2021

COMMERCIAL REAL ESTATE INTERNATIONAL BUSINESS TRENDS

National Association of REALTORS®
Research Group

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2021 COMMERCIAL REAL ESTATE INTERNATIONAL BUSINESS TRENDS REPORT

The *2021 Commercial Real Estate International Business Trends Report* discusses the trends in foreign buyer purchases of U.S. commercial real estate in 2020 in the “small commercial real estate market” (sales of below $2.5 million) and in the “large commercial real estate market” (sales of $2.5 million or over).

The COVID-19 pandemic led to the worst economic collapse since the Great Depression, with the global economy contracting by 4.4%. Only 7% of members of the National Association of REALTORS® (NAR) with primary specialization in commercial real estate reported they had transactions with international clients in 2020 compared to 12% in past years. Foreign buyer purchases decreased across all property types, with the biggest pullback in the office, retail, and hotel sectors. Land, multifamily, and industrial acquisitions also declined but less sharply. Among NAR commercial members’ transactions, China held its spot as the top foreign buyer of commercial real estate although its share declined to 14% in 2020 from 20% in the prior year.

In the large commercial market characterized by acquisitions of at least $2.5 million, cross-border financial flows fell by 30% in 2020, according to Real Capital Analytics market data. In the large capital market, Canada remained as the top investor in U.S. commercial real estate, while Manhattan continued to attract the most capital.

While cross-border capital inflows decreased, two positive trends are worth noting. The first is that even if inflows decreased, current investors did not pull out their existing investments so that on a net basis, the net divestment in 2019 (-$10.9 billion) reversed into a net investment in 2020 ($ 13.5 billion). In short, the United States became a global investment haven in 2020. The second positive trend is the emergence of secondary/tertiary markets in investor’s commercial portfolios. While commercial acquisitions declined in the primary metro areas of New York, Chicago, San Francisco, and Los Angeles, cross-border financial flows have moved into the secondary/tertiary markets such as the Inland Empire, Sacramento, San Diego, East Bay, and Indianapolis, which placed these metro areas in the top 25 largest commercial investment destinations in 2020.

Enjoy reading this report!

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Foreign Buyer Transactions in U.S. Commercial Real Estate Among NAR Commercial Members in 2020*

The information on the small commercial market is based on the responses of 1,821 commercial members of the National Association of REALTORS® (NAR) who responded to NAR's international commercial real estate survey that was deployed during January 18—February 14, 2021. Of the 1,821 respondents, 179 had an international client; these respondents were asked to provide information about the most recent foreign buyer during 2020.

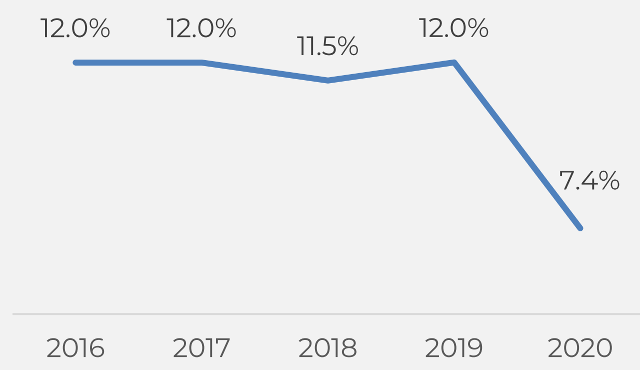
FOREIGN BUYER TRANSACTIONS IN U.S COMMERCIAL REAL ESTATE AMONG NAR COMMERCIAL MEMBERS IN 2020

Decline in Foreign Buyers Purchasing Commercial Real Estate in 2020

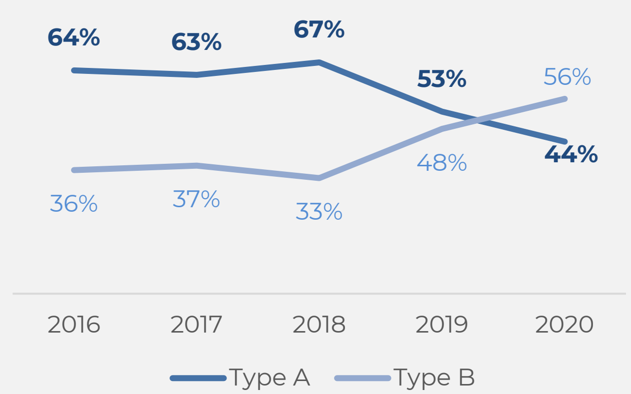
For the year 2020, 7.4% of members of the National Association of REALTORS® whose primary specialty is commercial (or "commercial members") reported they closed a sale that involved international clients who live abroad (or Type A clients). This is a lower share compared to past years when about 12% of NAR commercial members reported a sale that involved an international Type A client.[1]

During 2002, the share of Type A international clients who purchased U.S. commercial real estate decreased to 44%, while the share of Type B international clients rose to 56%. In past years, Type A clients made up more than 50% of all foreign buyers who purchased U.S. commercial real estate.[2]

Percent of NAR Commercial Members Who Closed a Sale Transaction that Involved International Clients Who Live Abroad (Type A)



Percentage Distribution of Foreign Buyers of Commercial Real Estate Reported by NAR Commercial Members



/1 Source: NAR Commercial Real Estate Quarterly Market Survey
/2 Type A international clients are non-U.S. citizens who live abroad. Type B international clients are non-U.S. citizens who already reside in the U.S. on a visa or who immigrated to the United States in the past two years prior to the transaction.

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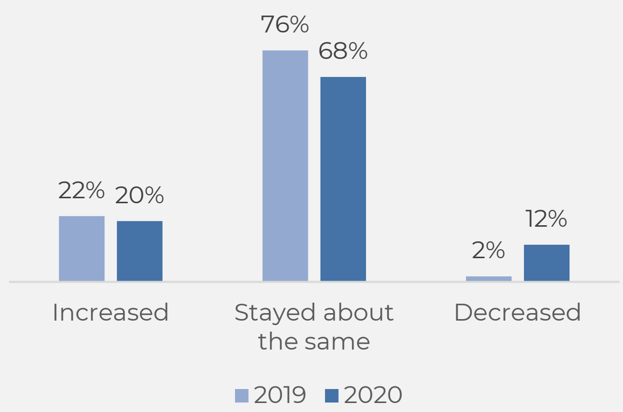
FOREIGN BUYER TRANSACTIONS IN U.S COMMERCIAL REAL ESTATE AMONG NAR COMMERCIAL MEMBERS IN 2020

Among all NAR commercial members, 12% reported that the share of international commercial clients to their total business declined in 2020. In 2019, only 2% of NAR commercial members reported a decrease in the share of their business that is international.

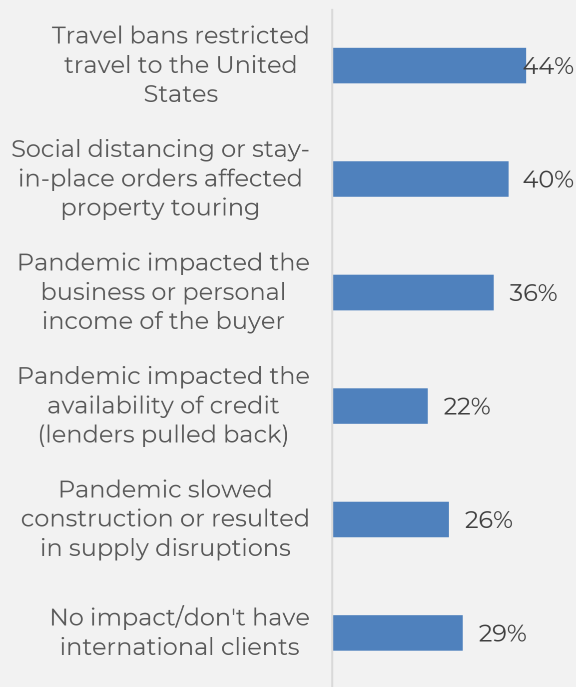
Foreign buyer sales fell across all commercial property types, with the largest declines in the office (-7%) and retail (-7%) properties market. The dollar volume of sales transactions fell as well for industrial properties (-5%) , even with the acceleration of e-commerce sales that underpins the demand for industrial properties. Apartment (-4%) and land acquisitions (-4%) also declined but less so than other property types.

NAR commercial members reported that the travel restrictions, stay-in—place orders, pandemic-induced decline in buyer's income, and supply disruptions affected international business transactions. Lending conditions did not tighten much, with only 22% of NAR commercial members reporting the pandemic impacted the availability of credit.

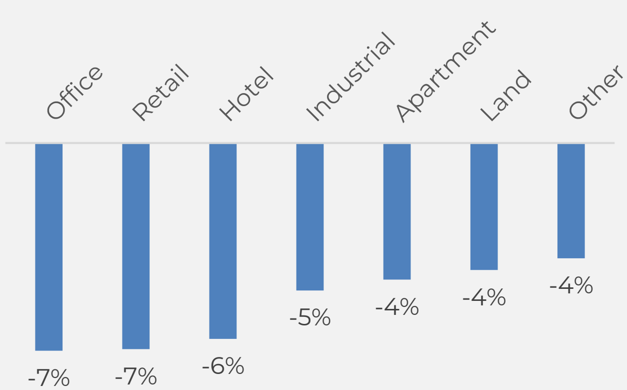
Change in the Share of International Commercial Clients to Total Business in 2020 of NAR Commercial Members



Percent of NAR Commercial Members Who Reported How COVID-19 Impacted International Business Transactions



Percent Change in Dollar Sales Volume of Properties Purchased by Foreign Buyers During 2020 Reported by NAR Commercial Members



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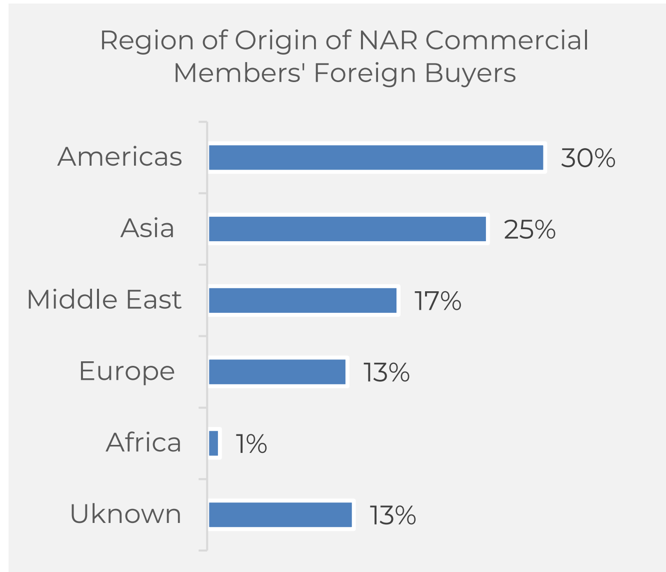
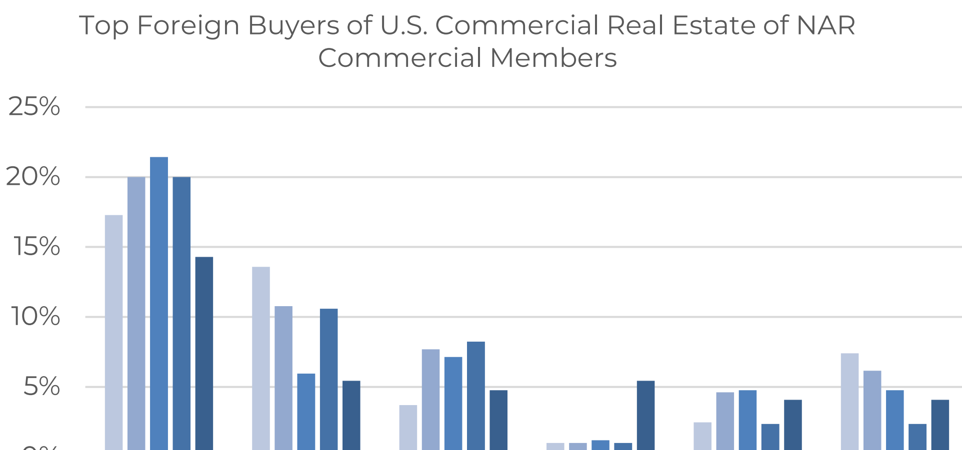
Top Foreign Buyers of U.S. Commercial Real Estate in 2020

Among NAR commercial members, Canada and Latin American (30%) were the largest sources of commercial foreign buyers in 2020, followed by Asia (25%), the Middle East (17%), Europe (13%), and Africa (1%). Thirteen percent of members were not able to recall or identify the country of origin of the buyer.



China remained as the top foreign buyer (14%) although its share fell from 20% in 2019. China has also been the top buyer of U.S. residential real estate since 2015, as reported in NAR"s *Profile of International Transactions in U.S. Residential Real Estate* . Colombia made it to the top 5 origin of commercial buyers, and it also became a top 5 residential buyer in 2020.



	China	Mexico	Canada	Colombia	Germany	United Kingdom
2016	17%	14%	4%	1%	2%	7%
2017	20%	11%	8%	1%	5%	6%
2018	21%	6%	7%	1%	5%	5%
2019	20%	11%	8%	1%	2%	2%
2020	14%	5%	5%	5%	4%	4%

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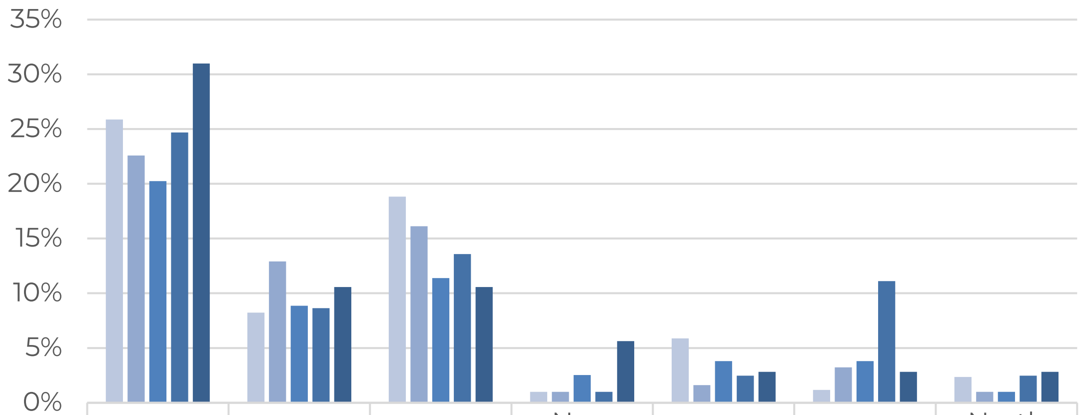
Top State Destinations Among Foreign Buyers of U.S. Commercial Real Estate in 2020

Among NAR commercial members, Florida accounted for the largest share of foreign commercial buyers, at 31%. California and Texas each accounted for 11%, New Jersey at 6%, and New York, Georgia, and North Carolina, each at 3%.

Florida, California, Texas, New York, and New Jersey were also the top 5 states destinations of foreign buyers of residential property in 2020, while Georgia and North Carolina were also major destinations, according to NAR"s *Profile of International Transactions in U.S. Residential Real Estate.*

Top State Destinations of Foreign Buyers of U.S. Commercial Real Estate of NAR Commercial Members



	Florida	California	Texas	New Jersey	New York	Georgia	North Carolina
2016	26%	8%	19%	1%	6%	1%	2%
2017	23%	13%	16%	1%	2%	3%	1%
2018	20%	9%	11%	3%	4%	4%	1%
2019	25%	9%	14%	1%	2%	11%	2%
2020	31%	11%	11%	6%	3%	3%	3%

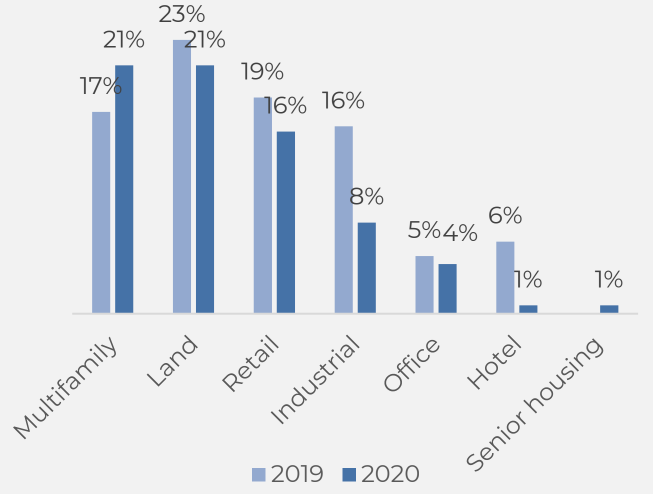
Top State Destinations Among Foreign Buyers of U.S. Commercial Real Estate in 2020

Multifamily buildings and land were the preferred property acquisitions of foreign buyers of NAR commercial members, each accounting for 21% of commercial purchases. Retail and industrial buildings each accounted for 16%, followed by office buildings at 4%, hotels at 1%, and senior housing at 1%.

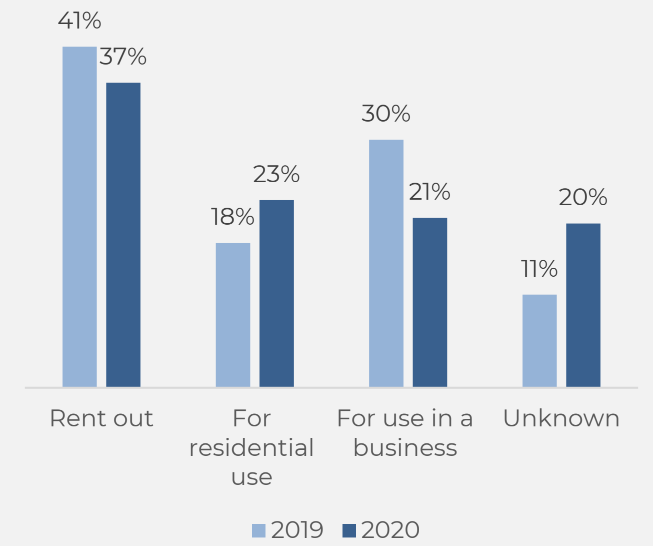
The primary purpose for purchasing these commercial properties were to rent them out (37%), for residential use, or for the buyer's business use (21%).

Fifty-three percent were all-cash transactions, a lower share compared to the 2019 share, as the share of Type A clients declined. Type A clients tend to pay all-cash.

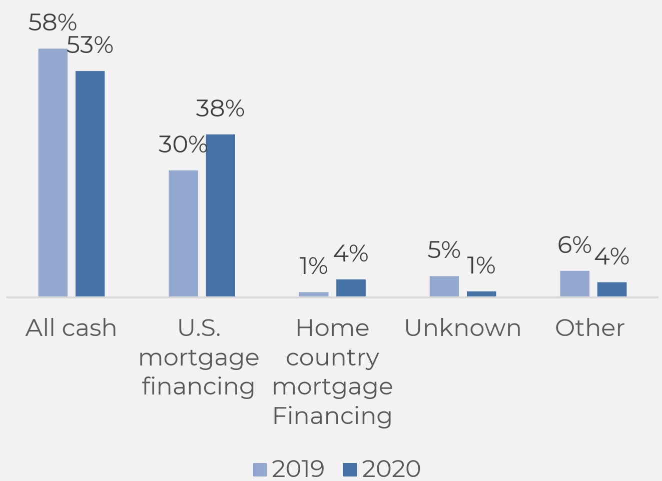
Commercial Property Purchased by Foreign Buyers of NAR Commercial Members



Reason for Purchasing Commercial Real Estate



Source of Financing Among Foreign Buyers of NAR Commercial Members



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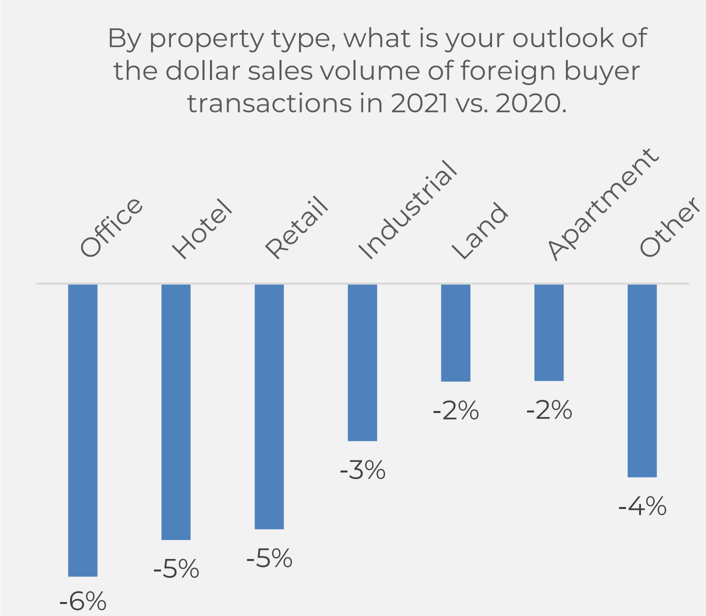
FOREIGN BUYER TRANSACTIONS IN U.S COMMERCIAL REAL ESTATE AMONG NAR COMMERCIAL MEMBERS IN 2020

2021 Outlook

Commercial members expect commercial property acquisitions by foreign buyers to continue to decline in 2021.

NAR commercial members expect the steepest decline in sales for office (-6%), hotel (-5%), and retail (-5%) properties, with the least decline in purchases of land (-2%) and apartment buildings (-2%).

Thirty-eight percent of respondents expect their international business sales will return to pre-pandemic level only in 2023. Only 3% expect their international client business will not return to normal. Ten percent reported that the pandemic had no impact (these can include respondents who do not work with international clients.)



Excluding respondents who reported “don’t know

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

- Low interest rates
- Homes are relatively cheaper and affordable (Florida, Minnesota, New Mexico, Oregon. Tennessee, Texas Puerto Rico)
- Relatively high cap rates (North Carolina)
- Good inventory of available properties (Arizona, Indiana, Nevada)
- Good job growth (Colorado)
- Lower wages are good for business (Missouri)
- International trade zones (Illinois)
- Opportunity for appreciation (California, New Jersey, New York, Wisconsin)
- Good logistics and distribution business and growing economy (Georgia)
- International commercial listing platform is coming soon (Georgia)
- Huge vacancies in commercial property (California)
- Abundant and cheap land (Arkansas, Florida, Illinois, Louisiana, Minnesota, Mississippi, North Carolina, Ohio, Oregon, Pennsylvania, Tennessee, Texas, Washington)
- International nature of Washington, DC (Maryland, Virginia)
- Proximity to Canada (New York)
- Investment villas (U.S. Virgin Islands)
- Manufacturing, oil, and gas industry (Utah)
- Government program for foreign investors (Louisiana)

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

- COVID-19 travel restrictions, access to and touring of property
- Low inventory
- Immigration policies (California, New Mexico)
- Communication/language problems (Colorado, New Jersey, New York, Montana,
- Explaining domestic laws, norms, and the buying process to foreign clients
- Understanding FIRPTA (Colorado)
- Availability of financing for investors (Tennessee)
- Getting money of out China and/or transferring money (California, Texas)
- High cost of transferring money charged by buyer’s local bank (Illinois)
- Visa issues (California, Texas, Florida, Ohio)
- Cannot sell agricultural land to foreigners (Minnesota)
- Need for a real commercial MLS (California)
- No international airport (Kansas City)

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Cross-Border Financial Flows in the Large Commercial Real Estate Market in 2020*

This section is based on NAR's analysis of Real Capital Analytics market data on transactions of at least $2.5 million.

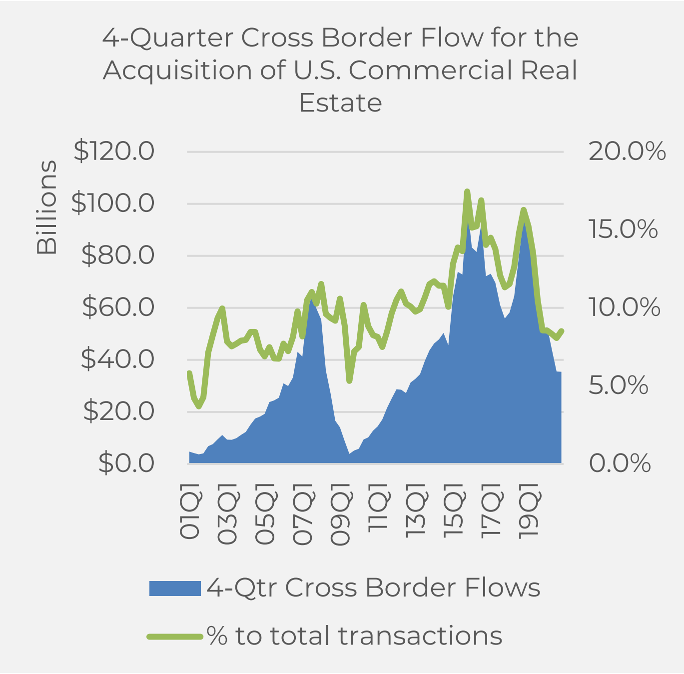
CROSS-BORDER FINANCIAL FLOWS IN THE LARGE COMMERCIAL REAL ESTATE MARKET IN 2020

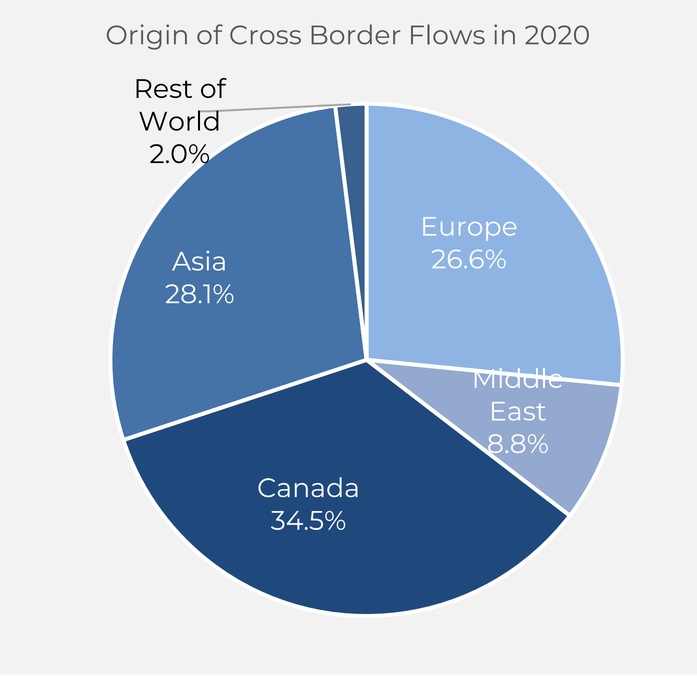
Cross-border flows decline 30% in 2020

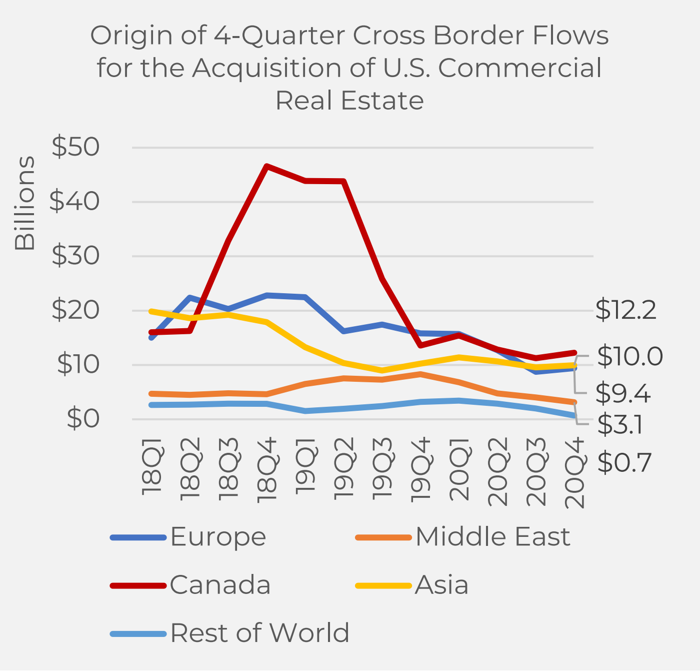
Cross-border inflows of at least $2.5 million or more for the acquisition of U.S. commercial real estate declined 30% in 2020, to $35.5 billion ($51 billion in 2019). On a positive note, sales did not decline as sharply compared to the 85% decline in 2009 during the Great Recession.

Cross border flows accounted for 8.5% of the $416.7 billion in U.S. commercial real estate acquisitions in 2020 (8.6% in 2019).

Cross-border flows declined from all regions: Asia (-3%), Canada (-10%), Europe (-40%), Middle East (-62%), and from the rest of the world (-78%).



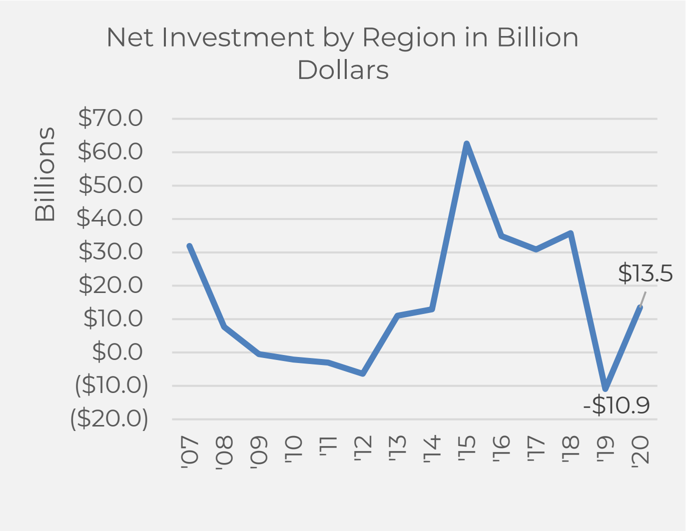




Source of data: Real Capital Analytics

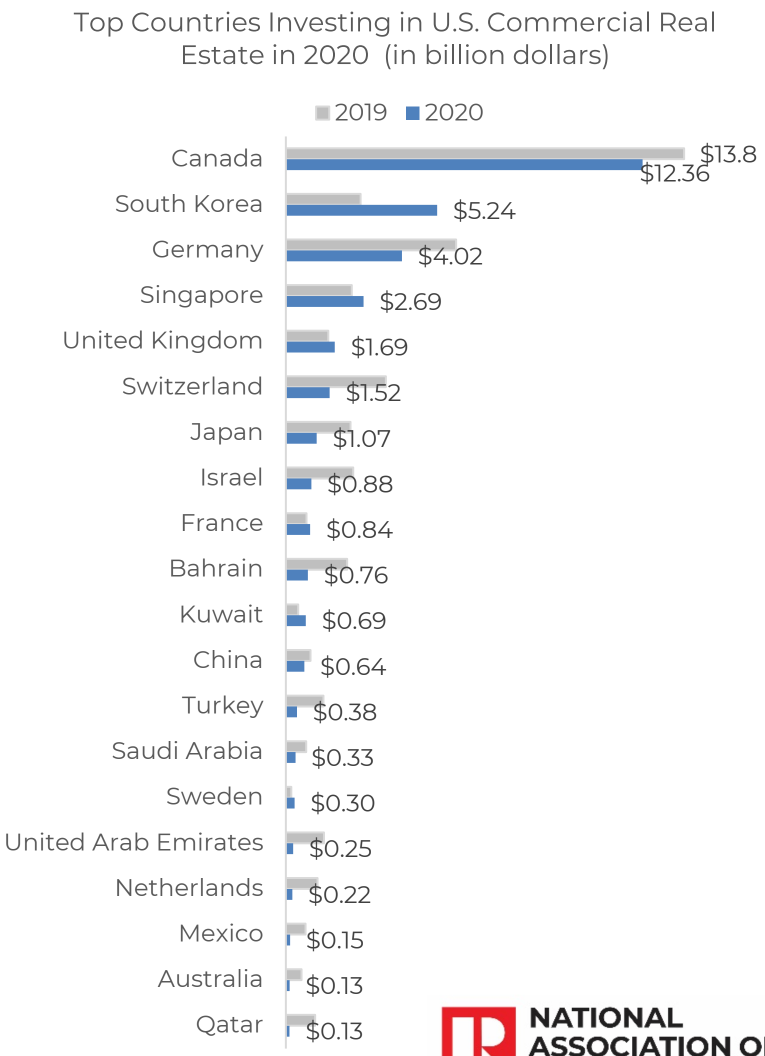
CROSS-BORDER FINANCIAL FLOWS IN THE LARGE COMMERCIAL REAL ESTATE MARKET IN 2020

While cross-border inflows fell, investors did not also pull out their existing investments which led to a net investment of $13.5 billion in 2020, a reversal of the $10.9 billion of net divestment in 2019. In short, the United States became a global investment haven as global economic output contracted.



Canada and Asia are largest sources of capital

Canada remained as the U.S. top investor (#1 in 2019), acquiring $12.4 billion of commercial real estate in the United States in 2020. South Korea was the second largest investor, acquiring $5.2 billion of commercial real estate (#4 in 2019). Germany was the third largest, with $4.0 billion in commercial real estate acquisitions (#2 in 2019). Oher countries, each with more than $1 billion in acquisitions, were Singapore (#7 in 2019), the United Kingdom (#11 in 2019), Switzerland (#3 in 2019), and Japan (#8 in 2019).



South Korea, Singapore, France, and Kuwait, and Sweden were the only countries that had an increase in cross-border flows in 2020 compared to 2019, with the largest increase in inflows from South Korea.

Source of data: Real Capital Analytics

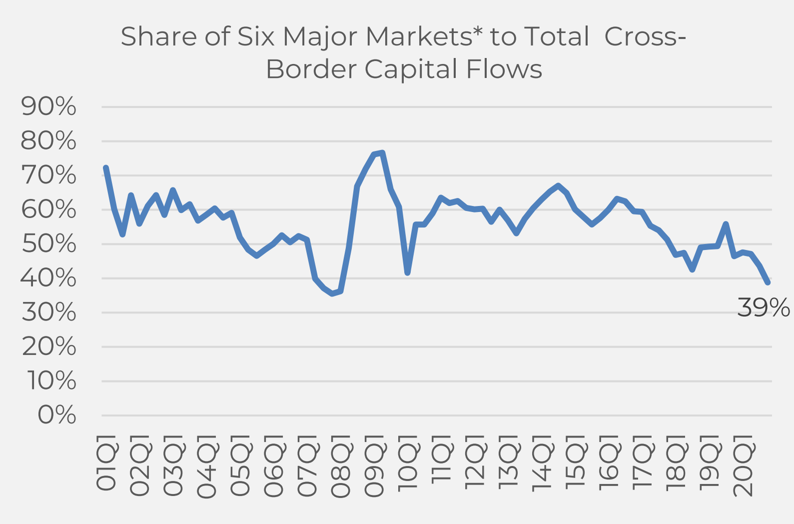
CROSS-BORDER FINANCIAL FLOWS IN THE LARGE COMMERCIAL REAL ESTATE MARKET IN 2020

Rising Acquisitions in Secondary Markets

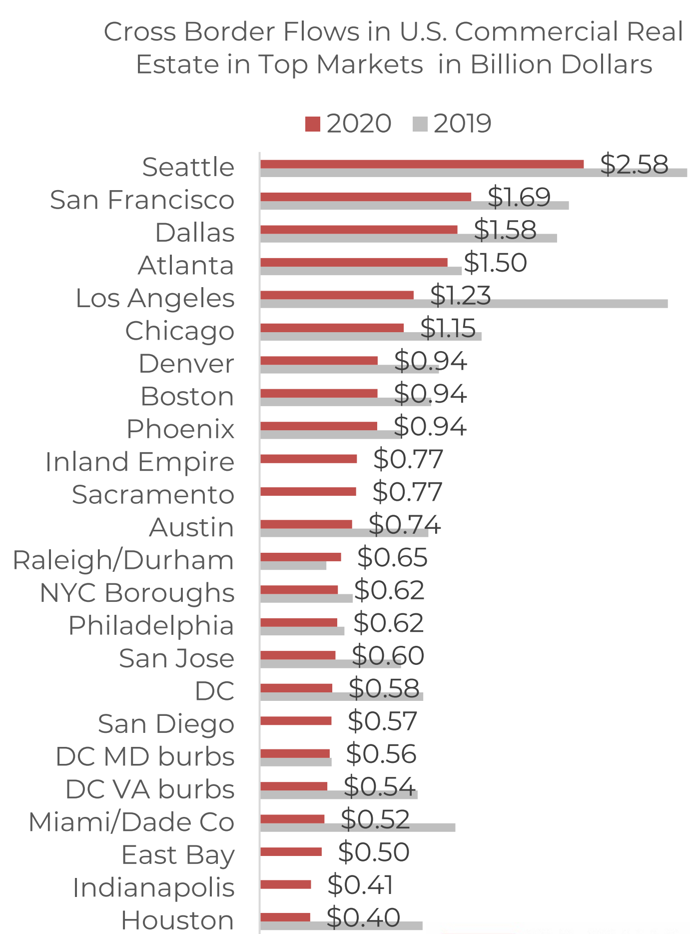
Manhattan remained the top recipient of cross-border commercial capital, with investors pouring in $3.9 billion of capital, or 11% of total U.S. inflow. Other markets where foreign investors invested at least $1 billion in commercial real estate were Seattle (#2 in 2019), San Francisco (#4 in 2019), Dallas (#5 in 2019), Atlanta (#7 in 2019), Los Angeles (#2 in 2019), and Chicago (#6 in 2019).

The share of cross-border capital of the six major markets (New York, Chicago, Boston, Washington DC, Los Angeles, and San Francisco) declined to 39% in 2020 (46% in 2019).

As investors moved a away from primary cities, capital moved into secondary or tertiary markets like the Inland Empire, Sacramento, San Diego, and East Bay, and Indianapolis. These metro areas made it to the top 25 markets with the largest cross-borders capital inflow in 2020.



*Real Capital Analytics identifies the six major markets as NYC Metro, Boston Metro, Chicago Metro, DC Metro, San Francisco Metro, and Los Angeles Metro.



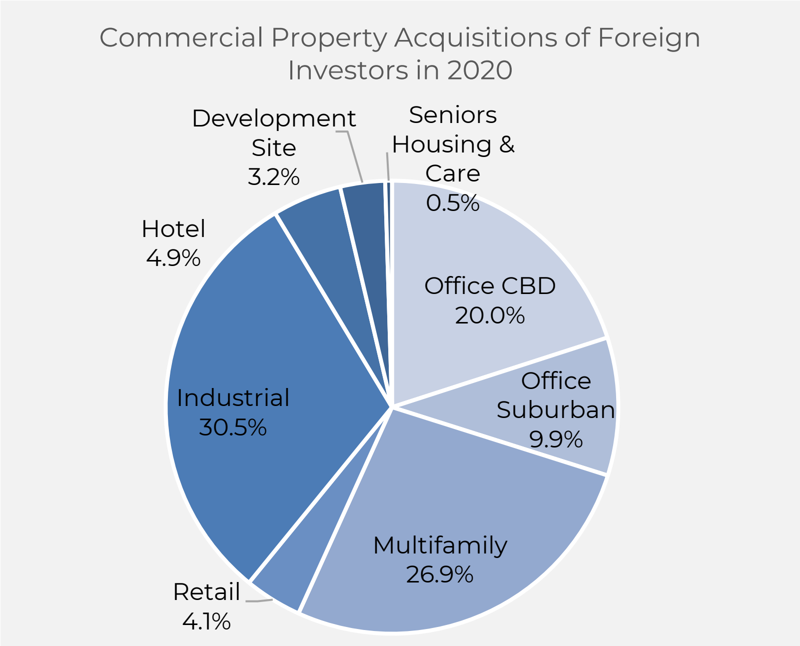
Source of data: Real Capital Analytics

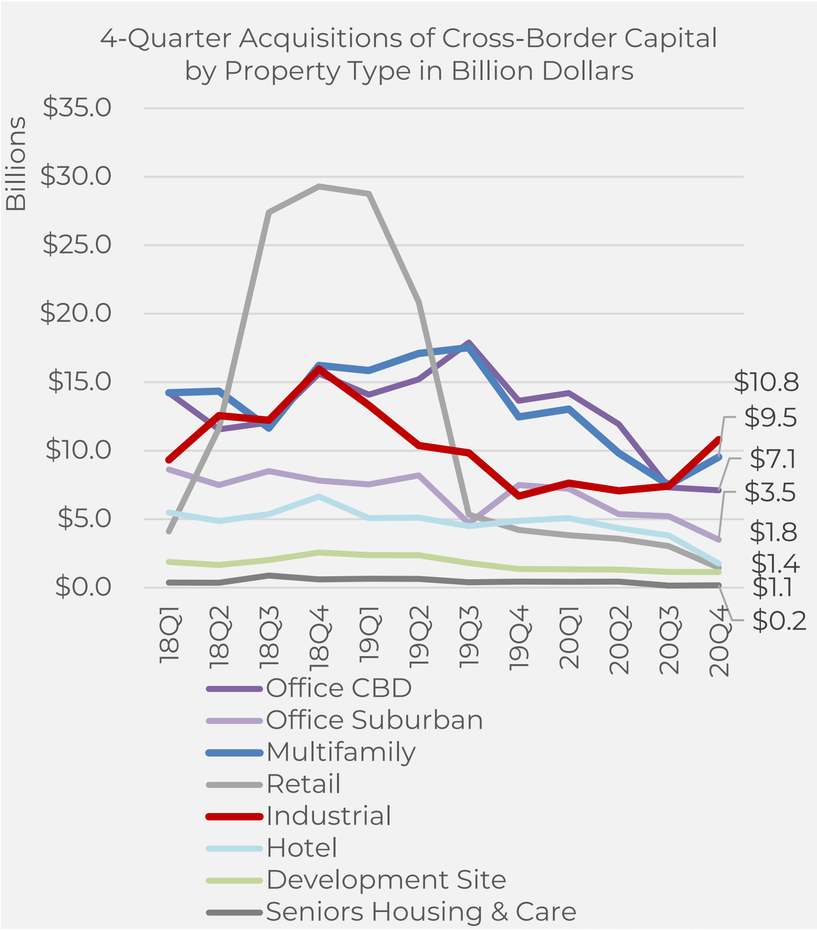
Cross-border acquisitions shifts towards industrial and multifamily assets

Cross-border acquisitions declined across all property types, except for industrial acquisitions which increased by 62%, to $10.8 billion ($6.7 billion in 2019).

Acquisitions of industrial property accounted for 31% of cross-border capital flows, followed by multifamily, at 27%, and office buildings located in central business districts, at 20%.

Acquisitions of retail property has sharply declined since 2018 when acquisitions peaked to $29.2 billion in 2018 or 31% of cross-border flows. Conversely, during this same period, the share of industrial acquisitions to total cross-border flows rose from 17% to 30%.





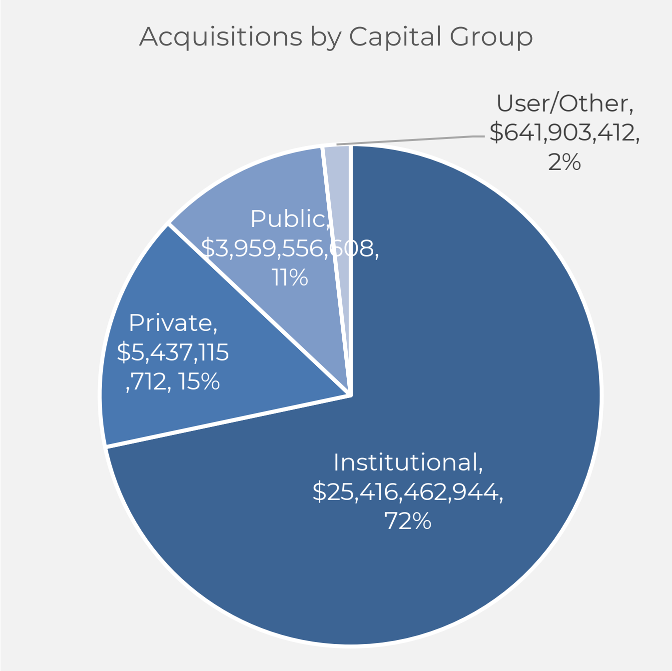
Source of data: Real Capital Analytics

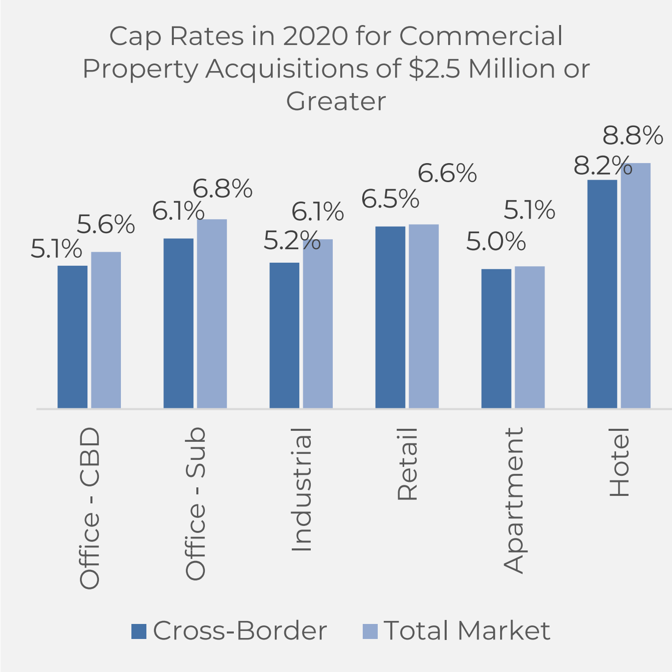
CROSS-BORDER FINANCIAL FLOWS IN THE LARGE COMMERCIAL REAL ESTATE MARKET IN 2020

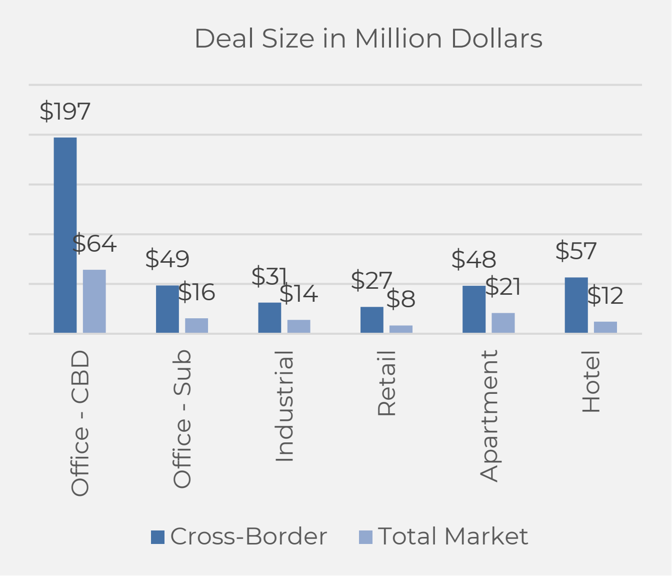
Institutional Investors Were Major Sources of Cross-border Capital

Of the $35.5. billion in cross-border capital, 72% came from institutional investors (e.g. pension funds, banks, wealth funds), 15% from private investors (e.g., high net worth individuals or developers), and 11% from publicly listed companies (e.g. REITS). Users of the property (corporate, government, non-profit, educational, church, etc.) accounted for 2% cross-border capital inflow.

Cross-border acquisitions had lower cap rates than the total market acquisitions, given that the bulk of investors are institutional investors which tend to invest heavily in safer assets to protect the capital of their own investors.







Source of data: Real Capital Analytics

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