02.2017

GLOBAL PERSPECTIVES

TO LOCAL, INTERNATIONAL & LIFESTYLE REAL ESTATE

CIPS

Certified International Property Specialist

> GEO-POLITICAL DEVELOPMENTS

Too Big to Ignore:

GLOBAL EVENTS IMPACTING REAL ESTATE

All real estate may be local, but that doesn't necessarily shield one market from major incidents occurring thousands of miles away. In today's global economy, important geo-political events have consequences that can easily ripple across the planet.

Election results, economic policies and international relations all have spillover effects on global real estate by (directly or indirectly) creating incentives for buyers to be drawn toward—or repelled from—various geographic markets.

Some factors are purely financial in nature, like changes in currency values or tax treatments. Other policies may make some destinations more or less appealing by easing or restricting immigration or cross-border trade. In worst-case scenarios, geo-political events can escalate into full-fledged military conflicts, displacing entire communities and endangering lives.

This issue of *Global Perspectives* examines many of the most significant geo-political developments of the past year with an eye towards possible directions in 2017. As a global real estate practitioner, it's important to stay dialed into these and other stories. Doing so puts you in a much better position to spot opportunities and understand where future business may originate from—and why.

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THE IMPACT OF POLITICAL POPULISM ON U.S. AND EUROPEAN REAL ESTATE

By nearly any standard, 2016 was an extraordinary year in the world of politics. Starting with Great Britain's Brexit vote, then rippling through major elections across Europe and the United States, populism has been upending the status quo.

While it may be tempting to view populism as a monolithic movement extending across borders, this would be an oversimplification of the various forces at play in each election—and would encourage faulty assumptions about how developments may unfold in 2017 and beyond.

At its root, populism pits the broader population against the powerful. It includes people with dramatically different agendas representing both ends of the political spectrum and everything in between. (Case in point: During the U.S. presidential primaries, supporters of Democratic contender Bernie Sanders and Republican Donald Trump were often characterized as two sides of the same coin.)

What populists share is a strong suspicion that traditional institutions no longer serve them. They've decided it's time to change the status quo, and that means removing the well-entrenched elitists currently holding power.

What happens after a cart has been overturned? That remains to be seen. In fact, widespread uncertainty about future developments is the single most dominant issue in today's global markets. With that in mind, what follows is a country-by-country summary of several of the key factors at play, along with potential implications for real estate markets[1].

[1] Details for each country profile were culled from multiple U.S. and European news sources. Note that this information is time sensitive and subject to revision as events unfold in each market. For questions on the source of any particular fact, please contact **cips@realtors.org**.

UNITED KINGDOM

The British people may have voted to leave the European Union last June, but there are a thousand different ways this could play out, ranging from a hard to a soft exit. Prime Minister Theresa May has promised to trigger Article 50 of the Lisbon Treaty by the end of March 2017, which would officially start the exit process.

In January, she delivered a 12-point plan that promised a clean break from the single European market, but also indicated enthusiasm to work with the EU on trade agreements and other matters. May envisions a "phased" arrangement requiring at least two years to complete and including a Parliamentary vote on the final Brexit deal. While signaling a desire to cooperate with the EU, she also threatened to walk away from unsatisfactory terms.

To be sure, exiting from the EU is completely uncharted territory and there are many significant areas to hammer out, including the movements of people, the trading of goods and security matters. While the process is generally expected to take two years, some supporters downplay its complexity but others think it will take much longer. Adding to the climate of uncertainty, Article 50 is not irrevocable, so it's also conceivable that the UK could change its mind once the Brexit terms become clearer.

Implications for real estate

Immediately following the vote to leave the European Union, the value of the pound fell dramatically and London's pricey real estate market took a hit. By September, some broad measures of domestic economic health (like consumer confidence and spending) had rebounded, although confidence may stall again once the UK serves formal notice to quit the EU.

In the aggregate, UK housing transactions were slow in 2016 with modest price growth. The long-term implications for real estate, however, remain undetermined and vary by market segment and geography.

Investors abhor uncertainty, the dominant factor now challenging the UK's ability to attract buyers from outside its borders. If Brexit results in a more cumbersome business environment for global business (e.g., restrictions on the movements of goods and people), some companies will opt to leave the country, taking workers with them and adding more vacant commercial space and housing inventories to a dampened real estate market.

Foreign owners of properties used for vacation purposes may be less affected—or perhaps even spot a buying opportunity.

UNITED STATES

Donald Trump may have earned his fortune in real estate, but his broader policy positions and their implications on U.S. real estate will only begin to take focus now that he's assumed the presidency.

Much of Trump's talk during the campaign centered on tougher immigration and trade policies, both of which could hurt the flow of goods and people between the U.S. and the rest of the world. In the weeks following the election, however, this rhetoric assumed a softer tone. Further, even with Republican control of both chambers of Congress, it's uncertain President Trump's policies will have unfettered support.

Over the first half of 2017, there is little doubt the U.S. economy will enjoy a stimulus, largely via a combination of tax cuts and government spending on infrastructure and national defense. This in turn should boost consumer confidence and drive the economy higher—along with inflation and interest rates. As long as GDP growth is sustained and comes from more jobs and higher productivity, inflation should be manageable.

A strong economy will also increase the U.S.'s trade deficit in 2017 and invite the possibility of new tariffs and a reduction of trade, which historically have been a catalyst for recession and job cuts.

Implications for real estate —
Unlike the Brexit vote, the populist wave that launched Trump into the Oval Office triggered an immediate post-election spike in the value of the dollar. If sustained, the commensurate increase in property prices for buyers using other currencies will probably slow foreign appetite for U.S. real estate.

Trump's nationalistic call to turn inward and "Make America Great Again" implied that immigration (and particularly illegal immigration) would face tighter restrictions. Whether such restrictions are carried out and negatively impact home buying remains to be seen.

For U.S.-tax-paying residents, tax reform is another potential agenda item that could impact real estate ownership in various ways, including possible changes in the mortgage interest deduction, property tax deduction, and exemptions on capital gains from the sale of a home. Commercial real estate may see changes to the like-kind exchange tax deferral and the ability to depreciate commercial real estate assets.

One hallmark of U.S. real estate, regardless of who holds the presidency, is the fact that personal property rights are held sacred—and those rights are extended equally to foreign nationals. Often, geo-political events in other parts of the world can tip the scales in such a way that a safe haven in U.S. real property still attracts inbound investment, in spite of other disincentives.

Brexit and Trump may have grabbed the most headlines last year, but several other important political events with populist overtones could also have major implications on the global economy and international real estate developments.

ITALY

In December of last year, Italian voters rejected Prime Minister Matteo Renzi's constitutional reforms, prompting him to step down. While the populist Five Star movement—which promotes an anti-EU, anti-establishment and anti-austerity agenda—campaigned strongly against the referendum, Five Star was not Renzi's only opposition.

Some factions of Renzi's own Democratic party and several former prime ministers also voiced their objection to the reforms, which would have streamlined government by reducing the number of senators and increasing the prime minister's power. Ultimately, the referendum boiled down to a vote of no confidence in Renzi's leadership.

President Sergio Mattarella quickly formed a new government, led by Paolo Gentiloni, who now faces formidable challenges in balancing domestic pressures against EU rules.

A founding member of the EU, Italy has relied heavily on EU support to prop up its fragile banking system and heavy public debt load. Following the defeat of Italy's referendum, the euro lost more ground than it had with Brexit. Without solutions that ease market volatility and placate fears, Italy could slip back into recession.

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THE IMPACT OF POLITICAL POPULISM ON U.S. AND EUROPEAN REAL ESTATE

AUSTRIA

In another important December 2016 vote, Austria's moderate leader Alexander Van der Bellen achieved a narrow victory over his far right rival Norbert Hofer of Austria's Freedom Party. Hofer ran on a platform of restricting immigration and strengthening Austria's borders, although the Freedom Party would also like to see Austria leave the eurozone and the EU.

NETHERLANDS

In 2017, several major elections will further test Europe's ability to remain united, starting with a Dutch general election on March 15. Due to the country's fragmented political party system, Geert Wilder of the populist Freedom Party could pull off a victory with just 28 percent of the votes, although he may struggle to find enough coalition partners to form a government.

Always mildly skeptical of the EU, it appears that the Netherlands is tilting further in this direction. Much of the campaign talk has centered on the economy, migration and the healthcare system.

FRANCE

Numerous forces are at play leading up to France's May 7 presidential election, especially following Socialist president Francois Hollande's decision to step back from seeking a second term, due to low approval ratings. At this writing, Conservative party leader Francois Fillon leads numerous other contenders, but

National Front candidate Marine Le Pen has enjoyed unexpectedly strong support. National Front's anti-eurozone and anti-immigration message has resonated with many voters, who are frustrated with stagnant economic growth and high unemployment rates. Le Pen prefers renegotiating the EU's founding treaties over completely breaking from the alliance. Even if she doesn't win, support for her nationalistic voice in French politics is another clear sign of populist unrest with the status quo.

GERMANY

Germany will hold its next national election as early as August 27 or as late as October 22. Chancellor since 2005, Angela Merkel will be seeking another term. She is expected to retain power, but will have to contend with evolving popular opinion among her own Christian Democrats as well as growing support for populist movements. Most noteworthy, Alternative for Germany, first founded in 2013 as an anti-Eurozone party, has had a strong showing in recent elections and now has a presence in 10 of 16 state Parliaments. If Alternative for Germany secures more seats in the general election, it will be harder for Merkel to press her pro-EU agenda on issues such as subsidies to struggling partners like Greece and Italy, and cross-border immigration.

RUSSIA

Putin may not be running for president again until 2018, but his country's efforts to shape elections outside its borders in the form of targeted cyber attacks and disinformation campaigns is being called into question. Following its annexation of Crimea and ongoing meddling in Ukraine and Syria, there are good reasons to scrutinize Russia's motives.

Nationalistic populist candidates have tended to be more friendly to Russia, lessening the likelihood of retaliatory sanctions. But populist movements also run the risk of destabilizing Europe, making the continent more vulnerable to outside aggression.

4 More Stories to Follow Around the Globe

The fallout from national elections in the U.S. and Europe aren't the only geopolitical events worth following in 2017. Here are four other important topics with implications for international real estate.

1. [TAX POLICIES]

Generally speaking, countries see foreign investment in real estate as a positive development and prefer to remove, rather than erect, barriers to ownership. However, when demand soars and prices are driven so high that local buyers can no longer afford to live in their communities, the political winds may suddenly shift.

That's what happened in London in 2015, when the British government closed a loophole in its tax code requiring UK homeowners from overseas to pay a capital-gains tax when their property is sold. The move followed another decision to increase the stamp duty on properties priced at or above £1 million. The initial effect of the tax changes appeared to be a slowing, rather than a reversal, of London housing price increases.

Then last year, Vancouver took the surprising step of imposing a 15 percent surcharge on foreign buyers of Vancouver properties, where home prices were almost double Canada's national average. In this case, the effect was immediate and dramatic.

In the first month of the new tax, participation by foreign nationals virtually dried up. Vancouver home sales fell 26 percent from a year earlier, while the average price of single family homes fell to the lowest price levels since September 2015.

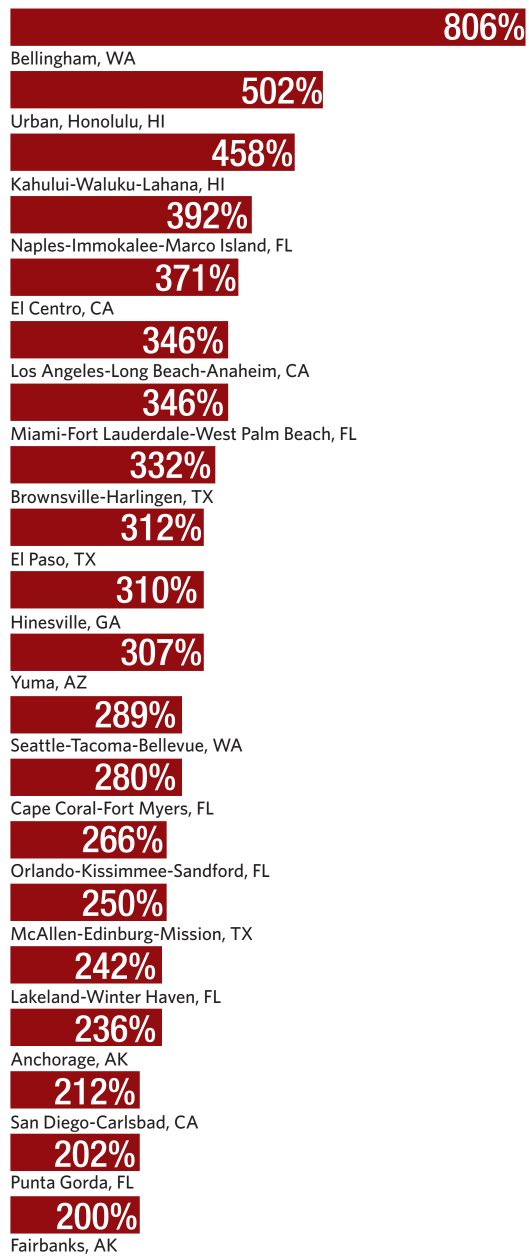
Where did these buyers go? Some shifted their sites to Toronto, while others explored options south of the border. The impact was clearly apparent in data compiled by realtor.com/international, where Bellingham, WA suddenly surged to the top of the list of U.S. property searches conducted by international visitors to the site during October 2016. (See International Traffic Propensity, right)

Note: To view similar traffic data, updated monthly, visit realtor.org/articles/where-are-global-buyers-searching-in-the-united-states

(continued on page 6.)

International Traffic Propensity

Local Market Share of International Traffic Relative to U.S. Share



4 MORE STORIES TO FOLLOW AROUND THE GLOBE

(continued from page 5.)

2. [OIL PRICES]

In 2014, the Organization of the Petroleum Exporting Countries (OPEC) began flooding the global marketplace with oil, driving the price of a barrel of crude oil from $107.5 in June 2014 down to $45 in January 2015. The glut has been particularly hard on Venezuela, which has the world's largest oil reserves and relies on it for virtually all its export income.

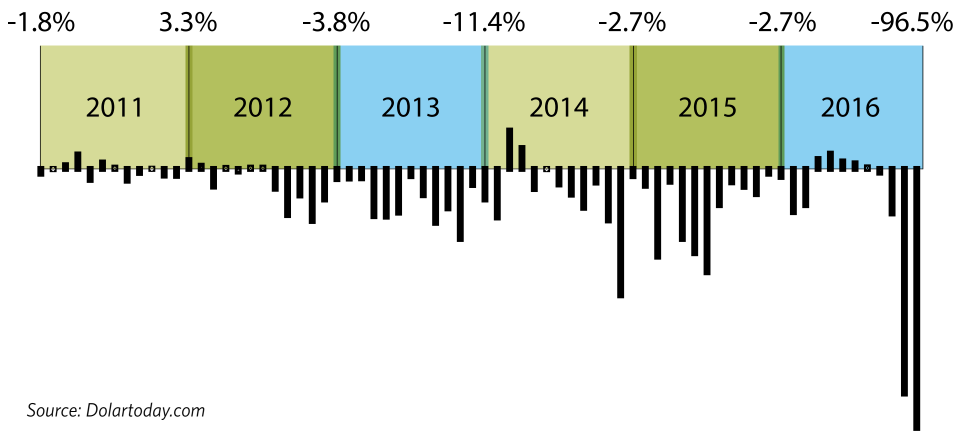
Throughout 2015, Venezuelan President Nicolas Maduro pleaded with OPEC members to stabilize oil prices, warning of imminent economic collapse in his country. Last year alone, Venezuela witnessed over 400 percent inflation and an unprecedented monthly collapse, in November, in its currency[2]. (See chart, below.)

Finally, in December 2016, members of OPEC and some of its oil-producing rivals (including Russia and Oman) reached their first agreement since 2001 to jointly reduce output. Prices immediately gained ground on the news, but skeptics think it will be difficult for all parties to stick to their word. In any case, the historic agreement is welcome news for Venezuelans, who have been facing severe shortages of food, medicine, and other basic necessities.

Venezuela's Currency Sees Biggest Monthly Decline Ever

The "strong bolivar" has lost 45% of its value so far in November

Monthly change in value of the Venezuelan Bolivar for U.S. Dollars on black market



Source: Dolartoday.com

3. [TRADE AGREEMENTS]

Perhaps one of the biggest topics facing the global marketplace is the issue of trade, especially in light of political developments in the U.S. and Europe.

Both Clinton and Trump espoused anti-trade rhetoric during the U.S. presidential campaign, although Trump was decidedly more critical, threatening to renegotiate every U.S. trade deal. The North American Free Trade Agreement (NAFTA) took the brunt of the criticism, but it is just one of 14 free trade agreements the U.S. has signed with 20 countries. The United States' largest trade partners are Canada, China, and Mexico.

Free trade agreements are intended to reduce barriers and create a more stable and transparent trading and investment environment. It's a cornerstone of the European Union and helps smaller countries gain access to larger trading partners.

It will be particularly interesting to see how trade leadership emerges in Asia, where two rival trade pacts have been vying for acceptance. President Obama championed the Trans-Pacific Partnership (TPP), which excludes China, while President Xi Jinping promoted the Regional Comprehensive Economic Partnership (RCEP), which excludes the United States. If President Trump concedes leadership in the region, China will presumably fill the void.

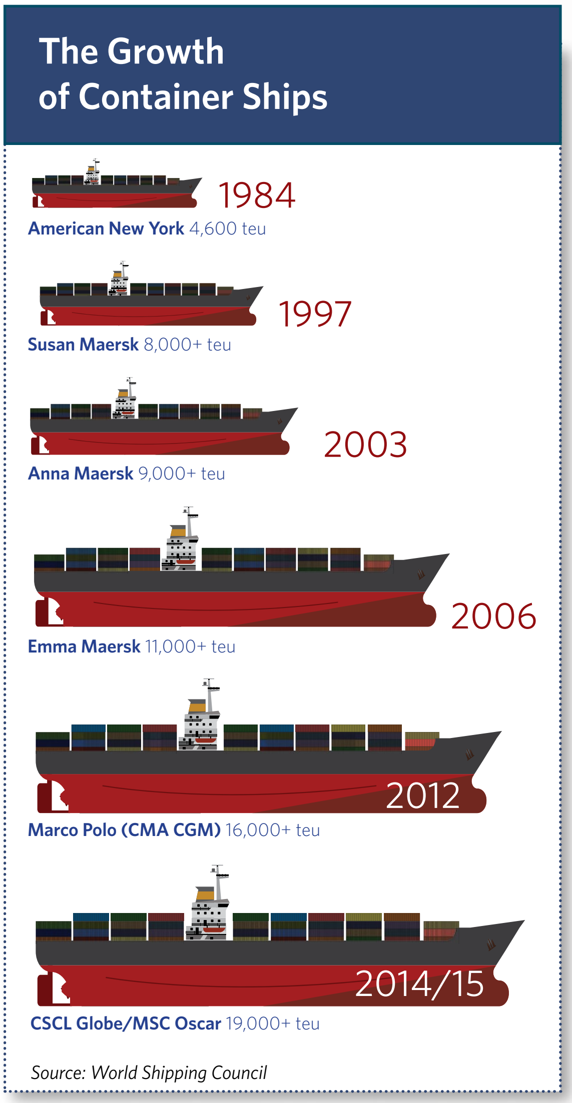
Assuming global markets remain open to free trade, one vital trade route—the Panama

[2]Venezuela tightly controls two legal exchange rates, but people and businesses regularly turn to a black market when the government won't approve the purchase of dollars at legal rates.

Canal—will be fully capable of handling more cargo traffic since the completion of a major expansion project in 2016.

The expansion doubled the waterway's capacity by deepening both entrances, dredging existing channels, adding a new Pacific access channel, as well as a third set of locks (a lane for larger ships), allowing the passage of vessels up to 13,000/14,000 TEUs[3] versus 5,000 TEUs for pre-expansion cargo ships.

More than two years behind schedule and one billion dollars over budget, the Panama Canal expansion opened during difficult financial times for the shipping industry. Still, early anecdotal evidence suggests the expansion is bringing more and bigger ships into the Gulf of Mexico and other east coast ports in the U.S., only four of which can currently handle vessels in the 10,000+ TEU range (although several ports are stepping up efforts to upgrade their facilities).



Wherever trade improves, there is a commensurate increase in foreign nationals needing residences and facilities to support more shipping activity. It remains to be seen, however, whether greater physical capacity for imports/exports will be met with non-restrictive trade policy decisions.

4. [POLITICAL UPHEAVAL]

Whenever one country experiences political unrest, there is always the risk of a domino effect spilling into neighboring countries or across the global stage. At the start of 2017, it's Syria's President Assad who continues to preside over what is easily the worst of all political situations.

The Syrian Civil War, which began in 2011, now involves multiple military forces from within and outside of the Middle East. It has displaced roughly 11 million people (half the county's population), creating a humanitarian crisis for the refugees, a potential crisis for their host countries, and a political crisis over how to resolve the situation. The rise of the Islamic State both intensified and expanded the conflict, easily the most deadly war of the 21st century, into Iraq and beyond.

Other political disputes, such as the impeachments of Brazil's President Dilma Rousseff and South Korea's President Park Geun-hye, also bear watching. On the Korean peninsula, in particular, experts express concern that destabilization of South Korea's political system might invite North Korea to engage in new military provocations.

[3]TEU stands for Twenty-Foot Equivalent Unit, the standard measure of a shipping container that's 20 feet long and 8 feet tall.

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