Factors that Determine Cross-border Commercial Real Estate Transaction Sizes: A Country-Level Analysis*

상업용 부동산 역외거래 결정요인: 국가 수준 분석

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http://dx.doi.org/10.23843/as.16.1.10
한국감정평가학회『감정평가학 논집』, 제16권 제1호 (2017년 4월), 227~243쪽
Abstract

We studied 2014 cross-border real estate transactions using transaction price data from Real Capital Analytics(RCA). We divide cross-border deals into two subgroups: We define From-global cross-border deals as transactions with foreign buyers such that the investment capital comes from foreign countries, while we define To-global cross-border deals as transactions with foreign sellers such that the destination of the domestic investment capital is a foreign country. For example, for a country such as Korea, To-global transactions involve property located in other country that is purchased with Korean funds, while From-global transactions involve property in Korea that is purchased with foreign funds.

We hypothesized that the motivation for making cross-border real estate transactions comprises three components: balancing required rate of return against risk preference, the opportunity to move outbound to global markets, and the effort to attract foreign funds inbound from global markets. We apply simple ordinary least squares regression analysis to 43 countries’ data. For the model of From-global transactions(measuring the attractiveness of the host country), we found the transparency index, the number of MRICS(members of the Royal Institution of Chartered Surveyors), and a set of second-order polynomials—a current account deficit country dummy, the amount of the deficit, and that amount squared—to be significant factors. Regarding the model for To-global transactions (measuring the ability to make outbound investments), we found the number of MRICS, the competitiveness index, and the size of the surplus of a country’s current account to be significant factors.

Keywords: Commercial Real Estate, Cross-border Deals, Regression Analysis, Diversification

Introduction

Ever since the financial crisis of 2007-2008, Korean journals and newspapers have focused much attention on the unemployment rate and new job creation, and the Korean government has been eager to create more jobs in every industry, inclusive of the real estate industry. This paper provides practical policy suggestions regarding new job creation in the...