

Country by Country, Foreign Investors Test US Markets As Some Nations Step Away, Others Move in

—Real Capital Analytics' October 2009 US Capital Trends

The role of foreign investment in US real estate is often exaggerated in media reports but in recent years, cross-border investors have accounted for less than 10 percent of all property acquisitions. However, from 2005 through 2008, foreign buyers claimed at least \$100 billion of US commercial property, a significant sum. Foreign investors are starting to turn their sights back on the US but the origins of the capital are changing and while the interest appears high, the actual acquisitions so far have been small.

Through Q3'09, acquisitions by non-US investors have totaled just \$2.1 billion but as a percentage of all US acquisitions, the market share of foreign buyers is up slightly overall and significantly higher for office, hotel and apartment sectors.

The nature and origin of recent foreign investment has changed from years past. Irish and Australian buyers have become sellers. More capital is starting to come from Asia and new investors from Korea and Hong Kong have made significant purchases recently. Recent foreign buyers also include more high net worth, entrepreneurial investors as opposed to major institutions or sovereign wealth funds. A summary of foreign investment by its origin is provided below.

Germany

Germans have been the most active cross-border property buyers in 2009 with nearly \$6.3 billion in global acquisitions to date but just \$933 million of that was in the US. Still, Germany has been the largest foreign buyer of US properties this year led by insurer Allianz SE and the prolific Deka Immobilien Investment GmbH, with its top-of-market deal for 1999 K Street in DC. Not included in the statistics are entity level investments, such as The Otto family's investment in retail REIT DDR.

Foreign Investment into US (in \$ bil.)			
Buyer Origin	2007	2008	2009
Australia	\$ 10.4	\$ 0.2	\$ -
Germany	\$ 2.6	\$ 1.7	\$ 0.9
Canada	\$ 6.9	\$ 0.6	\$ 0.1
United Kingdom	\$ 3.1	\$ 0.4	\$ 0.2
Israel	\$ 2.6	\$ 0.6	\$ 0.0
Japan	\$ 0.9	\$ 0.8	\$ -
Hong Kong	\$ 0.1	\$ 0.0	\$ 0.1
Asia	\$ 0.6	\$ 0.2	\$ 0.3
Europe	\$ 2.5	\$ 1.3	\$ 0.2
MidEast	\$ 2.9	\$ 5.9	\$ 0.1
Americas	\$ 0.0	\$ 0.1	\$ 0.0
Ireland	\$ 0.9	\$ 0.5	\$ -
Grand Total	\$ 33.4	\$ 12.4	\$ 2.0

United Kingdom

UK-based investors plowed over \$3 billion into US commercial property in 2007 but have struck few deals here since. So far in 2009, they have accounted for \$155 million of transactions with the Prime Commercial Properties' joint venture acquisitions with Cedar Shopping Centers Inc. the most prominent.

Ireland

A bold spender whose US property investment outlays tripled from 2005 to almost \$1 billion in 2007, including some very pricey assets, Ireland has vanished from the investment scene this year as its economy has crumbled.



Europe

The remaining European countries – other than Germany, the UK and Ireland — have invested \$230 million in US assets this year, with investors from the Netherlands and Switzerland among the most active. PGGM's acquisition of apartments with Behringer Harvard has been one of the most notable new joint ventures to appear this year.

Mid-East

Mid-East investment has withered as the global recession buffeted Dubai. The only notable acquisition this year has been Investcorp Real Estate's acquisition of the Best Western President in Manhattan. However, apartment REIT UDR recently announced a \$450 million investment fund with Kuwait Finance House to buy high-quality apartment properties in primary markets.

Israel

Israel, also more prolific in the past, continues to play a role. Their activity includes opportunistic purchases of distressed properties, such as bulk condos in Florida. The recent contract for the \$330 million acquisition of HSBC's NYC headquarters indicates a formidable war chest.

Japan

It has been two decades since Japan played a leading role in US property, but in recent years investors from there have averaged \$1 billion annually in acquisitions. However, this year Japanese investors have yet to make a significant property purchase in the US.

Asia

In contrast to Japan and Australia (below), other Asian countries are gaining market share in the US in 2009 with \$317 million in acquisitions or 15 percent of all foreign property investments. Investors in South Korea and Hong Kong's Goldbond Group have been particularly active in office properties, with Kumho Investment Bank's acquisition of two AIG-owned buildings in Manhattan, and in retail properties, with Goldbond Group's Beverly Hills purchase. Just beginning to dip a big toe into US property markets is China Investment Corp., which recently announced plans to invest up to \$2 billion in US mortgages. Bank of China has also established a new office to originate commercial mortgages in the US.

Australia

Australia thoroughly dominated non-US investment in retail assets this decade, spending \$5.8 billion in 2005, \$4.2 billion in 2006 and \$7.7 billion in 2007. Then its investment kitty folded, and overall Australian acquisitions in the US withered from \$10.4 billion in 2007 to just \$161 million last year — and nothing so far in 2009.

Canada

Throughout the decade, Canadian investors have been key players in the US apartment market, and 2009 has been no different for them. So far this year, they have acquired \$80 million in apartment assets, such as Stonebrook Apartments in Florida, for 27 percent of foreign activity in the sector. In 2006, Canadian apartment acquisitions totaled \$2.1 billion or 57.7 percent of non-US-based apartment investment. Recently, Manulife contracted to buy its first US asset in years with a deal for an office property in Atlanta.

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