Editor's Note

BY PETER C. BURLEY, CRE

"As man draws nearer to the stars, why should he not also draw nearer to his neighbor?"

—Lyndon B. Johnson

In the late 1960s, in the middle of the Cold War, I was fortunate to join a small group of about a dozen high school students from The Bay Area, New York and Chicago on a summer tour of the Soviet Union and Eastern Europe which, to most Americans at the time, lay behind a dark, impervious and forbidding "Iron Curtain." My mother was terrified. I was exhilarated. It was a remarkable experience during a remarkable period in history. In those days very few westerners traveled to what Ronald Reagan would later dub the "Evil Empire" to meet—even talk to—people who lived there, to see the expanse of the Russian steppe, marvel at the architecture of the Kremlin, to view the collections in the Hermitage, to look across the wide Volga River toward the even greater unknown that was Central Asia. We toured most of Eastern Europe as well during the latter, turbulent days of the Prague Spring (including a couple of days milling about with the defiant crowds in Wenceslas Square) before returning to the U.S. just hours before it all came to a sad, disconsolate end.

Some 40-odd years later, I am amazed at how so many of the political, ideological, cultural and economic barriers that kept so much of the world apart from itself have largely dissolved. Not that we don't have our differences; in many cases, we just don't get along very well. But, today we talk to, visit, trade with, and invest in more of the world—and the world in us—than we could ever have imagined in 1968. Today, we have a U.S.-Russia Business Council (USRBC) that has been meeting annually for the past 19 years. An article in the Oct. 26, 2011, edition of *Russia Now*, a weekly supplement to the *Washington Post*, entitled "A Warm Climate for Investors" promoted foreign investment in the Chelyabinsk Region in the Southern Urals in Russia. The article points to the doubling of foreign direct investment in the region since 2006 by Switzerland, France, Finland, the U.S., the U.K., Germany, Italy, the Czech Republic and Kazakhstan. In the first half of 2011, foreign trade in the region has increased by 38 percent with China, by 22 percent with Germany and 18 percent with Italy.

New technologies, free trade, financial deregulation have changed the landscape in which we do business. We are, in 2011, a highly integrated, interconnected, *interdependent*, global economic community.

Real estate is a huge part of our now global cultural, economic and financial lives. In fact, as Robert Peto points out in his article herein, the World Bank has estimated that real estate represents some 70 percent of global wealth.

We transact our business around the globe daily. Firms that a few years ago concentrated most, if not all, of their investment activity only in the U.S. (or just small parts of the U.S.) now transact business in Europe, Latin America and Asia, even Africa. Real Capital Analytics reports that over the past twelve months, the top ten markets for real estate transactions were New York and London, to be sure, but also Beijing, Shanghai, Tokyo, Singapore, Hong Kong, Paris, Metropolitan Washington and Seoul, with the largest real estate players being firms from the U.S. and Canada, China, Singapore and Korea. The more we learn about the rest of the world, and the world about us, the more interaction and opportunity become apparent. Keen eyes are turning to the BRICS (Brazil, Russia, India and China) and to the CIVETS (Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa) and scouring the PIIGS

(European nations with dangerously large sovereign debt burdens, Portugal, Italy, Ireland, Greece and Spain) for opportunity. According to the Association of Foreign Investors in Real Estate (AFIRE) countries that offered the best opportunity for capital appreciation in 2010 were the U.S., China, the U.K., and Brazil, in that order. A lot of the rest of the world invests in the U.S. too, with about $400 billion of more than $630 billion in planned cross-border equity investment likely to be placed in the U.S. this year. AFIRE, by the way, which was founded in 1988 (20 years after I went to Eastern Europe) to preserve and promote cross-border investment in real estate, currently has more than 180 member institutions representing 21 countries.

To interpret, untangle and chart a course in this new global activity, one can ask any number of brokers, advisors or investment managers for direction. There are few major participants in the business today who do not have an international—global—presence. Among The Counselors of Real Estate®, we now boast more than 50 members from outside the U.S., hailing from 19 countries including Austria, Canada, Brazil, the Czech Republic, France, Germany, Greece, Hong Kong, Italy, Japan, Korea, Lebanon, Netherlands, Portugal, Serbia, Switzerland, Taiwan, Turkey, and the U.K. This past March, The Counselors hosted a high-level education session at MIPIM, in Cannes, the world's largest global real estate conference. Noted CREs were participants in several other MIPIM sessions as well. Counselors are strongly represented among the ranks of the Royal Institution of Chartered Surveyors (RICS).

We are all a part of the global economic community now and have comingled our lives 'over there' with our lives 'over here.' Today, events and circumstances that present themselves in one corner of the world can have profound—often propitious and, sometimes, quite harsh—implications in another. In this issue of *Real Estate Issues*, we are pleased to present some views of our new global real estate economy, its opportunities and its pitfalls.

The Global Financial Crisis affected all of us. In a detailed and impenitent look at the crisis, its causes and its ramifications for real estate and the banking sectors, **Robert Peto**, 2010 Global President of RICS, tells us in his article **"Global Property Outlook and Role of Real Estate in the European Financial Crisis,"** that in the "West we are in a perfect storm. (The crisis) was caused by financial engineering and excess, partly based on real estate." Many European banks, Peto tells us, "will struggle to withstand the double whammy of unresolved and under-provisioned real estate loan issues at the same time as suffering from heavy exposure to sovereign debt risk." Both continue to be at play as I write this, with an unresolved, heavily indebted and newly austere EU facing an uncertain course. Further, current uncertainties "created by the financial and political turmoil and the impact of austerity measures…are affecting business investment decisions and consumer confidence with the consequence that GDP growth in western economies has stalled…" with the "danger of a vicious downward spiral." Peto suggests that we may have "at least 10 years of hard work in front of us to rebalance our economies and put our national and personal balance sheets in order." Included in that effort will likely be a "very significant haircut on sovereign debt to Greece and probably other countries…and … many banks will need to be significantly recapitalized."

Brazil, China and India represent some of the largest and fastest-growing emerging markets in the global community, according to **David Lynn, CRE, Tim Wang, Ph.D., and Cassondra Mehlum** in their article **"Investing in Emerging Markets: China, India and Brazil,"** some of the most compelling opportunities for real estate investment. With rapidly growing middle class populations, expected to hit 800 million people in the next decade, and a concomitant rise in demand for goods—and real estate—the authors suggest that these markets present significant return potential. Not without risks, certainly, including political as well as economic risk, but as Lynn, et al., point out "there has been significant property appreciation, which we expect will continue in the near term." The authors discuss each country in turn with respect to specific economic and political considerations one might make in approaching investment. China appears to be ready to develop a consumer market as it transitions away from an export-driven economy to a domestic consumption economy. India is in a rapid urbanization phase with the likely result that this century will likely see a majority of the population living in urban areas for the first time. Brazil, which is resource rich and has a substantial labor pool, is one of the fastest-growing economies in the world.

Brazil may indeed be among those countries offering the greatest potential for capital appreciation by cross-border investors. Small wonder, since as **James Whittington, CRE**, points out in his **"Go South, Young Men (and**

Women…)," Brazil has been a significant success story in recent years. It is the seventh-largest global economy and projected to become the fifth-largest in the next few years. But, Whittington tells us that there is more to the rest of Latin America than might meet one's eye, and to ignore opportunities *beyond* Brazil (and Mexico) would be "short-sighted." Chile, Colombia and Peru present important opportunities. Whittington details some of the plusses and minuses in approaching investment in these countries. He points to Latin American economies that may best be avoided as well, including Argentina, Venezuela and Bolivia, and others that are probably too small to consider (Uruguay, Paraguay, Ecuador, Costa Rica, Panama). As Whittington puts it, "Just as the western frontier of the U.S. provided unlimited economic opportunity in the latter half of the 19th century, the fundamental building blocks are in place in Latin America to offer the same to real estate investors, developers and practitioners alike."

There can be drawbacks to the increasing flow of capital across borders and across oceans. Outsized waves of targeted offshore investment can artificially distort local and regional property markets, inflate demand and pricing, undermine affordability and have an untoward effect on the broader economy. **William McCarthy**, **CRE**, describes the experience of Asian investment, particularly from China, in Vancouver, British Columbia, in his article **"Seller Beware: The Impact and Consequences to Date of Asian Investment in Metro Vancouver's Real Estate Market**.**"** Vancouver, which is one of the most livable (and incredibly beautiful) cities on the planet has experienced an enormous wave of Chinese investment which, according to McCarthy, has pushed pricing to unaffordable levels for local residents, likely causing businesses to relocate to less expensive locales (or to limit expansion plans) and put the region at risk of a significant correction. Additionally, he says, the local economy has been structurally changed from a resource-based economy to one that depends on speculative real estate for revenues and growth. He notes, "…if other jurisdictions are contemplating similar means to salvage or grow their real estate markets, they should consider the timeless words of the preamble to the REALTOR® Code of Ethics and Standards of Business Practice: 'Under all is the land. Upon its wise utilization and widely allocated ownership depend the survival and growth of free institutions and of our civilization.'"

At history's crossroads between Europe and Asia lies Turkey, a nation that has evolved in the past hundred years from the feudal society of the Ottoman Empire into a thriving modern state. In his article, **"Turkey: Modernizing through Mall Development**," **Marc Louargand**, **CRE**, reviews for us some of the transitional elements in that country's economy, its demographics and, specifically, the retail environment as it evolves from bazaar and bakkal to the modern grocery and hypermall. Of those countries ranked by the International Monetary Fund, Turkey is now the 17th largest—and growing. The nation's gross domestic product grew by 8.7 percent in 2010 and is expected to rise another 6.7 percent per year between 2011 and 2017. As Turkey transitions from an agrarian and nomadic economy into a mixed urban economy, evidence of the global marketplace is becoming clear. Retailers from around the world now hawk their wares in Turkish malls, with upscale goods from Europe, North America and Asia. And, while growth in the retail sector has been rapid, there appears to be plenty of room for continued expansion going forward as Turkey continues to grow and to modernize. As Louargand concludes, "the nascent level of the shopping mall promises significant market penetration opportunities for retailers and retail developers."

Considerable ink and bandwidth have been devoted to China in recent years, and with good reason. **Howie Gelbtuch**, **CRE**, elaborates in his article **"Asian Tigers and Lion Kings"** that "there's no doubt that China is on its way towards becoming the world's largest economy. The only question is when." Gelbtuch describes the recent shift in China's economy from rural and agrarian to urban and affluent, and the shift from an export economy to a consumer economy. And, in many ways, he suggests, much of the rest of the world is growing in concert with China's almost nonstop global economic expansion. But, while much attention has been directed toward China and the other BRICs, it is interesting to note that six of the fastest-growing economies over the past decade have been in sub-Saharan Africa. In fact, Gelbtuch refers to an analysis by *The Economist* that shows Angola, Nigeria, Ethiopia, Chad, Mozambique and Rwanda with growth rates between 2001 and 2010 that would put the developed world economies to shame. The Chinese have been particularly active in Africa, buying up African agricultural land and trading in other raw materials. "The devil is in the details" when considering approaching property markets overseas, Gelbtuch says, and he offers his considerable personal experience and wisdom in describing some of the local quirks and peculiarities in approaching overseas property markets. Still, "in case you think you're too late for the BRICS or Africa," he says, "fear not."

Global trade and cross-border investment aside, here in the U.S. we still face some significant issues at home, namely, the effort to reduce taxpayer costs and whittle back our budget deficits. **Sandy Apgar**, **CRE**, offers an example of how the U.S. military has managed to find bipartisan support for a large national program that has successfully reduced taxpayer costs. His article, **"Public-Private Partnerships: Lessons from Military Housing,"** describes the Residential Communities Initiative, or RCI, that enlists private participation in a program that neither Congress nor the Defense budget could cover. To date, Apgar reports, the RCI program has cleared a $7 billion maintenance backlog, and its partners are building or renovating more than 85,000 homes and community facilities. RCI projects include Fort Meade and Aberdeen Proving Ground, here in Maryland, as well as other projects in 22 other states. Apgar offers a rundown of lessons and practices that might prove useful in meeting public need, in the face of rising budgetary imbalances, through public-private partnerships.

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When a community fails to grow its economy faster than its population, it will soon find itself unable to support the service burden that will increase more rapidly than the revenues it requires. Such is the basic premise of *When Boomers Bail: A Community Economic Survival Guide* by Mark Lautman, reviewed by REI Associate Editor **Mary Bujold**, **CRE**. "Many of the scenarios presented in the book are happening right now," Bujold says, "and not just in the United States, but in other parts of the world as well." And, she says, "the U.S. is starting to seem like "Loserville" when some others, like China, Brazil and India are starting to look like "Winnersville." As an economic development primer, Bujold suggests, the book "bears serious consideration by all of us."

Some 40-odd years ago, when I was traveling across Eastern Europe, I could not imagine the global economy as it exists today. I doubt if anyone could have imagined it. I have not had the opportunity to travel back to most of the places I visited when the world was divided into political-economic blocs. I am most curious to do so. It is a new world now. And, despite its problems, all the better. ■

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