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Foreign Buyers Are Targeting the US Again

Much of the slowdown had to do with travel restrictions and difficulty in inspecting the properties and meeting with operating partners.

By Erik Sherman

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After a pandemic-related slowdown, cross-border investment in US commercial real estate is on the selective rise.

"We did see a slowdown [of international investment] during the pandemic," Riaz Cassum, executive managing director and global head of international capital at JLL Capital Markets, tells GlobeSt.com. "A lot of it was related to travel restrictions and difficulty in terms of being able to look at real estate, meeting with operating partners, et cetera."

But there's a big U-turn in process. "Most investors, both institutional and private high net worth, are allocating more of their investable assets to commercial real estate," Cassum says. "The reason being real estate has performed well through the last few cycles." He sees pension and sovereign wealth funds upping their previous real estate investments from 7% to 8% of their portfolios up to 10% and more.

Portfolio CRE allotments of high-net-worth individuals have also been climbing. "Like single- and multiple-family offices going from 2%, 3%, 4% of commercial real estate to 6%, 7%, 8%. We've seen a fair amount of new capital coming into the space from the ultra-high-net-worth group."

"There was a lot of money ready to be deployed before the pandemic and they couldn't find the right property or investment," Corali Lopez-Castro, a partner at Kozyak Tropin & Throckmorton in Florida, tells GlobeSt.com. “When the pandemic hit, I think sophisticated investors saw a great opportunity.” The phones started lighting up with calls from South American clients.

Patrick Campbell, the manager of the condo division at developer Related Group, has also seen investors coming in from Central and South America and Turkey as well, though not so much from mainland Europe, which have experienced more difficulty in coming into the US.

“Open funds in Germany are statutorily required to physically inspect the real estate,” Cassum says. “A German appraiser has to come in,” which means travel. Though that is starting to change. “There are instances of transactions happening where the investor has not physically inspected the property but closed on the building.”

“European investors believe the US commercial real estate market will recover faster than the European one,” Alex Carini of broker Carini Group tells GlobeSt.com. “Companies that rolled out vaccines are mainly American, which means that Americans are being vaccinated first and the US economy will fully reopen sooner than the European market.”

“One of the bigger shifts has been the willingness of foreign investors to look at primary cities in secondary markets, particularly the Sun Belt market,” says Cassum.

Ben Adams of Ten Capital Management tells GlobeSt.com that his firm has several clients from the Middle East and Europe, and Central and South America currently investing in US real estate. “They are indeed moving to secondary markets rather than larger cities for stability and yield and predictability,” he says. Areas like Dallas, Denver, Atlanta, Nashville, and Austin were less impacted than places like New York, Washington, D.C., Boston, and Los Angeles.