

The Wealth of Nations

Foreign investors have long favored US real estate for a variety of reasons, but other countries compete increasingly for those offshore dollars as investing goes global

Real estate investors from other countries have long viewed the US as a land of opportunity thanks to the history of rising returns, the availability of property information and political stability. Faith in the long-term prospects of US real estate, in fact, is one reason offshore investors have their eyes on US properties as much as ever.

But other countries and regions have always competed for those offshore dollars, notably the United Kingdom, where a significantly higher percentage of real estate investing comes from foreign capital. Europe and parts of Asia remain competitors, too, and that competition is growing stiffer as more newly developing nations enter the fray and the increasing globalization of the economy along with technology that makes information exchange easier all the time create a new world of international real estate investing. These are some of the forces that will be at work as the economy recovers and investment professionals look for capital sources both within and outside of the US.

Foreign investment in the US in 2010 is a classic good news-bad news scenario and an example that everything is relative. The good news is that foreign investment in the US

this year, at \$4.4 billion as of Oct. 1, has already surpassed the \$3.7 billion total for all of 2009, according to figures from New York City-based Real Capital Analytics. And Dan Fasulo, RCA managing director and head of global research, expects activity to pick up in the fourth quarter. But that \$4.4 billion compares with \$37.3 billion in 2007, the peak in this decade, according to RCA.

The current level of activity shows that "a major rush from foreign investors has yet to materialize," says Dennis Pollack, senior managing director and head of private placement at New York City-based EdgeRock Realty Advisors. When those investors do come to the US these days, both Pollack and Barry Barovick, New York City-based senior managing director of FTI Schonbraun McCann Group, say that the offshore money is likely to look for US partners rather than invest on its own. Says Pollack, "It's not uncommon for foreign investors to approach us to say that they are looking for an investor to do a JV with, and ask us to find that investor."

Barovick adds, "The biggest difference for foreign investors is that the sovereign funds, especially, won't do black-box investing any more. They really want to be more actively involved."

Some of the foreign investors

this year have included a group of South Koreans who bought 333 Market St. in San Francisco for \$333 million; the Canada Pension Plan Investment Board, which took SL Green Realty Corp.'s ownership stake at 1221 Ave. of the Americas in New York City and a 45% JV ownership at 600 Park Ave. for \$663 million; Germany's Deka Immobilien Investment GmbH's \$123-million acquisition of 19 W. 44th St. in Midtown Manhattan; and investors from Hong Kong and Singapore who paid \$148 million for 9900 Wilshire Blvd. in Beverly Hills, CA.

These deals demonstrate that foreign investors, like US institutional buyers, tend to focus on major markets like New York City, Los Angeles and San Francisco. As the economy recovers and offshore money looks for deals, Barovick says that US properties will be competing with the world.

"One of the things that has changed is that investors are looking for opportunities regardless of the location," he says. "People are still worried about political risk and sustainability and other issues, but as opportunities are presented, they get looked at.

The major markets of the world are all competing with each other."—*Bob Howard* ♦