

WORKING WITH FOREIGN GOVERNMENTS TO FOSTER INVESTMENT

CCIM San Antonio/South Texas Chapter

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Global Economy

1. Real Estate is no longer a local transaction – it is global, with foreign sellers and buyers.

2. Stronger U.S. dollar vis-à-vis the Euro

Euro = 1.11 dollars

3. Texas Exports

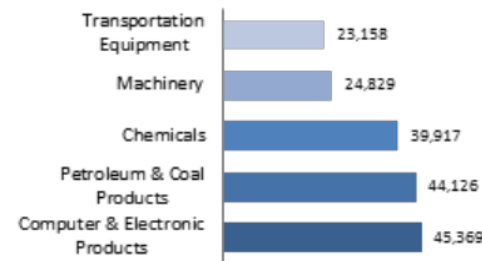
Texas is the number one exporting state in the U.S with over \$251 billion in 2015 exports



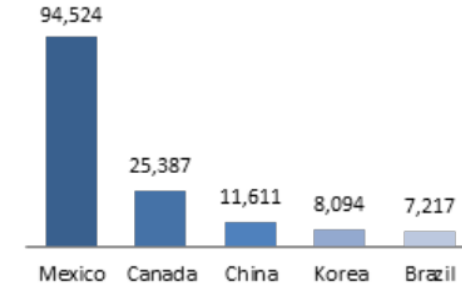
\$251.1 billion 2015 total exports of merchandise from Texas

\$155.5 billion Merchandise exports to U.S.'s 20 Free Trade Agreement Partners

Texas's Top 5 Export Industries
(Value in Millions of US dollars)

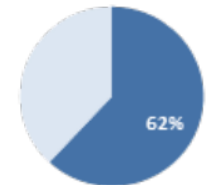


Texas's Top 5 Export Markets
(Value in Millions of US dollars)



93% Export growth to FTA Partners since 2005

Share of Texas's exports to FTA Partners in 2015



*Indicates that portions of the MSA are shared with one or more other states.
Updated February 2016.

Regional Trade Blocks

European Union (EU) (1957) – Customs Union
28 Member countries with 500 million consumers

Euro Zone with Euro currency consists of 19 countries of the 28 EU members.

North American Free Trade Agreement (NAFTA) (1994)
(U.S., Mexico, and Canada)



Update on the European Union (28 Countries)

1. **Brexit – will UK stay or depart? – June 23, 2016
Referendum**
2. **Refugee problem**
3. **Eurozone (19 countries)**
 1. **Growth for 2016 to be 1.6% with 2% inflation**
4. **Terrorist Attacks – Paris and Brussels**



BREXIT

Brexit fears cause sharp slowdown in commercial property investment

The Financial Times reports that investment in UK commercial property has fallen by 42% in the first quarter of 2016 compared with the same period last year. The slowdown was most pronounced in Central London with investment down by 52%. Many attribute the sharp fall to uncertainty caused by the UK's EU referendum.

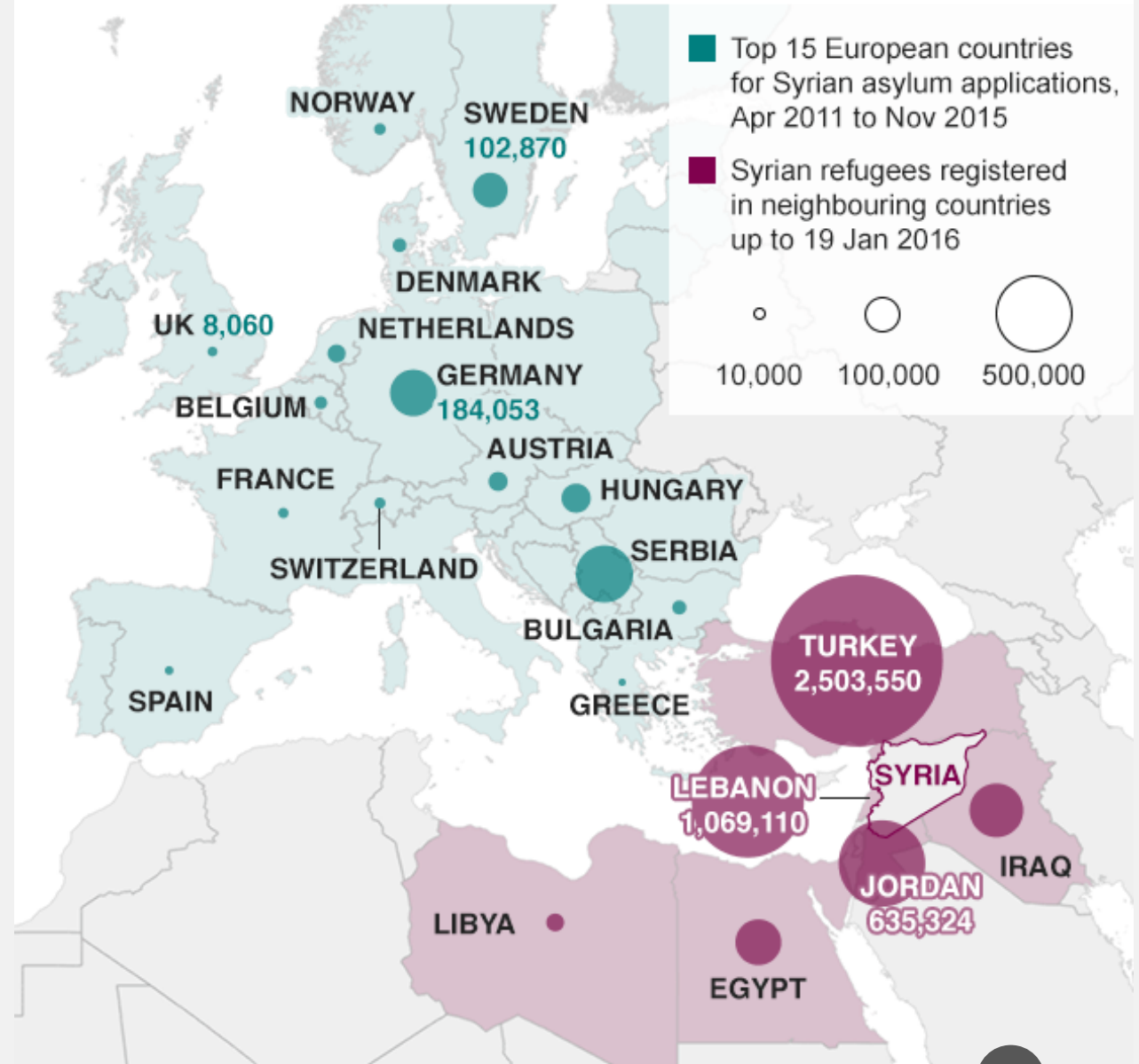
Source: [The Financial Times](#)

Date of referendum: June 23, 2016

Syrian Refugee Crisis



Syrians in neighbouring countries and Europe



Source: UNHCR

North American Free Trade Agreement (NAFTA) Signed on January 1, 1994 between Canada, Mexico, and the United States

U.S. trade in goods with Mexico:
Before and After NAFTA

1993

Exports	Imports
\$41,580.8	\$39,917.5



2015

Exports	Imports
\$236,377.4	\$294,741.1

U.S. Trade Agreements

Proposed Trade Blocks

1. Trans-Pacific Partnership (TPP)

Involves 40 % of global economy

2. U.S.–Europe Free Trade Agreement (TTIP)

Will add 67,780 jobs in Texas and increase Texas exports by over 24%

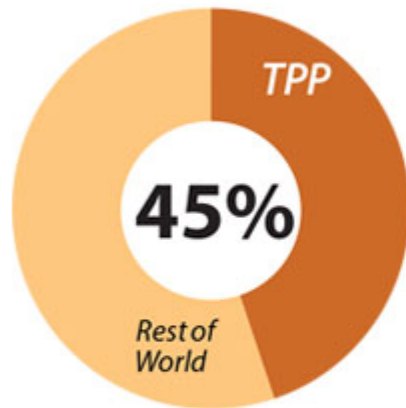


TPP Trade Agreement

- Trans-Pacific Partnership (TPP) signed on February 4, 2016
 - Involves U.S., Singapore, Brunei, New Zealand, Chile, Australia, Peru, Vietnam, Malaysia, Mexico, Canada, and Japan

TPP Supports “Made-in-America” Exports and Jobs

TPP Countries Account for



of Total U.S. Goods Exports



INTERNATIONAL
TRADE
ADMINISTRATION



3.1 Million

U.S. Jobs Supported by
Goods Exports to TPP
Countries in 2014



1.1 Million

U.S. Jobs Supported by
Services Exports to TPP
Countries in 2014*



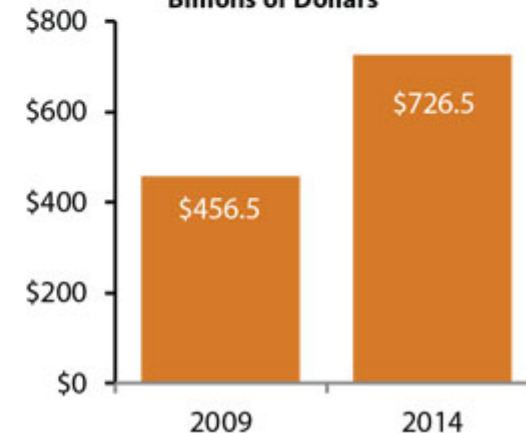
97%

of Exporters Shipping Goods
to TPP Countries in 2012
were Small & Medium
Sized Companies

Goods Exports to
TPP Countries are

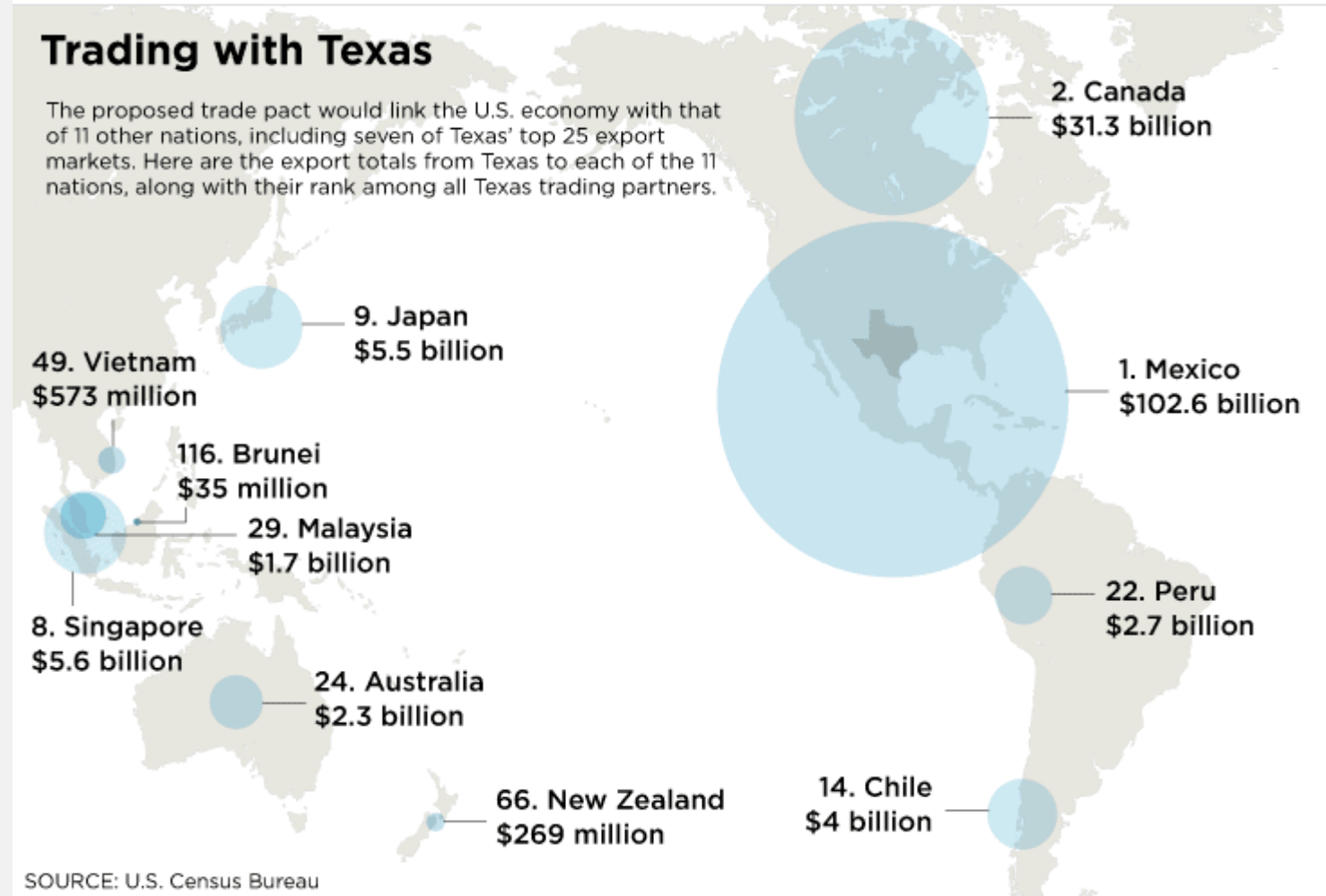
up 59%
Since 2009

U.S. Goods Exports to TPP
Billions of Dollars



TPP and Texas

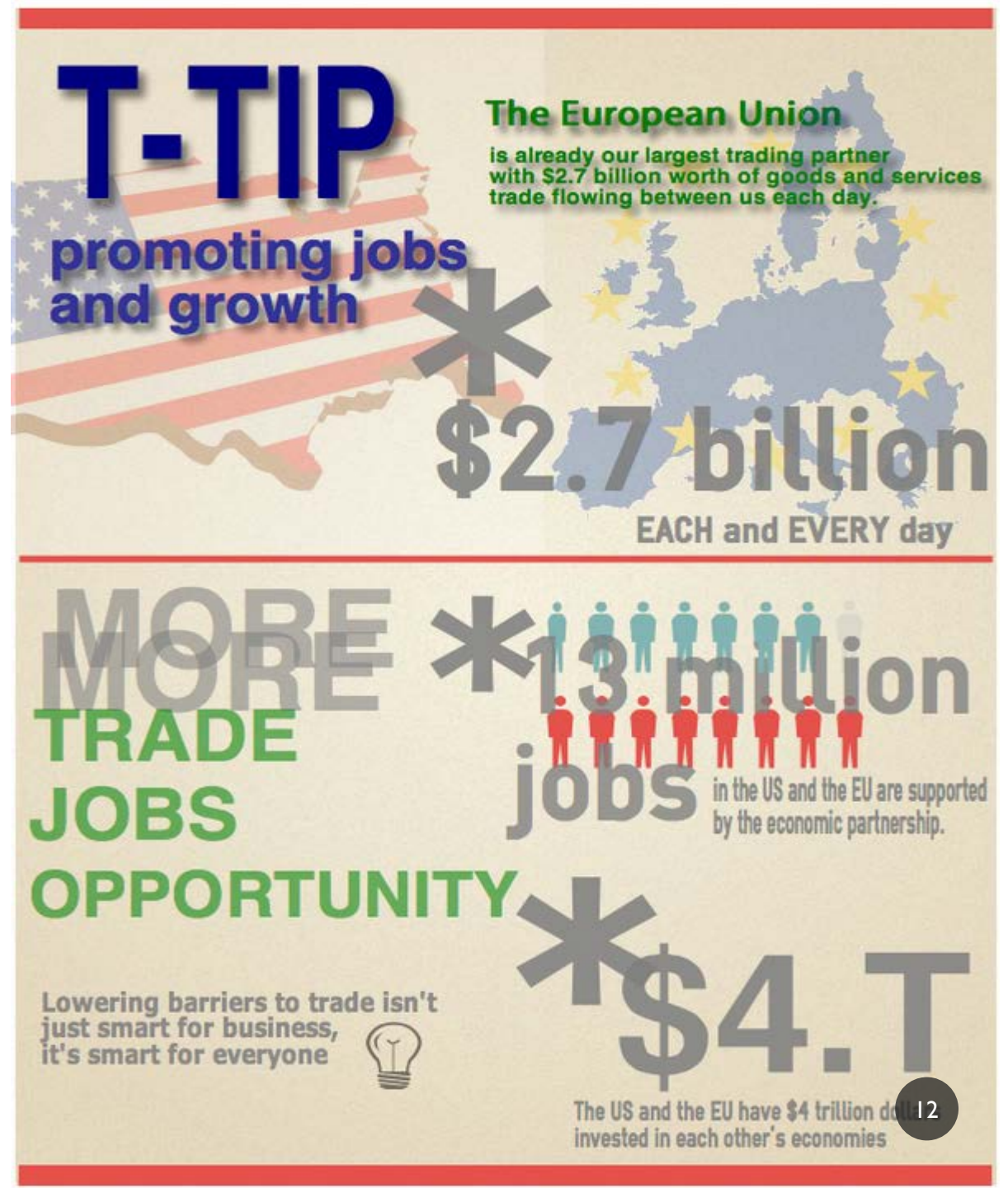
- 19,000 small- to medium-sized companies in Texas exported goods to TPP nations in 2013.
- TPP will allow Texas to increase trade with existing bilateral U.S. Free Trade Agreement partners Australia, Canada, Chile, Mexico, Peru and Singapore.
- Top agricultural exports for Texas are cotton, beef, veal, poultry products, hides and skins, wheat. U.S. exports of beef to TPP countries currently face tariffs as high as 50 percent and as high as 240 percent on poultry.



Transatlantic Trade and Investment Partnership (TTIP)

Proposed trade agreement between EU and U.S. being negotiated at this time.*

*Holland rejects TTIP at this stage



TTIP and Texas

Projected increase in Texas exports: 24.3%

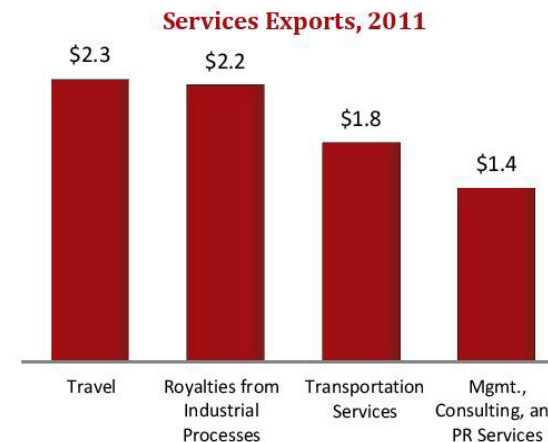
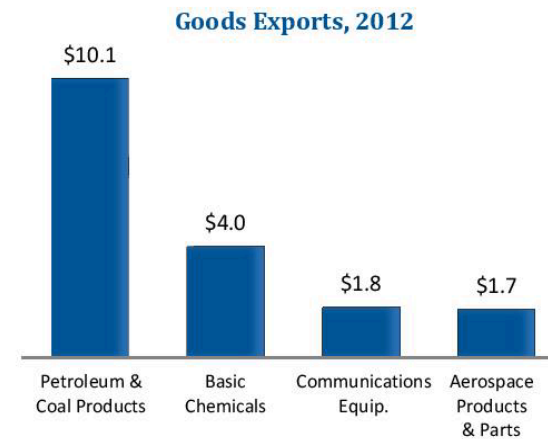
Projected increase in Texas jobs: 67,780 jobs

Texas and TTIP

Texas' economic relationship with the European Union is already strong, and a successful conclusion of the **Transatlantic Trade and Investment Partnership (TTIP)** would contribute significantly to the state's future economic growth.

The EU purchased Texas goods worth \$29 billion (11 percent of goods exports) in 2012 and services worth \$16 billion (33 percent of services exports) in 2011.

Texas: Current Exports to European Union (\$ billion)



Successful implementation of TTIP is estimated to increase Texas exports to the EU by 24.3 percent and could boost net employment by 67,780 jobs.

Estimated Impacts of Full TTIP Implementation on Key Texas Sectors

Top Sectors by Export Increase

Chemicals	+\$4.9 billion
Motor Vehicles	+\$2.2 billion
Other Manufacturing	+\$2.1 billion
Electrical Machinery	+\$1.4 billion

Estimated Job Growth in Key Sectors

Business Services	+10,599 jobs
Manufacturing	+3,481 jobs
Financial Services	+1,559 jobs
Mining	+380 jobs

BOTTOM LINE: Since 2006, Texas' chemical exports to the EU have increased by 26 percent. By reducing barriers to trade and investment, TTIP would facilitate future growth, increasing anticipated US chemical exports by a further 34.2 percent.

Update on Foreign Investment

- **Foreign Investment**

- Increase in Foreign Investment in 2016 with focus on metro markets and with increase from \$87 billion in 2015.
- European Union the largest investor in the U.S. and in Texas; 62% of all foreign investment in Texas is EU-based.
- Cross-border residential real estate pushes up U.S. home prices in 2015; many purchases are by “shell” limited liability companies for liability protection and confidentiality; Approximately 209,000 houses are sold to foreign buyers from 2014 – 2015:
 - 2014 – \$92 billion
 - 2015 – \$104 billion
- Net leased properties
- Sovereign Wealth Funds (state owned investment funds)
- China
- Mexico – Approximately 80% of homes in Stone Oak are owned by Mexican National of whom 65% are from Monterey; Mexicans have also targeted the downtown condo market, particularly in the Alteza building

Asian Governments Invest in U.S. and Canada

- Sovereign Wealth Fund (SWF): a state owned investment fund investing in real estate and other assets; these funds are often traded from foreign-exchange reserves held by the central bank, or simply by state savings.
- Notable Sovereign Wealth Funds Investing in Real Estate:
 - China: China Investment Corporation, State Administration of Foreign Exchange and the National Social Security Fund
 - Type of Route to Market: Direct, Listed, Private Real Estate Funds.
 - Hong Kong: Hong Kong Monetary Authority
 - Direct, Listed, Private Real Estate Funds.
 - Singapore: GIC (Formally known as Government of Singapore Investment Corporation) and Temasek Holdings
 - Direct, Listed, Private Real Estate Funds.
- Return
 - Normally the objective is “long-term return”
 - Sovereign Wealth Funds are normally established in the Far East and Middle East like China (CIC), Saudi Arabia (SAMA), Hong Kong (HKMA), and Singapore (GIC). Normally through placed administrators or attorneys with relationship with Foreign Governments.*

Chinese Investment in U.S.

- Chinese economic slowdown
- Anband Insurance Group bid on Starwood Hotel Chain in March, 2016
- Committee on Foreign Investment in the United States (CFIUS) Concerns: agency can block investments in U.S. businesses and assets that raise national security concerns.



Update on U.S. Reporting Requirements

1. U.S. Department of Commerce

BE – 13 (Claim to Exemption) to be filed within 45 days of purchase when investment is less than \$3,000,000.00.

2. U.S. Department of Agriculture

File form FSA – 153 report within 90 days of purchase when foreigners purchase farm land, forestry, etc.

3. U.S. Reporting Requirements

(FIRPTA) New Foreign Investment in Real Property Act Requirements

FIRPA has been amended effective February 16th, 2016 to increase withholding from 10% to 15% of gross proceeds if the amount realized exceeds \$1 million.

Foreign Investment in Real Property Tax Act of 1980 (FIRPTA)

FIRPTA withholding tax requires a buyer to withhold 10% of gross sales price when a foreign person sells or exchanges a U.S. real property interest.

Real property includes:

- Mine
- Well
- Other natural deposits

FIRPTA also applies to wind energy farms and mineral estates

Such withholding must be remitted to the IRS within **20 days** after the date of transfer by using IRS Form 8288. Careful structuring is required to avoid FIRPTA withholding of 10% of proceeds in a sale or a seller's 1031 exchange.

There is an exception to FIRPTA for residences under \$300,000.

New 2016 FIRPTA Withholding Issues Involving Foreign Sellers

- i. Foreign Investment in Real Property Tax Act of 1980 (FIRPTA) imposes a withholding obligation at the time of transaction when the sale is made by a foreign person
- ii. Buyer is agent: Withholding agent is the buyer but can be the person who represents the buyer in the transaction or in settling the transaction
- iii. Title company: For practical purposes it is normally the title company that handles the withholding and transmits the payment to IRS within 20 days of the sale.
- iv. Texas LLC with single owner: If the LLC has not elected to be treated as a corporation, and the owner is foreign, the buyer should withhold. A LLC that elects to be treated as a corporation escapes FIRPTA.

New 2016 FIRPTA Withholding Issues Involving Foreign Sellers, Continued.

i. Exceptions:

1. The real property sold is a personal residence to be occupied by buyer sold for less than \$300,000.00.
2. Withholding Certificate: A certificate obtained from IRS to show the underlying tax liability from the sale of the real property will be less than the amount the FIRPTA withholding.

ii. U.S. Taxpayer Identification: Does seller have a U.S. taxpayer identification?

iii. FIRPTA Affidavit: Buyer can rely on seller's FIRPTA Affidavit unless Buyer has actual knowledge that the Certificate is false.

Recent Changes in December 2015 to FIRPTA:

1. February 16, 2016: The withholding rate goes from 10% to 15% except:
 - a. If Buyer acquires residence for personal use for \$300,000.00 or less, no withholding;
 - b. If buyer acquires the property for use as their residence and the price is between \$300,000.00 and \$1,000,000.00, a 10% withholding;

FIRPTA: Conclusion

Buyer should exercise due diligence to check out sellers. Title companies have taken measures to closely review closings to make sure all forms and payments are made to the IRS at closing and do not want to hold funds in escrow.

U.S. Investor Visa

- **EB-5 Visa**

The EB-5 Immigrant Visa is available to foreign individuals making \$1,000,000 investment in a commercial enterprise in the U.S. which creates 10 U.S. jobs. Investors from China, South Korea, Nigeria and Mexico often apply for EB-5 Visas. Investments, which are properly structured in U.S. real estate, hotel and motels, oil and gas, and farm and ranch, regional EB-5 centers, etc.

- **Treaty Investor Visa**

Belgium, Germany and the Czech Republic and other European countries and Mexico have Treaties of Friendship with the U.S. providing that their citizens can qualify for an E2 Treaty Investor Visa in the U.S. after making an investment in U.S. business that qualifies for E2 Treaty non-immigrant Investor Visa. There is no set amount for the investment. The investment could be in U.S. real estate and must provide some U.S. jobs. The E2 Treaty Investor visa is a non-immigrant visa and works well with the purchase of hotels and apartment complexes.

- **British Columbia (Vancouver)**

British Columbia established a very successful investor visa program to attract high net worth Chinese and other Asians to Vancouver. If the foreign investor deposited 800,000 with the British Columbian Government, the investor and his family received a visa to live and work in British Columbia. The BC government would receive all interest from the deposit. The visa is good for 5 years but could be extended as long as the investor kept the cash deposit with the government. This program has worked very successfully and these Asians have often invested in U.S. real-estate after obtain residence in Vancouver. Vancouver is principle an Asian city with about 70% of its residence of Asian descent. This program will be discontinued in July of 2016.

Government Procurement Contracts

Public contract with governmental entity. Might be relevant to Texas real estate company. Government procurement is addressed in the TPP and TTIP Trade Agreements and will make government contracts more available to U.S. companies and service providers.

Texas Brokers Operating in Mexico

A. Mexico License Requirements. Mexico has no real estate license or regulations on acting as real estate broker in Mexico; No license is required to act as a real estate broker in Mexico.

B. Work Visa. A temporary business visa (FMM) is available for 180 days for foreigners (non-Mexicans) doing business in Mexico on a regular basis or a Temporary Resident Visa for foreigners (non-Mexicans) that will work in Mexico for a longer period than 180 days and up to 4 years.

C. Taxation. If a U.S. broker or company provides services and receives payment for those services, that person or company is subject to Mexican income tax on those services. Income tax is calculated as follows:

1. The first MX\$125,900.00 pesos earnings obtained in a calendar year will be exempt from the payment of income tax;
2. A rate of 15% will be applied to the earnings obtained in a calendar year that exceeds MX\$125,000.00 pesos and that are not greater than MX\$1,000,000.00 pesos; and
3. A rate of 30% will be applied to the earnings obtained in a calendar year that exceed the amount of MX\$1,000,000.00 pesos.

Conclusion

Foreign investment in real estate will increase in 2016 and continues to create jobs in Texas. Knowing how to work with foreign governments can add a dimension to your business; prominent foreign investors often look to their governments for new opportunities; business development may take longer abroad, but you develop long-term relationships with a larger scope of work.

Foreign investors intend to increase investments in the U.S. because it is a stable environment in which to invest and is the best market for capital appreciation. More investment requires more U.S. reporting requirements for the foreign investor and its agent.

With the rising globalization and inter-country trading incentives through international trade agreements, a surge in foreign investment in U.S. real estate will continue to take place.

Tips to Better Serve Your International Clients

1. Get involved in multicultural organizations, Chamber of Commerce, World Affairs, etc.
2. Learn foreign languages and brand yourself as international/relocation expert.
3. Translate your website into different languages.
4. Advertising in foreign newspapers and magazines like the Vancouver Post and International Herald Tribune.
5. Confirm compliance with real estate license requirements when working in a foreign jurisdiction.
6. Confirm tax compliance and proper business visa when conducting business in foreign jurisdictions.
7. Know the reasons people continue to invest in Texas because it is “business friendly” and the state’s economic environment supports businesses as they compete in a global economy.

Thank you!