2023 Commercial Real Estate International Business Trends

National Association of REALTORS®
Research Group

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Summary

After a remarkable year for the commercial real estate market in 2021, the real estate market slowed down in 2022. Uncertainty in the global market due to geopolitical risk and rising interest rates has tapered off activity in most sectors of commercial real estate. While the office sector remains the hardest-hit segment of the real estate market, the multifamily and industrial sectors experienced slowing demand and rent growth in the second half of 2022. At the end of 2022, office net absorption returned to negative territory, and even more office spaces have become vacant. Even though the fundamentals remain solid for the multifamily and industrial sectors, market activity has dropped. Compared to the previous year, net absorption fell by 21% and 79% in the industrial and multifamily sectors in 2022, respectively.

The 2023 Commercial Real Estate International Business Trends Report discusses the trends in foreign buyer purchases of U.S. commercial real estate in 2022 in the "large commercial real estate market," with sales of $2.5 million or over. To do so, the National Association of REALTORS® analyzed data published by Real Capital Analytics.

In this unprecedented era of uncertainty, foreign investments have also been impacted. Cross-border investment activity fell by 50 percentage points to $37.2 billion in 2022, accounting for a 5% share of total deal volume in the U.S. in 2022, down from 9% in 2021. This decrease brings 2022 cross-border sales back to the pandemic level, at $37.0 billion in 2020. Canada remained the primary source of capital, with $15.3 billion in sales, followed by Europe ($8.9 billion) and Asia ($7.8 billion) in 2022. Dallas, Los Angeles, and Atlanta were the top three destinations attracting the most foreign investors in U.S. commercial real estate as of the first quarter of 2023. Data shows that areas with fast job growth, a strong economy, favorable demographics, and solid commercial real estate markets mainly attract foreign investors. Parsing out by property type, most foreign investments were made in the industrial sector (34% of all cross-border sales), followed by apartments (27%).

However, the 2023 data indicates that cross-border activity is coming back. As of Q1 2023, the volume of cross-border investments has already increased to $43 billion – 16% up compared to the end of 2022 - representing 7% of the total commercial real estate transactions. This increase was mainly reflected by a $8.5 billion increase in foreign investments from Asia in the U.S. market.

Cross-Border acquisitions in large Commercial Real Estate Markets

Cross-border flows of $2.5M or more dropped by 50% in 2022

Nearly half of the 2021 cross-border acquisitions our country experienced in 2022. Although activity was near record highs in the first half of 2022, surpassing $78 billion, uncertainty in the global market due to the war in Ukraine and higher interest rates have pushed down activity in the second half of 2022.

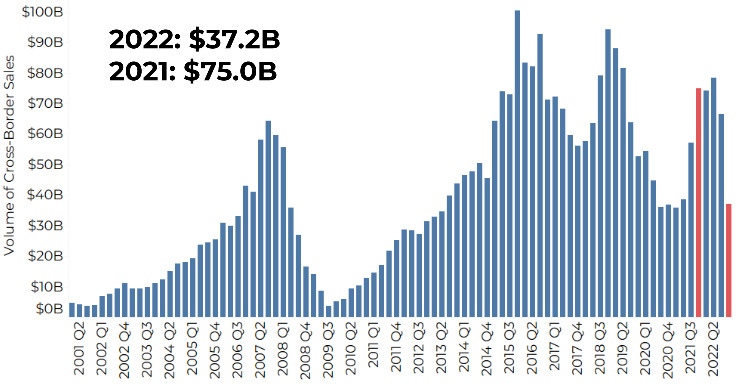
Specifically, according to data from Real Capital Analytics, in 2022, the volume of cross-border acquisitions fell by 50 percentage points to $37.2 billion compared to $75.0 billion a year ago. That was the lowest level of cross-border sales volume since the first quarter of 2021.

As a result, cross-border flows accounted for 5% of the $753.0 billion in U.S. commercial real estate acquisitions during 2022. This is a decrease from 9% in 2021.

The U.S. remains the most attractive country to foreign investors

Although foreign investments slowed down in 2022, the U.S. remains the top destination for foreign investments worldwide, recording the largest inward foreign direct investments (FDI) of all economies in 2022. According to the latest release from the United Nations Conference on Trade and Development (UNCTAD), FDI flows in the U.S. fell to $285.1 billion in 2022 from $387.8 billion the previous year. Even with this decrease, the U.S. continues to be the world's largest recipient of FDI (followed by China with $189.1 billion), thanks to its large consumer base, a predictable and transparent justice system, a productive workforce, a highly developed infrastructure and a business environment that fosters innovation.

Volume of cross-border acquisitions



Source: Real Capital Analytics

Top 10 countries with the most Foreign Direct Investments (FDI) inflows

	2022	2021	%Change (2022-2021)
United States	$285.1B	$387.8B	-26.5%
China	$189.1B	$181.0B	4.5%
Hong Kong	$117.7B	$140.2B	-16.0%
Australia	$61.6B	$20.9B	194.9%
Sweden	$46.0B	$21.1B	117.5%
France	$36.4B	$30.9B	17.9%
Spain	$34.8B	$22.0B	58.5%
Japan	$32.5B	$24.7B	31.9%
Poland	$29.5B	$29.6B	-0.4%
Israel	$27.8B	$21.5B	29.2%

Source: United Nations Conference on Trade and Development (UNCTAD)

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Cross-Border acquisitions in large Commercial Real Estate Markets

Even though the United States is the country with the biggest current account deficit, the U.S. offers the largest consumer market with a GDP of $25 trillion and solid performance in various sectors.

Economic indicators of the top 10 countries with the most FDI inflows in 2022

	GDP	GDP growth	Inflation	Unemployment Rate	Current Account Balance
United States	$25,462.7B	2.1%	8.0%	3.6%	($971.6B)
China	$17,963.2B	3.0%	2.0%	4.9%	$401.9B
Hong Kong	$359.8B	-3.5%	1.9%	5.1%	$37.9B
Australia	$1,675.4B	3.6%	6.6%	3.7%	$19.5B
Sweden	$585.9B	2.6%	8.4%	7.4%	$27.5B
France	$2,782.9B	2.6%	5.2%	7.4%	($56.7B)
Spain	$1,397.5B	5.5%	8.4%	13.0%	$7.0B
Japan	$4,231.1B	1.0%	2.5%	2.6%	$91.0B
Poland	$688.2B	4.9%	14.4%	2.6%	($20.8B)
Israel	$522.0B	6.5%	4.4%	3.5%	$18.2B

Source: World Bank

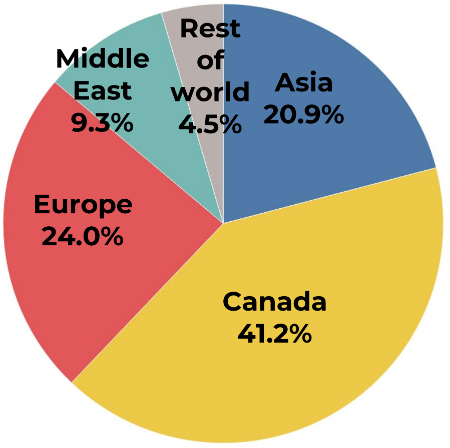
Cross-border flows at the regional level in 2022

By region, cross-border transactions decreased across all major regions, with Asia experiencing the largest drop by 69 percentage points. Canada and the Middle East followed, with activity declining by 44 and 43 percentage points, respectively. The volume of cross-border acquisitions from Europe also went down by 34 percentage points.

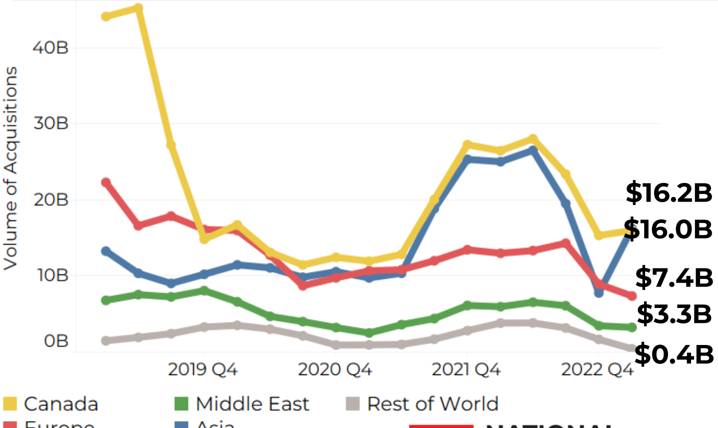
Even with this decrease, Canada remained the largest source of cross-border acquisitions in the U.S. in 2022 at $15.3 billion or 41% of the inflows, followed by Europe ($8.9 billion or 24%) and Asia ($7.8 billion or 21%).

Nevertheless, 2023 data shows that Asia is taking over first place as the top investor in the U.S. for the first time since the second quarter of 2018. In the four quarters ending in Q1 2023, cross-border acquisitions from Asia rose to $16.3 billion, surpassing Canada with $16 billion.

Composition of cross-border sales (2022)



Cross-border sales in Commercial Real Estate by region as of Q1 2023



Source: Real Capital Analytics

Top countries invested in the U.S. Commercial Real Estate Market

Canada continued to be the largest source of cross-border transactions

By country, despite slower activity in 2022, Canada remained the top investor in the U.S. Commercial Real Estate market, acquiring $16 billion in the last four quarters ending in Q1 2023, 42% down from a year ago.

Singapore kept second place, purchasing $10.8 billion of U.S. commercial real estate, 35% down from a year ago.

Japan rose to third place (#4 in 2022) with $2.9 billion in acquisitions, 175% up from the previous year.

Switzerland reached fourth place (#6 in 2022), purchasing $2.3 billion of commercial real estate in the U.S. That was a 20% increase compared to the volume a year ago.

Finally, South Korea went down to fifth place (#3 in 2022) as the acquisition volume fell by 65% from a year ago to $2.2 billion in the first quarter of 2023.

Other countries that invested at least $1 billion dollars were Spain ($1.8 billion), Bahrain ($1.6 billion) and Israel ($1.4 billion).

Top countries invested in U.S. Commercial Real Estate as of Q1 2023

Canada	$15.98B
Singapore	$10.85B
Japan	$2.91B
Switzerland	$2.34B
South Korea	$2.17B
Spain	$1.82B
Bahrain	$1.58B
Israel	$1.38B
United Kingdom	$0.98B
Germany	$0.95B
Netherlands	$0.40B
France	$0.37B
Sweden	$0.31B
China	$0.31B
Australia	$0.27B
Qatar	$0.27B
Thailand	$0.23B
United Arab Emirates	$0.16B
Hong Kong	$0.15B
Denmark	$0.09B
Taiwan	$0.07B
Luxembourg	$0.05B
Saudi Arabia	$0.04B
Bermuda	$0.03B
Mexico	$0.03B

Source: Real Capital Analytics

Metro areas attracting most foreign investors

Non-major metros attracted more foreign investors in commercial real estate

The volume of cross-border acquisitions in non-major metro areas ($25.2 billion) is more than twice the volume in major metro areas ($12.0 billion). Nevertheless, considering that the total transaction volume (both domestic and cross-border) is higher in non-major metros, the share of cross-border acquisitions was 5.7% in the major metros compared to 4.6% in non-major metros.

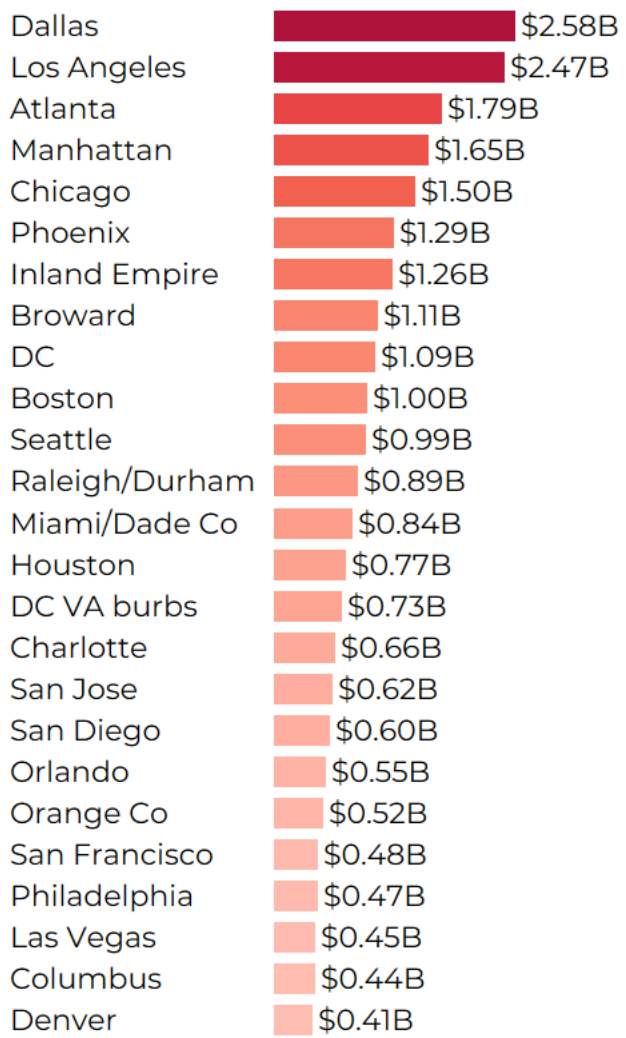
At the local level, Dallas, Los Angeles, and Atlanta were the top three destinations attracting the most foreign investors of U.S. commercial real estate as of the first quarter of 2023.

In Dallas, the volume of cross-border sales was $2.6 billion during the last four quarters ending in Q1 2023, representing 6% of all foreign investments in U.S. commercial real estate. Purchases from Canada exceeded the $1 billion dollars in the Dallas market. A strong commercial real estate market (compared to the national level) is one of the primary factors that many foreign investors are attracted to in this area. Specifically, demand for space across every sector of commercial real estate (office, multifamily, retail, and industrial) is larger in Dallas than at the national level. In addition, a strong economy coupled with favorable demographics are a couple of other factors that attract foreign investors to the Dallas metro area.

Foreign investments rose substantially in the Los Angeles metro area. Los Angeles jumped to the second place (#7 in 2022), as the sales volume increased to $2.5 billion, nearly 30% up from a year ago. More than half of these transactions ($1.3 billion) were made by Asian investors. Los Angeles surpassed New York for the top U.S. areas for foreign real estate investments. Foreign investors are attracted to the Southern California region for a number of reasons, including strong economic growth and a rising household income.

Although sales volume dropped by 51 percentage points compared to the previous year, Atlanta was able to keep third place with $1.8 billion in foreign investments in the commercial real estate market.

Top markets most attractive to foreign investors as of Q1 2023



Source: Real Capital Analytics

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Metro areas attracting most foreign investors

Data shows foreign investors are attracted to areas with fast job growth, a strong economy, favorable demographics, solid commercial real estate market fundamentals, and low cap rates. Most of the areas with the most foreign investments, as of Q1 2023, outperformed compared to the national level in the following ten indicators.

Statistics on the top 10 markets attracting most foreign investors

Area	Population growth 2022	Median household income 2022	Income growth 2022	GDP growth 2021	Job Growth Sep2023	Unemployment Rate Sep 2023	Office Cap Rate Q3 2023	Retail Cap Rate Q3 2023	Multifamily Cap Rate Q3 2023	Industrial Cap Rate Q3 2023
Dallas	2.3%	$78,396	7.9%	10.8%	4.3%	3.9%	8.0%	6.4%	5.4%	6.3%
Los Angeles	-0.9%	$83,642	6.2%	11.1%	2.3%	5.3%	6.6%	5.3%	4.6%	4.7%
Atlanta	1.2%	$79,814	8.6%	11.2%	2.2%	3.4%	8.2%	6.8%	5.2%	6.5%
New York	-0.8%	$86,870	7.2%	9.3%	2.0%	4.4%	6.4%	5.9%	4.9%	5.7%
Chicago	-0.7%	$78,480	4.7%	10.3%	1.4%	4.7%	8.8%	7.4%	6.4%	7.6%
Phoenix	1.4%	$78,539	8.6%	10.4%	2.2%	3.8%	8.1%	6.5%	4.5%	6.2%
DC	0.3%	$111,281	5.2%	7.7%	2.4%	2.6%	8.4%	6.1%	5.3%	6.7%
Boston	0.1%	$99,219	3.1%	10.1%	3.1%	2.3%	6.9%	6.2%	4.8%	6.8%
Seattle	0.5%	$101,009	3.8%	10.4%	2.8%	3.7%	6.7%	5.7%	4.5%	5.3%
Raleigh/Durham	2.2%	$86,742	6.5%	12.1%	3.7%	2.9%	8.3%	6.4%	4.9%	7.3%
U.S.	0.4%	$70,671	6.1%	10.7%	2.0%	3.8%	8.2%	6.7%	5.7%	6.9%

Source: ACS, U.S Bureau of Labor Statistics data, CoStar, BEA

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Types of properties purchased by foreign investors

Industrial spaces continue to attract most foreign investors

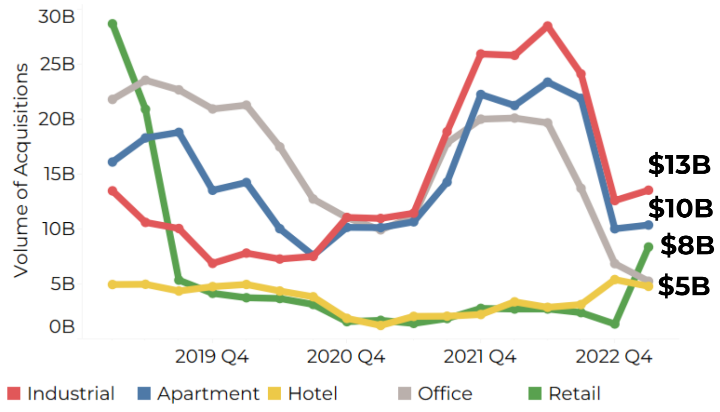
While cross-border sales volume has decreased in all types of properties, data shows that the industrial market continued to represent the largest share of acquisitions, totaling $12.6 billion or 34% of the total foreign transactions ($37.2 billion) in 2022.

Apartments are the second most favorite type of property that foreign investors purchase. In 2022, apartment acquisitions made up 27% of all cross-border transactions ($10.0 billion).

Although the office sector continues to suffer from the slow return to office transition with negative net absorption and record-high vacancy rates, office acquisitions represented 18% or $6.8 billion of all cross-border sales, the third largest property type.

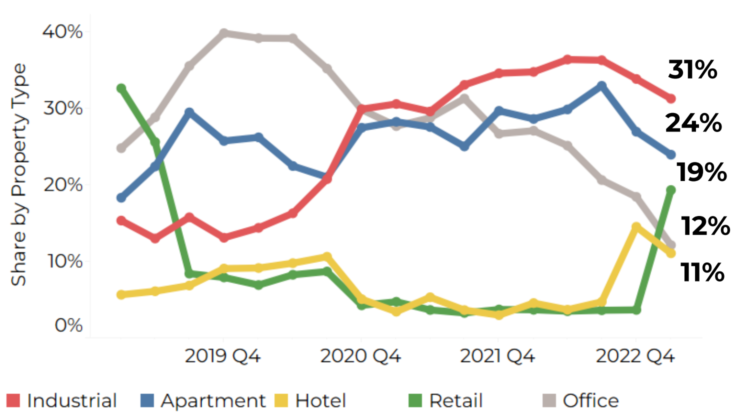
Nevertheless, in 2023, data shows an impressive increase in demand for retail spaces. During the last four quarters ending in Q1 2023, the volume of retail transactions rose substantially to $8.4 billion from $1.3 billion the previous quarter. As a result, as of Q1 2023, retail properties made up the third largest share of cross-border sales (surpassing office properties), representing 19% of all sales.

Acquisitions of foreign investors by property type as of Q1 2023



Source: Real Capital Analytics

Share of cross-border transactions by property type



Source: Real Capital Analytics

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Cap rates of cross-border purchases and sales by capital group

Cross-border property transactions had lower cap rates

Foreign investors are purchasing high-value properties compared to the total market acquisitions. The average cap rates of foreign investor acquisitions across nearly all types of properties (office sub, industrial, retail, and apartment properties) were lower than those of the total market. Specifically, the cross-border industrial transactions had the lowest cap rate at 4.6%. Meanwhile, lower cap rates usually indicate high-value properties, primarily suitable for investors seeking lower risk. Only in the office sector in the big city centers cross-border cap rates were higher than those of the overall market.

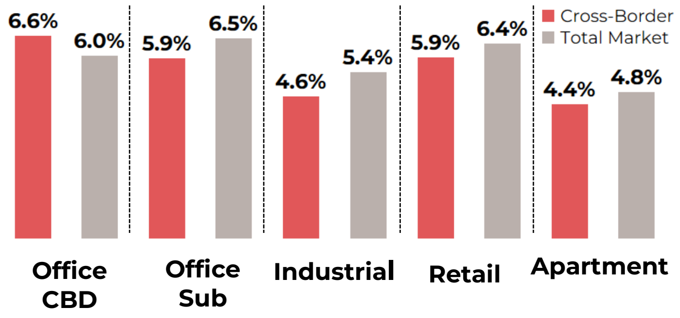
Institutional investors accounted for 65% of acquisitions in 2022

In large commercial markets, foreign institutional investors represent the largest group of cross-border transactions, purchasing $24.3 billion or 65% of the total $37.2 billion in cross-border flows.

Professional fund managers were the largest investor group, at $14.6 billion in investments (60%), followed by pension and sovereign wealth funds at $5.1 billion (21%). Banks/finance and insurance companies accounted for the remainder of 19%.

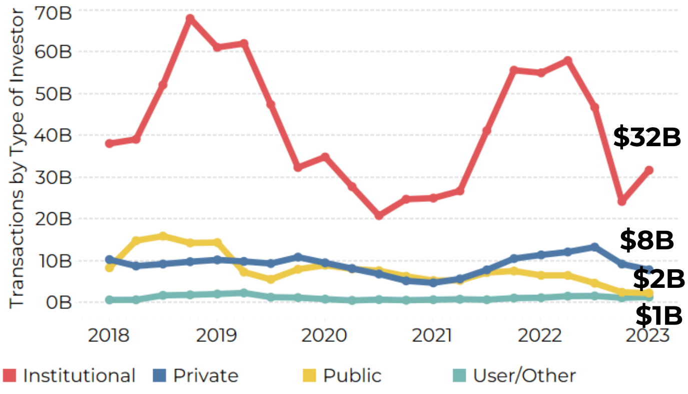
Meanwhile, data shows that the presence of institutional investors in cross-border investments is growing even further in 2023. During the last four quarters ending in Q1 2023, the share of institutional investors rose to 73%. Pension and sovereign wealth funds took the first place with $15.1 billion, surpassing the investments from professional fund managers ($14.5 billion).

Cap rates of cross-border versus total market acquisitions



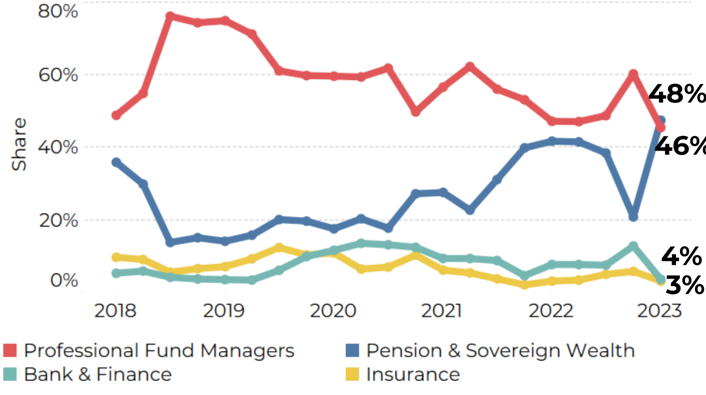
Source: Real Capital Analytics

Cross-border transactions by type of investor until Q1 2023



Source: Real Capital Analytics

Composition of cross-border institutional investors until Q1 2023



Source: Real Capital Analytics

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