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G. Miscellaneous Company Lectures

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James A. Graaskamp
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Remarks of Thomas J. Hynes, Jr.
Executive Vice President
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Boston is experiencing a whirlwind of development activity and urban vitality. Downtown, a record number of office towers approach completion as rents and demand are at an all-time high. In contrast, construction in the suburbs has been tempered by excess supply in some markets. Despite slow to moderate economic growth on a national basis, greater Boston's economy continued its strong performance in 1987. Financial, legal, and distribution services all expanded significantly during the past year. It was an extraordinary year colored by extreme caution caused by the jolt of October 19, when the financial markets sent out very clear signals that the twin deficits, budget and trade, must be reduced. Let's begin by taking a closer look at how the economy performed over the past twelve months.

According to the latest figures, the U.S. trade deficit was \$156 billion for 1987. The 1987 budget deficit was \$148 billion. Inflation is now at 4.4%. The prime rate is at 8.5%. More locally, nearly all of Massachusetts' primary industries experienced significant growth. With that has come the nation's second lowest unemployment rate of 2.3%.

Let's take a look at the Greater Boston Suburban markets. Slightly more than four million square feet were added to a suburban market base of 65 million square feet. Nearly three-quarters of that increase was office space.

In the Mass Pike/495 West Market, the overall vacancy rate dropped from 14.4% to 11%. Strides in the high tech field resulted in an impressive 8.5% drop in the R&D sector vacancy rate, to 7.9%. Net R&D absorption increased to one million square feet, due to the activity of firms like New England Telephone, McCormack & Dodge, and Digital Equipment Corporation. Digital alone leased one million square feet in Eastern Massachusetts during the past year. The company's influence on the Mass Pike/495 market goes far beyond sheer absorption. As Digital opens facilities in underdeveloped areas of Route 495, its presence often marks a town as a legitimate area for growth, fueling speculative development.

The office market performed best along Route 128 West, where the office vacancy rate dropped to 14.5%. New R&D construction continues to move west because of escalating land costs along Route 128, and a shift to office uses in this market. One reason this office market performed so well was its ability to attract companies from Boston, firms like Cabot

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Corporation, The Travelers, and Eastern Gas & Fuel Associates. Deal-making has been aggressive in a number of the towns along Route 128 West. In some cases free rent, increased tenant allowances and moving expenses are being offered.

In the Route 3,93 market, more than three million square feet of office and R&D space is proposed -- a sign of unprecedented optimism. Here as well as on the Mass Pike/495 market, the R&D vacancy rate dropped significantly -- from 22.9% to 17.6%. Net absorption for R&D came in at one million square feet.

The South Shore has the lowest combined vacancy rate among all of the suburban markets at 8.2%, while 1.1 million square feet were absorbed. This strong performance is attributed to the arrival of new projects at Batterymarch Park in Quincy, Blue Hills Office Park in Canton, and Marina Bay, Quincy; to improved access to public transportation; and to a solid labor pool. At 2%, Quincy has the lowest vacancy rate of all suburban cities and towns.

At this time last year, serious concerns were voiced over the health of the Cambridge office market. The vacancy rate stood at 20%, and there were 1.6 million square feet under construction. The skeptics have been silenced, however, as Cambridge matched its 1984 absorption high of 1.1 million square feet. And the vacancy rate dropped from 20% to 11.9%. If the Cambridge projects currently on the drawing boards are approved, the office supply will increase by 80%. A large part of this is University Park, with 1.9 million square feet of space planned.

Boston performed well beyond even the most astute observers' expectations in 1987. The vacancy rate was just 5.5%, by far the lowest of all major U.S. cities according to the Office Network's International report, this despite the delivery of 1.6 million square feet of new and rehabilitated space to the market. Asking rental rates have risen considerably to \$40 and \$30 for new and rehab space respectively, reflecting escalating land and development costs. All indicators point to this success continuing, as half of the space under construction is already preleased. Five Hundred Boylston comes on line in April entirely preleased. 125 Summer Street was 75% preleased before construction even began. On the other hand, 99 Summer Street was only 15% preleased when it was delivered, a clear indication that economics and location still govern the downtown office market.

Nine new office towers totaling 3,280,000 square feet will be delivered before the end of 1989. Law firms are expected to lease an estimated 40% of that space. Many major law firms are moving, or plan to move, to larger quarters in the next two or

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three years. Deals are being sweetened by generous concessions in the form of construction allowances, rent abatements, lease takeovers, and moving expenses.

Just as downtown Boston performed beyond expectations, so did the peripheral markets of North Station, South Station, the Leather District, Fort Point Channel and Charlestown. They have become increasingly viable alternatives for price-sensitive tenants that want to remain in Boston. Demand increased by one million square feet in 1987. The vacancy rate increased from 17.5% to 21.9%, a small increase considering the 57% growth in supply. The Leather District and North Station areas have the lowest vacancy rates of the Peripheral Markets, 6.1% and 6.6% respectively, in major part to the excellent mass transit service to both areas. During 1987 construction began on a new office building in the Leather District -- Trammel Crow's 745 Atlantic Avenue. 101 Merrimac Street, the first private office building to be built in the North Station Area in several decades, will start construction this spring.

In the past decade more than \$2 billion have been committed to Greater Boston highway and transportation projects, including such initiatives as the \$550 million Red Line extension, and the \$750 million Orange Line relocation. During 1987, the central artery project was approved, and preliminary construction began. This project alone, the largest in the state's history, will cost more than \$3 billion over the next 10 years. The impact of this work on Boston's traffic is probably the single greatest concern of downtown tenants. The fear is that the central artery project will put a stranglehold on downtown traffic for years to come. Its effect on traffic will be mitigated, however, as most of the construction will occur underground, thus keeping the six elevated lanes open.

With the addition of the World Trade Center and the recently opened, expanded Hynes Convention Center, Boston has truly become an international convention city. The Decworld computer show alone pumped an estimated \$50 million into the city during a nine day period last September. The new Hynes is the first step in the facelift of the entire Prudential Center Complex. Of the nearly 400 bookings already scheduled for the Hynes through the year 2011, 35% are groups coming to Boston for the first time, and 20% are groups from outside the U.S.

The occupancy rate for hotels in Downtown Boston in 1987 was 75%. That number will be bolstered this year by the opening of the Hynes. The average daily room rate in Metropolitan Boston increased from \$69 in 1982 to \$105 last year. This hotel boom is causing a spill-over demand into the suburbs. In Waltham, after no new hotel rooms were added for

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more than 10 years, two new hotels are now in the works, including the 350-room Vista International-Waltham Hotel at Prospect Hill Executive Office Park. Two new hotels are also expected to begin construction this year in Quincy.

On the horizon, the \$1 billion Fan Pier Project, the largest development ever planned for Boston, is bogged down in approvals and litigation. Equally of interest, the city anxiously awaits Mayor Flynn's decision on the fate of the Boston Garden. Two groups are competing to redevelop the site for office and residential use, along with a new or rehabilitated sports arena. An announcement is expected this spring.

Linkage as a public policy has been firmly established, and accepted as part of the Boston development process. Developers have committed \$43 million in funding to the Boston Housing Trust, which in turn is being directed to create affordable housing units for the city. To date, over 2,000 units have been subsidized by developer contributions. And in a new wrinkle, the City of Boston selected minority developer Columbia Plaza Associates, who in turn will soon choose a development partner, in the city's first major parcel-to-parcel linkage project. According to the plan, the team will simultaneously develop a mixed use project on the site of the Bedford Street Garage and one near the Orange Line's Ruggles Station. When the program, the first of its kind in the country, was first announced two years ago, some were skeptical that private developers would participate. This proved wrong, as there was strong interest by numerous major developers.

Looking ahead, the B.R.A. has over 30 projects in its planning pipeline, an indication that office supply, although controlled, will keep pace with demand. With due consideration for the economic clouds on the horizon, we look for a stable year ahead in the Greater Boston real estate market, and strong long-term prospects due in part to our diversified business base of financial services, high technology, defense, software, biotechnology, the non-profit sector, and our much envied quality of life.

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**Pre-recorded Remarks of Frederick P. Salvucci,
Secretary of Transportation of the Commonwealth;
John A. Pike, Partner at Ropes and Gray;
and Arthur H. Nelson, Developer of Prospect Hill
Executive Office Park.**

Salvucci: "What we're looking for is transportation systems with more capacity than what we have now so we can lay the groundwork for continued economic growth. I think the system works best if you take a larger view of it to try to figure out how the whole state benefits. The health of the Boston economy is directly related to the economic health of the rest of the state, so the artery and tunnel are in Boston, but they are really much more regional transportation facilities."

Pike: "There's no doubt in my mind you do have to address the Central Artery for the sake of both the business community and the retail part of the business community. The solution that Fred Salvucci has come up with - the re-building of the Central Artery - is very imaginative and absolutely necessary as a solution for the business community. Boston has the added advantage of a very good public transportation system, which makes a big difference."

Salvucci: "All of the investments that have been going on over the past decade and are continuing in improved public transportation are really essential to the kind of densities that we are getting in downtown Boston. And I think the continuing commitment to transit, and the commitment to do the Artery and Tunnel, are laying the groundwork for continued investment that I hope and expect is going to last well into the next century. The traffic realities are not going to be a picnic over the next ten years, but I think it's going to be manageable in the city and I28 is going to get worse than it is now. It's going to take a lot of creativity and working together to just hold the line and not see it get worse."

Nelson: "There's a limit to how much the roadway system can handle and one thing is quite clear - I28 is not going to be wide enough. It's almost impossible."

Salvucci: "The expansion and capacity has got to come from taking that pavement and using it much more efficiently."

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- Nelson: "There are some 28 different communities, different jurisdictions along 128 from north to south, rather than one governmental agency. It really does require some kind of regional overview, at least as to transportation. We and some other major employers have become pro-active on that issue. We have sponsored with the help of the Department of Public Works, and in cities and towns, long-term transportation studies ending in recommendations as to what can be done to make the transportation get no worse, and maybe even get better. Not just roadway improvements, but improvements in terms of staggering working hours, vanpooling, carpooling, public transportation to the area, all kinds of things."
- Salvucci: "We just got a bill through that'll provide a 30% tax credit to industries that provide vans for vanpools for their employees, and we're hoping that that will begin to change attitudes."
- Nelson: "We believe that in the '90's, the office parks as we know them today, have to become much more business communities; they have to be really thinking about the employee who works in the park, and about the quality of life at the workplace."
- Salvucci: "Arthur Nelson has been talking about trying to convince the zoning officials in Waltham to permit apartment or high-density housing in some of the industrial and commercial parks, which will start to reduce the intensity of demand on the highway system."
- Nelson: "So there are all kinds of creative ideas that are being thought about, and in a sense this is a laboratory out here for what can be done to solve the suburban transportation problem. It is a real case where public-private partnership is necessary."
- Pike: "You look at any major project around Boston, and it's clearly the product of a cooperation of a variety of groups."
- Nelson: "It goes into the business of not only planning, but of getting things done. The employer is doing some things that they can do, the State government is doing some things that it can do, the local government is doing some things that it can do. It's a win-win situation for everyone to work together."

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Pike: "And I think that ensures that if you set the right goals and you establish that kind of process, it will keep the city a healthy and interesting place to live."

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Remarks of George M. Lovejoy, Jr.
President
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Our subject today is the globalization of the U.S. real estate market. While scattered instances of significant foreign investment have been seen in our markets for many years, it is only in recent times that there have been major and continuing flows of foreign money into U.S. real estate. One reason is that until recently most foreign countries had little surplus capital as they were either busy rebuilding their country from the ravages of war or were only beginning to develop financial institutions and entities with international investment capital. In addition, it is only in recent years that modern communication systems have permitted the flow of information to facilitate long distance real estate investment. Improved and higher speed transportation has improved access to more distant investment opportunities.

Overseas investment in the U.S. has been accelerated both by the U.S. trade deficit and surplus capital building up in such countries as Japan and Canada. Prior to the current highly publicized Japanese entry in our markets, European investors (particularly British and Dutch) were active in U.S. real estate, especially in the northeast corridor.

Our country is considered relatively safe for a long term investor in terms of political stability. This makes us the usual destination of "flight capital." The devaluation of the dollar has made our real estate considerably cheaper. For instance, the relative change in value of the yen to the dollar in the last five years is equivalent to a discount of 45% and the last two years alone a discount of 36%. Also, many foreign countries have relaxed their restrictions on the outflow of investment capital.

It should be noted that real estate, unlike autos or electronic equipment, cannot be manufactured initially at home with low cost labor and then exported. An investment in an overseas real estate market requires a physical entry in that market and thus will generally come later than activity in the export market.

The U.S. real estate investment market is virtually the only one large enough to accommodate large amounts of investment capital. It also is served with a large established group of lawyers, accountants and real estate professionals readily accessible to the overseas investor. And finally, our real estate has been comparably less expensive than that in

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Europe or the developed Pacific basin countries. This has made offshore investors willing to pay top dollar for prime property, leading to rising prices and more owners willing to sell.

Foreign investment logically starts at a city of entry usually determined by geography but also by the compatibility a particular investor feels with a city. The Japanese logically started in Hawaii moving next to Los Angeles, and the British and Dutch started in Boston, New York and Washington, D.C. Decades ago, domestic institutions likewise started with prime, conservative real estate investments, and then spread to other cities. Similarly, overseas investors have started with primarily office and hotel properties with well established income streams and located in our first tier cities.

The most visible foreign investor in the U.S. today is Japan. If you look at figures showing foreign investment in U.S. markets for the last three years, you observe a shift in dominance from British and Canadian investors to the Japanese. The former in 1984 were almost half of foreign investment and the Japanese alone today are almost two thirds of a greatly increased inflow of foreign capital. As has been well publicized, they own 50% of the downtown first-class office market in Los Angeles and over 80% of the Honolulu Hotel market. In Japan, property yields are as low as 2-3% and property is held for generations. With our higher yields, faster property turnover rate, and falling dollar, it is not surprising that their real estate investment capital flows here at an accelerating rate.

Our market is a finite one and is well known to be overbuilt in many areas. If the economic factors I have noted continue such that foreign real estate investment capital continues to flow to the U.S., inevitably such capital will be forced to other markets, both suburban and the smaller cities. In fact, there is evidence of this in the recent sales by Metropolitan Life to eight Japanese institutional investors of six small office properties in six cities and suburbs. Also, one would expect to see more joint ventures with some development risk and ultimately direct development ventures. The Canadians are a good example of this progression.

What does all this mean to Boston?

A recent Cushman & Wakefield study identified Boston as the number one target for U.S. investment by Japanese. To date foreign investment in Boston real estate has not been large. Some major transactions are the purchase of 265 Franklin Street by Shuwa in 1986, the financing of 100 Federal Street (Bank of Boston building) by a Japanese consortium, the financing of the Ritz Carlton by Shuwa Bank Ltd., the purchase of Technology

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Square by Aszhi International, the purchase of One Washington Mall by Mitsui America Corporation, and the purchase of Burlington Business Center I by Sumitomo Life. Also, Japanese financing has been used at 75 State Street and Rowes Wharf and was reportedly available for the proposed Fan Pier Development.

Our market continues to be attractive to the traditional European investors. If in addition we are the number one target for the Japanese (inevitably followed by other Pacific Basin investors), it means a lot of capital will be seeking property in what is a relatively small real estate market. In my opinion it means rising prices for prime property and it means crowding out of domestic buyers of prime property.

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Remarks of
James A. Graaskamp, Ph.D., Chairman,
Real Estate and Urban Land Economics
University of Wisconsin, Madison

Before I begin on today's subject of globalization of real estate, permit me one comment on Tom Hynes' remarks, and that's the issue of transportation congestion and the threat it puts on central urban real estate values. The congestion itself is an obvious problem, and the spill-over is a change in the mind-set of younger people, where we see more and more unwillingness to put up with a one hour each way commute. Smaller cities, like my own of Madison, are becoming increasingly attractive, with affordable housing, access anywhere in the city in less than ten minutes, strong public education systems, and lower crime rates. As this continues, it should cap some of the values in currently-attractive major urban markets, and lead investors to the third and fourth tier cities.

On the subject of globalization, probably the most significant change over the last few years is that interest rates are now controlled overseas. In the last Treasury note offering, some 40% was carried by Japanese and German bankers who had great liquidity in this country as a result of trade deficits. One of the financial journals has even gone so far as to suggest that the Japanese and German interests could have a significant influence on the next elections here, simply by varying their level of enthusiasm for the next major Treasury issue: if lukewarm in their support, rates would very likely rise, tending to help the Democrats.

The absence of an energy policy in the United States significantly erodes the possibility of reducing the foreign deficit in the long run. It doesn't take much of a flare-up in the Persian Gulf to change the price of oil, and as a result change the deficit. With such a significant deficit, we must expect a further fall in the dollar, and many economists are suggesting a further fall of 15% to 30% before the desired return to manufacturing will begin to appear in the United States. Mr. Thurow and his students across the Charles River point out that some 55% of the goods on our department store shelves are currently imported, and that will have to change. Retail real estate will be adversely affected in the long run.

The inability to control deficits because of our political polarity and the self-serving regionalism of our Congress is also going to affect interest rates in the not-so-long run.

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Henry Kaufman is predicting 11.5% in the third or fourth quarter of this year, and all of you know what that means in terms of value adjustments and the flow of investment capital. Unfortunately a lot of the money coming into real estate isn't in love with the property, but rather is a good asset play where people doubt the soundness of the dollar.

Let's pause just a moment to put foreign inflows into some sort of perspective. We tend to look at landmark transactions and generalize. But the best year for Japanese investment is about equal to the average direct and indirect investment of a Prudential, or an Equitable, or a Metropolitan. Certainly Boston and New York and Los Angeles have benefitted initially, largely because they are the cities which have been most widely publicized by our movies, our television, and by the tourist trade. Remember that many Japanese purchases are being retailed back to Japanese investors in conglomerates, not unlike our syndications, and the appeal of well-known, readily identifiable locales is critical to maintaining confidence back home. Foreign investors are beginning to move to the hinterlands in search of higher returns in markets not quite so superheated, but it will probably take a while to educate investors at home.

The conventional wisdom today is that money returns are so low in Japan and Germany that they have to come to the United States to get a suitable return. I submit, however, that a 2.5% prime in Japan versus an 8.5% rate in the United States is simply a statement of the relative confidence in the integrity of the currency. The Japanese are willing to postpone acquisition of an asset and retain cash (and they save around 22% of their income!) because they trust the purchasing power of their currency. In places where rates are higher, there generally is lack of political will to control inflation and currency value, and the saver has more faith in goods than in money.

Let me mention one other item that affects our prime rate in this country. I believe it has been artificially supported to help amortize the tremendous losses of our bank portfolios in foreign loans and real estate loans. The hideous state of losses in both FSLIC and FDIC relative to real estate is yet to be fully appreciated, and if we are to keep our banking system afloat, we will need artificially high interest rates to amortize the losses for some time to come. Rules controlling bank credit for real estate and the appraisal of real estate will be far more strict. Moreover, the real estate industry will spend much political energy trying to prevent government agencies from dumping real estate portfolios acquired from troubled lenders.

Until very recently, United States real estate has been relatively insulated from international competitive pressures because, as George Lovejoy pointed out, you can't build an

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office building with cheap foreign labor and then import it into this country. But the Japanese are now going the other way: They are building their auto plants in California with Korean and Japanese labor. They arrived, bought a hotel, and imported both construction workers and engineers. As Lester Thurow has pointed out, we have a negative trade balance in both the software and the hardware of our industrial society.

Real estate has been very much hurt in areas where high labor costs mean major reductions in manufacturing employment and agricultural profitability. A falling exchange value will first benefit manufacturing. Possibly the Rustbelt will benefit but union labor rules may discourage an increase in industrial real estate. We have relatively low-priced and low-skilled labor, like the Southwest, where they still have the ability to pull labor from across the border. It will be interesting to see if they really enforce the new immigration law, and what effect that will have on the competitive advantage of industrial real estate in the Southwest. One has the feeling that Washington isn't really very serious about the new law, and that, if at all, it will be applied selectively for political or racial purposes.

Presidential candidate Paul Simon points out that at the moment the United States isn't helping itself very much, that last year we spent \$127 billion simply to structure totally unproductive mergers, lease buyouts, and so on, all of which converted submerged assets to cash but produced nothing. Some writers see this type of paper capitalism as a significant erosion of our national economic power relative to foreign competitors. My suspicion is that in the long term, we will move to some sort of capital rationing program, some kind of a planned economy with an eye toward enhancing our productive position and remedying social deficiencies. How these incentives will be created remains to be seen, but I suspect it will start with further constraints for banks on their construction lending, either through the appraisal process or through outright regulation of portfolio allocations. We simply cannot continue to have situations where the savings and loan industry can report losses of \$25 billion!

The total impact of foreign investment in United States real estate is quite small, something like 1% of the total value of investment real estate and 2% of our farmland. Foreign purchases have been concentrated in a few market areas, however, so that the impact on price has been at the margin rather than on the average. Appraisers and assessors are getting confused by these transactions, misfiring in their extrapolations as to what the other buildings not yet bought by foreign investors are worth. In particular, assessors seize on these relatively few transactions to shift the incidence of taxation toward the investment sector in order to inflate revenues. I recently completed a study for the Cook County

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assessor in Chicago, necessitated by the school board suing the assessor for not using several of the syndicator and foreign capital purchases as direct comparables for the balance of the investment inventory in the Loop. The school board wanted the millions of additional assessment value. It took me a while to try to explain that one sale doesn't make a market, and that foreign investors weren't valuing income streams the same way domestic owners do.

A new trend by foreign investors is the purchase of, rather than discrete real estate, companies that are asset-backed. It was interesting to note that a few days after the October crash, a couple of the more prominent off-shore investors moved in and acquired major positions in companies with significantly understated asset bases, companies that are potentially real estate development companies and real estate investment trusts, taking advantage of the price declines. I think you will see more of that from foreign investors, who begin to perceive their move in real estate as much a currency play as an asset play.

One of the major elements that the Northeast has going for it, as does Texas and Southern California, has nothing to do with your culture or your costs. It has to do with your political sophistication and your ability to exploit congressional capacity to divert national resources to your regions. If you can get Dukakis into office, you may be able to continue the discretionary defense spending that's been a big part of the Northeast "miracle." In the absence of such good fortune, the basics of housing cost, life quality, and employment opportunities will work against the northeast economy. Our statistics show a much better relationship of wages, education and a pool of underutilized labor and craftsmanship in the third and fourth tier cities, the hinterlands, if you will. Capital will follow the migration and jobs to these areas, and foreign investment will be very quick to follow up on that, now that they have gone through their first generation of learning curve about United States real estate.

Some of the reasons that foreign investors want to invest in the United States have nothing to do with the rate of return. They want green cards and they want construction contracts. They will be increasingly willing to become joint venture partners or a financing source in order to get the construction contacts and the attendant ability to repatriate dollars as well as skills back home.

With the change in our tax law, one would think it would become advantageous for international investors to own real estate directly, rather than through corporations and other

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vehicles, since the maximum individual tax rate of 28% is less than the corporate rate. There are however, three major disadvantages to individual direct ownership. First, the investor would have to give up anonymity, something many of them would not want to do. Second, property that is directly owned by individuals is subject to estate and gift taxation, a significant factor to the wealthy foreign. And third, the individuals would be exposed to far more legal liability than they prefer, since American juries are much more likely to be unkind to wealthy foreign defendants in a court action than they would perhaps be to Americans. The alternative is very likely to be indirect ownership through a United States corporation. And for a number of tax and structural reasons, the foreign investor corporation is generally going to be better off owning the property for a finite period of time, then liquidating and taking the proceeds out all at one time. This suggests more churning by the foreigners even though their tradition has been to hold property for a relatively longer period than most American investors. And earnings can be repatriated by selling corporate stock.

Sale proceeds will still be subject to taxation at the individual or corporate rate, but if recognized through sale of stock, would not be subject to the branch profit or dividend withholding tax. If the United States corporation they use is not a "Real Property Holding Company" (i.e., a company with 51% assets in real estate), then the international investor can avoid United States taxation entirely. This means you will see a great deal of foreign interest in corporations which deliberately merge trades or businesses which are non-real estate with real estate assets to pass that qualifying test. In the absence of such subtleties, given the complexities of taxation and repatriation, I believe we will see more interest in REIT shares. They become a very attractive means of diversification, quality, and stability, and in addition have a very low cost of search and acquisition, as well as eliminating the double-taxation aspect of most dividends. Certainly the cost of setting up and maintaining the rather elaborate ownership structure for direct investments is a lot higher than in REIT-type investment vehicles.

The tax and repatriation issues may also elicit continued creativity to distinguish dividends from interest on capital account transactions. The old French plan may become once again a popular method of investment, using a common stock, a preferred stock, and a bond, such that every \$1,000 of investment might have a \$750 mortgage on which you get interest and, if there was any cash flow left, some principal amortization; a preferred dividend if there was any money to pay it, with the preferred stock callable at a fixed value

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after the debt was paid off; and finally common stock which was essentially valueless, and could be traded or gifted without significant tax consequences. After the mortgage is paid off, the preferred stock is called, and then all of the value created goes to the owner of the common stock.

There are a great many other structuring devices that are appropriate to the foreign investor, but the main suggestion I would like to leave with you is that the press is focussing currently on the high silhouette and somewhat surprising investments by a few foreign groups in the highest buildings on the skyline in major urban areas. I believe that the choice of buildings that foreigners can afford to buy is extremely limited, and that the gradual shift of the prime real estate to pensions and other institutional holders of real estate means that the transactional opportunities in the major first-tier cities will decline. The capital will therefore search the hinterlands, and investments there will be facilitated by structures like REITs, by something like the French Plan, or by joint venture ownership of regional development companies.