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Foreign Investment in U.S. Properties: On the Rise or Status Quo?

by Steve Bergsman



Steve Bergsman is a financial journalist whose articles appear in such magazines as Barron's, Wall Street Journal Sunday, National Real Estate Investor, Urban Land, and Mortgage Banker. He is based in Mesa, Arizona.

One American Place sits two blocks from the State Capitol Building in Baton Rouge, Louisiana. Less than two years ago, this big chunk of real estate tucked away in a deep Southern state was acquired by two organizations, one of which resided in Germany.

Built in 1974, the 336,128-square-foot mid-rise remains Baton Rouge's premier office property, says **Branon Pesnell, CCIM, SIOR,** NAI Latter & Blum Inc., in the city.

The new owners, BGK Properties, Inc., of Santa Fe, New Mexico, and an undisclosed German mutual fund, got a "jewel," he adds.

While foreign investors in U.S. real estate continue to be a force to be reckoned with in many markets, deals like One American

Place probably represented a high point of foreigners seeking a piece of the rock—a U.S. rock, that is.

Foreign investment in U.S. real estate has been on a plateau for the last couple of years and this year investors based overseas will probably reduce their U.S. real estate portfolio allocation, reports the Washington, DC-based Association of Foreign Investors in Real Estate (AFIRE). According to AFIRE, the U.S. percentage of global real estate acquisitions will decline to 55 percent from 71 percent last year.

From Sea to Shining Sea

The problem for foreign institutional investors is the same as for U.S. investors: locating attractive opportunities. And as with U.S. investors, it is not impossible to find good deals; one just needs to search them out wherever they

might be. That is why those markets reporting active foreign investments in real estate are very widely scattered, with no trend line in asset type.

For example, consider these three diverse deals reported by SIOR members:

Chicago, Illinois

In what is probably one of the largest, if not the largest, real estate transaction involving a foreign buyer this year, CenterPoint Properties Trust of Oak Brook, Illinois, sold a portfolio of Chicago industrial properties for \$392.7 million to a new venture created by CenterPoint; JF Industrial Trust, a property trust to be listed on the Australian Stock Exchange; and a subsidiary of Australia's Mirvac Group. In the transaction were 41 buildings

representing almost 10.1 million square feet. "Significantly, all the properties were located in various Chicago sub-markets," according to **Jeffrey L. Blake, SIOR**, an industrial specialist with Paine\Wetzel Associates ONCOR International in Chicago.



Blake

He adds that the weaker U.S. dollar maintains favorable exchange rates, encouraging continued growth of foreign investment in Chicago through REITs and Pension Fund Advisors. In addition, several private and public entities from Western Europe and other areas, operating as developers, are making significant impact in selected Chicago area submarkets.

Bridgeport, Connecticut

Sal L. Buono, SIOR, Cushman & Wakefield of Connecticut, Stamford, Connecticut, reports that his company is working on a deal where a British family trust is acquiring a supermarket property in Bridgeport. A group of investors in partnership with an undisclosed



Buono

supermarket chain developed the freestanding store, which was then leased back to the supermarket, says Sal. The lease has 17 years left on it. "The sellers would do the deal if they could achieve a 6.2 percent capitalization rate," explains Sal. "As it turned out, that was not an issue for the buyers who were looking for a 'passive' investment. The

investors do not have to do anything but collect the check." Although the investors were very savvy and knew the market, this was their first investment in the United States, so "there was a bit of a learning curve" as to how transactions are carried out here, Sal says.

Lakeland, Florida

The city of Lakeland sits between Tampa and Orlando on the busy Interstate 4 corridor. **James J. Steinbauer, SIOR**, Vice President, Steinbauer Associates Inc., doesn't mind if you call Lakeland a second- or third-tier city,



Steinbauer

because he's been as busy as any REALTOR® in a first-tier city. A growing number of his clients are foreign buyers. Currently, he is working with a Venezuelan investor who is buying warehouses, and just recently he helped a German investor purchase what was once a Wal-Mart building that is now subdivided for other retail. The question is, how do foreign investors find Lakeland? Steinbauer explains that the German investor, who resides in Munich, "vacations in Florida, and he has property in other locations in the state. But, generally for others, they start looking for real estate in Orlando or Tampa and one way or another, something from Lakeland pops up." Jim admits that Lakeland is not anyone's initial venue for investment, but if the cap rate on an investment is six to 7.5 percent in Fort Lauderdale, it's eight to 8.5 percent in Lakeland.

Traditional Investment Dollars

The National Association of REALTORS® reports that Japan has the highest investment share of foreign ownership of U.S. real estate—a little less than 25 percent. Other countries with big investment shares are Germany, Canada, the United Kingdom, and the Netherlands.

"In Houston, ... foreign buying has slowed on key, improved properties because of the intense competitiveness of U.S. investors."

—David L. Cook CRE, SIOR

David L. Cook, CRE, SIOR, Executive Vice President, Cushman & Wakefield of Texas, Houston, has seen a number of



Cook

Asian and European investors wash into the Houston market since the turn of the millennium. "In the last couple of years, we have seen foreign buyers coming in as both developers and investors," he says. About four years ago, an Asian investor bought a 100-acre site that was originally developed as an industrial property, but "they scraped that off and are now selling smaller sites for office, multifamily and some retail," says David.

Last year, David reports, a Dutch group bought a "premier" Houston site for \$15 million and has been developing multifamily properties on the land. Also, an Italian group paid \$100 million for downtown properties. Cushman & Wakefield worked with some German investors, who, in a \$20 million transaction, also acquired real estate in downtown Houston.

Nevertheless, David suggests that foreign buying has slowed on key, improved properties because of the intense competitiveness of U.S. investors.

That is not the experience of **Elizabeth C. Belenchia, CCIM, SIOR**, President of Carroll Properties Corporation, Spartanburg, South Carolina. Ever since BMW decided to build a plant in South Carolina back in 1992, the Spartanburg-



Belenchia

Greenville region has been awash in suppliers. "We have 450 international firms in South Carolina with 96 coming from Germany," she notes. Prior to BMW locating in South Carolina, we had 38 German firms in the state.

I located an architectural lighting fixture company from Western Germany here last year," she adds, "and they bought a surplus facility that had been owned by Tyco Electronics."

That deal was in Gaffney, which is located in Cherokee County, near Spartanburg. About a year and a half ago, Elizabeth located another international company in Cherokee County—a South African firm that makes engine cleaner.

Because there have been so many foreign relocations due to the BMW plant and ancillary businesses, Elizabeth says her company has created “The Total Property Experience™” program to help foreign and domestic entrepreneurs identify real estate opportunities globally. This includes industrial, commercial, residential, or leisure properties.

New Investors Coming from Asia and Latin America

As James Steinbauer observed firsthand, Latin American-ownership has been increasing in recent years and is now up to nine percent of the foreign investment in U.S. real estate.

When Latin Americans come to the United States to buy land

or buildings, they go first to where they are familiar and comfortable, and that’s Southeast Florida, or the corridor from Miami through Fort Lauderdale to West Palm Beach. “South



Morris

Florida, especially Dade County (Miami) has been the gateway to Latin America,” comments **Kenneth E. Morris, SIOR**, Morris Southeast Group based in Plantation, Florida.

“We are getting a lot of capital coming out of Latin America, due to political events, looking for a place to be parked. American real estate is a safe bet over the long haul,” he says.

“Huge flows of capital not only from Latin America, but from Europe also, have come to

Southeast Florida in the last 24 months,” Ken adds, and that has greatly affected new development for condominiums. Capital has also flowed to most of the other asset classes as well, particularly industrial, office, and retail.

Across the country, Pacific Coast states are experiencing capital inflows from a new investor source, China.

The Inland Empire, based around the California communities of Riverside and San Bernardino, has been, and continues to be, a major industrial and distribution location for goods either heading to West Coast markets or coming off boats from the ports of Long Beach and Los Angeles and then shipped to destinations across North America. The Inland Empire has undergone a transformation.

“The majority of today’s buyers are completely different from 15 to 20 years ago,” explains



Earnhart

Douglas C. Earnhart, SIOR, Senior Vice President, Lee & Associates, Ontario, California. “Back then, American companies were buying to

do manufacturing here. Today, 80 percent of new buyers are typically Pacific Rim companies, predominantly from China, and they are locating warehouse and distribution facilities. They have to be in this market to sell and service their stuff from China, which is shipped from the Inland Empire to the rest of the United States.”

One of the most important service persons in the Inland

Empire is now the *feng shui* expert (*Feng shui* is the ancient Chinese tradition of placement

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—**Douglas C. Earnhart, SIOR**

and design). The *feng shui* consultants are brought in to look at building layouts and traffic flow, and once they get their imprimatur, the owners can sell their building to “the Asian market

that we didn’t have 15 years ago,” says Doug.

While U.S. companies are still taking space in the Inland Empire with big buildings, 500,000 to 800,000 square feet, Doug says that 80 percent of buyers are Asian, whose typical investment is in smaller properties, 50,000 to 150,000 square feet.

A recent deal involved a Chinese husband and wife team that came to Ontario “with not a nickel to rub together,” says Doug. “Now they own buildings with hundreds of thousands of square feet to house baseball caps imported from their plant in China.” 