta Business Chronicle [69]

DIHC came to Atlanta in July of 1980. It is the U.S. investment arm of PGGM, a Dutch pension fund, whose members are doctors, nurses, and other medical personnel working in the Netherlands.

Like many large pension funds, DIHC has invested in office buildings in cities across the eastern U.S. including Boston, Washington, D.C., Charlotte, Orlando, and Atlanta. These deals are structured as joint ventures with top-notch development companies. DIHC wants to be involved in institutional grade office buildings with the best location possible. The minimum deal size is $100 million, as DIHC has $1.3 billion invested, or committed to invest, in the U.S. In Atlanta, it is one of the top foreign investors, with $450 million invested or committed in the market.

Stereotypes hold that European investors are very conservative. DIHC holds its properties for the long-term (15-20 years) and takes a hands-on approach in an effort to control the quality of the portfolio. But Herman Vonhof, President of DIHC, says that the fund is stepping up the learning curve. This is typified by the company's recent activity. Moving from conservative investments such as the acquisition of fully-leased Class A office buildings, DIHC is now involved in the development of office buildings in the downtown business districts of Washington, Boston, Atlanta, and Chicago.

DIHC recently committed to provide the equity and debt financing for 191 Peachtree, a $250 million, 1,200,000 s.f. office building in downtown Atlanta. DIHC is a joint venture partner in the deal with Gerald D. Hines Interests and Cousins Properties. Indicative of its commitment to downtown Atlanta, DIHC signed on as a partner with no pre-leasing requirements. Chip Davidson, regional manager of Hines, feels that DIHC made an investment in downtown Atlanta when many others couldn't understand it [116]. Vonhof is enthusiastic about the comeback of the Downtown market, and he is positive that DIHC has made a wise investment.

DIHC gets involved in many different types of deals. In the Hines/Cousins/DIHC joint venture, DIHC is putting up all the money during the construction phase. Originally, this will be characterized as a construction loan. At the end of the construction period, half of the loan converts to a permanent loan (sub 10% interest rate, 30 year term) and the other half converts to equity. The equity has a low cumulative preferential return that steps up until it doubles, then it remains level at that point. The remaining cash flow after debt and preference payments is distributed 50% to DIHC and 50% to the development partners.

Vonhof believes that a critical element of DIHC is its capacity and ability to negotiate with the big boys (i.e., Gerald Hines and Trammell Crow). This is possible because the company has the full support of the Dutch home office behind them and the authority to cut the deal once the green light has been given. During quarterly meetings in Holland, Vonhof competes with his counterparts from other parts of the world for project approvals. The Dutch fund has pegged 20% of its funds for real estate investment, with 40% of that amount allocated to the U.S.

Resort Development: To our surprise, we found out that DIHC also developed, manages and owns the Grand Cypress Resort, a 1,500 acre golf course resort in Orlando, Florida. The project includes a 750-room Hyatt hotel, 45 holes of golf designed by Jack Nicklaus, luxury rental villas, a tennis facility, an equestrian center, and a planned Jackie Stewart shooting range. DIHC and Vonhof plan to reproduce this deal in several different marketplaces around the U.S. and the world.

DIHC breaks the traditional image we have of conservative pension funds. Since establishing its U.S. office, DIHC has been progressively more willing to take on development risk, and at times it looks outright entrepreneurial in comparison to most domestic pension funds.

<u>LAING PROPERTIES, INC. ("Laing")</u> [117]

> "All our earnings are reinvested in the U.S..... We have never sent a penny back!"
>
> Jim Gillespie, Senior Vice President, Laing Properties, Inc.

Laing is a wholly-owned subsidiary of Laing Properties, plc. The parent company is a large, British-based investment and development firm that is celebrating its 140th anniversary this year. In 1976, Laing established its U.S. headquarters in Atlanta. It is by far and away the most active British player in the Atlanta market. Laing is a long-term investor that utilizes very little debt in its operations. The company's portfolio contains numerous property types that have been acquired as investments, developed internally, or developed along with other joint venture partners. The properties are located throughout the Southeast. Laing represents a full-service real estate company.

Past Developments: The Atlanta portfolio of Laing reflects as much diversity in its geography as it does in its types and categories of real estate properties. "Count on more diversity to come," said George L. Aulbach, Laing's President, in a recent interview with the Fulton County Daily Reporter [59]. A review of its portfolio indicates over 2 million s.f of office and business park space, a hotel, more than 12 apartment complexes, a senior adult retirement community, and industrial parks.

When Laing came to Atlanta, it started out as a development and construction company, focusing on Section 8 housing and office joint ventures. It did not take the company long to find out that working with H.U.D. was not as profitable as had been expected; therefore, it decided to pursue commercial properties and other private sector developments.

Laing's first commercial endeavor was a joint venture build-to-suit office building for IBM. In recent years, Laing acquired the Lenox Towers office complex in Buckhead and invested $5 million in its renovation. These two towers contain 369,000 s.f. of office space. This is the only Laing renovation in the Atlanta area.

Newmarket Business Center was Laing's first venture into business park development. It is a 75 acre park with 600,000 s.f. of completed office/service space. The company also developed Lakeside, a 35 acre business park that has 313,000 s.f. with 5 buildings- 4 office/service and 1 office building. St. Farm Insurance Company is a joint venture partner in this deal.

Laing developed the 222 room Northwest Atlanta Hilton in Cobb County. It was later sold under a sale/leaseback that allows Laing the right of first refusal to a buy-back in 1991. Laing presently manages the hotel in-house.

Laing's first retirement property development is the 248 unit Huntcliff Summit in Atlanta. It is very upscale, and the company expects to rent 50% and sell 50% as condos. Laing will hold onto 100% of what is not sold. According to Aulbach, Huntcliff Summit is a prototype development for the "active retiree" in the Southeast [59].

Present and Future Development: Two of Laing's current projects reflect its broad-based approach. The first is Camp Creek Business Centre, a 150 acre office/distribution park under development in East Point on the south side of the city. Presently, 120,000 s.f. of office/distribution space are under construction. Because there is so much acreage involved, Laing expects to sell some of the tracts to end users. The second is the Mayfair, an $80 million, twin tower apartment project in Midtown. Construction is scheduled to begin on the first tower in August, 1988. This is Laing's first venture into high-rise apartments.

Laing does have some office buildings in the works, mostly new phases to be added to current projects. They will be developed cautiously, Aulbach says, "...when we deem the market to be right" [59]. The Palisades, a planned 28 story tower, will be a joint venture with DIHC.

Strategy: Over the past year, the main thrust has been directed at the quality rental segment of the residential apartment market. In association with specialist developers such as Calibre and Trammell Crow, Laing is acting as money partner in a number of projects in Atlanta, Florida, and Tennessee. These investments will have a total value of around $100 million at completion. In each case, Laing has at least 50% of the deal and will get a preferred return on its equity. Aulbach views Laing's joint venture role as "...an entrepreneurial investor where we are the equity partner, but we are not necessarily silent" [59].

Exposure to the overbuilt Atlanta office market has been reduced progressively over the past several years by bringing major institutional investors into joint ownership on several of the company's projects. This approach has allowed Laing to maintain its operational presence in the Atlanta office and to retain the rights to participation in future developments while freeing up substantial financial resources for redeployment elsewhere. The strategy has also helped Laing to expand its roles as direct investor and investment partner. The greater emphasis on these roles will allow Laing to move more quickly into new and more promising markets.

Aulbach is currently looking at retail development opportunities. He would like to develop shopping center projects in joint ventures with experienced retail developers. Aulbach is also planning to expand Laing's horizons well beyond Atlanta where about 80 percent of its $400 million in investment is located. The company is looking for opportunities in the Southeast, including Florida, northern Virginia, Richmond, Raleigh, Columbia, Nashville and possibly Birmingham. Potential products include residential and retirement home development, retail centers and office buildings.

The emphasis in Atlanta will be on residential rather than office development, a shift of strategy triggered by the softening office market here. Aulbach would like the commercial/residential investment split at Laing to be 50/50 by the year 1991.

Gillespie characterized Laing as an investment company, and not as a developer:

> "The developing is a means to an end. If we could purchase leased-up properties at the right price, then we would. We manage all of our own properties in house. If we could find a leasing or management company that could give us the kind of service that we desire, then we would contract it out to third parties, but we can't."

Laing has a construction management division which was the general contractor for the company's Section 8 housing. Laing was also the general contractor on other developments, but the company had problems dealing with staffing levels during down real estate cycles. Currently, the construction management division manages Laing's contracts using outside general contractors.

The company is fully staffed by U.S. personnel. Aulbach is the President and a board member of the parent company. The buy and sell decisions are made by Aulbach and the chief executive officer of the parent firm. Major decisions must be approved by the British board.

Laing has the ability to make quick decisions. Many times, it just takes a phone call. Numbers are faxed "across the pond" and answers are usually received within 24 hours. With only a five hour time difference between England and Atlanta, it is not much different than talking to California.

With an initial capitalization of $60 million, Gillespie does not see the parent company putting any more capital in the U.S. subsidiary. All the earnings are reinvested in the U.S. "We have never sent a penny back," according to Gillespie.

Laing uses very little leverage. The company is working towards increasing the use of debt, viewing more leverage as good, not bad. Laing plans to use increased borrowings in dollars rather than pounds sterling in order to limit currency risk; however, the primary focus on currency risk remains at the parent company level.

Laing is looking for annual returns on its equity sufficient to double the net worth of the company every five years. Cash flow is highly valued, but capital appreciation is also a major requirement from the investments.

Gillespie feels that the U.S. operations benefit from the financial stability and reputation of the British parent company. Attractive deals are presented to the company because those strengths are recognized by domestic developers.

Laing is into many product types, as both an investor and a developer. Along with its leasing and management arms, the company has integrated into a full service real estate company. A strong capitalization and a presence in the Southeast market definitely help to make Laing a major player in Atlanta.

<u>WILMA, INC. ("Wilma")</u> [119]

> "People see Wilma as a domestic company. An outsider will not see much difference between Wilma and Trammell Crow except that Wilma is more conservative and doesn't hold onto its property."
>
> Charlie Graham, President of Wilma Inc.

Wilma is the U.S. subsidiary of Wilma International, a Dutch development and construction company. Unlike many foreign investors, Wilma flies in the face of conventional wisdom and develops property for sale. The company has developed office buildings, business parks, and single-family residences. While headquartered in Atlanta, the company also has operations in Florida, Texas, and California.

Wilma is staffed with predominantly American personnel. Graham explains, "The management of Wilma grew up in the U.S. real estate environment. The head of the Atlanta office is from Atlanta. The head of the Houston office is from Houston. And, the head of the Los Angeles office has been in Los Angeles for 20-25 years."

The company was initially capitalized with $35 million. The parent company has a substantial balance sheet but requires Wilma to stand on its own two feet (i.e., it does not provide guarantees). However, the parent company is able to provide credit sources through its European banking contacts. Through these sources, Wilma has obtained a $35 million unsecured revolving credit line. Graham indicated that he does not expect additional capital infusions from the Dutch owners, and the U.S. operations are basically on their own.

Actually, very little leverage is utilized when making a deal. The corporate balance sheet has a debt/equity ratio of 2:1, less than most domestic developers. Wilma has a return on equity in the 7-8% range, less than the target of 10%. Graham indicated that additional leverage must be used if the company is to reach this target.

Strategy: As merchant builders, Wilma is concerned with booking profits from property sales rather than developing cash flow and asset values. According to Graham, "Wilma International was formed fifty years ago as a construction company and the construction mentality has carried over. They are used to a profit orientation." The parent company believes that when a property is built and leased-up, risk is minimized by selling the property and recovering the equity. Graham disagrees:

> "You get your money back, but you must find another investment in real estate with similar risk and return characteristics. This is difficult because you have to go around the playing board all over again. You have to restart the risk cycle inherent in development."

Graham believes that the developers with the greatest success in the long run are those that find strategically located property, develop product in response to a market need, and then hold the property in order to allow it to mature and create value. "It pays to hold the good property," according to Graham. He is attempting to get Wilma International to hold onto the next office development beyond lease-up.

It is interesting to see the U.S. officers disagree in principle with its Dutch parent on corporate strategy. This conflict is no less likely to occur within a domestic company; however, it illustrates how U.S. personnel are attempting to influence the way foreign investors do business here.

Wilma's strategy is to grow in the select markets that it is already in. The company wants to leverage upon its good product line and people, but it needs access to additional capital if it is to remain a major player in the market. Therefore, it is likely that Wilma will form more joint ventures similar to the Tradeport project.

The Atlanta Tradeport - "Breaking the Sake Keg": This joint venture matches Wilma with one of the largest trading companies in Japan (Mitsui) and one of the largest construction companies in the world (Shimizu).

The Atlanta Tradeport is a 260 acre project that will ultimately be developed into a 3.5 million s.f. mixed-use domestic and international business complex. The development is located adjacent to the Hartsfield International Airport and is directly linked via Aviation Boulevard. It enjoys proximity to three interstate highways and to rail service that goes to the ports of Savannah and Brunswick. The Tradeport is Atlanta's only Foreign Trade Zone.

Early in the pre-development, Wilma thought long and hard about how it was going to market the Tradeport. "With our European roots, we wanted to tap into the Wilma network in the Netherlands and West Germany, primarily for leads in marketing the project," explained Skip Beebe, head of the company's Southeast operations, in a recent conference on Japanese capital in the U.S. [72]. "We also determined that the Japanese were a very, very prime target in terms of marketing this product (primarily related to the huge Georgia presence of Japanese manufacturing and distribution firms, trading companies and banks.)" Beebe continued:

> "...so the challenge to us was how do we penetrate the Japanese market. We decided to try to attract a Japanese partner who could give us the visibility and credibility in the Japanese market so we would be able to go forward and market aggressively in Japan and the Far East. We were not interested in attracting a passive partner. We wanted a partner who would be active, who would take a very active role in marketing the project, who would work with us to understand the decision making process, the criteria for investment by the Japanese."

In late 1985, Wilma identified Mitsui as a possible partner. It took an additional year to negotiate the partnership. Mitsui's decision-making process was very complicated. Information was passed from the Atlanta office to the New York office and then on to Tokyo. Responses were determined and sent to the New York office, which forwarded them to the Atlanta office. This process was used for even the smallest details of the negotiation.

Mitsui is a trading company and not a real estate developer. Therefore, it invited Shimizu Construction Company to participate in the project. Each of the joint venture partners was required to contribute $5 million in equity. The ownership is split 50% to Wilma, 25% to Mitsui and 25% to Shimizu. The equity contributions earn a preferential return of 8%. Mitsui and Shimizu arranged the banking relationship for the debt required to develop the property. The joint venture has an unsecured revolving credit line, as opposed to traditional financing that uses the real estate as collateral.

Future Development: Wilma recently broke ground on a 175,000 s.f. office building called the Centrum at Glenridge. This project is located at the intersection of I-285 and Georgia 400. The total cost is $25 million, with 15% of this provided by equity and the balance by construction financing. Because of the over-built office market, Wilma decided to pre-lease the building prior to starting construction. If unsuccessful in the pre-leasing efforts, the company had planned on selling the property. However, with 1/2 of the space pre-leased, Graham is hoping to convince Wilma International that the company should hold on to Centrum because of the value creation opportunities that the Georgia 400 extension provides.

The fact that Wilma is an international company opens doors that otherwise would be closed, giving it increased access to other European investors. Graham also feels that the company's strong Dutch parent helped give Wilma increased credibility in attracting Mitsui and Shimizu.

The company is not affected by currency risk. "The currency differential has been overplayed," says Graham. "So many foreign investors have dollars so it doesn't impact them, and European pension funds designate a certain amount of their liquid investments into U.S. T-bills."

Whereas most foreign investors are characterized as long-term investors, Wilma's operations stand in stark contrast to this characterization. As a merchant builder that is staffed by U.S. personnel and operating within capital constraints comparable to many U.S. developers, it looks very domestic at this point in time.

THE JAPANESE

> "... too many trees."
> Reason given by a Shuwa executive for calling off the purchase of a major office building in Atlanta [130]

> "The sleeping giant in Atlanta real estate is Japan."
> Tarby Bryant, Braemar Group Ltd. [7]

With the Japanese noticeably absent from the Atlanta market, is there any truth to Tarby Bryant's statement? Where are all the Japanese investors that have been making the headlines with their purchases of major office building in New York, Los Angeles, and Washington, D.C.? Jerry Sauls of Richard Ellis, Inc. theorizes [130]:

> "The Japanese don't understand Atlanta. They see Atlanta as a city with no center, no signature properties, and no supply constraints."

The case of Shuwa, a major Japanese investor, illustrates this point. The company entered into a contract to purchase a major office building in Atlanta and prior to closing, a Shuwa executive from Tokyo came to town to inspect the building. After flying over the building in a helicopter, he promptly called off the deal saying, "There are too many trees." When the Japanese see Atlanta, they see a blanket of trees, which they equate to an unlimited supply of land, and institutional investors like Shuwa typically prefer a supply constrained market.

The Japanese may also be hesitant because, unlike the Europeans, when the Japanese invest and develop in Atlanta, they are not in close proximity to their parent companies overseas. However, with many of the larger Japanese companies establishing offices in New York, communicating with Atlanta will be easier in the future.

Bryant explains his rationale on why he thinks the Japanese are poised to make an impact on Atlanta:

> "With all the major Japanese banks currently in Atlanta and two airlines, JAL and Delta, now flying direct links to Japan's Narita Airport, I am confident that we will see more Japanese investors walking the streets of Atlanta looking at our office buildings, hotels, and regional malls."

Despite the lack of headline-making purchases by the Japanese in Atlanta, there is a Japanese presence in the city. We did identify projects where Japanese trading and construction companies were involved, and a major Japanese life insurance company owns 50% of the Equitable Building in downtown Atlanta.

Construction Companies

In the last year, two Japanese construction companies have entered into joint ventures with local developers. One example of this is the Wilma/Mitsui/Shimizu Tradeport project previously discussed. Another example is a joint venture between Kajima Construction Company and L.J. Hooker (Australian) to develop a 550 acre industrial park with 2 million s.f. of office/distribution space planned. According to Boyd Simpson, president of L.J. Hooker Developments, "This is the first Japanese industrial JV in the U.S." [131]

In contrast to U.S. construction companies, Japanese contractors are large, integrated organizations that offer a full-service package. They have architects, engineers, and designers on their staff and will take care of the whole development process for a client.

The Japanese construction companies are well capitalized and have a wide range of financing options available to them. This financial strength has facilitated their entry into the U.S. market. The ability to deliver financing is used to get domestic contractors and developers to enter into joint venture projects with them. These joint ventures provide the means to penetrate various markets in the U.S., to make attractive investments in U.S. projects, and to expand their international billings.

Trading Companies

Two Japanese trading companies have recently made investments in Atlanta real estate deals. As discussed in the Wilma, Inc. profile, Mitsui was brought into the Atlanta Tradeport deal to provide a marketing arm with access to Japanese companies. These companies are viewed as potential tenants in the Tradeport project.

Another Japanese trading company that has invested in Atlanta is Marubeni Trading Company. It is a joint venture partner in a high-rise apartment project called Lakeside Apartments. This is Marubeni's first investment in Atlanta, but according to their local investment advisor, "They are looking for other deals" [128]

The goal of Japanese trading companies is to find, analyze, finance, manage, and market all types of U.S. real estate for every kind of Japanese client. A few large trading companies such as Mitsui and Sumitomo want to concentrate on brokerage rather than direct investment. On occasion, they will co-venture on U.S. projects with Japanese client firms in order to ease the client's U.S. market entry. They intend for this direct role to be a temporary means for establishing intermediary relationships in the U.S. real estate business.

Life Insurance Companies

Prior to 1987, the Japanese had made only one significant real estate investment in Atlanta. This occurred approximately five years ago when Asahi Mutual Life Insurance Co. purchased a 50% interest in the downtown Equitable Building. According to Donald L. Batson, Senior Vice President of Equitable Real Estate Investment Management, Inc. [111]:

> "It was mere coincidence that Asahi came to Atlanta at that time. This was because the Equitable Building had been presented to Asahi as part of a package of buildings spread out across the U.S. Asahi decided to buy the package and ended up with a building in Atlanta."

In a recent article, a spokesman for Asahi says that the company invested in a downtown building because [89]:

> The Japanese like the downtown area. Japan doesn't have subdivisions like the U.S.- generally speaking... We purchased this building five years ago. It's the first property for us (in Atlanta). We prefer established buildings downtown and joint ventures with big companies because we are not familiar with your city.

A number of Atlanta real estate professionals believe that the real estate subsidiary of a Japanese life insurance company is negotiating to buy the IBM tower in Midtown for $320 million. In Atlanta, there are very few of these centrally located signature properties. This would seem to limit future investment by the Japanese life insurance companies in Atlanta.

The Japanese life insurance companies are generally considered to be the most conservative of the Japanese investors in U.S. real estate. They prefer joint ventures with "big-name" developers or American insurance companies, and they have a long-term investment horizon. Their focus is on existing prime buildings in financial districts of major cities. They are reluctant to invest in growing cities, suburban areas and development projects because they believe that such investments are too speculative.

In the future, as the number of trophy-grade properties in Atlanta, and the U.S. as a whole, diminishes, we would expect that the life insurance companies will team up with the construction and trading companies to develop different products outside of the traditional central business districts.

Others

There were other investments that we identified in our research that involved Japanese investors other than the life insurance funds, trading companies, and construction companies. It is interesting to note these different types of Japanese investors. In the early 1980's, Mitsubishi Estate, a development company completed three projects in Atlanta. These included 300 single family lots on 174 acres, 110 single family lots on 89 acres, and a commercial strip center on 6 acres. We were not able to determine why they left the market, and our research did not turn up any other Japanese developers in Atlanta.

Nikko Hotels and Prudential are joint venture partners in the development of a Nikko hotel in Buckhead. The

Atlanta hotel will be started at the end of 1988, with financing being provided by the Industrial Bank of Japan.

An unusual Japanese investment that we found was a golf course development in the northern part of the city. A wealthy Japanese individual is planning to develop, own, and operate a golf course and club house on land in a major mixed-use project being developed by Mobil Land Development Company.

Because we believe that the Japanese are poised to make a move in Atlanta, we have chosen to profile only the investor types that are already in the market. There has been no mention of Japanese trust banks, pension funds, security firms, leasing companies or commercial banks, who are all part of the Japanese investment community. For those desiring a more comprehensive overview of Japanese investors and their strategies in the U.S., we recommend the following sources:

Lindner, Russell C., and Monahan, Edward L. Japanese Investment in U.S. Real Estate: Status, Trends, and Outlook. Cambridge: M.I.T. Center for Real Estate Development, 1986.

or

Sears, Cecil E. Japanese Real Estate Investment in the United States. New York: The Japan Society, October 2, 1986.

CHAPTER 6

CONCLUSIONS

Many of the recent studies on foreign investment in U.S. real estate have focused excessively on the Japanese. In our research, we have endeavored to search for a more balanced view. It so happens that in Atlanta, the Japanese are not the story. Rather, the Europeans have played the most prominent role during the last decade. In this chapter, we generalize about our findings and their implications. Foreign investors, like their domestic counterparts, are not a homogeneous group with generalizable attributes. They all have their own idiosyncrasies that differentiate them from one another.

Atlanta is a "port-of-entry" city for many foreign investors. Many European companies have established their U.S. headquarters in Atlanta because it is easily accessible, has a good quality of life, and is strategically placed as a gateway to other Sunbelt cities in the Southeast. They made a conscious decision to avoid the large international cities in the east (New York, Boston, and Washington, D.C.) because of the tremendous competition, complexity, and size of deals involved. Unlike many counterparts, the foreign investor in Atlanta is willing to diversify into some of the smaller cities of the Southeast, and Atlanta is well placed from which to do.

<u>Foreign investors in Atlanta are opportunistic in capitalizing on real estate opportunities</u>. Conventional wisdom says that the foreign investor shows an exceptionally strong preference for fully tenanted, investment grade properties located in the central business districts of internationally recognized cities such as New York, Los Angeles, and Washington, D.C. In stark contrast to this, the foreign investor in Atlanta exhibits the flexibility to invest in all product types and locations.

Unlike the cities mentioned above, Atlanta is a city without a center. Instead, it has numerous commercial nodes that are spread out into the suburbs. The foreign investor in Atlanta has shown the willingness to look outside of the downtown market for real estate opportunities. Out of approximately 150 foreign investments that we found in Atlanta, only 12 were in downtown Atlanta. These consisted of 10 office buildings, one hotel, and a tract of land that is pre-developed for a 1.2 million s.f. office building (191 Peachtree).

In Atlanta, it is difficult to find a property type that the foreign investor is not involved in. There is foreign activity in office, retail, industrial, land and hotel development.

Laing Properties, Inc., a British-based company, owns a good deal of property north of the Perimeter Highway. It also owns Lenox Towers, has plans to build a two tower project in Midtown, and is waiting to break ground on a project near the airport in south Atlanta. "We have no real aversion to downtown," said Amanda Degenhardt, assistant marketing services director for Laing, in an interview with the Atlanta Business Chronicle [89].

> "The things we've planned we've had a long time in planning. We go where the opportunities are, where the key areas to put property are."

Jack Alexander, executive vice president of Noro Realty, a Dutch company, agreed with Laing's assessments in the same interview [69]:

> "Atlanta is identified as a market we're interested in. People go where the growth corridors are. We have a belief in Atlanta and we've been trying to invest preceding the growth curve."

Foreign investors in Atlanta take development risk and are involved in both investment and merchant building. The foreign investor is typically thought of as having a long-term horizon. Atlanta has foreign investors that are no exception to this, i.e. DIHC and Hexalon.

We also found numerous foreign investors who depart from this characterization. Charlie Graham, Wilma's president, characterized his company as a merchant builder that is more interested in booking profits than developing cash flow and long-term asset values [119]. Property is usually sold after it is built and substantially leased.

Even though Wilma is considered one of Atlanta's larger developers, Wilma's portfolio consists of only three properties that it owns directly.

L.J. Hooker also considers itself to be a merchant builder. According to its president, Boyd Simpson, the company has approximately $150 million per year in sales [131]. Other examples of foreign merchant activity include Monarch Homes and L.J. Hooker Homes, both home building subsidiaries of foreign investors.

The foreign investor in Atlanta has geographically diversified into other southeastern markets. Many foreign investors located their headquarters in Atlanta because they saw it as a good place from which to geographically diversify into other Sunbelt cities in the Southeast. Delta and Eastern use Atlanta as a hub from which there are numerous direct flights to other U.S. markets.

Laing Properties, Inc. is planning to expand its horizons well beyond Atlanta. The company is presently looking for opportunities in Florida, Virginia, and in the capital cities of the Southeast - Richmond, Columbia, Nashville and Birmingham [59]. Hexalon, Inc. specializes in select regional malls and office buildings. Its investments are concentrated in the East - Atlanta; Raleigh/Durham; Nashville (4); Lynchburg, VA; Orlando; Boston; New York City (3); Syracuse; Wayne and Paramus, NJ; Cleveland; Toledo; and include some properties in California - Los Angeles and

Antioch. [136]

The foreign investor in Atlanta is not as long-term oriented as is commonly held. It is often said that the domestic real estate investor has a 5-10 year investment horizon while his foreign counterpart looks at a 15-20 year horizon. This longer term holding period is typical of Japanese investors who are culturally disinclined to sell their real estate. Some Japanese investors boast that they have never sold any of their properties. In Atlanta, we found that although the European investors said they were long-term oriented, most defined long-term as 10 years. There were exceptions to this, for example Hexalon, the representative of a Dutch mutual fund, defines its holding period as between 25-30 years.

Foreign investors do not pay noticeably higher prices for their real estate. In Atlanta, there are very few of the signature properties that have attracted high prices as reported in New York and Los Angeles. Although it is difficult to judge, we could not find any evidence that foreign investors pay higher prices than domestic investors. One of the few world-class buildings in Atlanta is the IBM Tower. A Japanese investor is purported to be negotiating to purchase this 1.4 million s.f. building for $320 million, or $270 s.f.

The foreign investor tends to be better capitalized than those in the U.S. For example, Taylor Woodrow Property Company of America, Inc. buys land for all cash, using internal funds that have been brought in from overseas. They have no major lines of credit with a U.S. institution for construction purposes. And, the first couple of buildings that they built were done "out of pocket". According to Gene Nolan, Vice President of Taylor Woodrow, "Frank Taylor (founder) hates debt" [126].

Another English firm is Capcount America, Inc. According to Derek Aynsley, president of Capcount [110]:

> "We use low leverage, on the order of 20% debt, and will develop out of pocket. When we bring the occupancy up to a satisfactory level, then we sell a portion of the property to a joint venture partner."

The implication of this superior capitalization is the stability that it provides in a down market. Therefore, the foreign investor should have an improved ability to weather the cycles inherent in U.S. real estate markets.

In Atlanta, the foreign investor has evolved to resemble his domestic counterpart. One of the lessons from Atlanta is that, given enough time, the foreign investor will learn to understand the local real estate market. They have shown the flexibility to adapt to different ways of doing business than exist in their own country. In Atlanta, many of the foreign investors are fully integrated into the community, investing in all product types throughout the city. Most of them are staffed with U.S. personnel and some have vertically integrated into ancillary services.

Stan Ashley, of Carter & Associates, says, "The longtime foreign players in the market such as Wilma and Noro are not treated any differently from their domestic counterpart" [109]. Sam Ayoub, partner in The Citadel Group says [132]:

> "There is very little difference between the foreign and domestic investor. The foreign investor is looking for diversification. He understands the U.S. economy and reads the same Wall Street Journal and Atlanta Business Journal that we do. He can pick up CNN over there and keep up with what is going on over here."

The evolution of the foreign investor takes place in several stages. Initially foreign investors depend upon a local developer or advisor to help make investments. They tend to buy existing fully leased buildings but, will also enter into joint ventures on local development projects. In this way, foreign investors gain exposure to the way we do business in the U.S., allowing them to become familiar with the local real estate market and to make business contacts. Eventually, many of them feel comfortable operating on their own, at which point they start to handle their own acquisitions and/or developments.

An illustration of this is Noro Realty Advisors, Inc., who started in Atlanta with Branch & Associates as its investment manager. The first investments were fully leased existing office buildings. Noro then proposed to buy shopping centers that were well-leased properties with multiple tenants. Later, it rehabilitated one center and developed another. In 1980, Noro bought Branch out and started its own company. Now, it purchases or develops office buildings, retail centers and warehouses. Noro's geographical preference is properties located between Boston and Virginia [129].

Maarten Kuik, of Euram Resources reflects [123]:

> "It was always our intention to invest in the U.S. in order to educate ourselves. The learning curve has taken five years and now we feel comfortable developing on our own."

Being a foreign company can be advantageous. An international image opens doors. For example, look at who the Japanese are doing joint ventures with - Wilma & L.J. Hooker. According to Charlie Graham, Wilma's president [119]:

> "The international aspect is in vogue and allows us access to an entirely new marketplace. For example, the mystique of being an international company helped Wilma cut the deal with Mitsui and Shimizu. This has opened worldwide marketplaces that other competitors haven't had access, or as fluid an access, to."

The Japanese are "knocking at the door." Overall, the Japanese are in the process of taking a hard look at Atlanta but are generally disturbed by the decentralization and lack of signature properties. According to Jerry Sauls of Richard Ellis, Inc. [130]:

> "As far as the Japanese go, they don't understand Atlanta. Because of the limited number of world-class buildings in Atlanta, they will have to take more risk than they want to."

He estimated that Atlanta ranks #7 on their list of U.S. cities in which to invest in real estate.

Atlanta is expected to be one of the fastest growing markets for Japanese real estate investment, according to a study released by Louis Harris & Associates, Inc. The study, commissioned by Cushman & Wakefield, also indicated that Japanese investors are planning to branch into new kinds of real estate including hotels, shopping centers, residential developments and recreations areas. Three of the Japanese companies interviewed already had real estate investments in Atlanta, but eight firms expected to invest in Atlanta in the near future [84].

We fully expect that in the near future, the Japanese will become significant investors in Atlanta real estate. Their investment will be led by the trading and construction companies who will attract other Japanese capital. This is because the Japanese trading companies prefer to provide intermediation services for their Japanese clients rather than directly investing for their own account. The Japanese are building or planning manufacturing facilities all over metro Atlanta. These facilities will offer a good opportunity for Japanese construction companies to establish themselves in the market.

As the Japanese presence in the U.S. market matures, several things will occur. First, there will be fewer signature buildings in New York, Los Angeles, and Washington D.C. available. There will also be increased competition for these properties as new waves of Japanese investors, primarily non real estate companies, follow their predecessors. Therefore, the yields that are available in the secondary markets should look more attractive. Second, as the Japanese gain knowledge about U.S. real estate practices, they should feel increased comfort in diversifying into different product types. This transition should help to overcome the apprehension about the Atlanta real estate market.

The Japanese will find Atlanta more competitive. They will have to invest or develop in the suburbs where their willingness to pay is probably lower than that of the existing foreign and domestic developers.

<u>In the aggregate, currency fluctuations and the stock market crash had little impact on foreign investment in real estate</u>. Almost all of the foreign investors that we talked to explained that exchange rate considerations do not have a significant impact upon their real estate investment decisions. This was because they have decided to keep a certain percentage of their portfolio in dollar denominated assets. Many foreign investors have plenty of dollars that are generated from earnings and sales of assets that they continue to reinvest. They are long-term investors and feel

that over the long run, currency fluctuations even out. According to Sam Ayoub, partner in the Citadel Group [132]:

> "Foreign investors allocate a certain part of their portfolio in the U.S. Europeans commit between 5-15% of their portfolio to U.S. real estate for diversification reasons. They mostly reinvest the whole equity as it is paid back; therefore, exchange rates mean less. They really act like Americans."

One exception to this was foreign investors who had investment limits on the percentage of their portfolio that could be invested in real estate. Currency fluctuations can cause the value of their real estate portfolio to exceed this threshold. Richard Ellis' Jerry Sauls reflects [130]:

> "The Dutch were the only ones that had a real problem when the fall of the Dutch guilder caused the value of their U.S. real estate portfolio to become a higher percentage in the total portfolio than their thresholds allowed. They refused to send in new guilders until the percentages leveled out to acceptable levels."

The stock market crash was noted as having more of a positive effect on investment in real estate. The precipitous drop in stock prices showed that real estate returns and values are less volatile. However, the effect that concerned investors was that the stock market crash might be the precursor to a weaker economy that would lead to less demand for office space. One deal that did get canceled because of the stock market crash was at Capcount America, Inc.. According to the company's president, Derek Aynsley [110]:

"The stock market did kill one deal in the U.S. that was to be a $100 million retail project in Beverly Hills, California. The closing was scheduled three days after the crash, and officials in England got nervous and decided to get the $100,000 in earnest money back rather than sign the deal under such market conditions."

Foreign investment will provide opportunities for the U.S. real estate brokerage community. Like their domestic counterparts, foreign investors depend on a close network of advisors to bring to their attention new markets and opportunities. Members of the brokerage community should be aware of this and set up the necessary organization to take advantage of the ever increasing presence of foreign investors. We did run across a few cases where foreign investors were marketing their property to investors in their home countries, effectively taking the property off the market in the States. However, office buildings will still have to be leased - something that cannot be done overseas. Foreign fund advisors in the States will need to know of new opportunities and new markets.

In many cases, it will take time and patience to gain the confidence and trust of the foreign investor, and language barriers may have to be overcome. Relationships are important to foreign investors, and such an effort may payoff in the end. Interestingly, we did not find any cases in Atlanta where foreign investors were using an in-house brokerage firm to handle their transactions.

Foreign investment is here to stay. The unique opportunities offered by U.S. real estate investments, coupled with relatively high returns, and the safety and stability of the U.S. economy, will continue to attract foreign investors. Foreign capital should have a significant impact upon the structure and operation of the U.S. real estate market in the future.

As for Atlanta, each day, more and more deals are being done with foreign investors. We view this as a glimpse of things to come. The world is turning into a global real estate market, and we would not be surprised if most of the future real estate deals in the city have some element of foreign involvement. Be it through debt financing, equity contributions, construction contracting, management, or development, the foreign investor will be present, and those in the real estate industry who recognize this will be better prepared for the many new opportunities that will arise.

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