

Interest Rate Changes and Foreign Investment Effects on Commercial Real Estate

The Federal Reserve has begun the process of raising their interest rates after a long period of keeping the rate at record low levels. There have also been recent changes to the EB-5 visa program for foreign investors that some may or may not agree with. It is estimated in the U.S. Capital Market Report that there is a huge supply of global capital that is targeting commercial real estate: \$455.7 billion in 2017 and \$422 billion in 2018.

The EB-5 program offers residency to wealthy foreigners if they invest \$500,000 - \$1,000,000 in rural areas or communities where unemployment is higher than the national average. This raises a concern about where the invested money is exactly going because of fraud and lack of government control. One of the changes in question is to reduce the amount needed to be invested to a maximum of \$8,000,000. This immigration option has been the most common and successful among Chinese investors, as they make up 85% of EB-5. However, being that there are fraud and abuse allegations, Senators Leahy & Grassley are proposing a bill to eliminate this program all together.

Another reform in progress, FIRPTA, is expected to raise the growth of global investments in U.S. commercial real estate. This is meant to bring in even more overseas capital to the U.S.

Despite any attempts to eliminate EB-5, foreign investment continues in major cities. Secondary and tertiary markets are experiencing elevated levels of investments and return on investments with lower costs.

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Chinese investors only make up 10% of foreign investment in the U.S.; however, they are ranked at the top of every real estate sector. They invested \$17.1 billion between 2010 and 2015, as well as \$15.9 billion into CRE in 2016.

Projecting forward- foreign capital investments are expected to remain extremely high and continue. All reforms and upcoming legislative changes are looking very promising for continued growth in cross-border capital.

Source: The National Association of Realtors : Capital Markets

**Current SBA 504 Effective
Rate for
June 2017 is 4.59%**

Commercial Property Security Measures

Many commercial property owners leave their property unprotected; however, there are a few simple steps owners can take to ensure their property is safe even when they are not there. Some of these include installing security camera systems, window film, containment-grade glass and ballistic glass, security gates, and bars on windows for industrial locations. Although it may not seem like these would make an

enormous difference, taking the time to get these done can go a long way. Depending on the owner's budget, they can select from the options previously listed based on what may be more cost effective, yet still beneficial to them and their property. 3M window film, interlayered glass, and ballistic glass (listed in order from good to best) would be the owner's best options when it comes to trying to keep an

intruder out. 3M film and interlayered glass may not completely keep the intruder out, but it will save you some time to call the authorities or escape since the glass can take a few minutes to fully break. Ballistic glass, on the other hand, is nearly indestructible. Owners should consider which of these may be better suited for their property in order to be one step ahead.

Source: Bisnow Newsletter June 2017

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Linda specializes in commercial and industrial sales and leasing throughout the San Gabriel Valley. She has extensive knowledge in 1031 exchange transactions, investment opportunities, and market analysis. Feel free to contact Linda with any questions or requests for information.

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