AN ASSESSMENT OF FOREIGN INVESTORS
IN THE WASHINGTON, D.C. REAL ESTATE MARKET

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ACKNOWLEDGMENTS

This thesis is the effort of two students who had no prior experience in international real estate investment or in the Washington, D.C. market place. The time allotted for our research was limited to two months. During this time we not only made field trips to Washington, D.C. but we also completed an exhaustive study of the international aspects of real estate investment and capital flows.

Given these limitations, interviews were of critical importance. We wish to thank the more than 50 individuals who shared their time and knowledge with us. We wish to give special thanks to the National Association of Realtors (NAR) who sponsored our thesis as part of a broader study examining foreign investment patterns in the United States. In particular we want to thank Mariam Meyer, Manager - International Operations of the NAR, Fred Flick, Director of Economic Research and Sean Burns, Economist for the personal time and assistance they gave us. Our special gratitude goes to Rusty Lindner, Managing Director of Bear Saint Properties for providing us with an office and secretarial services while we were in Washington, D.C. Without this assistance our work would have been much more difficult. We cannot conclude these acknowledgments without giving a special thanks to Professor Lawrence S. Bacow, M.I.T. He has truly been a guiding light.

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ABSTRACT

Our research represents one part of a joint study by the National Association of Realtors and the Massachusetts Institute of Technology Center For Real Estate Development. The purpose of the study was to examine foreign investment patterns in U.S. real estate by analyzing investment activity in three cities: Washington D.C., Los Angeles, and Chicago. This thesis is focused on Washington, D.C. Many of our conclusions have been supplemented by the findings in other parts of the joint study. (See Notes [18] & [19])

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: foreigners view United States real estate as a "capital haven"; foreigners are "long-term" investors in U.S. real estate; foreign investors will accept lower returns under certain conditions (they are only interested in very high quality well located properties); exchange rates are important in the investment decision (favorable rates are a buy signal but unfavorable rates are a hold signal); foreign investors have strong location preferences; foreigners are "predisposed" to invest in real estate; foreign investors are relationship oriented; foreign investors are cash buyers; as foreign investors become more familiar with the U.S. market, they act more like U.S. investors.

In conclusion we believe that an increasing foreign presence in the U.S. marketplace will present great opportunities for all kinds of U.S. real estate players.

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TABLE OF CONTENTS

CHAPTER 1

FOREIGN INVESTMENT IN THE UNITED STATES

INTRODUCTION

Much publicity has been given to the recent surge of foreign investment in the United States. For 1986, total foreign investment in U.S. securities, businesses and real estate increased 13.4% to $209 billion. [1] Approximately $21 billion of this amount was invested in developed real estate. On average over the last eight years, foreign investors have introduced $10 billion of new money to the U.S. market annually. [2] (See Figure 1-1.)

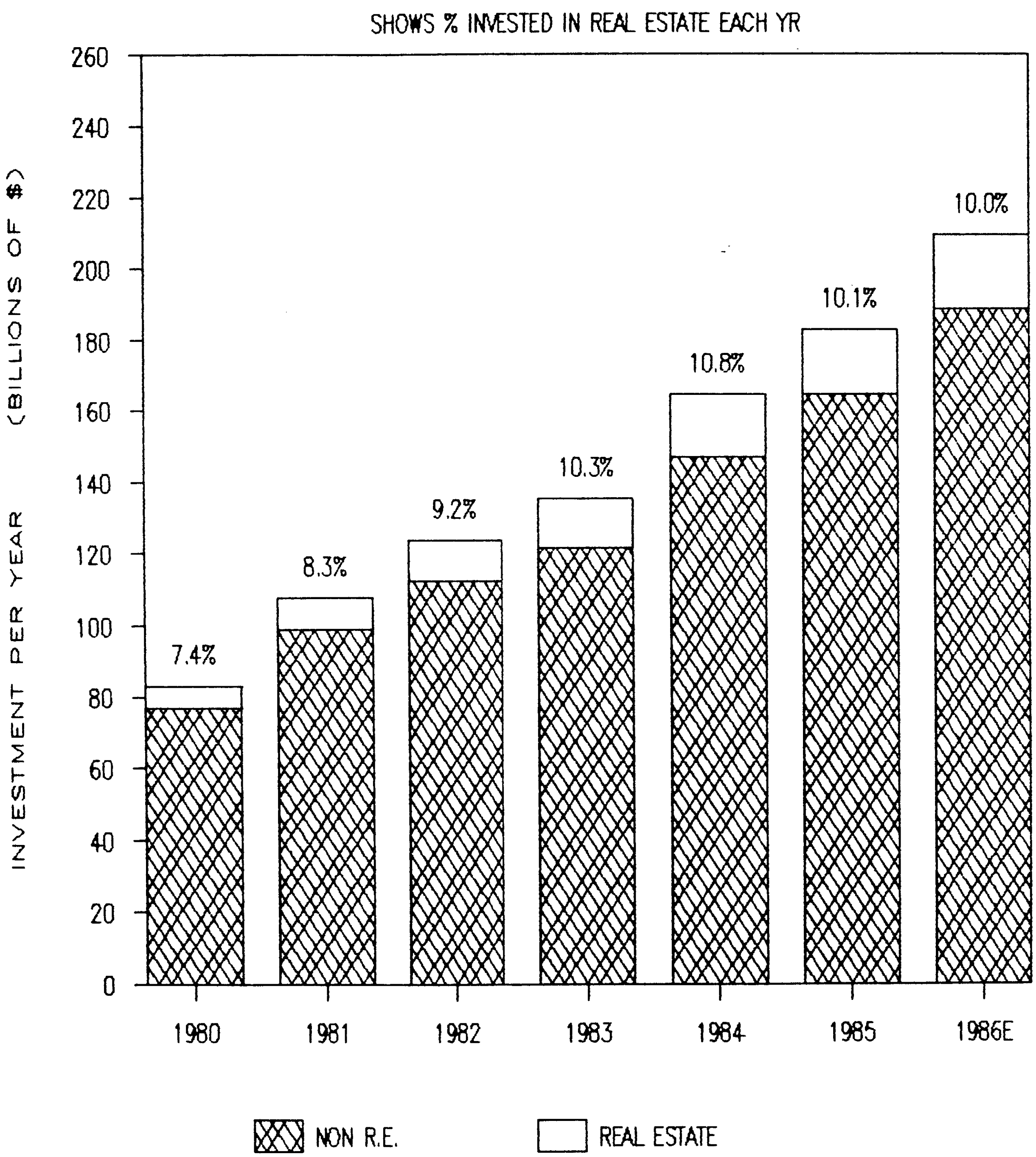
The appeal of the United States as a destination for foreign capital has been attributed to several factors.

* The balance of trade deficit in the U.S. has shifted the economy from a net supplier of investment capital to a net importer of capital. [5] The United States is currently the largest debtor nation in the world and seems to have an insatiable appetite for money. [6]

* The U.S. is perceived as being a politically stable country and one of the strongest remaining bastions of free enterprise. [7] & [8]

* Recent depreciation of the dollar vis-a-vis other currencies has produced what seem like great bargains to foreign buyers of U.S. assets. [6]

FIGURE 1-1. TOTAL FOREIGN DIRECT INVESTMENT IN THE UNITED STATES



SOURCE: Real Estate Review [3]

* Nominal interest rates are higher in the U.S. than in some foreign countries; accordingly, investors from these countries can obtain higher current returns here. This is especially significant if dollar denominated investments are financed with the foreign currency. [6]

* The Japanese government has recently relaxed limits on foreign investment. [9]

Many observers predict further increases in foreign investment in the U.S. as:

(1) investment opportunities in the U.S. remain attractive relative to other investments;

(2) pressure for reinvestment in the U.S. continues to build in Japan, due to the growing Japanese export surplus; the Japanese have been one of the most active investors in the U.S. for the past several years; [10]

(3) foreign investors become more knowledgeable and comfortable with U.S. markets, and;

(4) the number of participants in the market continues to increase. [11]

Indeed, foreigners are heavy buyers of U.S. Treasury bonds and corporate stocks; additionally, there continues to be strong interest in direct foreign investment in the U.S. including the establishment of manufacturing plants, mergers and acquisitions, and the purchase of real estate.

Especially interesting is the foreign investor's attraction to U.S. real estate. Since the late 1970's, foreigners have invested large amounts of capital into U.S. properties.

While current foreign ownership represents only about 1% of the total value of developed real estate in the U.S., it is noteworthy that in the few markets in which foreigners have a presence, their activity has had a significant impact on values. [6]

U.S. real estate is appealing to the foreigner for several reasons. First, it provides diversification benefits to the foreign investment portfolio. Should inflation rekindle, real estate would provide a hedge, thereby reducing the volatility of the overall portfolio. Second, current yields on investment grade office buildings in many countries are very low relative to comparable yields in the U.S. Additionally, foreign investors typically do not sell local real estate. In contrast, U.S. real estate is perceived to be accessible, liquid, and inexpensive. Third, tax reform has reduced competition from U.S. tax shelter oriented investors. [12]

The majority of foreign equity investment in U.S. real estate has come from pension funds, and insurance, construction and real estate companies. These investors have shown a preference for high quality office buildings in large American cities such as New York, Washington, D.C., Boston and Los Angeles. This can be explained by the foreigner's desire to invest in stable and familiar markets. The interest in downtown office properties over suburban locations reflects the foreigner's lack of familiarity with large-scale suburban office development. Shopping centers and multifamily housing tend to be avoided, largely due to a more intensive management requirements. [13]

Many questions are currently circulating about the future of foreign investment in U.S. real estate. Will money continue to pour in? If so, how will the deals be structured? How sensitive are foreigners to fluctuations in exchange rates? What property type and geographic preferences do foreigners exhibit? Do the foreigners pay more for U.S. real estate than their American counterparts? And, what opportunities are available for U.S. real estate professionals to establish relationships with foreign investors?

The common assumption underlying the above questions is that foreign real estate investors differ from their U.S. counterparts. But little research has been done to corroborate this. By better understanding the nature of the foreign investor, the U.S. real estate professional will be more effective in serving this important segment of the market.

RESEARCH OBJECTIVE AND METHODOLOGY

The purpose of this paper is to explore the differences between foreign investors in U.S. real estate and their American counterparts. The research addresses this issue by analyzing foreign real estate investment in Washington, D.C.

This paper represents one part of a joint study conducted by the National Association of Realtors and the Massachusetts Institute of Technology Center For Real Estate Development. The purpose of the study was to examine foreign investment patterns in U.S. real estate by analyzing investment activity in three cities; Los Angeles, Chicago, and Washington, D.C. These cities were selected based on their geographical dispersion and their popularity as destinations for foreign investment.

The research was organized in three stages. First, a literature search was performed to gain an understanding of the overall context of foreign investment and the Washington, D.C. market. Second, an attempt was made to determine the universe of foreign owned real estate in Washington, D.C. To our knowledge, this has never been done. We started by contacting the brokers, lawyers and investors we already knew. We asked them to give us the names of others they felt were key players in the D.C. market place and/or had first hand knowledge of local foreign investment. Each contact led us to other contacts and the network expanded until we had about fifty names. At this point we began to get convergence. That is, we reached the point when continued searching only turned up the same names we had already acquired. We then began to concentrate on interviewing the key players in foreign owned deals. We focused on obtaining insight into the specifics of the transaction and the motivations of the various parties involved. Lastly, the data was organized and analyzed.

LIMITATIONS

It is important that the reader understand the limitations of this study. The nature of the real estate business is such that research can often be a difficult and frustrating process. The business is transaction oriented and information about specific deals is proprietary and difficult to come by. This is compounded by the fact that foreign investors tend to be secretive about their activities.

While we have endeavored to be accurate, our attempt to identify the universe of foreign owned real estate in Washington is subject to the error of omission. Also, our data is subject to bias to the extent that we have not interviewed a "representative" sample of foreign investors. No attempt was made to statistically verify our work.

ORGANIZATION

Chapters 1, 2, and 3 of this paper describe the historical context of foreign real estate investment in the United States and in Washington, D.C. Chapters 4 and 5 profiles the foreign investors involved in the Washington market and describes how they differ from the American investor. Finally, Chapter 6 provides a summary of our findings and evaluates the implications.

CHAPTER 2

THE WASHINGTON, D.C. MARKET: AN OVERVIEW

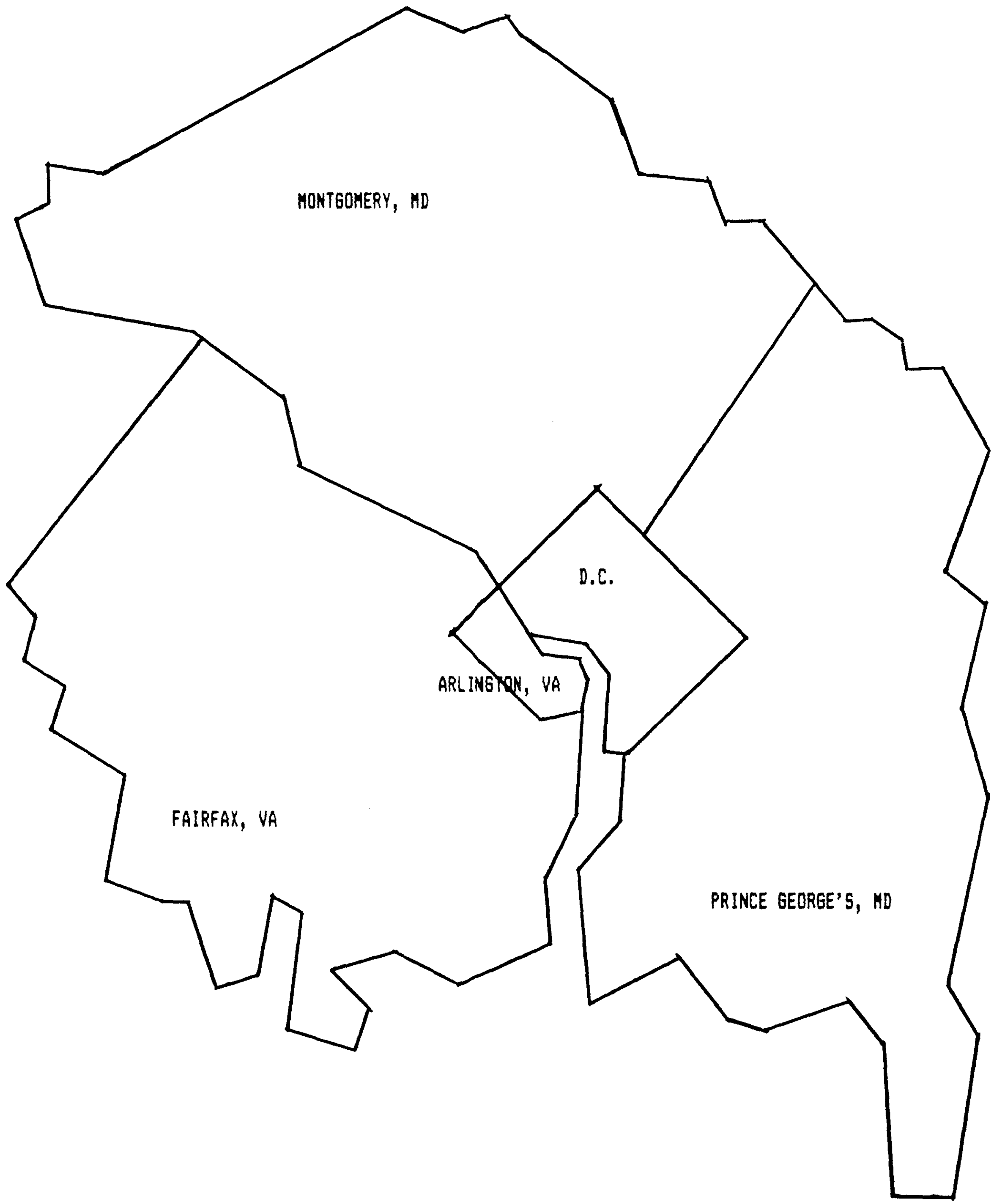
The official Washington, D.C. MSA (Metropolitan Statistical Area) consists of the District of Colombia, five Maryland counties and five Virginia counties. The majority of foreign investment has been concentrated in five of these jurisdictions which comprise over 80% of the population and employment of the MSA: the District, and Arlington, Fairfax, Montgomery, and Prince George's counties. These five markets provide the focus for this chapter. (See Figure 2-1.)

HISTORICAL CONTEXT

The District of Columbia owes much of its appearance to the French architect and engineer Pierre L'Enfant. L'Enfant's 1790 city plan calls for long diagonal vistas cut across the usual 90 degree angle blocks and streets, and circular rotaries to provide reference points within the diagonal vistas. The scheme extended even to the width of the avenues, which were planned to be 160 to 400 feet wide. Although the Capitol is the center of the historic plan, most of the commercial and residential activity is in the Northwest quadrant of the District, and in the adjacent counties. The Capitol Hill area consists mostly of government and institutional uses. [14]

Unlike most major markets, Washington, D.C. consists primarily of low-rise (8-12 story) buildings. Strict height limitations have been set in the District to preserve the

FIGURE 2-1. WASHINGTON, D.C. MSA (METROPOLITIAN STATISTICAL AREA)



SOURCE: Rand McNally, Inc.

visibility of the Washington Monument and the Capitol Building. These restrictions limit the height (exclusive of penthouse) of most buildings to 90 feet; within a relatively small area (less than two square miles) structures of 130 feet are allowed, while buildings along Pennsylvania Avenue, under certain circumstances, reach 160 feet. Applicable FAR's (floor area ratios) within the central business district range from 6.5 to 10. These restrictions force developers to build to the lot line and straight-up in order to maximize square footage. Clearly, these zoning restrictions limit future development in the District. [15]

L'Enfant's layout in combination with the city's zoning restrictions, gives the District much architectural appeal. Europeans find the city's ambiance and human scale reminiscent of many of the older European capitals, while the Japanese identify with its low-rise scale. This, along with the international recognition of Washington, gives the foreigner a better understanding of the city, relative to other U.S. cities.

THE ECONOMY

Historical Growth:

Prior to the first half of the 20th century, life in Washington more closely resembled that of a Western frontier town, than a stately capital. Beyond the governing of the nation, there was a general lack of activity in the city. The District was surrounded by small farms and plantations and there was little commerce or industry. Any growth that occurred was usually the result of government spending. [14]

Policies evolving from the Depression and World War II marked a major surge in federal employment and created a large, permanent bureaucracy of lobbyists, associations, and support groups. The majority of the employment growth occurred in the District, but the new bureaucracy frequently chose to live in the adjacent suburbs. [14]

Beginning in the 1960's, another increase in federal spending had a significant impact on expansion. This time, growth occurred in the suburbs, which fostered the development of major suburban business centers. Suburban employment increased from 33 percent of metropolitan employment in 1960, to 52 percent in 1970. Growth initially occurred in the close-in suburbs of Virginia and Maryland; however, with the 1964 completion of the Capital Beltway, growth spilled into much wider areas of Montgomery, Fairfax and Prince George's counties. The District saw a sustained decline in population and employment growth. This pattern was consistent with the city's overall plan to decentralize government employment and direct growth toward major suburban transportation corridors. [13]

The 1970's and early 1980's characterized another change in the area's economy. Government employment continued to expand; however, the largest growth occurred in the "services" and "high technology" sectors. Existing businesses began growing rapidly, and there was a very high rate of new business formation and corporate in-migration. The majority of this growth occurred in the Maryland and Virginia suburban markets. [16]

Recent Trends: Population and Income

The Washington MSA population has grown by about 1.4% since 1980 to almost 3.5 million today. While the growth rate has

FIGURE 2-2. WASHINGTON, D.C. MSA DEMOGRAPHICS, 1980-1986

COUNTY	POPULATION 1985	POPULATION CHANGE 1980-85	COMPOUND ANNUAL GROWTH 1980-85	1986 PER CAPITA INCOME
D.C.	626,000	(12,432)	-0.4%	$18,600
MARYLAND COUNTIES				
PRINCE GEORGE'S	678,100	13,029	0.4%	$15,500
MONTGOMERY	643,400	64,347	2.1%	23,600
FREDERICK	126,800	12,008	2.0%	14,400
CHARLES	84,400	11,649	3.0%	13,900
CALVERT	40,900	6,262	3.4%	14,500
MARYLAND COUNTY TOTALS	1,573,600	107,295	1.4%	$18,611
VIRGINIA COUNTIES				
FAIRFAX	687,800	92,046	2.9%	$21,800
PRINCE WILLIAM	169,000	24,364	3.2%	15,400
ARLINGTON	157,600	5,001	0.6%	24,900
LOUDOUN	63,600	6,173	2.1%	18,100
STAFFORD	48,300	7,830	3.6%	14,200
VIRGINIA COUNTY TOTALS	1,126,300	135,414	2.6%	$20,739
VIRGINIA INDEPENDENT CITIES				
ALEXANDRIA	107,500	4,283	0.8%	$24,700
FAIRFAX CITY	20,300	(237)	-0.2%	23,400
MANASSAS	19,500	3,995	4.7%	17,500
FALLS CHURCH	9,500	(15)	0.0%	27,700
MANASSAS PARK	6,900	376	1.1%	13,900
INDEPENDENT CITIES TOTALS	163,700	8,402	1.1%	$23,400
TOTAL MSA	3,489,600	238,679	1.4%	$19,500
UNITED STATES	239,283,000	12,222,000	1.05%	$14,400

SOURCE: Salomon Brothers, Inc. [13]

recently begun to decline, it still exceeds the U.S. growth rate by 40%. [13] (See Figure 2-2.)

Population growth has been uneven across jurisdictions. Since 1970, the District has lost approximately 120,000 people; it currently comprises 18% of the metropolitan population, compared to 25% in 1970. This decline has been more than offset by an increase in the suburban population of over 320,000 people. [13] The most populous counties are Fairfax, Prince George's, and Montgomery, each comprising about 20% of the total metropolitan population. Fairfax and Montgomery Counties had the largest absolute population gains from 1980-1985. [14] (See Figure 2-2.)

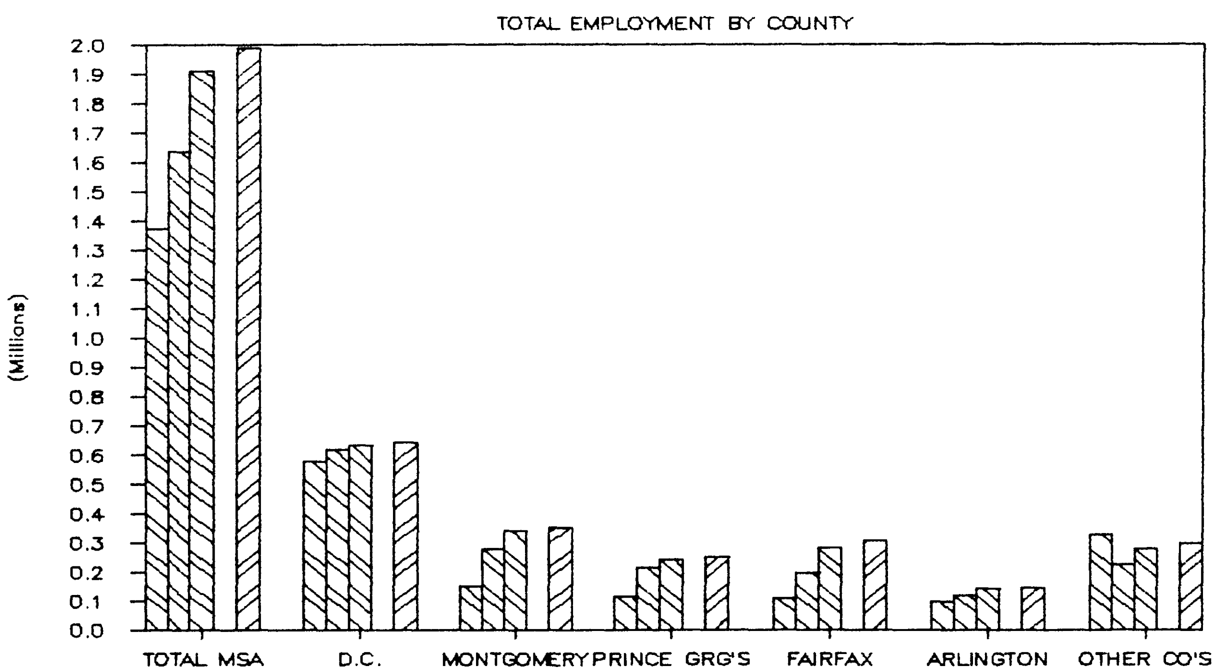
Per capita income for the MSA was estimated to be $19,500 in 1986, almost 35% higher than the national average. (See Figure 2-2.) Consistent with its relative affluence, the MSA includes five of the ten wealthiest counties in the United States. [13]

Recent Trends: Employment

With two million jobs (see Figure 2-3.), Washington, D.C. is the fifth largest metropolitan employer in the U.S. behind New York, Los Angeles, Chicago, and Philadelphia. Historically, economic growth has been shaped by Government policy, especially federal spending and location decisions; however, since 1970, the employment base has become more diversified and less reliant on Government spending for its growth. Direct government employment fell from 38% of total employment in 1970 to 28% in 1985, while services employment increased from 21% to 31%. [13] (See Figure 2-4.)

FIGURE 2-3. WASHINGTON, D.C. MSA EMPLOYMENT AND EMPLOYMENT GROWTH, 1985-1986

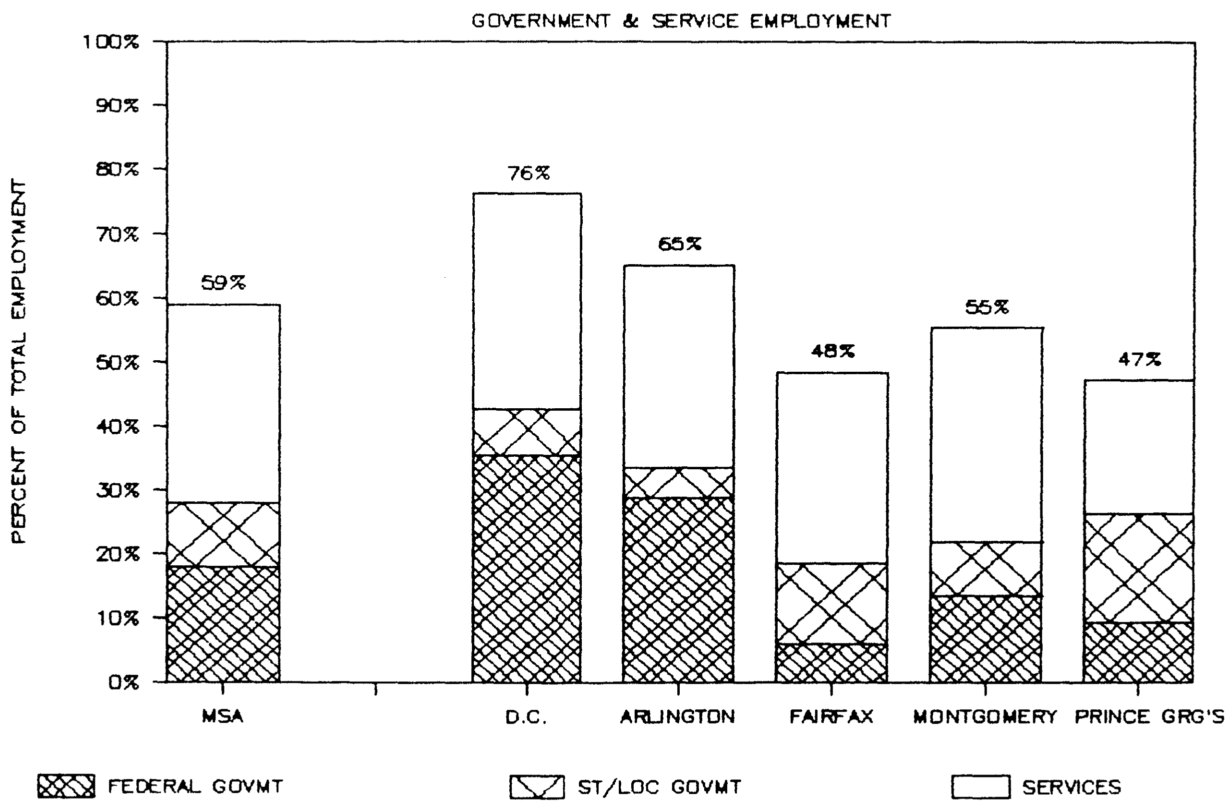
	1975		1980		1985		1986	
SUB AREAS	ACTUAL EMPLOYMENT	% OF TOTAL	ACTUAL EMPLOYMENT	% OF TOTAL	ACTUAL EMPLOYMENT	% OF TOTAL	ACTUAL EMPLOYMENT	% OF TOTAL
D.C.	577,000	42%	616,000	38%	631,000	33%	641,000	32%
MONTGOMERY COUNTY	149,000	11%	275,000	17%	339,000	18%	350,000	18%
PRINCE GEORGE'S COUNTY	111,000	8%	213,000	13%	239,000	13%	251,000	13%
OTHER 3 MARYLAND COUNTIES	171,000	12%	72,000	4%	85,000	4%	89,000	4%
MARYLAND SUB TOTAL	431,000	31%	560,000	34%	663,000	35%	690,000	35%
FAIRFAX COUNTY	109,000	8%	195,000	12%	282,000	15%	305,000	15%
ARLINGTON COUNTY	97,000	7%	118,000	7%	142,000	7%	146,000	7%
OTHER 3 VIRGINIA COUNTIES	156,000	11%	149,000	9%	191,000	10%	204,000	10%
VIRGINIA SUB TOTAL	362,000	26%	462,000	28%	615,000	32%	655,000	33%
TOTAL D.C. MSA AREA	1,370,000	100%	1,638,000	100%	1,909,000	100%	1,986,000	100%
UNITED STATES	76,945,000		90,406,000		97,614,000		100,167,000	



SOURCE: Salomon Brothers, Inc. [13]

FIGURE 2-4. 1985 EMPLOYMENT MIX IN MAJOR WASHINGTON D.C. MSA COUNTIES

	MSA	D.C.	ARLINGTON	FAIRFAX	MONTGOMERY	PRINCE GEORGE'S
CONSTRUCTION	6.1%	2.2%	2.6%	7.9%	7.1%	9.1%
MANUFACTURING	4.3%	2.4%	1.9%	6.0%	5.1%	4.9%
TRANSPORTATION, COMMUNICATIONS & UTILITIES	4.7%	3.4%	11.3%	5.8%	1.8%	4.3%
WHOLESALE TRADE	3.7%	1.5%	5.2%	4.6%	4.6%	5.4%
RETAIL TRADE	16.5%	8.8%	9.2%	20.3%	19.2%	25.1%
FINANCIAL, INSURANCE & REAL ESTATE	5.8%	5.5%	5.0%	6.9%	6.8%	3.8%
SERVICES	31.0%	33.5%	31.5%	29.9%	33.6%	21.0%
GOVERNMENT:						
FEDERAL	18.0%	35.4%	28.8%	6.2%	13.5%	9.5%
STATE/LOCAL	10.0%	7.2%	4.7%	12.3%	8.3%	16.7%
TOTAL	100%	100%	100%	100%	100%	100%



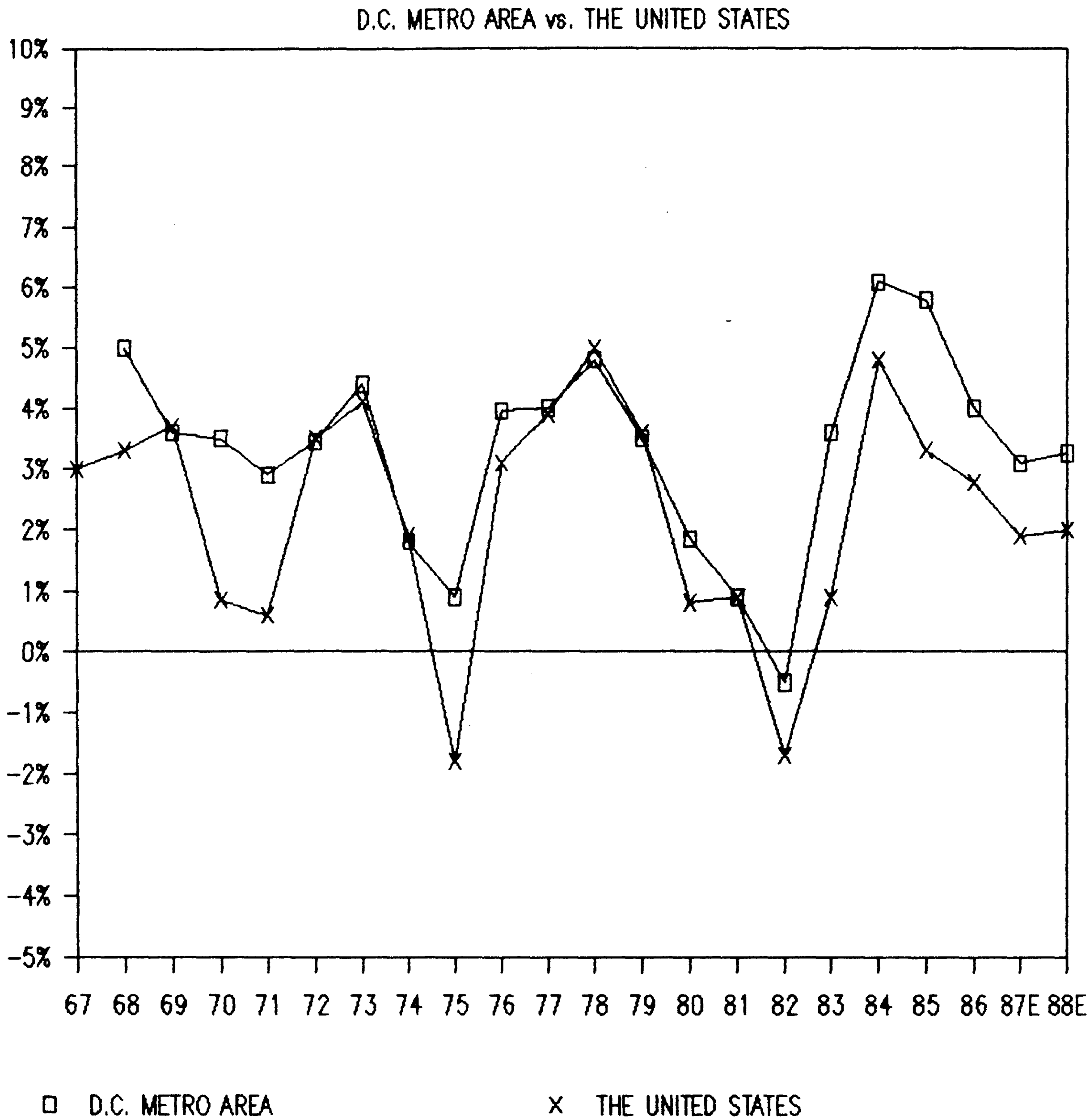
SOURCE: Salomon Brothers, Inc. [13]

Approximately 80% of the area's employment is centered in the District, and in Fairfax, Prince George's, Arlington and Montgomery Counties. District employment comprises about 32% of the total. Montgomery, Fairfax, Prince George's and Arlington comprise 18%, 15%, 13% and 7% of total employment, respectively. (See Figure 2-3.) The Federal Government is the major employer in the District, while services is the dominant sector in the other four counties. [13] (See Figure 2-4.)

While not "recession proof", Washington's high concentration of government jobs and lack of manufacturing employment should continue to insulate the area from national economic downturns. While the area has experienced a slow down in growth during national recessions, no absolute losses in total employment have occurred in the postwar era, except for a 0.4% decline in 1982. And the 1982 decline was met with a strong recovery in 1983. [14] (See Figure 2-5.)

The Washington, D.C. economy is expected to continue to grow faster than the nation's, albeit at a slower rate. However, the rate of growth could be adversely affected by several factors. First, the high cost of housing and transportation makes it difficult for local employers to attract employees from out of the area. Washington's high employment growth rate cannot be sustained without in-migration. Second, shifts in Federal spending could affect employment in the government and defense sectors. Third, because the employment base has diversified, the area is more susceptible to the national economy. A recession could significantly slow growth. Notwithstanding the above, most experts predict the Washington economy will remain healthy for some time to come. [13]

FIGURE 2-5. EMPLOYMENT GROWTH RATES - WASHINGTON, D.C. versus THE UNITED STATES



SOURCE: Salomon Brothers, Inc. [13]

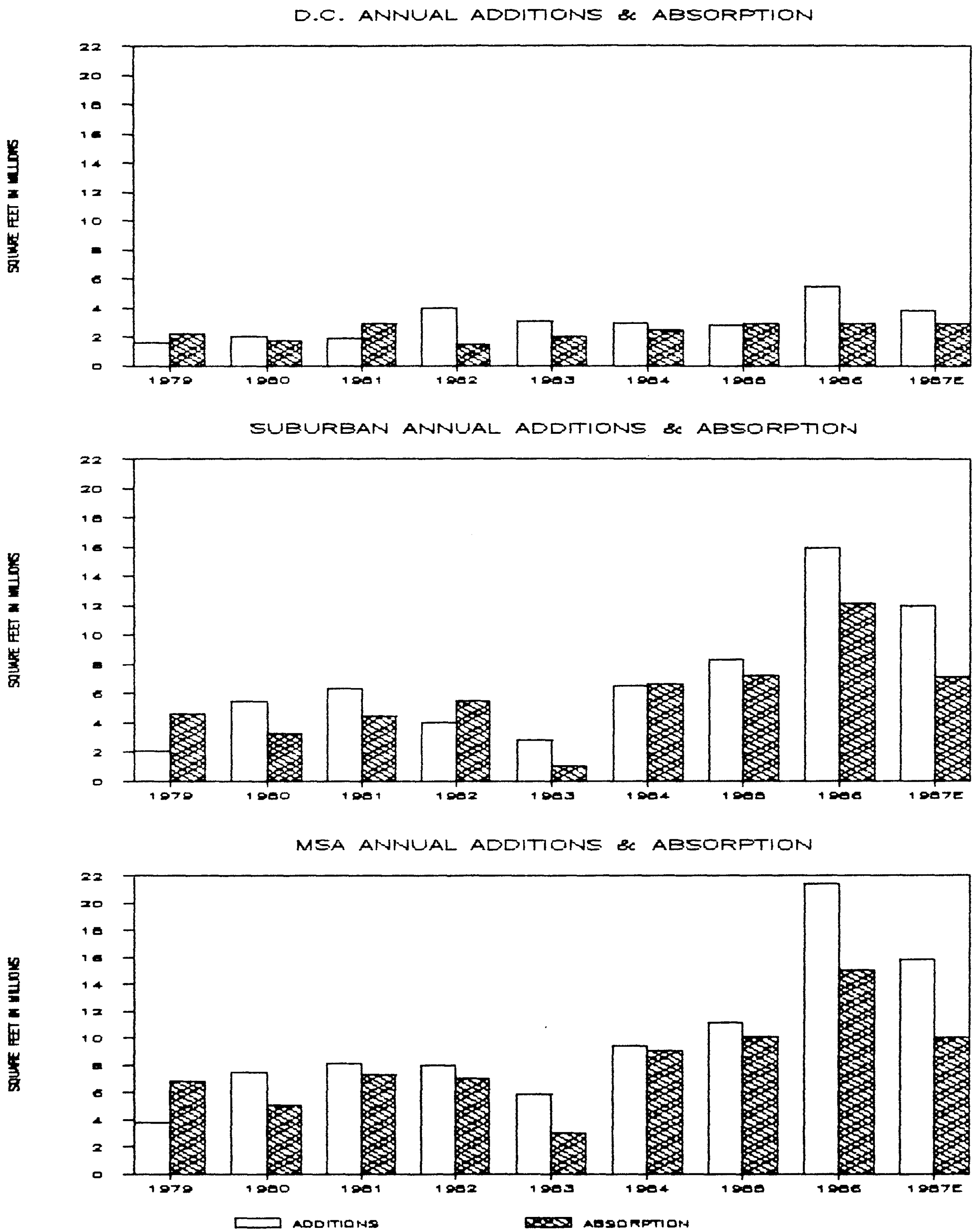
THE REAL ESTATE MARKETS

The majority of foreign investment in the Washington MSA has been concentrated in office buildings located in the D.C. CBD (Central Business District). A recent article by Mary Sherburne, of Smith Braedon Company, suggests that at least 26% of the CBD is under foreign ownership, while over 35% of the famous "Golden Triangle" is foreign owned. [17] City-wide, we estimate that foreigners own 15.9 million square feet, representing approximately 12% of the total Washington office market. (See Figure 4-1.) This exceeds foreign investment in such U.S. cities as Los Angeles and Chicago, which have 10.8 million square feet and 9.3 million square feet, respectively, under foreign ownership. [18] & [19] In fact, we believe that on a square footage basis, foreign ownership of the D.C. office market is second in the nation, only to New York City.

To a lesser extent, foreigners have purchased and/or developed office and retail properties in Arlington and Fairfax Counties. Little foreign activity has been noted in the other counties and jurisdictions. Also, foreigners have shown little interest in industrial and residential properties. Because foreign investors are primarily interested in downtown office properties, our discussion of the Washington real estate markets will be confined to this area.

The shift toward services employment in the 1970's, in tandem with increased defense and other government spending after 1979, created an explosive increase in demand for office space. Over the past five years, the metropolitan market has absorbed (net) over 50 million square feet of office space. In 1986, the area led the nation in net absorption. In response, developers have added close to 55 million square feet over the same period. (See Figure 2-6.) The area's

FIGURE 2-6. ANNUAL ADDITIONS TO WASHINGTON, D.C. AREA OFFICE INVENTORY & NET ABSORPTION



SOURCE: Salomon Brothers, Inc. [13] & Jones Lang Wootton Investment Research [14] speculative office inventory increased to 125 million square feet in 1986, ranking Washington fourth in the nation behind New York, Chicago, and Houston. [13]

The current vacancy rate of 16.4% (11.7% in District, 20% in suburbs) at the end of 1986 is high based on historical standards; however, compared to the national vacancy rate of 21%, Washington remains one of the strongest markets in the country. Vacancy levels should increase over the next several years as supply continues to expand (more than 22 million square feet are currently under construction) and absorption moderates. [13] (See Figure 2-7.)

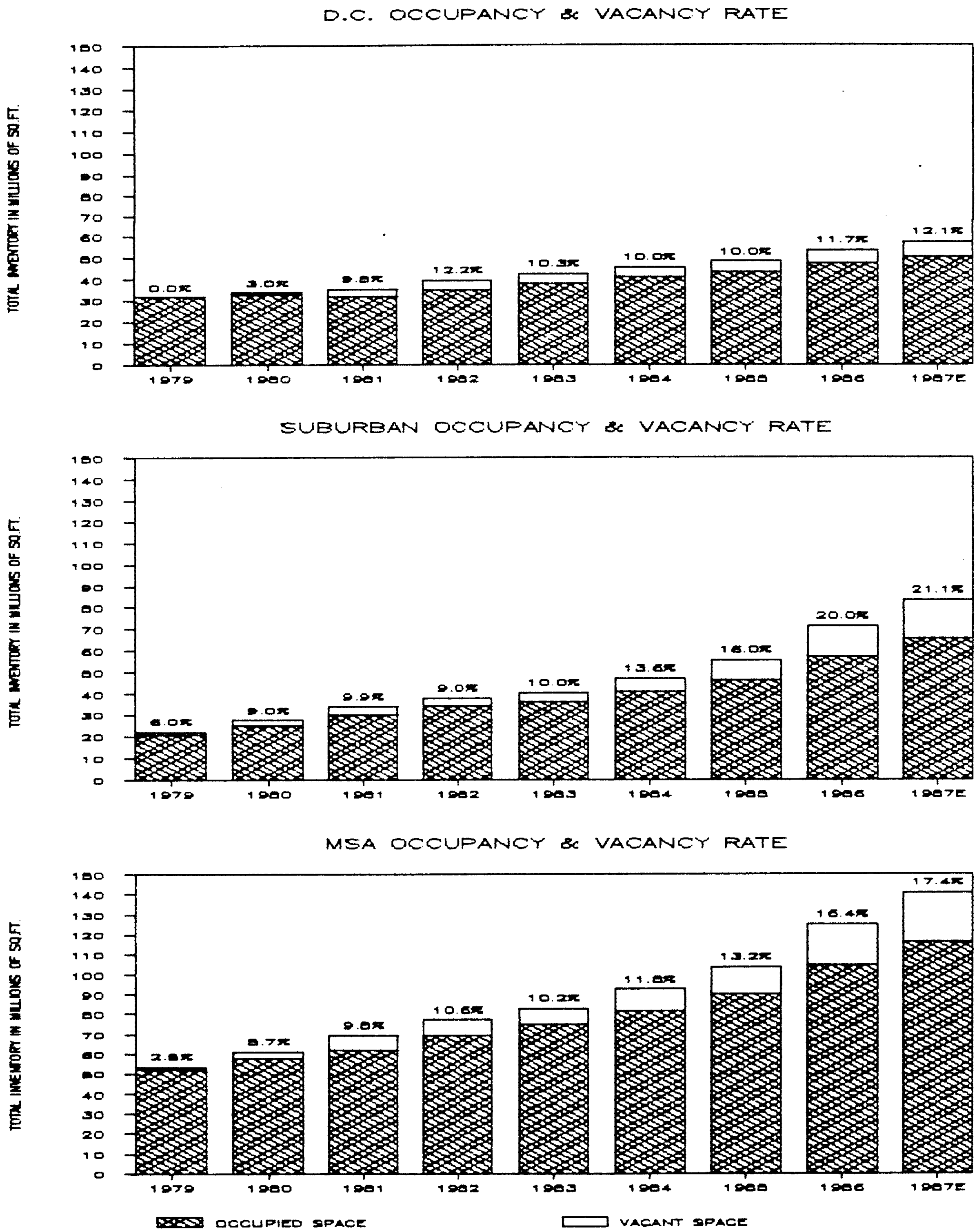
Real rents in the MSA appreciated until 1985, and have been flat to down ever since. As vacancy levels rise over the next several years, downward pressure on rents should continue. Land and building prices continue to rise, however, due to demand for investment properties.

Despite the current high vacancies, Washington (especially D.C.) is supply constrained due to its stringent zoning laws. A report by MIT's Center For Real Estate Development estimates that in the D.C. area, there remains only 120 developable sites. Accordingly, the city is less susceptible to overbuilding and increases in demand will more readily translate into increased rents. [15]

FUTURE PROSPECTS

Washington's growth record, economic stability, and visibility will continue to attract global attention as one of the most sought after real estate markets in the nation. Foreign investors perceive the presence of the U.S. government as a stabilizing factor and consider an investment in the area safe from the political uncertainties of the rest of the world. The next section of this paper will identify and discuss specific real estate transactions that involve foreigners investing in Washington in an attempt to better understand the nature of foreign investment and the opportunities it creates for U.S. real estate professionals.

FIGURE 2-7. WASHINGTON, D.C. AREA TOTAL OCCUPANCY & VACANCY RATES



SOURCE: Salomon Brothers, Inc. [13] & Jones Lang Wootton Investment Research [14]

CHAPTER 3

FOREIGN INVESTMENT AND THE WASHINGTON, D.C. REAL ESTATE MARKET

Economists, politicians, and financiers are involved in an ongoing debate about the pros and cons of foreign investment in U.S. assets. Some experts claim that foreigners are "buying up the country" thereby taking jobs from American citizens and creating national security problems. They worry about the United States' recent emergence as the world's largest debtor nation and argue that a reversal of this trend (capital flight) could have severe economic repercussions. Others believe that foreign investment is necessary to satiate the U.S. appetite for capital and that such investment has been partly responsible for U.S. economic expansion and the decline in interest rates.

Notwithstanding the above predictions, it is important that the student of the Washington, D.C. real estate market have an understanding of international economics and capital flows, and how they effect foreign investment in this country. This is because the large presence of foreign investors in Washington, D.C. has a significant impact on property values and development patterns. This chapter addresses the issue of capital flows, and then proceeds with a discussion of foreign interest in real estate and, more specifically, Washington, D.C. real estate.

INTERNATIONAL CAPITAL FLOWS AND THE UNITED STATES

The decade of the 80's has seen a significant increase in international capital flows. A recent Salomon Brothers report attributes the trend to the integration of separate national capital markets and economies into a single worldwide capital market and economy. As a result, the prosperity of the U.S. is heavily influenced by the rest of the world. [6]

Several aspects of this world wide integration are important to the U.S. First, international capital will flow into markets (countries) which provide the best real returns for a given level of risk. On this basis, certain U.S. investments appear to have higher risk adjusted returns than similar investments in other countries. Second, as this international arbitrage continues, real return differentials will begin to disappear. Obviously, there are numerous factors which could affect this equilibrium process including currency rate fluctuations, inflation rates, world political stability, etc. Nevertheless, certain classes of U.S. assets seem to be attracting foreign capital for exactly this reason. For example, yields on institutional grade office buildings in several U.S. cities have declined as a result of foreign participation. (Note: It is important that the reader understand that it is differences in risk adjusted real returns, not nominal returns, that would cause this international arbitrage process to occur). [13]

As these international capital flows continue, the U.S. will capture a disproportionate amount of foreign investment. Attractive yields are only one reason; other reasons include:

* The recent U.S. balance of trade deficit has flooded the world with dollars and resulted in a decline of the U.S. dollar in the world currency markets.

Accordingly, U.S. assets look cheap in the global market. Also, the drop in value of the dollar reduces the risk of further declines in the dollar's value.

Most significant is the value of the dollar relative to the Japanese yen, attracting an onslaught of Japanese investment. This is likely to prove temporary, however, as nations act to correct the imbalance.

* The U.S. is perceived to be politically stable and to represent a "safe haven" for foreign investment. [20]

* The U.S. market is a large, wealthy market with numerous investment opportunities. Additionally, the country is considered a "growth market". Overseas investment opportunities seem limited and less desirable in this context.

* The U.S. free enterprise system encourages foreign investment. The market is accessible to foreigners and places little regulation on private property.

* The U.S. market appears to provide superior returns relative to many foreign markets. Additionally, because borrowing costs are lower in some countries than in the U.S., leveraged yields on U.S. investments financed with foreign funds might enhance overall returns, subject to exchange rates and relative inflation rates.

* Some foreign nations, especially the Japanese, have recently relaxed restrictions on foreign investment by their institutions and other major investors. This has allowed for greater participation in the U.S.

WHY REAL ESTATE?

Many of the reasons foreigners invest in real estate are similar to those which motivate American real estate investors. For one, real estate provides an effective way to diversify the investment portfolio against inflation. This is especially appealing to the foreigner as many nations have historically suffered much higher inflation rates than in the U.S. Also, many foreigners are "predisposed" to invest a significant portion of capital into real estate as a result of in-house investment policy and regulatory mandate. For example, it is common for foreign pension funds to invest up to 30% of their assets in real estate compared to less than 3% for most U.S. funds.

U.S. real estate is especially appealing for two reasons. First, it provides a greater degree of liquidity than foreign real estate. Turnover of real estate in some foreign countries occurs infrequently. The U.S. market is very active, however, making it fairly easy to buy or sell a property. At any time, there are numerous high quality U.S. properties available for purchase. Second, yields on U.S. properties tend to be higher than similar properties elsewhere. In Japan and Great Britain, for example, yields on institutional quality investments are currently less than 3%, compared to 6%-8% in the U.S. [21]

WHY WASHINGTON, D.C. REAL ESTATE?

The interest of foreign investors in the Washington, D.C. market was once newsworthy, but no longer. Over the last decade, foreigners have arrived in force and purchased large amounts of prime investment property. The Europeans were first (primarily Dutch and British pension funds) and, in the late 70's and early 80's, began buying existing buildings and land. They were followed by the Canadians and, most recently, the Japanese. Also represented are investors from West Germany, the Mid-East, Greece, Belgium, France, Cyprus, Lebanon, Turkey, and several other countries. Foreigners typically entered the market through the purchase of an existing property or through a joint venture with an American investor. Recently, some foreigners have become more aggressive and are currently developing property for their own account.

A wide range of international investors regard Washington as their primary target. According to one expert, Washington, D.C. is the number one destination for the European investor, and number three for the Japanese investor, behind Los Angeles and New York. [22] A senior representative of a Japanese insurance company has gone as far to claim "today, Washington is our next target." [15]

Why Washington, D.C.? One reason is that Washington has the third largest Central Business District (in terms of square feet of office space) in the country. This provides the foreigner with numerous investment properties to select from. More important, however, is what one broker calls the "Hong Kong Factor": the notion that the central business district is running out of developable space. The CBD has 30 million square feet of developable FAR (floor area ratio) remaining, compared to an existing inventory of 54 million square feet. Based on the current absorption rate of 2.9 million square feet per year, the supply of developable land will be exhausted in about 11 years. [22] (See Figure 2-6.)

The strength and stability of the local economy, along with the area's relatively low vacancy rates are also attractive to the foreign investor. As described in Chapter 2, Washington is experiencing rapid growth in employment, population and income, which is expected to continue for some time to come. Also, the presence of the federal government has a stabilizing effect on the local economy insulating the city from a national economic downturn. Vacancy rates in the Washington, D.C. area are currently among the lowest in the country.

Another reason Washington is appealing is that it is considered less expensive relative to other cities of foreign interest. For example, fully leased Class A downtown office space in Los Angeles, with comparable effective rents, is $20 to $70 per square foot more expensive than in Washington, D.C. [18]

Also appealing is the lower cost of acquiring an initial presence in D.C. compared to other cities. This is because buildings tend to be a good deal smaller due to height and bulk restrictions. [23]

Finally, Washington, D.C. is a city well known to foreigners. This is partly due to the City's international recognition as the Capitol of the United States, and partly due to the "European look" of the city.

LOOKING TO THE FUTURE

Foreigners did not take their profits and retreat from the U.S. real estate market when the dollar was at its all-time high a few years ago. And most observers believe that in the near-term, foreign investment in U.S. real estate will continue, as the dollar remains weak, and yield spreads between U.S. and foreign markets remain substantial. Since foreigners are generally long-term investors, they tend to use exchange rates and yield differentials as "buy" signals only, not "sell" signals. For example, during the early 1980's when the U.S. dollar was very high in relation to almost every other currency, there were very few real estate sales by foreign investors. Based on this, it would seem that foreign ownership of U.S. property will only increase in the future.

Current investment will be constrained only by apprehension over soft markets and scarcity of good product. Over the longer term, the deregulation of the global capital markets and foreign institutional investors will continue, resulting in a further increase in U.S. real estate investment.

What effects will foreign investment have on U.S. real estate and, specifically, Washington, D.C. real estate? Nationally, these effects are limited by the relatively small size of foreign investment. Despite all the hoopla, foreign investment in U.S. developed real estate comprises just over 1% of the total market.

However, it is significant that foreign investment has been focused on a very narrow market; class A downtown office buildings in select cities, and certain types of hotel and resort properties. In these markets, property values have risen as a result of foreign activity.

It is not certain what "spill-over" effect, if any, foreign activity will have in these markets. However, it would seem that as market yields decline and investors gain increasing familiarity with U.S. markets, foreign capital flow will spread into more cities and more property types.

The impact of foreign investment in Washington, D.C. is clear. First, the Washington, D.C. market will continue to capture a disproportionate amount of foreign capital due to its strong underlying fundamentals. Second, the market price for downtown and certain suburban markets will be set by foreign activity. The foreigner's somewhat different investment objectives (see chapter 5) enable them to outbid their American counterparts and pay prices that motivate sales. Last, the foreign investor's long-term investment horizon forces them to focus on high quality properties and intensive property management. This will also increase values and place competitive pressures on other property owners to raise quality standards.

Now that we understand why foreigners invest in U.S. real estate, we will take a closer look at who these foreign investors are, and what they are investing in.

CHAPTER 4

PROFILES OF INVESTORS

So far, we have examined the Washington, D.C. market and explored the reasons foreigners invest in U.S. and D.C. real estate. We are now ready to turn our attention to the task of identifying and describing the various foreigners currently represented in the D.C. market. Obviously, foreign investors come in all sizes, shapes and forms. However, describing the characteristics of the various players provides a useful understanding of their modus operandi.

Before proceeding, it is important that we reiterate the limitations of this study. Data in this chapter was derived from our efforts to identify and describe the universe of foreign owned real estate in Washington. While we have endeavored to be accurate, our data gathering and interview process is subject to bias and error of omission. Appendix A presents a summary of our findings.

WHO ARE THEY?

There are many different categories of foreign investor active in the D.C. market. The typology of the foreign investor is best divided into two classifications: nationality and business activity.

Nationality:

At least ten countries are represented in the D.C. market. Historically, the Europeans and Canadians have been the most active. The British established a major presence in the late 1970's and were immediately followed by the Canadians. During the 1980's, the Dutch and Germans became major players. The most recent entry into the market has been the Japanese who since 1985 have been involved in over a dozen major transactions. Also active have been Belgians, Germans, Saudis, Scots, and Fins. [17]

Currently, the largest foreign property owners in D.C. are the British, followed by the Japanese and Canadians. (See Figure 4-1) In the last two years, the Japanese have been the most active investors while European activity has moderated. This is probably the result of more favorable exchange rates for the Japanese, relative to other foreigners. For example, the yen denominated price per square foot of U.S. real estate has declined by 41% since 1985. [12]

Business Activity:

The majority of the British and Dutch money has been provided by pension funds. [24] This money has been placed either through outright purchases of existing properties or through development joint ventures with established foreign or American developers. [21] Japanese investment has been placed primarily by the large Japanese life and construction companies, while Canadian investment has come from the insurance industry and development companies. [9] & [25] Other nationalities are represented through banks, pension funds and individuals.

FIGURE 4-1. FOREIGN INVESTOR INVOLVEMENT IN THE WASHINGTON, D.C. REAL ESTATE MARKET

NATIONALITY OF INVESTOR	NUMBER OF INVESTORS	NUMBER OF PROPERTIES	SQUARE FEET OF BUILDING	
CBD				
Belgium	1	2	421,000 E	
Canada	4	6	1,556,000	
Finland	1	1	140,000	
Germany	3	3	1,403,000	
Great Britain	22	22	3,137,737 E	
Japan	12	12	3,654,497 E	
Netherland Antilles	2	2	192,000	
Netherlands	4	7	485,000	
Saudia Arabia	2	3	437,655	
Scotland	1	1	101,000	
Unknown	4	5	1,464,000 E	
	56	64	12,991,889 E	<--- Foreign owned
	Spring 1987 total inventory --->		53,000,000	
SUBURBS				
Belgium	0	0	0	
Canada	1	1	439,000	
Finland	0	0	0	
Germany	1	1	221,000 E	
Great Britain	2	4	943,000	
Japan	0	0	0	
Netherland Antilles	0	0	0	
Netherlands	2	4	885,000	
Saudia Arabia	1	1	417,000	
Scotland	0	0	0	
Unknown	0	0	0	
	7	11	2,905,000 E	<--- Foreign owned
	Spring 1987 total inventory --->		96,000,000	
TOTAL D.C. MSA				
Belgium	1	2	421,000 E	
Canada	4	7	1,995,000	
Finland	1	1	140,000	
Germany	3	4	1,624,000 E	
Great Britain	22	26	4,080,737 E	
Japan	12	12	3,654,497 E	
Netherland Antilles	2	2	192,000	
Netherlands	4	11	1,370,000	
Saudia Arabia	2	4	854,655	
Scotland	1	1	101,000	
Unknown	4	5	1,464,000 E	
	56	75	15,896,889 E	<--- Foreign owned
	Spring 1987 total inventory --->		149,000,000	

SOURCE: Blacks Office Leasing Guide [4] & Appendix A

E = Partially estimated

WHAT ARE THEY INVESTING IN?

While the profiles of the foreign investors have been very diverse, their investment preferences have been remarkably similar. The vast majority of foreign investors are buyers/developers of downtown office buildings in D.C. The typical investment might be an 8 to 12 story office building in the central business district, preferably, in the "Golden Triangle" area of the CBD. Little interest has been shown for other property types, with the exception of a few retail and mixed-use projects. (See Appendix A) Purchases tend to be for all cash, and financial and ownership structures are typically not complex.

To a lesser extent, the more aggressive foreigners have shown some interest in office properties in close-in suburbs such as Rosslyn and Alexandria. These investments are located in supply constrained markets and are typically developed by the investor.

It is interesting to note that foreign investment patterns seem to be changing over time. As an entry strategy, most foreigners prefer to buy with cash, fully leased, Class A office buildings, either alone, or in a joint venture. However, as the foreigners gain familiarity with the local and U.S. market, they are more likely to become involved in development and building renovation, and also to use more innovative financing and ownership structures. [26] & [27]

The data seems to bear this behavior out. For example, the Canadians, British and Dutch, all of whom have relatively long histories in the D.C. market, tend to behave very much like their American counterparts. Not only are they aggressive investors, but they are also heavily involved in development, and in some instances, suburban development. On the other hand, the newcomers to the market, the Japanese, have primarily invested in existing buildings and have adopted a very cautious approach.

In summary, foreign investors and their investments are very diverse; however, there are certain biases which seem to guide most foreigners' behavior. Chapter 5 will discuss these biases in the context of the foreign investment strategy.

CHAPTER 5

THE FOREIGN INVESTOR'S STRATEGY FOR INVESTING IN UNITED STATES REAL ESTATE

Describing an investment strategy which characterizes all foreign investors is like trying to answer the age old question "How high is up?" There are many answers, depending on the context in which the question was asked. Foreigners differ across nationalities, investor profiles and individual preferences. They also differ based on their experience and understanding of the U.S. market, and of the specific city in which they desire to invest. Where a Japanese life company may be only interested in fully leased, triple-A buildings in downtown Washington, a Japanese trading company might be developing a speculative high-rise in Los Angeles. A British pension fund, on the other hand, might adopt an entirely different strategy.

While these differences can be numerous, there are also many similarities. By studying these similarities, one can begin to understand, and learn from, the philosophy of the foreign investor relative to his American counterpart. Our interviews reveal several characteristics which are common to most foreign real estate investment strategies, irrespective of nationality, preferences, and the like. These include:

1. Location preferences
2. Property characteristics
3. Holding period
4. Relationship orientation

Location Preferences:

Foreign investors, especially newcomers to the American market, are very aware of the importance of "good" location to the performance of a real estate investment. Because of their lack of familiarity with the country, they tend to focus on a few select locations which can readily be studied and understood. Their definition of good location reflects their preference for safe, stable markets; they are less concerned with "home run" investments and, therefore, are less adventurous than their American counterparts. [28]

As part of their strategy, foreigners tend to focus on supply constrained markets. [21] Generally, these markets are characterized by size and zoning restrictions which limit competition and make growth more predictable and structured. The central business districts of Washington, Boston, and San Francisco are examples of cities that meet this criterion. Foreigners believe such markets are less susceptible to the higher vacancies and reduced rents associated with an economic downturn. They view real estate investments under these conditions as inflation protected annuities. [13]

Foreigners are also concerned with the economic fundamentals of a market. They prefer cities with strong growth histories and good prospects for future growth. Additionally, they prefer diversified markets which are less susceptible to the cycles of a single industry. The sunbelt, a popular destination for foreign capital in the 1970's, has lost its allure in favor of the more stable markets in the Boston Washington corridor.

Finally, foreigner's prefer cities which have international recognition. One aspect of this is that it is easier to gain the support of the "home office" to invest in familiar cities. Also, such cities tend to already have a large foreign contingent which serves as an information network for the foreign investor. [21]

Property Characteristics:

The vast majority of foreign investment has been in office buildings. The few exceptions have been hotel, and to a lesser extent, retail properties. Office buildings are preferred for three reasons. First, they are the predominant form of real estate investment overseas; thus, the foreigner has a greater familiarity with this investment type. Second, office buildings tend to be less management intensive; other types of properties require much greater attention and on-site management. Third, office tenant lease terms can be more easily structured to match investment criteria.

Because foreigners tend to have much longer holding periods than their American counterparts, they focus on high quality, efficient structures. Emphasis is placed on quality of finish and state-of-the-art technology and design. While this may increase the initial investment, foreigners believe it is more than offset by reduced operating costs and added competitive advantage in attracting tenants.

Holding Period:

Foreigners tend to have much longer holding periods than American investors. This is consistent with the "capital haven" philosophy discussed in chapter 3. However, it is also a function of a cultural inclination to hold investment real estate. Because developable land is scarce in many countries, foreigners tend to develop emotional attachments to property and will sell only if they have a problem.

Relationship Orientation:

Because of their lack of proximity to the U.S., foreign investors often rely on U.S. intermediaries for support. This can be in the form of hiring U.S. real estate professionals on a fee or commission basis, or forming a joint venture with a U.S. partner. Foreigners tend to be very cautious in establishing these relationships. [29] They stress integrity and reputation and they demand that the intermediary/partner have an intimate understanding of their investment objectives and culture. Typically, these criteria are best met by a large, prestigious U.S. company such as a Gerald Hines or an Equitable, or by countrymen who already have a presence in the U.S. market.

Probably the greatest complaint of foreigners toward U.S. real estate professionals is that Americans are too transaction oriented; they do not spend enough time developing relationships. As a result, many Americans have little understanding for the foreign investor and therefore do not always effectively serve their needs. [30]

Now that we have provided a clear profile of the "who's", "how's", and "why's" of foreign investment, it is time to focus on the ramifications of such investment. Chapter 6 summarizes our findings and discusses the implications of the foreign investor on the domestic real estate industry.

CHAPTER 6

SIGNIFICANT FINDINGS AND IMPLICATIONS

Foreign activity in U.S. real estate is not a fad. For the foreseeable future, foreigners will continue to purchase and develop U.S. properties. As a result, numerous opportunities will be available for U.S. real estate professionals. Foreigners will continue to need advisors and intermediaries; also, for those who can access it, foreigners have an almost unlimited supply of "patient" capital.

However, developing these relationships is easier said than done. Foreigners are cautious and very selective about who they do business with. Accordingly, U.S. real estate professionals must understand the foreign mind-set and develop a marketing program which is sensitive to the cultural and philosophical differences that exist among foreigners, as well as between Americans and foreigners.

We believe our research provides insight into the idiosyncrasies of foreign investors. The remainder of this chapter is dedicated to summarizing our significant findings and explaining the implications for U.S. real estate professionals.

SIGNIFICANT FINDINGS

The following is a summary of the significant findings previously described in this report. Obviously, there are exceptions to each item; however, these findings tend to reflect the most likely behavior of the foreigner.

Foreigners view U.S. real estate as a "capital haven".

Safety may be the most compelling reason foreigners invest in U.S. real estate. A history of political and economic turmoil overseas has made international diversification an important part of the foreign investment strategy. The United States is viewed as politically stable and the last bastion of free enterprise. Private property rights are considered sacrosanct in this country, mitigating the fear of expropriation.

Additionally, an investment in real estate is an investment in a tangible asset, as opposed to a paper (financial) asset. This has an added emotional value to the foreigner.

Foreigners are long-term investors in U.S. real estate.

The capital haven aspect of the foreign investment strategy, along with the foreigner's cultural disinclination to sell real estate, results in long holding periods. Where an American investor will typically hold real estate for 7 to 10 years, a foreign investor will hold real estate for 25 years, or longer.

Because of this long-term perspective, foreigners prefer high quality, state-of-the-art technology and design in the properties in which they invest. Also, foreigners stress good management of the physical asset.

<u>Foreign investors will accept lower returns under certain conditions.</u>

Foreign investors accept lower returns (pay higher prices) for a variety of reasons. First, foreigners have focused their attention on a very narrow slice of the U.S. market. The resulting intense competition in these thin markets has reduced yields and made it more expensive to participate. This is analogous to an auction where the "winner" is the party with the highest willingness to pay; that is, the item goes to the party who values it the most. Since foreign investors place a higher value on certain downtown office properties, they tend to outbid their American counterparts for such properties. On less favored property types (i.e. suburban properties), foreigners are generally not competitive bidders. Second, global economic conditions are such that to many foreigners, investment in the U.S. looks relatively cheap. This is a function of favorable exchange rates, low financing costs overseas (making leveraged yields on U.S. investments even higher) and lack of competing investments in other countries. Third, the safe haven aspect of the foreign investment strategy suggests that foreigners will pay a premium for low risk, high quality properties.

The belief that foreigners pay too much for U.S. real estate may not be true.. Relative to other real estate investments, foreigners do pay more; however, in the very narrow, supply constrained markets foreigners prefer, yields and prices are probably reasonable. And when exchange rates and overseas financing are considered, returns for foreigners may even be superior to those that can be achieved by American investors.

Given the foreigner's long holding period, it is conceivable that yields may decline further as the appetite for these properties exceeds their availability.

Exchange rates are important in the foreign investment decision.

Favorable exchange rates allow the foreigner to buy more U.S. product for the money, thereby providing an impetus to invest. This helps explain the recent flow of Japanese money into the U.S. As exchange rates change, however, the foreigner does not show an inclination to sell U.S. property for the purpose of capturing currency gains. This reinforces the belief that foreigners are long term investors, more interested in protecting their investment than maximizing gain opportunities.

Foreign investors have strong location preferences.

Foreigners are primarily interested in internationally recognized cities. They show a strong bias for Class A office properties located in the central business district. They generally avoid suburban properties due to their lack of understanding of the suburb; most foreign countries do not have suburbs. They are also very market conscious and prefer supply constrained locations with excellent underlying economic fundamentals. These preferences are not surprising and are probably no different than those of an American investor going into an unfamiliar domestic market.

Foreigners are "predisposed" to invest in real estate.

Real estate has historically been an important component of the foreign investment portfolio. Many foreign pension funds have up to a third of their assets in real estate compared to less than 3% for American pension funds. Foreign investors understand the product and are considered to be excellent asset managers.

Foreign investors are relationship oriented.

Probably the biggest complaint of the foreign investor is that U.S. real estate professionals are too transaction oriented; they don't spend enough time developing relationships and seem to have little understanding of the foreigner. Foreigners prefer to build relationships with "name brand" U.S. organizations or, alternatively, with countrymen who understand the U.S. market.

Foreign investors are cash buyers.

In general, foreign equity investors in D.C. real estate are cash buyers. Transactions and ownership structures tend to be straightforward. However, examples were noted where more complicated deal structures were used. It is not clear as to what extent U.S. cash purchases are funded with overseas borrowings.

As foreign investors become more familiar with the U.S. market, they act more like U.S. investors.

A review of the above list reveals many differences between foreign and American investors. The strongest differences appear among foreigners that are relatively new to the D.C. market, most notably the Japanese. However, for foreign investors with a longer history in D.C., very few differences were noted. Investment strategies and risk profiles become very similar to those of the American investor. For example, certain Canadian, British and Dutch investors, all with a long track record in the area, behave very much like Americans. There is one exception: foreigners remain extremely cognizant of their capital haven requirement and therefore continue to be long-term investors.

As foreign investors gain a greater understanding of the American culture and how U.S. markets operate, we believe they begin to act more like American investors. Accordingly, foreigners will become more inclined to invest in different property types, to make greater use of U.S. capital markets, and to diversify into other geographic markets and business lines (i.e. brokerage, construction, mortgage banking, etc.). At the extreme, the foreign investor will become indistinguishable from the American investor.

IMPLICATIONS

Evidence suggests foreigners will continue to actively invest in D.C. real estate. The annual volume of such investment by a particular country or investor will be affected by exchange rates, economic conditions, and other exogenous factors; however, total ownership will continue to grow due to the long-term commitment to the market. A strengthening of the dollar will not cause foreigners to sell U.S. real estate.

Over time, established foreign investors will expand their activities into different property types, different geographical regions and into suburban development. This process will be accelerated if yields in the preferred markets continue to decline relative to other properties and other markets. Foreign investors will become more and more "Americanized" in their behavior, even to the extent of setting up or purchasing U.S. based real estate companies staffed primarily by Americans.

The foreign newcomers to the market will continue to follow the more conservative strategy of investing in Class A downtown office buildings; however, they may consider second tier cities attractive if yields in Washington, New York, Los Angeles, etc. are perceived to be too low.

The desire for a "capital haven" will continue to motivate long holding periods for foreigners. This will reduce the turnover of foreign owned properties which may reduce long term commission opportunities for intermediaries. Also, it will strengthen the foreigner's commitment to quality design and construction; this could increase the number of foreigners who develop for their own account.

Finally, the foreign investor will continue to pay top dollar for properties that meet their stringent criteria. The foreigner's willingness to accept lower yields on these properties allow them to out-bid their American counterparts. The implication of this is that certain U.S. real estate markets may be undervalued. For those who can identify these markets before prices are bid-up, substantial gain opportunities may exist.

In conclusion we believe that an increasing foreign presence in the U.S. marketplace will present great opportunities for all kinds of U.S. real estate players.

NATIONALITY of INVESTOR	INVESTOR / BUYER	SELLER	PROPERTY NAME & LOCATION	SQ FT of BUILDING	PRICE/COST
Belgium	Comafi Real Estate	?	Ferris Building 1720 Eye Street Washington, D.C.	?	?
Belgium	Comofi Real Estate	?	Chanin Building 815 Connecticut Ave NW Washington, D.C.	200,000	?
Canada	Cadillac Fairview	Land assembly	Fariview Park - Falls Church, VA	439,000	?
Canada	Cadillac Fairview	Unicorp-Land sale	One Franklin Square 1301 K Street NW Washington, D.C.	600,000	?
Canada	Manufactures Life Insurance Company	George Nolin Local partnership	1850 M Street Washington, D.C.	241,000	?
Canada	Manufactures Life Insurance Company	Trammel Crow	Franklin Square 1350 Eye Street NW Washington, D.C.	335,000	39,000,000
Canada	Manufactures Life Insurance Company	Land assembly	750 17th Street NW Washington, D.C.	130,000	?
Canada	Olympia & York	?	The Investment Building 1511 K Street NW Washington, D.C.	250,000	?
Canada	Unicorp	?	Potomac Buildings Washington, D.C.	?	?

* This list is not all inclusive and no doubt some foreign owned property has been overlooked. While every attempt was made to be accurate, there may be some inaccuracies in the data.

NATIONALITY of INVESTOR	INVESTOR / BUYER	SELLER	PROPERTY NAME & LOCATION	SQ FT of BUILDING	PRICE/COST
Finland	Republic of Finland	?	Foxhall Square 3301 New Mexico Avenue Washington, D.C.	140,000	?
Germany	Deutschbank with Gerald Hines	Land assembly	Columbia Square 555 13th street NW Washington, D.C.	530,000	?
Germany	KanAm with Western Devlpmnt Co	Land assembly	Washington Harbour 3000 K Street NW Washington, D.C.	564,000	?
Germany	Lehndorf Group & Eupn Pn Fds	Ted Lerner / Gedelski	Tysons Corner Shpg Ctr Vienna, VA	?	160,000,000
Germany	Lehndorf Group & Eupn Pn Fds	Ted Gould	1333 New Hampshire Av NW Washington, D.C.	309,000	?
Great Britian	Virginia Corporation	?	Patrick Henry Building 601 D Street NW Washington, D.C.	?	?
Great Britian	British Coal Bd & 2nd Intercontinental Properties	?	122 C Street NW Washington, D.C.	?	?
Great Britian	British Coal Bd & PanAm Properties	Manahoe	Watergate 600 Virginia NW Washington, D.C.	?	?
Great Britian	British Petroleum Pension Fund & PanAm Properties	?	Mazza Galleria (Mall) Wisconsin Avenue MD - Bethesda	?	?

* This list is not all inclusive and no doubt some foreign owned property has been overlooked. While every attempt was made to be accurate, there may be some inaccuracies in the data.

NATIONALITY of INVESTOR	INVESTOR / BUYER	SELLER	PROPERTY NAME & LOCATION	SQ FT of BUILDING	PRICE/COST
Great Britian	Deansbank (Church of England)	Prudential (50% JV w/buyer)	McPherson Building 901 15th Street NW Washington, D.C.	230,000	?
Great Britian	Eagle Star Properties	Land assembly	816 Connecticut Ave NW Washington, D.C.	24,000	?
Great Britian	Eagle Star Properties (in negotiation)	Viking Group	Demonet Building 1155 Connecticut Ave NW Washington, D.C.	95,000	?
Great Britian	EBW Inc. (Edward, Bennet & Williams)	Land assembly	Otis Building 810 18th Street NW Washington, D.C.	27,487	?
Great Britian	ESN	?	L'Enfant Plaza East 470-90 L'Enfant Plaza Washington, D.C.	400,000	?
Great Britian	Farragate Associates (Wingate/Divett)	Army navy Club	Army Navy Club 1627 Eye Street NW Washington, D.C.	103,000	?
Great Britian	Graycoat & Grosvenor Trust (Duke of Windsor)	Wilco Investments	Longfellow Building 1201 Connecticut Ave NW Washington, D.C.	168,000	30,100,000
Great Britian	Greycoat	K & K Properties	Colorado Building 1341 G Street NW Washington, D.C.	130,000	?
Great Britian	Grosvenor Trust (Duke of Windsor)	USLICO (United States Life Ins. Co.)	Olmsted Building 1701 Pennsylvania Ave NW Washington, D.C.	175,000	52,500,000

* This list is not all inclusive and no doubt some foreign owned property has been overlooked. While every attempt was made to be accurate, there may be some inaccuracies in the data.

NATIONALITY of INVESTOR	INVESTOR / BUYER	SELLER	PROPERTY NAME & LOCATION	SQ FT of BUILDING	PRICE/COST
Great Britian	London and Leeds (Ladbroke Group)	Albert Ginsberg	1735 North Lynn Street Rosslyn, VA	?	?
Great Britian	London and Leeds (Ladbroke Group)	?	1850 North Lynn Street Rosslyn, VA	?	?
Great Britian	London and Leeds (Ladbroke Group)	?	Commonwealth Building 1300 Wilson Street Rosslyn, VA	280,000	?
Great Britian	Prudential of UK	?	Board of Trade Bldg 1129 20th Street NW Washington, D.C.	122,000	?
Great Britian	Rush & Tompkins	Local Partnership	1229 Wisconsin Ave NW Washington, D.C.	15,000	7,000,000
Great Britian	Solomon Freshwater	Albert Small / Chatalin Trust	801 North Capitol St NE Washington, D.C.	?	?
Great Britian	UK America Property/ Easley McCaleb et al	?	Walker Building 735 15th Street NW Washington, D.C.	72,000	?
Great Britian	Viking Group	Land assembly	1146 19th Street NW Washington, D.C.	45,000	?
Great Britian	Viking Group & Markborough	Land assembly	2001 L Street NW Washington, D.C.	146,000	?

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NATIONALITY of INVESTOR	INVESTOR / BUYER	SELLER	PROPERTY NAME & LOCATION	SQ FT of BUILDING	PRICE/COST
Great Britian	Weir & Assoc	?	Commonwealth Building 1625 K Street NW Washington, D.C.	106,000	?
Great Britian	Wimpey Holdings	Land assembly	1020 19th Street NW Washington, D.C.	110,000	?
Great Britian	?? / GLM Corp	Bruce Berger	Embassy Building 1424 16th Street NW Washington, D.C.	50,000	2,000,000
Great Britian & Japan	London and Leeds & Sumitomo Life	JBG Associates	The Brown Building 1200 19th Street NW Washington, D.C.	235,250	37,000,000
Japan	Asahi Mutual Life	Prudential (50% JV w/buyer)	One Thomas Circle One Thomas Circle NW Washington, D.C.	225,000	24,700,000
Japan	C. Itoh & Shaw & Rose Associates	Land assembly	Embassy Suites Hotel 1210 22nd Street NW Washington, D.C.	?	?
Japan	Dai-Ichi Seimei American	Equitable (JV - kept 25%)	2025 M Street NW Washington, D.C.	173,715	?
Japan	Individual investor	Blum, Frank & Kaimons	The Esplanade Building 1990 K Street NW Washington, D.C.	260,000	55,000,000
Japan	Kokusai Kogyo & Epn Pn Fds(Lndrf)	Cadillac Fairview (JV with Buyers)	1001 Pennsylvania Ave NW Washington, D.C.	758,000	?

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NATIONALITY of INVESTOR	INVESTOR / BUYER	SELLER	PROPERTY NAME & LOCATION	SQ FT of BUILDING	PRICE/COST
Japan	Kondo Bosekei (Nagashami)	Hall Financial (Dallas)	Juduciary Center 555 4th Street NW Washington, D.C.	331,000	86,900,000
Japan	Meiji Mutual Life (25% JV w/seller)	Equitable or Jim Farragut	3 Lafayette Center 1155 21st Street NW Washington, D.C.	226,000	?
Japan	Mitsubishi Bank & Tower Constr. (loan)	Development deal	Washington Square 1050 Connecticut Ave NW Washington, D.C.	680,000	200,000,000
Japan	Mitsui	?	1401 New York Avenue NW Washington, D.C.	164,553	?
Japan	Nissei Realty (Nippon Life)	AMA	AMA Building 1101 Vermont Avenue NW Washington, D.C.	164,229	35,750,000
Japan	Shuwa (under negotiation)	Boston Properties	U.S. News Complex 2300 N Street NW Washington, D.C.	300,000	?
Japan	Sumitomo Realty & Development Co. (La Solana)	Basilea, Inc.	1750 K Street NW Washington, D.C.	151,000	30,000,000
Netherland Antilles	Lauriston Company NV	?	2555 M Street NW Washington, D.C.	32,000	?
Netherland Antilles	Marigold Properties	?	2021 K Street NW Washington, D.C.	160,000	?

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NATIONALITY of INVESTOR	INVESTOR / BUYER	SELLER	PROPERTY NAME & LOCATION	SQ FT of BUILDING	PRICE/COST
Netherlands	Bexley Properties	?	2021 L Street NW Washington, D.C.	54,000	?
Netherlands	Buvermo Properties	George Nolin Local partnership	The Jefferson Building 1225 19th Street NW Washington, D.C.	72,000	12,000,000
Netherlands	Buvermo Properties	?	1815 North Lynn Street Rosslyn, VA	93,000	?
Netherlands	Buvermo Properties	Land assembly	14114 Lee Jackson Hiway Chantilly, VA	Raw Land	?
Netherlands	Buvermo Properties (convertable mort.)	?	1099 30th Street NW Washington, D.C.	34,000	?
Netherlands	DIHC (Dutch Institutional Holding Co)	Land assembly	TransPotomac Plaza North Fairfax Street Alexandria, VA	304,000	50,000,000
Netherlands	DIHC / Savage-Fogarty	Land assembly	1023 15th Street NW Washington, D.C.	52,000	?
Netherlands	DIHC / Savage-Fogarty	?	Flour Mill Building 1000 Potomac NW Washington, D.C.	121,000	?
Netherlands	DIHC / Savage-Fogarty	Land assembly	99 Canal Street Alexandria, VA	488,000	125,000,000

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NATIONALITY of INVESTOR	INVESTOR / BUYER	SELLER	PROPERTY NAME & LOCATION	SQ FT of BUILDING	PRICE/COST
Netherlands	DIHC with Western Devl & Trammel Crow	Land assembly	Hay Market Square Pennsylvania Avenue Washington, D.C.	Raw Land	200,000,000
Netherlands	Royal Dutch Shell	Dr. Gerber	Farragut Building 900 17th Street NW Washington, D.C.	152,000	34,000,000
Saudia Arabia	19 L Realty Company	?	1899 L Street NW Washington, D.C.	137,655	?
Saudia Arabia	Hadid Invstmt Group	Land assembly	1001 New York Avenue NW Washington, D.C.	180,000	40,000,000
Saudia Arabia	Hadid Invstmt Group	Land assembly	1212 New York Avenue NW Washington, D.C.	120,000	25,000,000
Saudia Arabia	Hadid Invstmt Group	?	Tysons Building 1300 North 17th Street Rosslyn, VA	417,000	?
Scotland	Scottish Amicable Life Assurance Society	?	1015 18th Street Washington, D.C.	101,000	?
Unknown	Banque Indosuez & Wilco Investments	Prudential	1030 15th Street NW Washington, D.C.	179,000	29,300,000
Unknown	CAG Associates	?	GAG Building 1019 19th Street NW Washington, D.C.	93,000	?

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NATIONALITY of INVESTOR	INVESTOR / BUYER	SELLER	PROPERTY NAME & LOCATION	SQ FT of BUILDING	PRICE/COST
Unknown	Inter-American Development Bank	Bank of Nova Scotia	DAON Building 1300 New York Avenue NW Washington, D.C.	750,000	145,000,000
Unknown	Ivera Corporation (offshore tax shelter)	?	711 14th Street NW Washington, D.C.	?	?
Unknown	Ivera Corporation (offshore tax shelter)	?	1331 G Street Washington, D.C.	?	?

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22. Interview with Warren Dahlstrom, Director of Investment Brokerage at Leggat McCall / Grubb & Ellis, in Washington, D.C. (June 25, 1987).

23. Interview with Russell C. Lindner, Managing Director of Bear Saint Properties, in Washington, D.C. (June 24, 1987).

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