CAPITAL FLOWS AND REAL ESTATE

Presented to
ABA Section of International Law
2010 Spring Meeting
William Lie Zeckendorf

Co-Chairman of Zeckendorf Development, LLC

Co-Chairman of Brown Harris Stevens, LLC
and Halstead Property, LLC
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Co-Chairman of Brown Harris Stevens, LLC and Halstead Property, LLC
Co-Chairman of Zeckendorf Development

15 Central Park West
Co-Chairman of Zeckendorf Development

Total Sales of $2.5 Billion

Resales exceeding $8,000 / sq ft

15 Central Park West
Co-Chairman of Brown Harris Stevens and Halstead Property
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1500 Agents
Four States
International Affiliates
Cross Border Investments = 7.5%-16% of U.S. real estate investments
U.S. Real Estate Capital Flows

Exports $161 Billion
Imports $66 Billion

Net Capital Outflow of just under $100 Billion
U.K. - Imports almost 50% of its real estate investment capital

Manages at least 40% of its real estate capital
New York City Market
CROSS BORDER EQUITY FLOWS INTO THE USA
CAPITAL FLOWS

EQUITY  DEBT
Data Provided By:

- AEW in Boston
- Real Capital Analytics
- Jones Lang LaSalle
- Halstead Property & Brown Harris Stevens

Total Value - $884 Billion

Source: Real Capital Analytics
Foreign Investment in U.S. Real Estate – 2007-2009

Total Value - $66 Billion

Source: Real Capital Analytics

Total Value - $214 Billion

- UK: 55%
- Foreign Countries: 45%

Source: Real Capital Analytics
Another Study In 2009

16% of Transactions by volume in the U.S. were Cross Border

Compared to:

54% in U.K.

34% in France

12% in Germany

11% in Japan

Source: Jones Lang LaSalle
2009 U.S. Commercial Real Estate Transaction Volume

$216 Billion in 2005
To
$45 Billion in 2009
American Cities Garnering Foreign Investment

- New York City
- Washington DC
- Los Angeles
- Las Vegas
- Florida
Why is Foreign Investment So Low In the USA

1. FIRPTA or the *Foreign Investment in Real Property Tax Act*
2. Travel and Visa Restrictions
3. The Perception Gap
4. Real Estate is a Local Business
CASE STUDIES:

1. The Carlton House
   680 Madison Avenue

2. 340 Madison Avenue
The Carlton House
680 Madison Avenue
The Carlton House
680 Madison Avenue

First 200 Bidders:
Many were Overseas Investors

Next 20 Bidders:
Almost all were New York City Based Investors
The Carlton House
680 Madison Avenue

- NOI on Carlton House is approximately $4M
- Property traded on approximately $170M

2% Capitalization Rate

SHOWS THE STRENGTH OF THE MANHATTAN AND NEW YORK MARKETS
340 Madison Avenue
340 Madison Avenue

- Will trade close to $525M, or $700 per square foot
  - Three Final Bidders are all U.S. Life Insurance Companies & Pension Funds

*Under 5% Capitalization Rate*
CROSS BORDER EQUITY FLOWS OUT OF THE USA
U.S. Investment in Real Estate
By Location – 2007-2009

Total Value - $979 Billion

Source:
Real Capital Analytics
U.S. Investment in Foreign Real Estate By Location – 2007-2009

Total Value - $100 Billion

Source: Real Capital Analytics
Four Types of Real Estate Investment Strategies

1. Core & Core Plus
2. Opportunistic
3. Value Added
4. Listed Shares (REITS)
SUMMARY OF CROSS BORDER EQUITY FUNDS
Total Cross Border Lending

$3.6 Trillion

$450 Billion

2002

2006
Total Cross Border Lending

- Last Boom Cycle – 2002 to 2007
- European Banks played a critical role
- Europhypo, Deutsche Bank & Hypo led the way

Now they may have taken some heavy losses
Total Cross Border Lending “Forecast”

- 1-3 years for real estate debt markets to finish deleveraging real estate assets

- Much of new debt will go to refinancing existing properties

- New construction debt will be non-existent
FIRPTA Does Not Apply to Lenders

The United States remains wide open to continued cross border debt flows
THE NEW YORK MARKET AND PROSPECT FOR CROSS BORDER CAPITAL
Background on the New York Investment Climate

- Suffered since failure of Lehman Brothers in September 2008
- New York showing clear signs of recovery
- Downturn was much less than experts feared
NYC Average Annual Employment (thousands)

Source: NY State Department of Labor
Background on the New York Investment Climate

NYC Is Land Constrained

Amount of new construction relative to existing supply has remained smaller than most major cities around the world.
Five Potential Investment Components

1. Residential
2. Commercial
3. Retail
4. Hospitality
5. Development
1. Residential

Manhattan Quarterly Condominium Sales Average Price Per Square Foot

Source: Halstead Property, LLC and Brown Harris Stevens, LLC
1. Residential

Number of Manhattan Condominium Sales By Month

Source: Halstead Property, LLC and Brown Harris Stevens, LLC
2. Commercial

New York was the largest commercial transaction market in the world in 2007*

*Source: Real Capital Analytics
2. Commercial

In the 1st Quarter 2010: 5.7 Million Square Feet was leased in Manhattan

*Source: Cushman & Wakefield*
In the 1st Quarter 2010:
5.7 Million Square Feet
was leased in Manhattan

2. Commercial

UP 84%

From same period 1 year ago
### 3. Retail

Prime Retail Rents – 4th Quarter 2009

<table>
<thead>
<tr>
<th>Location</th>
<th>Rent Sq./Ft Yr</th>
<th>% Growth 1 Year</th>
<th>Short Term Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upper Fifth Ave.</td>
<td>$2,000</td>
<td>-8.3%</td>
<td>Down</td>
</tr>
<tr>
<td>Lower Fifth Ave.</td>
<td>$536</td>
<td>-27.9%</td>
<td>Down</td>
</tr>
<tr>
<td>Madison Ave.</td>
<td>$834</td>
<td>-21.1%</td>
<td>Down</td>
</tr>
<tr>
<td>Upper West Side</td>
<td>$298</td>
<td>-10.8%</td>
<td>Down</td>
</tr>
<tr>
<td>Soho</td>
<td>$258</td>
<td>-1.9%</td>
<td>Down</td>
</tr>
<tr>
<td>Times Square</td>
<td>$610</td>
<td>19.8%</td>
<td>Up</td>
</tr>
<tr>
<td>Third Avenue</td>
<td>$235</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Source: Cushman & Wakefield
4. Hospitality

Evidence suggests that starting in January 2010, the turnaround has begun.
5. Development

- Has come to a complete stop
- No Construction financing available
- German & Irish Banks out of the market
- Has left a void in Development lending market
Summary

Now could be an excellent time to consider investments in the U.S., especially New York City Real Estate.
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