Real estate investing has become globalized. To review recent history and discuss emerging trends, NYU Stern's Center for Real Estate Finance Research gathered leading industry figures on April 30. **Barry Blattman** of Brookfield Asset Management, **Brian Kim** of Blackstone, **Michael Levy** of Morgan Stanley, and **Adam Spies** of Eastdil Secured joined a panel, moderated by **Larry White** of NYU Stern.

International real estate investing has a long history. **Blattman** traced Brookfield's origins back to Brascan, a Canadian firm founded in the 1890s to own and operate infrastructure in Brazil. Brookfield entered the U.S. market in 1989, looking for a market larger than Canada. In the last 10 years, Brookfield expanded its holdings, acquiring a large part of the Canary Wharf complex in London as well as the Australian giant Multiplex. In all of its deals, **Blattman** stressed, Brookfield seeks to buy companies rather than properties in order to acquire local talent and expertise. It focuses on blue-chip properties and does not take significant leverage.

Blackstone's and Morgan Stanley's real estate businesses are more recent. Blackstone started in 1985. As **Kim** noted, its real estate group, one of 6-8 vertical businesses, is a global opportunistic investor in both equity and debt. Morgan Stanley entered the real estate business in 1991 in the aftermath of the Resolution Trust Corporation, **Levy** said. It remains an attractive investment as population growth, economic growth, and product obsolescence ensure strong demand fundamentals. Currently, it is both a core and an opportunistic investor, and one of the 15 largest real estate groups on the market.

While the first three speakers represent asset managers, **Spies'** Easdil Secured is a real estate investment bank. It monetizes real estate, finances transactions, and does both IPOs and buyouts. Currently, Easdil does a lot of distressed debt transactions, primarily in Ireland.

As the discussion turned to the U.S. market, Foreign Investment in Real Estate Property Act (FIRPTA) featured prominently. FIRPTA requires foreign investors in American real estate to pay U.S. income tax, sometimes leading to double taxation. **Blattman** cited the law as another reason for Brookfield's strategy of buying American real estate firms rather than property directly. **Spies** labeled it "painfully expensive" and the biggest constraint on foreign capital in the U.S. real estate market. Despite recent discussions in Congress, repeal is looking unlikely, and so many foreign investors either buy only debt or limit their equity to 49 percent.

Nevertheless, the outlook for the U.S. market is good, **Blattman** said. The quality of institutions and the rule of law are important considerations when owning real estate, and here the U.S. still leads the world. **Kim** noted that the U.S. is further along in the distressed cycle, and the current modest GDP growth of 1-2 percent is enough to fill buildings. Blackstone's domestic strategy is to buy income-producing assets. Fed policy has resulted in very low yields, **Levy** pointed out. In this environment, real estate remains attractive even with a 4-6 percent yield and liquidity as well as interest rate risks. **Levy** and **Spies** agree that investment is coming from sovereign wealth funds and foreign pension systems, such as Korea, Hong Kong, Singapore, Qatar, Kuwait, and Israel, as well as wealthy individuals from South America. According to **Spies**, foreign investors want to "cross the street as a herd," so as they team up, big deals are becoming easier to do. **Levy** also acknowledged the trend to pool capital from many high-net worth individuals.

The panelists were optimistic about Europe as well. **Blattman** described his outlook as "fantastic," while **Kim** noted a significant number of distressed debt opportunities. Like in the

U.S. three years ago, **Kim** said, European large financial institutions finally understand they need to deleverage. Capital markets are not functioning well, so many assets can be bought at a discount both with respect to prices paid several years ago, as well as with respect to replacement cost. **Levy** observed a rising European interest in Asian capital.

The Asian markets themselves can be categorized into developed and developing. Developed markets, such as Japan and Australia, are characterized by little supply and modest growth, according to **Kim**. **Blattman** agrees that the outlook for Australia is weaker than for other developed markets. In developing markets, **Kim** says, there are lots of opportunities because the fundamentals are strong and capital is far scarcer than a few years ago. For instance, 5 years ago investors rushed towards development in India because of strong fundamentals. During the crisis, many assets became distressed, but are still fully leased. Patient investors, like Blackstone, are buying.

Less than a decade ago, **White** challenged, investors were also optimistic about real estate, and their optimism turned out to be excessive. Today's environment poses challenges as well. The regulatory and tax costs of doing business worldwide are rising, **Levy** notes. Currency risk exists, and accessing global capital – a must for real estate investors – can be difficult. Pension plans are not growing, so it's important to tap high-net worth individuals and even defined contribution plans, despite the daily mark-to-market requirements. The importance of leverage in risk management proved to be controversial. **Blattman** advised against it, and cited lower levels of leverage today as a sign that the market is not overheating. **Kim** defended the use of leverage, on average 70% at Blackstone, when buying properties at a deep discount to replacement cost. Yet a strong capital structure is needed to avoid selling in downturns. But if forced to, **Spies** said, a seller can use a clause that will allow him to buy back in when IRRs get high again. **Levy** lauded the recent focus on risk management, but stressed that it is broader than just leverage. Fixed income markets move quickly, so interest rate risk can be significant. **Spies** agreed, attributing possible rate fluctuations to psychology. For a transactional firm such as Eastdil Secured, a drop in the number of deals is the biggest concern.