2020

COMMERCIAL REAL ESTATE INTERNATIONAL BUSINESS TRENDS

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National Association of REALTORS®
Research Group

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COMMERCIAL REAL ESTATE INTERNATIONAL BUSINESS TRENDS 2020

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Download report at: https://www.nar.realtor/commercial-real-estate-market-survey

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COMMERCIAL REAL ESTATE INTERNATIONAL BUSINESS TRENDS 2020

The *Commercial Real Estate International Business Trends 2020* report discusses foreign investment transactions of less than $2.5 million ("small commercial market") based on a survey of NAR commercial members whose transactions are typically below $.5 million. The report also discusses acquisitions of properties or portfolios of at least $2.5 million ('large commercial market"). The information on the small commercial market is based on the responses of 1,613 commercial members of the National Association of REALTORS® (NAR) who responded to an annual survey on international business trends and the responses of nearly 3,200 responses from a quarterly market survey. The annual international business survey was conducted during January 2—February 2. Information on the large commercial market is based on Real Capital Analytics market data.

As the U.S.-China tariff war escalated in 2019, U.S. economic growth expanded at a slower pace of 2.3% (2.9% in 2018), with growth mainly weighed down by the contraction in investment spending. Global growth also decelerated to 2.9% in 2018 (3.6% in 2018).

In this economic environment, foreign buyers of NAR commercial members purchased $4.3 billion of U.S. real estate. In the large commercial real estate market, acquisitions of commercial properties by foreign investors dropped steeply to 49.1 billion, just nearly half the level in 2018, as investors from Canada, Asia, and Europe pulled back.

In 2020, 61% of respondents who worked with an international client in 2019 expect their international client transactions to stay the same in 2020 (34%) or increase (27%) in 2020. About a third reported "don't know". Respondents appear to be more uncertain about the 2020 outlook: in the prior year, a higher fraction of 31% reported they expect an increase in their international client business and 27% reported "don't know."

Enjoy reading the report for more information on international commercial business trends!

SURVEY RESULTS:
International Commercial Business of NAR Commercial Members

INTERNATIONAL COMMERCIAL BUYERS

In 2019, NAR estimates that among NAR's commercial members, foreign buyers purchased $4.3 billion of U.S. real estate* in 2019. This is equivalent to 1.8% of the $224.8 billion in total dollar sales volume of NAR commercial members. It is also 10% of the $49.1 billion in cross border flows in the large capital market in 2019.

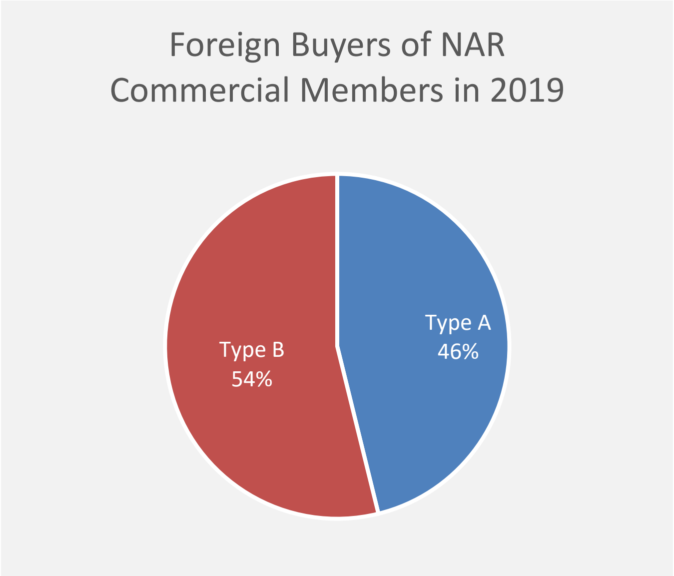
In terms of number of properties, foreign buyers of NAR commercial members purchased 6,100 units, or 2% of the estimated 354,700 commercial properties sold by NAR commercial members in 2019.

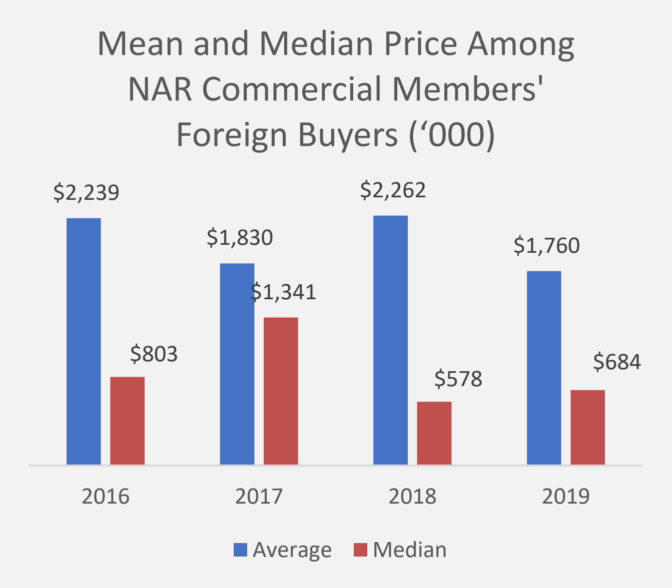
Foreign buyers who primarily resided abroad (Type A) accounted for 54% of NAR commercial members' foreign buyer purchases, while the remaining 46% purchases of foreign buyers who had lived in the U.S. in the past two years at the time of the transaction (Type B).

The median sales price among foreign buyers of NAR commercial members in 2019 was $684,200 ($578,100 in 2018). The average sales price was $1.76 million ($2.3 million in 2018). About 26% of foreign buyers purchased property valued at $2 million or greater.

$4.3 Bn

Dollar volume of U.S. real estate purchased by foreign buyers in 2019 among NAR commercial members





* Mostly commercial properties but this may include purchases for residential use (primary or vacation use)

INTERNATIONAL COMMERCIAL BUYERS

China accounted for the largest share of foreign commercial buyers, at 20% in 2019. Mexico is the next largest country of origin, at 11%, followed by Canada, at 8%. These three countries have been in the top five list since 2016.

Top Foreign Commercial Real Estate Buyers of NAR Commercial Members							
	2016		2017		2018		2019
China	17%	China	20%	China	21%	China	20%
Mexico	14%	Mexico	11%	Canada	7%	Mexico	11%
Venezuela	7%	Canada	8%	Mexico	6%	Canada	8%
United Kingdom	7%	United Kingdom	6%	Germany	5%	Argentina	6%
Canada	4%	Germany	5%	India	5%	India	4%
South Korea	4%	Russia	5%	Israel	5%	Japan	4%
Vietnam	4%			United Kingdom	5%	Spain	4%
France	4%			Venezuela	5%		
Israel	4%			Vietnam	5%		
United Arab Emirates	4%			Italy	4%		

Twenty-five percent of NAR commercial members' foreign commercial buyers purchased property in Florida, followed by Texas, 14%; Georgia, 11%; and California, 9%.

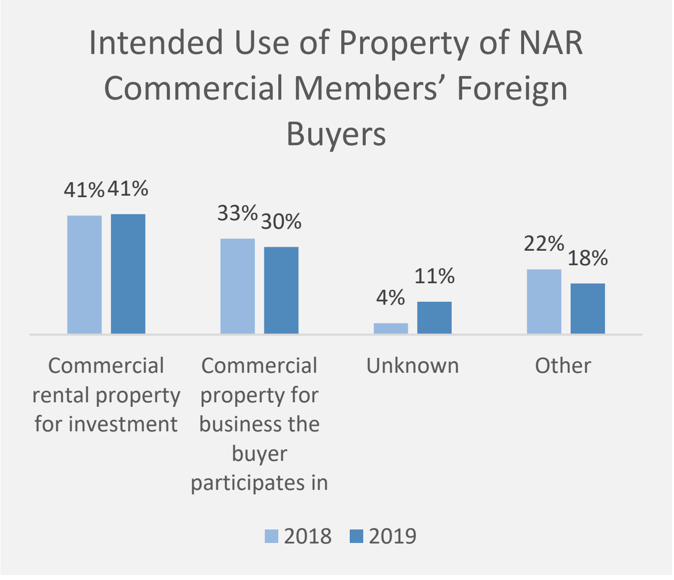
Top States Where Foreign Commercial Real Estate Buyers of NAR Commercial Members Purchased Property							
	2016		2017		2018		2019
Florida	26%	Florida	23%	Florida	20%	Florida	25%
Texas	19%	Texas	16%	Illinois	13%	Texas	14%
California	8%	California	13%	Texas	11%	Georgia	11%
New York	6%	Massachusetts	6%	California	9%	California	9%
Arizona	4%	Michigan	6%	Georgia	4%	Iowa	4%
Ohio	4%	Illinois	5%	Virginia	4%	Pennsylvania	4%
		Nevada	5%	New York	4%	Tennessee	4%

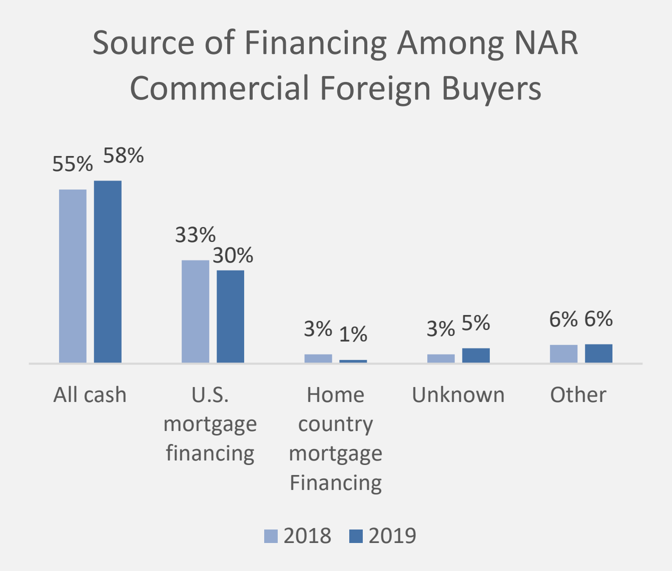
INTERNATIONAL COMMERCIAL BUYERS

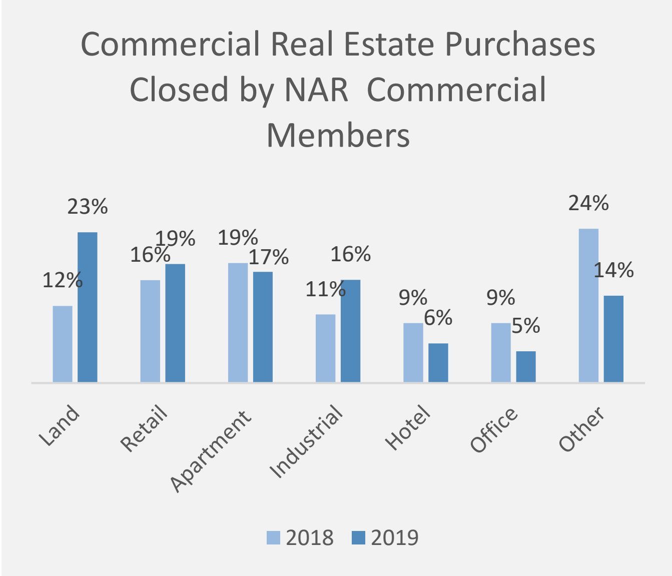
Among NAR commercial foreign buyers, 58% were all-cash sales. Mortgage financing from U.S. lending institutions was the second biggest source, at 30%.

In 2019, 23% of foreign commercial buyers purchased land (12% in 2018), followed by retail properties, 19%; apartment, 17%; and industrial, 16%. Hotel and office accounted for about 5% to 6% each. Fourteen percent reported other types of property (e.g. warehouse, multiplexes, vacation home, single-family residential property).

Forty-one percent of foreign buyers purchase the property for commercial rental, 30% for business use, and 18% for other uses (e.g., multi-property portfolio, residential development, retail space leased for franchise, hold long-term for value appreciation, for vineyard/farming, campground, and primary residence use). Eleven percent of respondents did not know how the buyer intended to use the property.



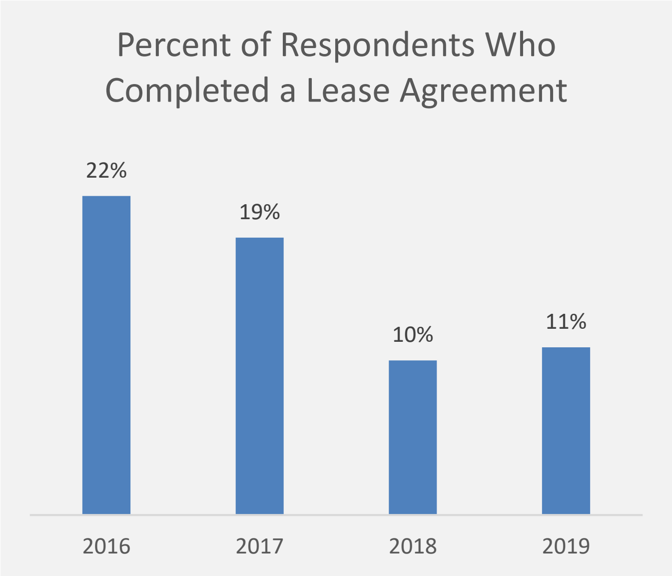




LEASE AND APPRAISAL TRANSACTIONS

Eleven percent of respondents reported they completed a lease agreement with an international client. This is about the same compared to 2018 but just half of the 22% share in 2016.

Four percent of respondents reported they conducted an appraisal for an international client. This is about the same compared to 2018 but just about a third of the 14% share in 2016. This decline reflects in part the decline in number of real estate appraisers.



INTERNATIONAL BUSINESS TRENDS

According to *NAR's Commercial Real Estate Quarterly Market Survey*, among NAR commercial members who are engaged in sales/acquisitions (67% of approximately 75,000 members), 12% had a client who was a non-U.S. citizen who primarily resided abroad, or a Type A buyer.

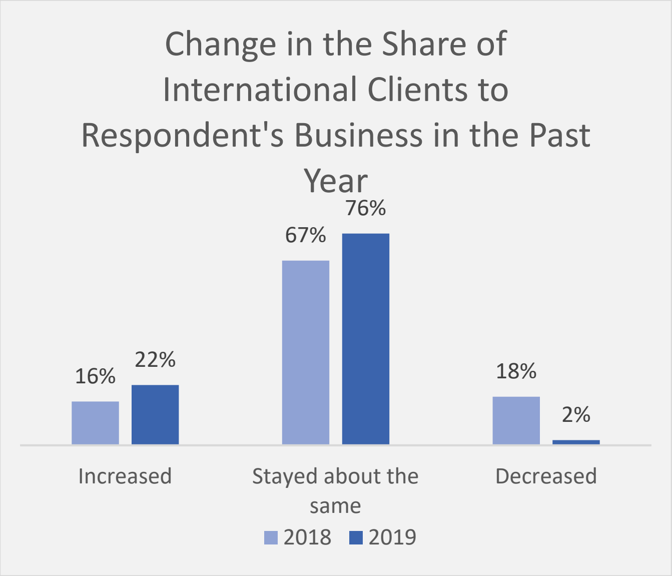
According to *NAR's International Commercial Real Estate Survey*, 56% of respondents who had an international sales transaction represented an international buyer.

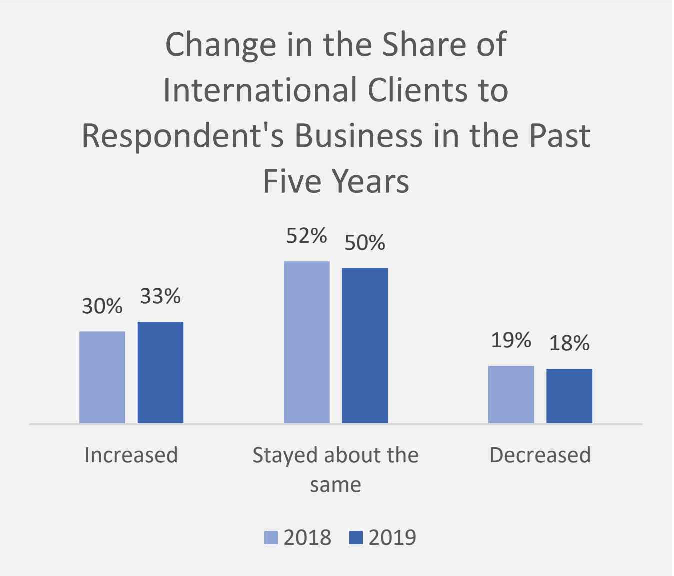
The median number of international foreign buyers among NAR commercial members was one buyer.

Among respondents who worked with an international client, 76% reported that the share of international clients to their business stayed about the same in 2019. Among respondents who worked with an international client, 22% reported an increase in their international client business in the past year, but over a five-year period, 33% reported an increase in their international client business in the past five years.

12%

of NAR commercial members who are engaged in sales/acquisitions (67% of members) worked with an international client who primarily resided abroad (Type A)





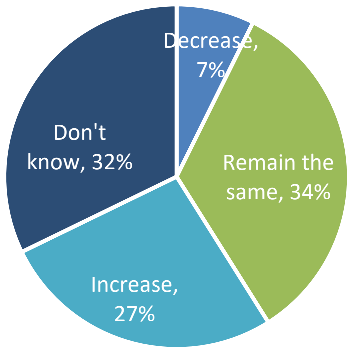
61%

of NAR commercial members who worked with an international client in 2019 expect their international business to remain the same (34%) or increase (27%) in 2020.

INTERNATIONAL BUSINESS TRENDS

Sixty-one percent of respondents who worked with an international client in 2019 expect their international client transactions to remain the same (34%) or increase (27%) in 2020. About a third reported "don't know". In the prior year, a higher fraction of 31% reported they expect an increase and a lower fraction fraction of 27% reported "don't know."

Outlook Regarding Transactions with International Clients in 2020

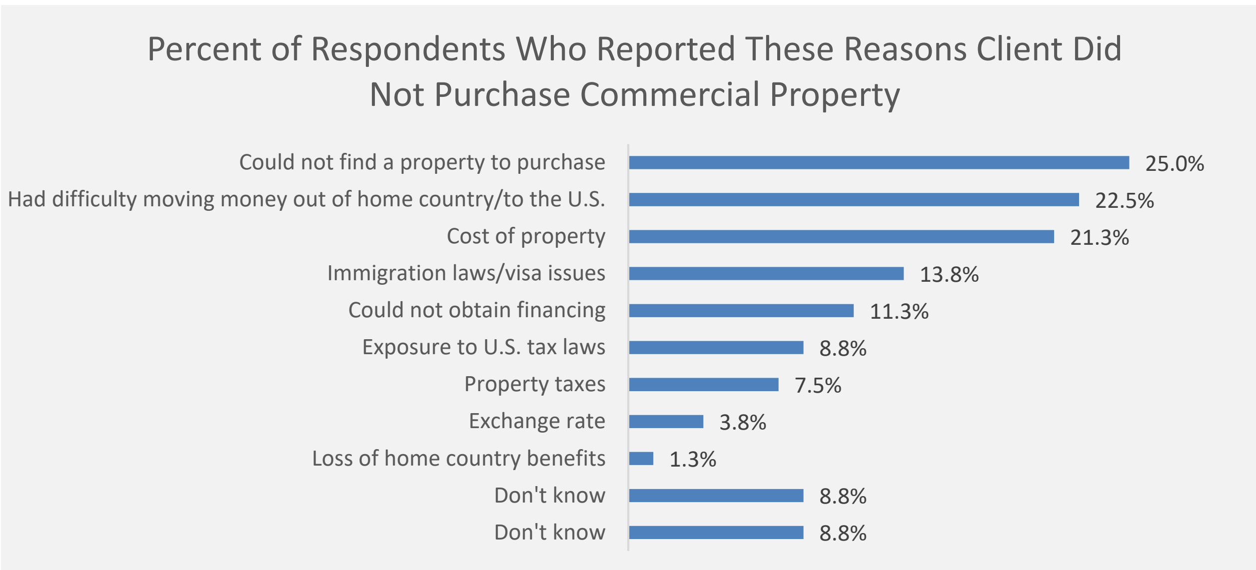


What are your market's biggest opportunities for International clients?

- Opportunity Zone options
- Affordable housing projects
- Multi family & industrial business
- Industrial warehouses
- Senior citizen residential developments
- Investors that have family attending colleges in my area
- Commercial horse farms and bourbon distilleries
- Vacation rental income properties
- Agricultural land
- Hemp industry
- Proximity to Canada
- My community is a coastline community and a major seafood area
- Great workforce - quality of life - great commute system such as freeways and transit trains - international airport.
- Being in Denver
- Metro Atlanta's international business population continues to grow
- The amount of clients and development around central Florida
- Companies and universities in the area (e.g., Mercedes Benz, University of Alabama;
- Lower tax real estate tax then most states (e.g. Alabama)
- Corporate relocations & jobs in my area
- The cost of rental properties in Texas are still attractive and the rate of return is acceptable.
- Proximity to NYC and available land
- US commercial market is strong and safe; investors looking for safety of investment (principal) ; better returns in the U.S. given negative bond rates in other countries

INTERNATIONAL BUSINESS TRENDS

Not all transactions conclude successfully. Among respondents who had any international client, 16% reported the client decided not to purchase property. “Could not find property”, “difficulty moving money” , “cost of property” were cited by at least 20 percent of this subset of respondents.



CHALLENGES WORKING WITH INTERNATIONAL CLIENTS

What are your market's biggest challenges working with international clients?

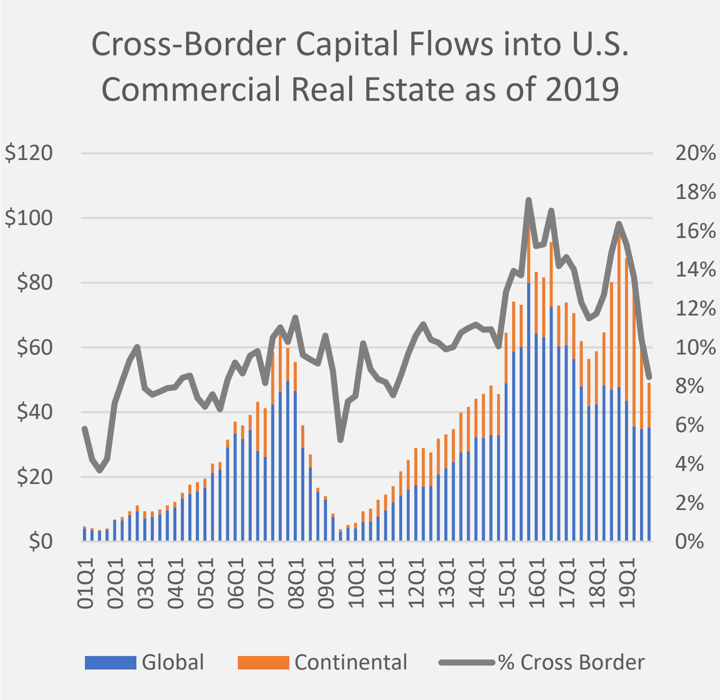
- Cost of travels, promotion and advertising, and time (loss of opportunities while pursuing international sales) ;
- Educating clients in the multiple differences between their market and our market
- Language barriers and finding agents who are bi-lingual
- Immigration status, getting visas approved thru government programs
- Transferring funds from foreign country
- EB5 Investors amount Increase from $500,000.00 to $900,000.00
- High property taxes
- Finding property that meets their criteria and price range
- Lack of suitable business to acquire
- Impact of currency / exchange rates
- Not every international buyer has 20% down payment
- Client difficulty meeting health insurance requirements
- Landlord hesitancy to lease to small international companies
- Having clients understanding the leasing process and terminology
- Client's lack of understanding and procedures involving FIRPTA
- Educating the client regarding land and zoning issues
- Issues regarding valuation of property
- Foreign title and foreign bank accounts not allowed in Oregon
- Small size of international market in my area; distance from my market to metro area (Boston)
- Our market offers great prices in a great city but finding international clients has been a challenge
- I don't know how to market to them; single sources of Information & networking; we need to organize more global business forums or conferences like MIPIM

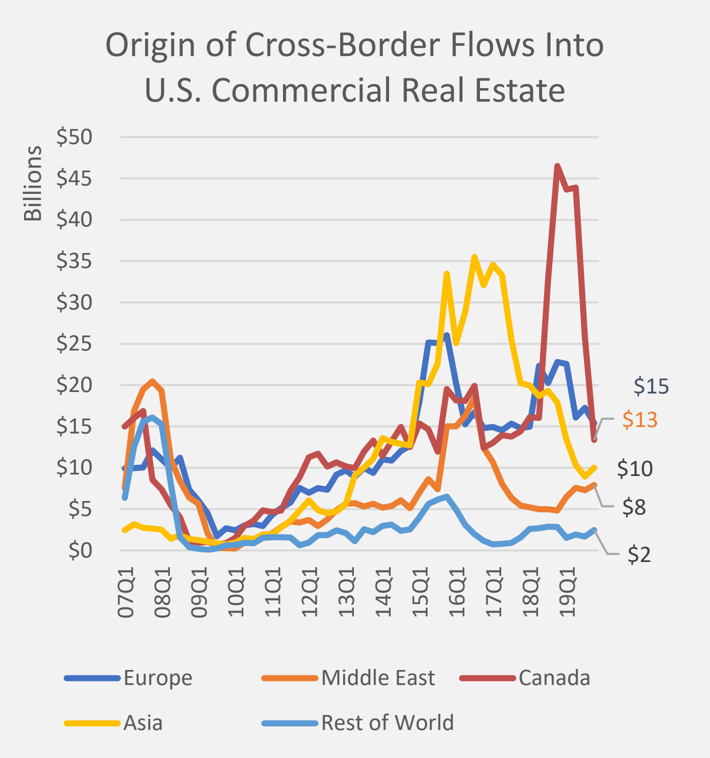
MARKET TRENDS:
Foreign Investment in Large Commercial Property Market

LARGE COMMERCIAL ACQUISITIONS

According to Real Capital Analytics, acquisitions of U.S. commercial real estate from cross-border capital inflows declined to 49.1 billion in 2019, a 48% decline from the $94.9 billion level in 2018. Even as the United States economy outperformed other countries in terms of economic fundaments (e.g., growth, employment), cross-border flows declined in 2019 as acquisitions by institutional investors (banks, insurance companies, mutual funds, hedge funds) fell to $30 billion from $69.8 billion in 2018. Foreign capital acquisitions accounted for 8% of the $579.7 billion in commercial property acquisitions in 2019, down from 16% in 2018.

Total cross-border flows declined due to the pull back from U.S.'s largest commercial investors— Canada, Europe, and Asia. Canadian investors' commercial acquisitions fell from $46.5 billion in 2018 to $13.3 billion. Acquisitions by Asian investors have declined since the third quarter of 2016 when investments peaked to $35.5 billion, to a level of $10 billion in 2019. Capital flows from Europe also declined from $22.7 billion in 2018 to $15 billion in 2019.



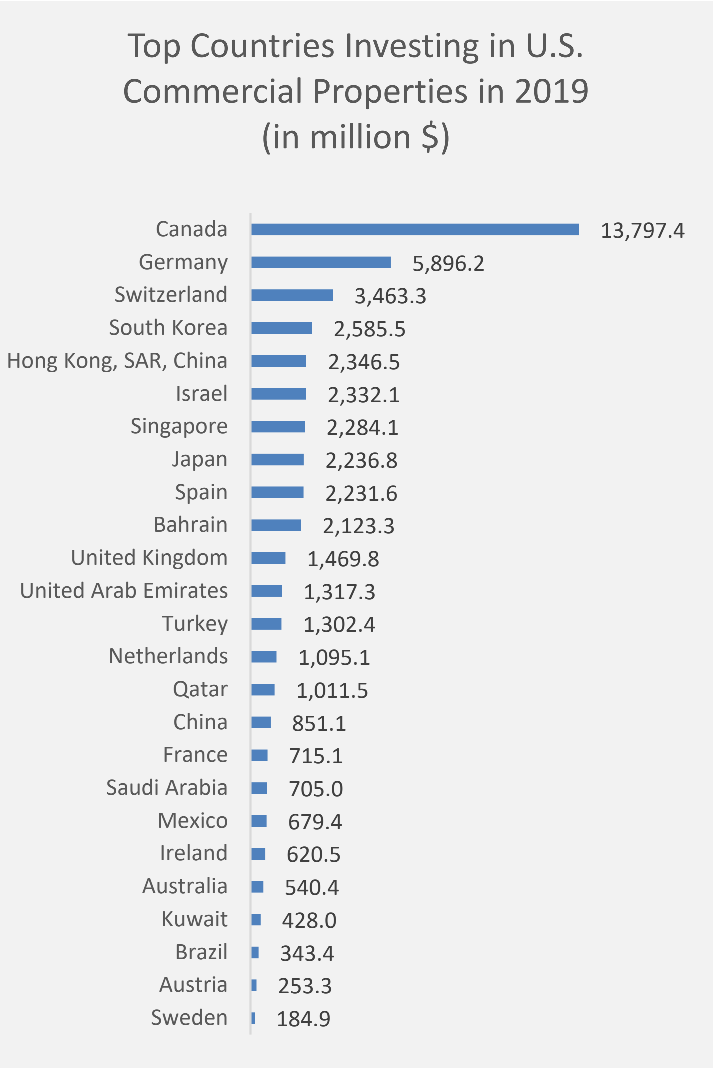


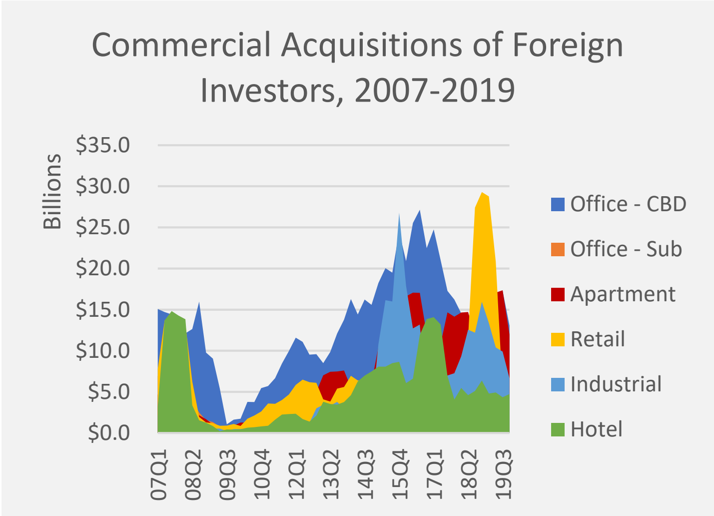
LARGE COMMERCIAL ACQUISITIONS

In 2019, the largest cross-border flows came from Canada ($13.8 billion), Germany ($5.9 billion), Switzerland ($3.5 billion), South Korea ($2.6 billion), and Hong Kong ($2.3 billion). Investment from Mainland China were at less than $ 1 billion.

Apartment and industrial properties have increasingly attracted foreign capital compared to other assets. Acquisitions for apartment properties has nearly quadruped since 2012, from about $5 billion to a peak of $17 billion in the third quarter of 2019, though the 4-quarter trailing level dipped to $11 billion in 2019 Q4. Acquisitions for industrial properties also rose from $3 billion in 2012, peaked to $13.4 billion in 2019 Q1 but pulled back to $6.6 billion in 2019 Q4 as the trade tensions heightened during 2019. Foreign investments in this sector may recover with the signing of the Phase One Trade Deal in January 2020.

Less foreign capital has flowed into commercial-CBD acquisitions since 2016, with $25 billion in acquisitions in that year. In 2019, office-CBD acquisitions were at just about half that level, at $13 billion, although office-CBD was the top property asset type acquired among foreign investors in 2019. Foreign capital temporarily surged for retail property acquisitions in 2018, totaling to nearly $ 30 billion in the fourth quarter of 2018, but investments fell again in 2019.





LARGE COMMERCIAL ACQUISITIONS

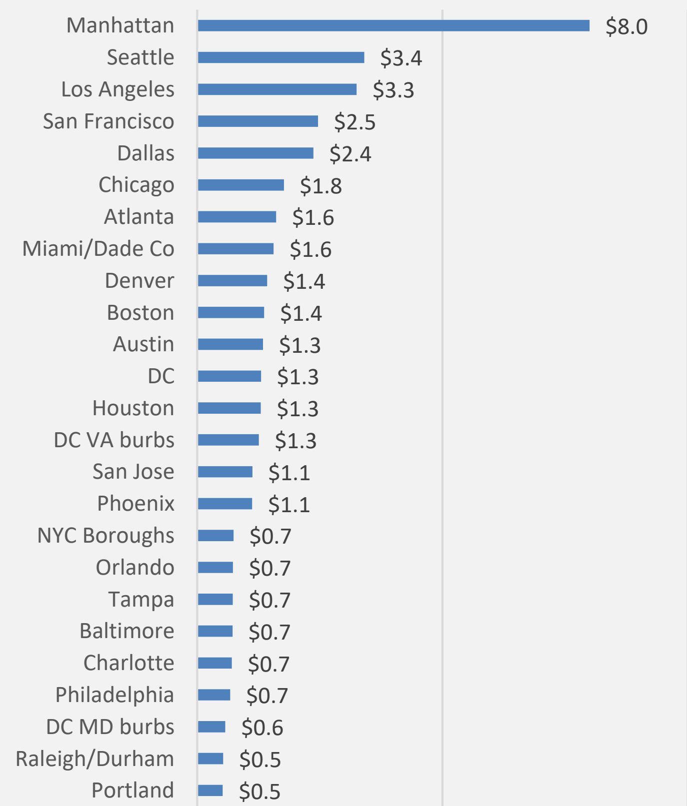
In 2019, office-CBD took in 27% of foreign capital, followed by apartments, 25%; office-suburban, 15%; and industrial property, 14%.

Manhattan was the top destination, with $8 billion in foreign investment acquisitions, followed by the California metro areas of Seattle, Los Angeles, and San Francisco which had $2.5 billion to $3.4 billion each.

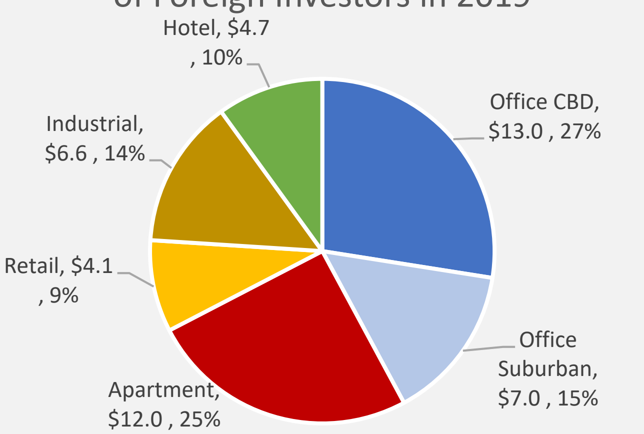
Non-major metro markets* that pulled in at least $1 billion in foreign capital flows into commercial acquisitions were Dallas, Atlanta, Miami Dade, Denver, Austin, Houston, San Jose, and Phoenix.

As a share of total commercial acquisitions (domestic and cross-border), cross-border capital still accounted for 11% of total acquisitions in the six major metros, a higher share compared to the 7% share in non-major metro areas.

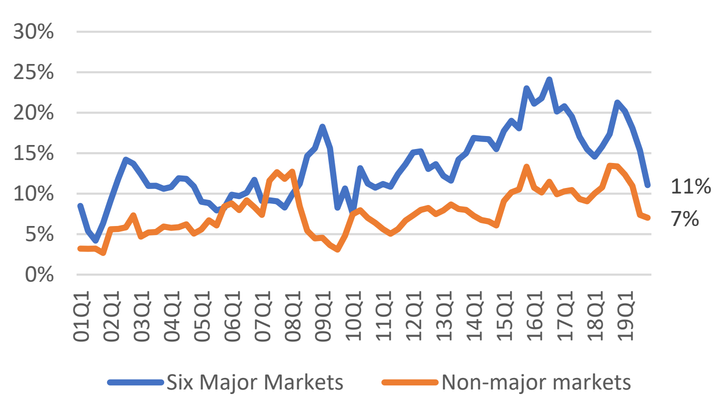
Top Markets for Commercial Property Acquisitions in 2019



Commercial Property Acquisitions of Foreign Investors in 2019



Share of Cross-Border Commercial Acquisitions to Total Acquisitions by Market Area

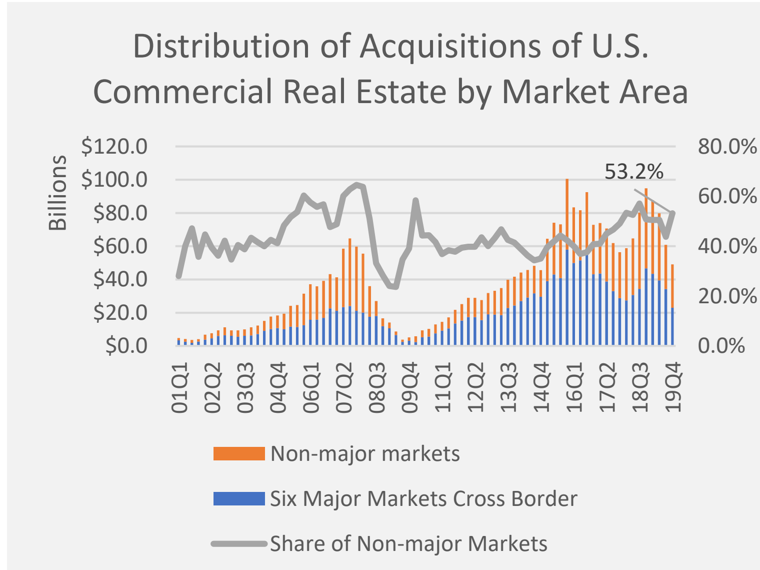


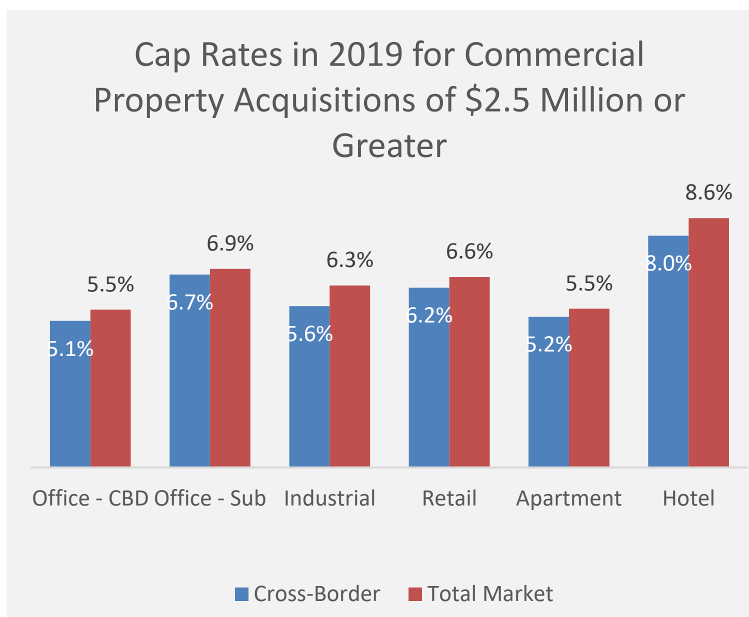
* Real Capital Analytics identifies the six major markets as NYC Metro, Boston Metro, Chicago Metro, DC Metro, SF Metro, ad LA Metro.

LARGE COMMERCIAL ACQUISITIONS

Foreign investors have appeared to be more aggressive in investing in the non-major metro areas during good economic times, but tend to pull back to the six major markets when economic times get rougher. For example, from 2001 until 2008 (prior to the Great Recession of 2009 to 2010), the share of commercial property acquisitions of foreign investors in the non-major markets rose from about 40% to 60%. That share dropped to 35% by 2014, then started picking up again to 50% by the end of 2018. However, as the economy slowed in 2019, the share fell to 43% in 2019 Q3 although it started to turn up again in the last four quarters of 2019. In other words, foreign investors invest more heavily in the 'safer' six major metro areas during tougher economic times.

The cap rates for commercial acquisitions by foreign investors were lower across all property types compared to the cap rates of all total acquisitions by domestic and foreign investors. A lower cap rate indicates that foreign investors were accepting a lower return from their less-risky investments than domestic investors.





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NATIONAL ASSOCIATION OF REALTORS® RESEARCH GROUP

The Mission of the NATIONAL ASSOCIATION OF REALTORS® Research Group is to produce timely, data-driven market analysis and authoritative business intelligence to serve members, and inform consumers, policymakers and the media in a professional and accessible manner.

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