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# COMMERCIAL REAL ESTATE MARKET UPDATE

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**Inflation Is Back (Sort Of) – Is Commercial Real Estate an Inflation Hedge in The 'New Normal'?**
通貨膨脹似乎又回來了-商業地產是這股"新常態"中的抗衡？
By: David Pascale, Contributor

In the aftermath of the Great Recession, the worldwide central banks (U.S. Federal Reserve, ECB, etc.) have embarked on an unprecedented economic stimulus. Measures have included years of zero interest rates and massive purchases of government, mortgage and corporate bonds on a heretofore unseen scale. The goals of the bankers were to stimulate economic growth, employment, wages and importantly, bring back inflation. For years, prices barely moved as economies were flooded with cheap money. Central bankers were very concerned about deflation. This dynamic would have been unthinkable in the pre-Recession era. Hence the term "the new normal" was coined by renowned economist Mohammed El-Arian to describe the post crisis era.

Recent data indicates that inflation is finally making a comeback. The Federal Reserve's preferred indicator (PCE) is at their long stated goal of 2.0%. Oil prices are firming up above $70 per barrel after dropping to $40 in recent years. Construction costs are spiking due to labor shortages and price increases for lumber and other raw materials. But this isn't "classic inflation," it's different than the pre-crisis inflation. It's more fragmented, less secular and seemingly not as robust (2% as opposed to 5-9%). As commodities rise, prices for products are not increasing accordingly. Reasons for this include the dramatic rise in information technology as consumers have unprecedented access to competitive prices via smart phones and computers. Does anyone remember reviewing ads in the printed newspaper and calling different stores for prices? Companies like Amazon are cutting margins to the bone for the sake of volume and market share. Wall Street and the investment community is rewarding this strategy.

For many years, investors viewed commercial real estate as an inflation hedge. As prices and wages rose, so did rents and therefore values. Many commercial leases have "bumps" tied to the commercial price index. Now that inflation is back, are we going back to the "old normal"? Or will it be different this time?

Commercial real estate values are typically based upon net income and a market capitalization rate. Rents, expenses (and therefore net income) should rise with inflation, normally. Net incomes may not increase in near lock step with inflation. Expenses may increase more rapidly than income. For example, many retail tenants are being squeezed by competition with online sellers. They may not be able to afford increasing rental rates, especially considering supply/demand dynamics as store closures continue. Apartment rents are rising but are ultimately tied to wage growth: uneven inflation (higher commodity prices with slower wage growth) may constrain rental increases. However, expenses may increase more rapidly than rents. The return of inflation is causing the Fed to increase short term interest rates, indirectly affecting long term rates as Treasury yields are spiking. Increases in the cost of capital usually result in higher capitalization rates and therefore may counteract any increases in income.

The "new normal" and its aftermath (the "new new normal" or a return to the "old normal") is definitely uncharted territory. The old rules may not apply. "New inflation" seems fragmented thus far. Inflation protection will depend on individual property and market specifics. Regardless, there are many other attractive features to owning commercial real estate: including tax benefits (depreciation, pass through income, etc.), having a tangible asset within an investor's control (as opposed to stocks and other securities), highly liquid







capital markets for financing, etc. Going forward, it will be interesting to see how this plays out in the marketplace for investors.





**Why Office Landlords Need to Increase Creativity**
為什麼辦公室物業的房東需要增加創造力
By: Alexandra Pacurar, Commercial Property Executive

Gemini Rosemont Commercial Real Estate added John Meehan as its new chief operating officer in January. A former capital markets director at Douglas Emmett, Meehan is responsible for corporate transactions, and providing financing and multidisciplinary leadership for the office investment platform. Gemini Rosemont's COO revealed his take on the latest trends and challenges in the office sector, and what it takes to provide tenant satisfaction in 2018.

**How do you see the office market today? What are the main trends in the sector?**

**Meehan:** Office fundamentals are still strong, led by the growing economy and positive employment numbers. Right now, we're seeing a competitive acquisition environment for gateway and select secondary market properties that meet our investor mandate. Gemini Rosemont is right in the mix, tapping into our 25 years of experience in the office sector to make aggressive offers on qualifying properties.

**What about the challenges?**

**Meehan:** Interest rates are always something to keep an eye on from an investment perspective. It impacts the cost of borrowing and determining targeted investment returns. We stay in close contact with our diverse base of lender and brokerage relationships to stay ahead of coming changes in the borrowing and investment market. We have to work with the current rates no matter what they are, so we adjust accordingly. You can't change where the market is headed, but you can definitely be prepared.

**In recent years, demand has increased for office properties located in urban markets, particularly in downtown areas. How do you see this trend going forward?**

**Meehan:** We expect this trend to continue in the CBD areas. Office users want to be close to walkable amenities and public transportation. In fact, we expect this trend to extend into the suburban market where there are established urban nodes that exhibit the same aspect of the CBDs, especially housing, walkable amenities and access to public transportation.

**What can you tell us about the suburban office markets?**

Meehan: While the focus has recently been on the urban renaissance, young people will by and large follow the path of marriage and a desire for a house with a yard. The suburban markets will always have a good employee base and right now there are probably some better long-term values to be found in certain suburban markets. We have a long, successful history in these markets and while we don't want to discount the trend towards live-work-play CBDs, we recognize that well-located suburban markets are alive and well.

**Could you list a few hot U.S. markets for office properties in 2018?**

**Meehan:** We are focused on coastal gateway cities, including Seattle, San Francisco and Los Angeles on the West Coast, and New York and Boston on the East Coast, along with some select secondary markets. These markets fit within the characteristics we are targeting: technology tenant base, strong employment and institutional-quality properties.

**How did the needs of office tenants change over the past few years?**

**Meehan:** People have changed the way they use office space and the needs will continue to evolve to meet the priorities of the workforce. There are more interactive social spaces, from an open kitchen for a small tenant to full living room and hotel-style amenities for larger tenants. Building common areas and other amenities are more of a focus now than just an afterthought. With more people moving into smaller, more flexible spaces, landlords have to be more creative and hands-on to deliver tenant satisfaction and investor returns.

**What are your expectations for the office sector this year?**

**Meehan:** We expect another positive year in 2018. Fundamentals are still good with rising rents and increasing occupancy. The coastal gateway markets we are focused on look to remain strong in the coming years. This is largely driven by the continued growth in employment from technology and creative tenants.

**What are your goals in your new role at Gemini Rosemont?**

**Meehan:** We have a mandate to aggressively grow our assets under management over the next few years. My role is to support the acquisition, financing and capital teams…With strong financial backing from our Hong Kong partners and the assets we currently have under management, we're poised to achieve this goal.

**Why Foreign Investors Love U.S. Commercial Real Estate, and Why More Will Follow**
為什麼外國投資者喜歡美國的商業地產，為什麼還會有更多的追隨者
By: Evan Gentry, Forbes Councils

Despite fears of trade wars and increased protectionism, foreign investment in the United States remains robust. In fact, the U.S. continues to be the single largest recipient of foreign direct investment (FDI) in the world: more than $450 billion was pumped into the U.S. economy from other countries in 2016, according to the Bureau of Economic Analysis at the Department of Commerce.

A significant amount of this capital is flowing to commercial real estate (CRE), which continues to be the sector of choice for many foreign investors. International investors have purchased more than $365 billion in U.S. CRE since 2010, with the majority of capital flowing to the largest metropolitan regions. Manhattan alone represented nearly a fifth of all foreign investment in U.S. CRE in 2017, greater than the next three markets combined.

These inflows to the sector may only be the beginning. A growing U.S. economy should continue to drive more demand for commercial property.

**Why is there so much interest in U.S. commercial real estate?**

Real estate has long played an integral role in global investors' portfolios, but recently U.S. CRE has separated itself from other subsectors within the class. From a top-down perspective, the U.S. market, which has largely recovered from the financial crisis and is fueled by strong job creation and business expansion, is viewed as stable. The market compares favorably to regions such as Europe, where the economic turmoil caused by Brexit has turned off many would-be investors.

From a micro perspective, U.S. CRE offers the potential for higher returns relative to the modest prime capitalization rates in London and parts of Asia. At the same time, the U.S. market is renowned for its scale and liquidity, providing foreign investors the flexibility to exit their investments if they decide to invest their capital elsewhere.

**Where are the best investment opportunities in CRE?**

Much of the focus in the CRE industry from an FDI perspective is on big-ticket transactions in major cities. However, the best investment opportunities may actually be in suburban markets or in second-tier cities where there is more room for growth. For example, instead of focusing on the Los Angeles market, foreign investors may be better served looking at the nearby Long Beach area, which offers many of the same benefits as LA yet is more competitively priced. These tier II communities offer CRE opportunities beyond the traditional skyscrapers, which may be too large of an investment for some foreign buyers. These smaller markets are ripe with assets like four-story office buildings that offer an attractive risk-return profile in today's low yield environment.

As should any investor, foreign buyers should conduct thorough due diligence prior to pursuing a deal. The U.S. CRE market is highly segmented with varied risk-return profiles for different types of commercial properties in different cities. A retail building in Topeka, Kansas, comes with a set of risk characteristics that differs greatly

from a retail building in Brooklyn, New York. Foreign investors without the resources to thoroughly evaluate these properties should work through a broker or financial advisor who has boots on the ground and understands the local markets.

From an asset class perspective, international investors should also think about whether to invest in CRE debt or CRE equity. Given that U.S. real estate prices have mostly returned to pre-crisis levels, there is growing concern that the current real estate cycle may be near a peak. Within this environment, CRE debt may provide a safer investment option for foreign investors because they would be better protected in the event that prices fall.

**Where should we expect foreign investment to come from in the future?**

According to an analysis of foreign investment in CRE in 2016 by the National Association of Realtors (NAR), 47% of realtors queried said they experienced an increase in their number of international clients over the past five years, and 40% said they expected international buying activity to increase in 2017.

Most FDI in the U.S. in 2016 (the most recent year for which data is available) came from the world's largest economies, including the U.K. ($598.3 billion), Canada ($453.6 billion), Japan ($424.3 billion) and Germany ($372.8 billion). Further down the list of foreign investors was China, with $58.2 billion invested. But when it comes to CRE, China is the clear leader, representing 17% of all foreign CRE buyers in 2016, more than neighbors Mexico (14%) and Canada (7%), as well as the UK (7%). We can expect that China and other developed countries will continue to drive this trend as they seek to invest in burgeoning U.S. metropolitan markets that offer less volatility and attractive risk-reward profiles compared to their domestic markets.

Indeed, many of the biggest CRE deals ever involve China, including the $2.21 billion purchase of 245 Park Avenue by HNA Group in 2017 and the $1.95 billion acquisition of the Waldorf Astoria hotel by Anbang Insurance Group in 2014. These types of deals are indicative of a larger trend of foreign investors entering the U.S. market via the CRE sector, with Chinese investors among those able to write the largest checks.

South Korean institutional investors are also active buyers of U.S. CRE, particularly real estate debt. According to data from Preqin, South Korea (subscription required) represented 21% of all foreign investment in U.S. real estate debt as of mid-April, significantly more than China (12%) and Australia (11%).

All this foreign money invested in U.S. CRE is ultimately a boon to the U.S. economy. While individual consumers and businesses may fret about raised rents and higher prices, the overall health and diversity of the U.S. CRE market means that there will be plenty of capital to go around.

**CRE Defies Rising Tide of Global Debt Levels**
商業物業無視全球債務水平的上升趨勢
By: Beth Mattson-Teig, National Real Estate Investor

The International Monetary Fund (IMF) has been sounding warning bells about the high levels of global debt. But U.S. commercial real estate has been defying that trend, which could make the sector even more attractive as a "safe haven" for global capital.

The financial crisis exposed the risks of high-leverage commercial real estate debt strategies. Many owners worked to restructure debt and lower leverage across portfolios as property values plummeted. REITs in particular ratcheted back on leverage as ratings agencies adopted a tougher stance on debt levels. Nearly a decade after the financial crisis—and a prolonged period of exceptionally interest rates—commercial real estate companies continue to operate in a lower leverage environment.

A recent CBRE report noted that loan-to-value (LTV) ratios on permanent, fixed-rate financing are now averaging nearly 60 percent, more than 15 basis points below the 2007 average of 75.3 percent. The report also cited NCREIF data that shows a similar trend with debt-to-market value at 41 percent compared to an average of 48 percent in 2007.

The more conservative climate is a stark contrast compared to high global corporate and government debt levels. The IMF has noted its concern for high debt levels and the risk that might pose in the event of a downturn. According to the IMF, global debt hit a new record high of $164 trillion in 2016, which is the equivalent of 225 percent of global GDP—12 percent higher than the previous high set in 2009. Of that $164 trillion, 63 percent is non-financial private sector debt and 37 percent is public sector debt.

**LTVs remain conservative**

In a market where debt remains cheap and plentiful, the continued conservative streak in the commercial real estate sector may be a sign of lessons learned in the last downturn. Banks have also been more conservative on lending due to tighter regulatory scrutiny, especially as it relates to construction loans.

"The most important factor is the amount of equity that has been available in the marketplace. There simply hasn't been the need to gear up quite as much as in previous cycles," says Richard Barkham, global chief economist for CBRE. Low bond rates have helped to funnel more institutional capital into real estate. "There is ample equity out there and our view is that that will continue," he adds.

Debt levels are lower as compared to the last cycle, but leverage is also different across property types, adds Jeff Erxleben, executive vice president and regional managing director at financial services provider NorthMarq Capital. "Retail is one where deleveraging continues to occur because the availability of debt capital that is interested in going into retail is more limited," he says. At the other end of the spectrum, leverage is beginning to move higher in the industrial sector and some areas within multifamily. Borrowers are finding non-bank lenders that are willing to be creative and provide more capital, Erxleben notes.

Specific to multifamily construction loans, for example, leverage is still fairly low compared to historical levels. Most construction loans are typically being done at 60 to 65 percent leverage. “When you see specific lenders stepping out to do perhaps 75 or 80 percent and charging a premium to do that, and doing it non-recourse, that’s where I’m starting to see leverage creep up a little bit,” says Erxleben. There are also a lot of bridge lenders out there and they have continued to push the envelope in terms of lower debt coverage ratios, which often results in higher leverage, he adds.

**Equity levels support solid foundation**

There could be some modest moves in leverage levels ahead, but nothing on the horizon suggests that leverage will make a big move either up or down. The impact of rising interest rates on debt strategies will likely vary depending on individual borrowers. Some groups will opt to lever up with other forms of debt, such as mezzanine financing or preferred equity, as equity requirements rise from senior lenders due to higher interest rates. Other borrowers will be more prone to drop LTVs, especially if cap rates don’t go up, says Erxleben.

The lower leverage climate bodes well for a commercial real estate industry that many believe is in the later stages of its expansion cycle. More conservative debt levels should keep commercial real estate on a more solid footing to weather a downturn when it does occur.

Owners that over-leverage can be prone to distressed sales in a downturn, which negatively impacts real estate values across the broader market. “Our point is that we probably won’t see that in the next downturn,” says Barkham. Downturns are always volatile, but real estate might be a safe haven, because investors won’t have to make the fire sales that they did in previous cycles, he says.

**The Return of the Brick-and-Mortar Store**
實體化商店的捲土重來
By: Conor Sen, Bloomberg

As Amazon remains seemingly unstoppable and the struggles of physical retailers like Toys "R" Us continue to make headlines, two trends in retail seem irrefutable: E-commerce will only get bigger, and physical retail needs to figure out how to reinvent itself. But some of the economic pressures facing both industries are changing the value equation. For the first time since the dawn of e-commerce, physical retail might find itself with some cost advantages over e-commerce firms — especially those not named Amazon.

The march of e-commerce has certainly looked inexorable. As a percentage of total retail sales, it matched its all-time high of 9.1 percent in the fourth quarter of 2017, and gained share on a year-over-year basis at its fastest rate ever. At current growth rates e-commerce will be 10 percent of retail sales in 2018, and 15 percent by the middle of next decade.

For consumers, ordering things online is often more convenient, faster and cheaper than buying in stores. But a look at trends in the costs involved in running a physical store versus an e-commerce site throws that "cheaper" part into question. The future of e-commerce might be "more convenient but more expensive," which is a different value proposition entirely.

The biggest shift going on between e-commerce and physical retail is how their "rents" are changing. Physical retail, you may have heard, is struggling, and in many locations vacancy rates are increasing and rents are falling. This is bad news if you own a strip mall but good news if you're a current or prospective physical retailer: If rents are falling, your costs are going down. It makes existing retailers more profitable and creates opportunities for new retailers.

An example of this, as the Wall Street Journal recently reported, is Bleecker Street in Manhattan. As retail vacancies have increased, property values have fallen, allowing opportunistic buyers the chance to come in at a cheaper price and offer cheaper rents.

Wait a minute, you might say, the beauty of e-commerce is that you don't need an expensive storefront in the West Village. You can run your website out of a warehouse in Cincinnati. That may be true, but you still need buyers, and for most e-tailers that means paying for advertising on Google or Facebook. Instead of acquiring your customers via a well-located retail property with high rents, you're buying them via online advertisers. It's essentially the same thing as paying for rent. In the first six months of 2017 alone, ad rates on Facebook are said to have more than doubled. A glance at Facebook's quarterly earnings shows that in North America, user growth has just about flatlined while revenue per user continues to surge, implying that the cost of reaching users is rising at a rapid rate.

The other challenge facing e-commerce firms, which is a broader challenge in the economy right now, is the rising cost of shipping. UPS is adjusting its business model, including raising rates, because shipping to home consumers isn't as efficient as shipping to businesses. Higher shipping costs are plaguing Amazon as well, which is one of the reasons it's raising pricing for Amazon Prime membership by 20 percent in May.

Given these trends, the future of the relative cost advantage between e-commerce and physical retail is looking less clear. For much of physical retail, there's the prospect of falling rents, making running a brick-and-mortar store more viable. For e-commerce, it's a surge in ad rates, or customer acquisition costs, plus shipping bottlenecks that will make "free shipping" more onerous to offer. And profit margins on an e-commerce sale were lower than the profit margin on an equivalent brick and mortar sale to begin with. All of this is happening when e-commerce is only around 10 percent of total retail sales. Presumably, these challenges will be even greater as that share grows.

It's possible e-commerce firms can innovate their way out of their situation. Maybe they find a way to acquire customers more cheaply or more efficiently, maybe by sidestepping Facebook and Google somehow. The shipping situation looks like a harder limit, but maybe someone can figure out a solution there as well (delivery to lockers like Amazon uses is one model for saving on delivery cost).

Regardless, the current trend seems unsustainable. Over the next few years as physical retail looks less daunting, and e-commerce more so, look for a renewed focus on brick and mortar.

**Fundamentals Flourish in LA**
基礎建設在洛杉磯蓬勃發展
By: Adriana Pop, Commercial Property Executive

Amid a supply surge that began in 2016 and continued through 2017, rent growth has been decelerating in Los Angeles, in line with the national trend. Demand continues to be strong across the metro, sustained by robust hiring and population gains.

Job growth in 2017 was highest in education and health services, information, and professional and business services. The tech industry, which has been one of the main drivers of the metro's economic growth in recent years, has contributed to job creation in other sectors, most notably office-using industries. Employment in these segments generated a boom in office developments, with completions reaching a post-recession high of 2.3 million square feet in 2017. Multifamily construction is also up, pushing job gains further while nudging occupancy down to 96.7 percent as of January 2018.

Increased investor interest in area communities is driving property values to new highs, while keeping acquisition yields at nationwide lows. This year, more than 12,000 units are scheduled to come online in and around the city core. And since most of these units cater to Lifestyle renters while single-family homes remain out of reach for many residents, demand for workforce apartments should stay high, contributing to an overall rent hike of 4.7 percent in 2018.

**Four Ways to Take Care of Multifamily Investors**
四種方式來照顧複合型物業的投資者
By: Steve Meyer, National Real Estate Investor

**When you're an apartment owner and operator**, you have several constituencies to take good care of.

First, there are the prospects. Owner/operators spend a considerable amount of time developing marketing campaigns to attract potential residents and training their on-site staff to provide the kinds of tours and customer service that will convince prospects to sign leases.

Then, of course, there are your current residents. Resident retention depends in large part on how your teams treat renters and communicate with them.

Another critical group of customers consists of your investors. But some owner/operators don't show their equity sources the same kind of care and attention that they do to their prospects and residents. This is a big mistake: without satisfied investors to provide a reliable stream of funding, an owner/operator won't be able to develop new communities, acquire existing ones and pursue whatever expansion goals it may have.

So how should a multifamily company—or, for that matter, any firm in the commercial real estate industry—go about conducting its investor relations? Below are some tips.

**Take care of the basics**. Whether you've promised your investors a monthly, quarterly or semi-annual check, you can't miss a beat when it comes to delivering on those. Furthermore, you have to deliver documents like Schedule K-1 tax forms in a prompt and timely manner, and be quick to provide whatever replacement documents an investor may need or any items an investor's financial advisor may want to review. Failing to deliver these kinds of bread-and-butter items can torpedo an apartment company's relationship with its investors.

**Communicate, communicate, communicate**. Frequent, ongoing communication with investors is absolutely critical to strong investor relations. Apartment companies that forget to check in on investors regularly and only reach out when they're looking to raise money are making a fatal error.

Communication should include regularly sending out documents detailing the performance of investment funds and properties, as well as investors' returns. It should also include more informal communications, such as phone calls or emails to investors expressing excitement about the upcoming purchase of a property, or your observations of a community that you're considering acquiring.

There's no doubt about it: regular communication is the key to building trust with your investors.

**Make time for face-to-face time**. Getting together with all of your investors at once is impractical for many owner/operators, given the number and geographic diversity of equity sources. But when possible, apartment companies still need to meet in person with individual investors or groups of them for dinner or a cup of coffee—or maybe even a round of golf.

These kinds of meetings strengthen the trust that investors have in your firm and let them know how much you value them.

**Do what you say you're going to do**. It sounds so simple, but it's not an unheard-of mistake in the multifamily industry. Sometimes owner/operators will woo investors by outlining a specific strategy—what kinds of communities they're going to purchase and in which geographic markets—only to change course after procuring equity.

This is obviously a big no-no. Careful investors make their decisions based on their appetite for risk—and a change in acquisition strategy could mean you're buying properties your investors aren't comfortable with.

In the end, it's hard to overstate the importance of a strong and diligent investor relations program. Taking care of your prospects and residents is imperative, but if you neglect your sources of equity, your apartment company will find itself in a world of trouble.

**As China Puts the Brakes on Overseas Investment, Los Angeles' Development Boom Takes a Hit**
隨著中國對海外投資的限制，洛杉磯的發展熱潮受到影響。
By: Roger Vincent, Los Angeles Times

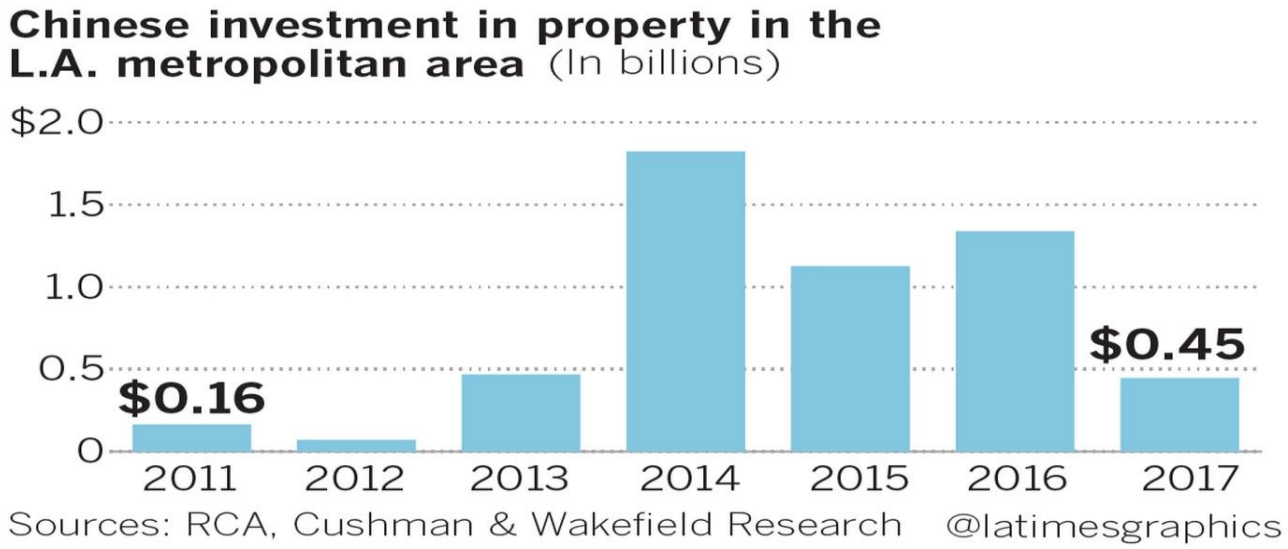
Last year, Chinese investors interested in buying or developing property in Southern California peppered World Trade Center Los Angeles officials with questions about how best to break into the market.

What's the difference between city governments and county governments, they might ask. Or, are tax incentives for hotel builders better in Los Angeles or Santa Monica?

But daily questions such as those have nearly ceased as China's feared pullback from overseas investments has been borne out.

Stephen Cheung, president of the nonprofit agency that promotes international trade and business, said the agency is now getting about one request a month for guidance.

"Our time used to be dominated by Chinese interests because of the billions of dollars flowing in from China alone," said Cheung, who once helped a company that wanted to enter the L.A. market and instead mistakenly signed a memorandum of understanding with Pasadena.



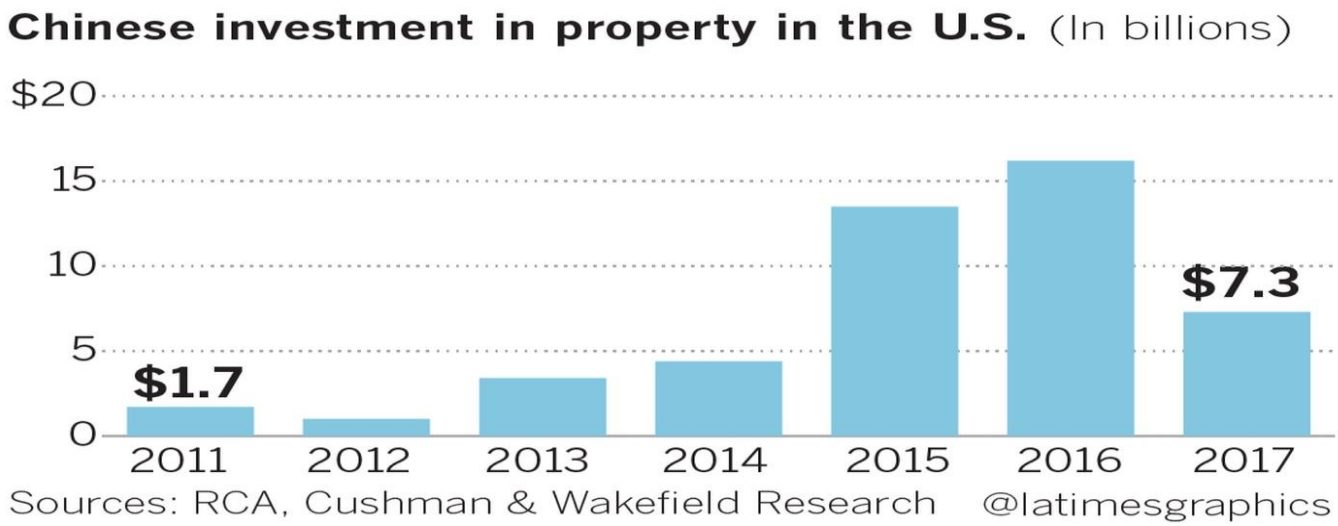

Chinese companies have been among the biggest commercial real estate investors in the Los Angeles area in the last five years, spending more than $5 billion to buy property in the region during that time, according to brokerage Cushman and Wakefield. That includes the sites of billion-dollar condominium, hotel and retail complexes being built downtown and large airport-area hotels that have been upgraded by their Chinese owners.

But they are withdrawing from some high-profile ventures as leaders in Beijing constrict the flow of money out of the country. In August, China's State Council laid down new regulations on outbound investments to reduce the risk of runaway debt and to blunt capital flight.

Also dramatically on the wane is Chinese investment through the federal EB-5 program, which allows foreigners to apply to become legal U.S. residents in exchange for investing $500,000 or more in a business that creates or preserves at least 10 jobs.

Millions of dollars raised by individual Chinese investors angling for green cards in past years have paid for such major projects as the trendy Dream Hotel complex in Hollywood and the Courtyard Los Angeles L.A. Live in downtown Los Angeles.

"There has been a huge fall-off in EB-5 funding," said Los Angeles attorney Jim Butler, who helps arrange investments from overseas through the program.




EB-5 funds from China have fallen to 28% of their normal flow established over the three previous years, Butler said, citing data from NES Financial.

Part of the decline in EB-5 investment can be traced to uncertainty over the program's future, which has been linked to various frauds and was reauthorized by Congress in the new federal budget bill only until Sept. 30.

But the broader, rapid retreat of Chinese capital in recent months is being imposed by Beijing, Butler said.

In a recent report, Cushman and Wakefield estimated a 55% drop in Chinese investment in U.S. commercial real estate took place in 2017, falling to $7.3 billion from $16.2 billion in 2016.

In the Los Angeles metropolitan area, property acquisitions by Chinese investors declined 67% in that time period even though overall investment volume fell just 1%.

There also has been a significant shift in the type of Chinese investors buying property in Los Angeles, Cushman and Wakefield broker Marc Renard said.

"Previously, the capital was primarily from the large state-controlled conglomerates," he said. "Today, it is, for the most part, very high net worth individuals."

One of the most notable pullbacks has been by Beijing-based Dalian Wanda Group, one of China's largest private companies. It is looking to sell 8 acres of land on Wilshire Boulevard in Beverly Hills that is widely regarded as one of the most desirable development sites in the country.

The land formerly occupied by a Robinsons-May department store sits next to the Beverly Hilton and the recently completed Waldorf Astoria hotel. It was approved for construction of a $1.2-billion luxury condominium and hotel complex called One Beverly Hills designed by renowned architect Richard Meier.

A Wanda Group spokesman declined to comment on the planned sale. Wanda purchased the site for about $420 million in 2014 but has not broken ground.

Chinese mega-developer Greenland USA recently started shopping around two key buildings in its $1-billion Metropolis complex in downtown Los Angeles — the Hotel Indigo and the 56-story Condo Tower 3, which is still under construction.

Whether Greenland ultimately sells depends on how much buyers are willing to pay, said Hu Gang, chief executive of Greenland USA.

"The potential for any future sale, Hotel Indigo or Condo Tower 3, would be decided based on the ebb and flow of the real estate market and the strength of the offer," Hu said in a statement.

The first two condominium towers in Metropolis have attracted strong interest from buyers, Hu said. Units are selling for more than $1,000 per square foot, according to real estate marketing company Mark Co.
Greenland will finish the second tower this year, Hu said, and is committed to completing the third tower in early 2019. It's unusual to sell a skyscraper under construction, but not unheard of in a hot market. Sales of units in the third tower have not begun

Still, the speed of China's retreat is unusual for U.S. real estate markets, which typically shift at a more stately pace, said Michael Soto, research manager at real estate company Transwestern.

"Companies have obviously been ordered by the government to sell off or dispose" of foreign properties, he said. "This is state-directed capitalism at work. Otherwise, why are you selling this stuff so soon after it's been acquired or is still being built?"

The slowdown in Chinese investment here differs from the hard exit by Japanese landlords in the early 1990s who dropped many of their prominent U.S. properties back on the market, Soto said.

Japanese bought trophy properties at the peak of the market in the late 1980s. They were forced to unload at a loss a few years later when the economies in both countries dipped.

"These are longer-term projects with longer outlooks," Soto said of the Chinese developments.

Most of the major Chinese investment in the region has been in buying and upgrading existing hotels such as the Los Angeles Airport Marriott and Sheraton Gateway Los Angeles, and prominent sites for mixed-use development in Beverly Hills and downtown Los Angeles, most of which is still going forward.
One of the largest developments underway is Oceanwide Plaza, a mixed-use project on Figueroa Street across from Staples Center that will include a Park Hyatt hotel and more than 500 luxury condominiums along with shops and restaurants.

Beijing-based conglomerate Oceanwide Holdings has fully funded the $1-billion project, Thomas Feng, chief executive of Oceanwide Plaza, said in a statement. The project, featuring a 700-foot outdoor LED screen stretching its length, is set for completion at the end of next year.

Other major Chinese projects are also apparently still on track in downtown Los Angeles.

A planned $700-million condominium and W hotel complex at Figueroa Street and Olympic Boulevard by Shenzhen Hazens Real Estate Group has nearly completed the city approval process.

And the $1-billion Grand Avenue Project on Bunker Hill designed by architect Frank Gehry is set to begin construction in the fall, funded in part with $290 million from a subsidiary of China Communications Construction Group, one of China's largest state-owned companies.

Indeed, Cushman and Wakefield in its recent report predicted Chinese capital will continue to be a force in U.S. real estate markets.

Jim Costello of Real Capital Analytics said that even though Chinese investors continue to pull back on new investments, they are not bailing out en masse and are still buying more than they are selling.

But, he added, Beijing "has asked certain companies to pull back so they won't be as active in the near term, and there will be more selling."
Some property owners may sell simply out of prudence, he believes, instead of in response to government fiat.

"Just because you aren't a state-owned company doesn't mean you are immune from social pressure" to reduce financial risk, he said. "Sometimes a suggestion can be just as important as a regulation."

**Consumer Money Rates (Mortgage Rate, Prime Rate, etc.)**

消費者市場利率：房貸、基本利率、等等

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| | Yield/Rate (%) | | 52-Week | | Change in PCT. PTS | |
|---|---|---|---|---|---|---|
| Interest Rate | Last | Wk Ago | High | Low | 52-week | 3-yr |
| Federal-Funds rate target | 1.50-1.75 | 1.50-1.75 | 1.50 | 0.75 | 0.75 | 1.50 |
| Prime rate* | 4.75 | 4.75 | 4.75 | 4.00 | 0.75 | 1.50 |
| Money market, annual yield | 0.47 | 0.46 | 0.47 | 0.25 | 0.14 | 0.11 |
| Five-year CD, annual yield | 1.71 | 1.71 | 1.71 | 1.33 | 0.38 | -0.03 |
| 30-year mortgage, fixed | 4.45 | 4.66 | 4.69 | 3.73 | 0.51 | 0.49 |
| 15-year mortgage, fixed | 3.93 | 4.12 | 4.14 | 2.99 | 0.79 | 0.76 |
| Jumbo mortgages, $424,000-plus | 4.69 | 4.87 | 4.96 | 4.21 | 0.25 | 0.49 |
| Five-year adj mortgage (ARM) | 4.15 | 4.69 | 4.78 | 3.22 | 0.79 | 0.93 |
| New-car loan, 48-month | 4.17 | 4.22 | 4.28 | 2.85 | 1.10 | 1.12 |
| Home-equity loan, $30,000 | … | … | … | … | … | … |

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