U.S. Real Estate to Draw More Foreigners in 2016, Survey Says

Most foreign investors expect to put more money into U.S. property this year than they did in 2015, with New York remaining the top target market worldwide, according to a survey by the Association of Foreign Investors in Real Estate. Sixty-four percent of respondents said they intend to make modest or major increases to investments in U.S. real estate this year, while 31 percent expect to maintain their holdings or reinvest sales proceeds into other U.S. assets, according to the 24th annual survey by the group, known as AFIRE. None of the respondents plans a major decrease. About half of the group's roughly 200 members participated in the survey. "This is a very strong response," Jim Fetgatter, chief executive of Washington-based AFIRE, whose members hold about $2 trillion of real estate globally, said in a phone interview. China's economic slowdown, Brazil's recession and Europe's immigration crisis underscored for international investors that "the U.S., at the moment, really is the safest place for them to go." Foreign purchases of U.S. real estate have soared since the financial crisis, jumping to $87.3 billion of completed deals last year, from less than $5 billion in 2009, according to Real Capital Analytics Inc. Investors from Canada, Asia, Europe and Australia bought stakes in office towers, warehouses, apartment buildings, shopping malls and hotels in search of relatively higher yields. Manhattan captured $23.5 billion, or 27 percent, of 2015 purchases, Real Capital data show. The U.S. also ranked first for countries with the best opportunity for price appreciation in 2016, followed by Brazil, Spain, Ireland and the U.K., the AFIRE survey showed. London and Los Angeles were the second- and third-most-popular cities for real estate investments in the survey. Berlin climbed three places to No. 4, the first year a German city reached the top five. Paris tied with San Francisco for fifth place, according to AFIRE. Within the U.S., multifamily and industrial real estate were the favorite property types for a second year, while retail moved up to third place from fourth. Offices fell to fourth from third, and hotels stayed at No. 5, according to the survey. The recent passage of legislation easing taxes for foreign pension funds that buy U.S. real estate probably will boost investment further, Fetgatter said. Many cross-border investors previously bought U.S. properties with domestic majority partners. The new law "simplifies the investment process and opens up a lot of opportunities for structuring their deals in a different way," he said. **(Bloomberg)**

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Is There a Crowd for Equity Crowdfunding?

The total number of Financial Industry Regulatory Authority member retail brokerages has been on the decline for the last five years. But one sliver of the universe is showing new signs of life: A new crop of broker/dealers and online funding portals are joining FINRA to capitalize on new opportunities made possible by the JOBS Act of 2012. The legislation prompted the SEC to make it easier to market and solicit investments, and opened the door for small businesses to engage in so-called "equity crowdfunding." About 15 to 20 of these new firms have signed on since 2013, according to Fishbowl Strategies, with another three to six launching soon, in anticipation of a wave of issuers and investors entering the market. Whether there is a crowd for equity crowdfunding remains to be seen. While online portals for non-registered securities, like private equity or hedge funds, existed long before the JOBS Act, the issuers were not allowed to directly solicit investors. That changed in

September 2013, when rules allowed issuers to market to accredited investors directly. At the time, there was much handwringing about hedge funds sponsoring Superbowl halftime shows and mom-and-pop millionaires lining up on Main Street to pour money into private equity or venture capital funds. "Obama's Hedge Fund Free For All," warned *Forbes*. The rule was "the most significant change to capital markets since the 1930s" said business website *Quartz*. It has not happened, so far. Investments in non-registered securities has risen dramatically—in 2014, there were 33,429 offers raising a total of $1.3 trillion, up from 18,295 raising $595 billion in 2009. But only about 2 percent of the 2014 offers were solicited under the new JOBS Act rules, the 506(c) exemption, according to the Securities and Exchange Commission. "People thought that things would pick up more than they have," says Steve Fernando, a member of the executive committee of The Crowdfund Intermediary Regulatory Advocates (CFIRA), a non-profit advocacy group established following the signing of the JOBS Act in 2012. "It's still progressing slowly as an industry." But Paul Boyd, managing partner at ClearPath Capital Partners, a wealth management firm for tech entrepreneurs, says there is plenty of pent-up demand and a backlog of Reg D deals that are moving forward. Boyd also expects the next phase of the JOBS Act, Title III, will bring a lot more attention to capital raises online. Set to go into effect in May, those rules let any investor, accredited or not, invest in unregistered securities online (with limits on the amounts that can both be invested, and raised, in a year). The tech-fueled vision of bypassing stuffy financial intermediaries in favor of a new-class of SEC-registered and FINRA member "crowdfunding portals" has inspired a flotilla of startups to enter the space. Many of the new entrants have affiliated agreements with broker/dealers. Some have launched their own b/ds. WealthForge launched its own b/d to provide all the services needed to complete a private securities transaction, including investor accreditation, regulatory filings and escrow. Co-founder and CEO Mat Dellorso says the new rules—and bringing the process online—have spurred their growth. "When you bring the internet and you're allowed to advertise a private security through 506(c), more investors do take part," he says. WealthForge has completed 150 private financing transactions, bringing in 2,500 investors. "A traditional investment bank might complete three or five a year," he says. "It's a lot more volume because it's more transparent and online now. "Normally these transactions take weeks and months, but an investor can literally invest in a private placement on our platform in a matter of minutes," he says. Dellorso doubts they will do much work with firms looking to raise capital through the exemptions for non-accredited investors. CircleUp is another new broker/dealer with a focus on consumer products and retail companies. Bhakti Chai, which makes Fair Trade Certified tea, raised nearly $865,000 on the platform. The firm charges companies a 5 percent commission to raise capital on its site, says Rory Eakin, co-founder and chief operations officer. In exchange, CircleUp provides the back-office operations needed to complete the transaction online, including execution, investment documents, online signature, and escrow. Eakin doesn't believe the wider gates for smaller investors coming in May will be important for his business; there are a lot of additional burdens for those companies looking to raise capital through equity crowdfunding than through private placements. For example, companies looking to raise more than $500,000 have to provide audited financial statements, which can be expensive. Commissions for the smaller companies looking to raise capital may be prohibitive, and it's not certain that among smaller, non-accredited investors there is a strong demand to make private investments in a still-hazy market. The platforms hold more promise for the firms looking to raise money than the investors. Many investors are lured by the promise of getting in on the next hot start-up, but most new businesses fail; if they do succeed, early micro-investors stand a good chance of being diluted out when real venture capital comes in. There's not a clear secondary-market for these investments yet, though some of the new b/ds may step in and create their own. Folio Institutional, a self-clearing broker/dealer, saw the interest around equity crowdfunding and decided to launch an online equity and debt-funding platform in September. Since the firm can custody the securities, it can engage in secondary-market transactions and, potentially, public offerings. Advisors should expect to field a lot of questions from clients on the opportunities in equity crowdfunding as the new rules come online in May. "My opinion is that people are going to start calling up and saying, 'Hey, what about this crowdfunding stuff? Is that right for me? Should I have exposure to that asset class?'" Fernando says. But Fernando warns advisors to tread carefully. "I think that there's going to need to be an increasing sense, a call from people that this is safe, that there's no fraud here, that there's enough disclosure documentation provided by the portal so that qualified investors can browse the site and make good, smart, investment decisions," he says. "I would have thought that this industry was in full bloom a year ago; it's just starting, in my opinion, to blossom now," he adds. "I think the next year or two will be really important data points in being able to tell where this is going to be in 10 years." **(National Real Estate Investor / Diana Britton)**

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Denver Apartment Rents Actually Declined in Fourth Quarter, says New Report

For the first time in quite a while, Denver apartment rents actually declined in the last three months of 2015. That's according to real estate research company CoStar Group Inc., which estimated that in the fourth quarter, Denver average apartment rents declined by 1 percent. For the first time in quite a while, Denver apartment rents actually declined in the last three months of 2015, according to real estate research company CoStar Group Inc. That decline was also reported in other hot apartment markets, including San Jose (down 2.7 percent in the fourth quarter), San Francisco (down 1.7 percent) and Washington, D.C. (down 1.1 percent). "We've always observed seasonality in apartment rents, but the downturn over the last three months of the year is certainly a noteworthy occurrence and one that would not be apparent in a year-over-year comparison. While it may be too soon to declare this a trend, it certainly bears watching," said Andrew Florance, founder and CEO of the CoStar Group, in a statement. Other recent reports also indicate that Denver apartment rent hikes may be cooling, including one that said Denver's double-digit annual hikes have cooled into single digits, and another that reported a short-term decline in big rent hikes. **(Denver Business Journal)**

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For Best Returns on Office Investment, Follow the STEM Workers

A gradual transformation from an economy led by the traditional FIRE firms (finance, insurance and real estate) to the current technology-led trend has forced office-using companies to update their employee attraction tactics. The current acronym for investors in office properties to know is STEM—which stands for science, technology, engineering and math. Office building owners and investors looking for the next wave of growth need look no further than industries such as health care and energy, job markets where STEM dominates. In the next few years, however, the chase for employees with those skills will become more frantic. The U.S. is faced with a coming labor gap as baby boomers begin to retire. For example, almost 55 percent of the energy industry's current workforce may retire over the next decade, affecting both the office and manufacturing sectors, according to a recent report from commercial real estate services firm JLL. Companies, as well as cities and town struggling to find economic traction following the recession, are now competing to attract STEM-educated employees. For example, on Wednesday, Baltimore leaders released a study showing that the city must focus on providing STEM training to its residents to meet the coming global need. The report, commissioned by the Greater Baltimore Committee and Associated Black Charities, features interviews with top business leaders who stress how STEM workers will boost the city's attractiveness to office space users. Government officials in other areas are also reporting great need for STEM workers. The Florida Department of Economic Opportunity recently reported that STEM job needs increased in the state from about 50,000 in March 2011 to almost 75,000 jobs in November 2015. The demand for these types of jobs shows in the staggering difference in pay scale. Workers with a STEM background typically earn about $58,504 on average annually, about 61 percent more than workers in non-STEM occupations with similar levels of education, according to the Baltimore study. Many college graduates with STEM degrees go on to earn six-figure salaries due to high demand. The way this trend affects the office sector is that these types of working have been showing they are not moving to where the jobs are, but instead want to choose where to live and have the jobs to come to them, says Lindsay Brown, co-leader of JLL's global oil & gas group. He's tracked the STEM trend as it has boosted the energy sector. Brown says companies need to recruit STEM-trained Millennials by expanding into markets where these workers want to live. "Twenty years ago, nobody went into energy jobs, it was all about the dot.com industry," Brown says. "Just in the past five to seven years, there's been this odd cycle where both energy and technology markets were in sync with growth, that doesn't usually happen. That's been a big economic driver." Many job analysts have bemoaned the advent of technology as it eliminated many jobs and crippled parts of the U.S. economy by layoffs due to automation. However, another study released in November by James Bessen, an economics professor at the Boston University School of Law, shows that these machines are creating more jobs than they are destroying. The new jobs of building and maintaining the machines, however, require the STEM skill sets, Bessen said in his report. Colleges have responded to the challenge with a 25 percent increase in computer science and engineering degrees since 2001, to 146,000 degrees in 2012, according to the U.S. Department of Education. Brown says office building owners and investors should focus on where the STEM talent is and build/own properties in those markets. "Expansion into STEM-educated, Millennial, talent-rich markets like Denver, Pittsburgh, Nashville and Austin is being driven by Canadian and U.S. companies alike," he says. "This is a great time to tackle the industry's pending talent shortfall. Companies have no choice—if they don't follow the STEM workers, they won't get good people." **(National Real Estate Investor/Robert Carr)**

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	CURRENT	1 MONTH PRIOR	1 YEAR PRIOR
FED TARGET RATE	.50	.25	.25
3 MONTH LIBOR	.62	.49	.25
PRIME RATE	3.50	3.25	3.25
10 YEAR TREASURY	2.13	2.22	2.02
30 YEAR TREASURY	2.91	2.98	2.60