

Foreign Investors Pledge Allegiance to U.S. Real Estate

Is Strong Sentiment for Capital Appreciation Finally a “Buy” Signal?

Washington, D.C. – (January 18, 2010) Despite a lack of placement opportunities in 2009, foreign investors in real estate say they remain committed to the U.S. as their preferred real estate investment opportunity. The sentiment is underscored by a dramatic increase in the number of respondents identifying the U.S. as the country providing the best opportunity for real estate capital appreciation, according to the results of the 18th annual survey conducted among the members of the Association of Foreign Investors in Real Estate (AFIRE) and released today.

The survey was conducted in the fourth quarter of 2009 among the association’s nearly 200 members. Survey respondents own more than \$842 billion of real estate globally including \$304 billion in the U.S. The survey was conducted by the James A. Graaskamp Center for Real Estate, Wisconsin School of Business.

In this year’s survey:

- 51 percent of respondents identify the U.S. as providing the best opportunity for capital appreciation;
- this compares to 37 percent in 2008, 26 percent in 2007, and 23 percent in 2006;
- the last time respondents’ perceptions for U.S. real estate were this strong was in 2003, when the percentage once again reached 51 percent;
- the U.K. emerges as the second-best country for capital appreciation, receiving 30 percent of respondents’ votes;
- in third place, China receives 10 percent of respondents’ votes.

"Although foreign investors expressed every intent to resume investing in 2009, like everyone else, their plans were sidelined by a paralyzed marketplace with no precedent and limited investment opportunities," said Werner Sohler, senior portfolio manager real estate, PGGM and AFIRE’s newly elected chairman. "However, new money is becoming available and the AFIRE survey points to an increased focus and interest in a few select markets for 2010, especially London and in the US, where prospects appear to be brightening."

Plans and Actualities

According to survey results:

- two thirds of respondents plan to increase their investment in the U.S. in 2010 compared to 2009;
- investors say they plan to increase U.S. allocations above 2009 levels by 62 percent for equity and 83 percent for debt; at least half the survey respondents report a stronger appetite for both debt and equity investments in the U.S. than in other countries;
- plans for global equity investment in 2010 exceed plans for 2009 by 46 percent; 2010 plans for global debt are 20 percent lower than planned for 2009;
- by the middle of the fourth quarter of 2009, foreign investors placed only 62 percent of planned debt allocations and 43 percent of planned equity allocations globally; in the U.S. they placed only 35 percent of planned debt allocations and 23 percent of planned equity allocations;
- as a portion of global real estate, U.S. 2010 allocations for debt represent 80 percent of the global pool; allocations for equity represent 49 percent.

Other U.S. Trends

Among U.S. cities representing the best investment opportunities, survey respondents firmly select Washington, D.C. and New York, receiving much stronger scores than third-place San Francisco. This year, Boston makes a significant climb into fourth place, and Los Angeles falls one spot into fifth place.

As they did last year, survey respondents also express a firm interest in multi-family as their preferred property type followed by office, industrial, retail and hotel properties. "This is the second year in a row in which multi-family topped investors' product preference," said James A. Fetgatter, chief executive, AFIRE. "More notably, the gap between the top preference and the least-favored product, hotels, has not been this wide since 2000."

Survey respondents have also pushed their projections for the recovery of the U.S. commercial real estate market back by six months:

- in the June 2009 mid-year survey, half the respondents said they expected recovery by or before the second quarter of 2010;
- in the 2010 annual survey, half the respondents say they expect the recovery by or before the fourth quarter of 2010.

But, optimism about the state of the U.S. real estate market remains strong:

- 33 percent of survey respondents say they are more optimistic about the U.S. real estate market than they were in June 2009;
- 63 percent say their perspective has not changed;
- 6 percent say they are more pessimistic.

Global Trends

Globally three cities emerge as clear targets for investors' real estate dollars:

- London surges into first place with a significant lead over both Washington and New York in second and third places respectively; Paris and Tokyo place as distant fourth- and fifth-place cities;
- London's 2010 score is 31 points higher than second-place Washington, and 40 points higher than third-place New York. In the 2009 survey, London was in second place, separated from first-place Washington by only four points and third-place New York by a mere two points.

The United States remains the country selected as the "most stable and secure real estate investment environment," although with a declining lead:

- The U.S. receives 44 percent of the vote;
- Germany receives 21 percent;
- Canada receives 14 percent.

This year, the percentage of respondents selecting the U.S. as the most "stable and secure country" falls from 53 percent in 2008 and 57 percent in 2007. This is the first time that the U.S. has fallen below 50 percent in the survey's history.

"The financial crisis of the past year has obviously affected investors' perceptions of U.S. real estate as 'stable and secure,'" explains Mr. Fetgatter. "However, it is also apparent that opportunity lies within this instability since the U.S., along with the UK, show substantially higher scoring for expected capital appreciation.

"One half of the respondents ranked the U.S. as the number one country for capital appreciation compared to only 25 percent in 2006. The UK showed even greater movement; in 2006 only 2 percent of respondents named the UK as the best country for capital appreciation compared to 30 percent this year.

According to survey respondents, the top five emerging markets are China, Brazil, India, Mexico, and Turkey. Brazil and India, which were the first- and second-ranked emerging markets in the 2009 survey, each receive only half the votes that China receives as top emerging market. And, investors indicate intent to place almost all of their “emerging market” capital into China at the expense of other emerging markets.

Green Continues to Grow

An increasing number of survey respondents say that “green” attributes influence their property purchases. This year:

- 14 percent indicate that green attributes “significantly” influence their decision-making when considering a property; 70 percent say green attributes are “somewhat” of an influence. In the 2009 survey, the numbers were 12 percent and 60 percent respectively.
- In the 2010 Survey, 17 percent of respondents say that “green” attributes are of no influence at all compared to 28 percent in the 2009 survey.

AFIRE members have a common interest in preserving and promoting investment in cross-border real estate. Founded in 1988, AFIRE currently has nearly 200 members representing 21 countries. AFIRE is located at 1300 Pennsylvania Avenue, NW, Washington, D.C.; (202) 312-1400. www.afire.org

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