THE OUTLOOK

Marcus & Millichap

GLOBAL CAPITAL

MIDYEAR 2021

International Investment Shifts to Industrial Assets, Smaller Markets; Canada Leads Other Nations in U.S. Acquisitions

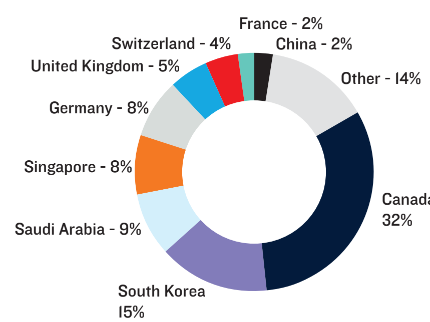
Cross-border property investment overcomes pandemic challenges. The onset of the global health crisis raised concerns that international investment into U.S. commercial real estate would be significantly waylaid by travel restrictions and other precautions. While the amount of capital crossing from abroad did decline during the pandemic, overall acquisition activity fell more steeply, resulting in a higher ratio of foreign investment. The share of global capital invested in domestic commercial properties rose from 8.7 percent in 2019 to 9.2 percent for the trailing-12-month period ending in March 2021. An active closing quarter to 2020, where 11.2 percent of capital came from outside the country, compensated for a slower spring and summer when that ratio fell to as low as 4.8 percent. Although below the high of 17.6 percent set in 2015, international investment into domestic real estate aligns closely with the 10 percent average recorded over the past two decades. That ratio may climb in the near future as barriers to overseas travel continue to fall and the broader global economy recovers.

Canadian investors continue to lead foreign investment into the U.S. For the four-quarter period ended in March of this year, investors from Canada represented 32 percent of cross-border dollar volume, the most of any single country. A considerable amount of capital also originated from South Korea, Saudi Arabia, Singapore and Germany. Buyers from Canada are generally more active than investors who hail from other nations, with the exception of 2016 when acquisitions from China led dollar volume. The high level of engagement by Canadian buyers likely stems from a greater level of familiarity and proximity to the domestic market, a dynamic that is likely to drive continued future investment activity.

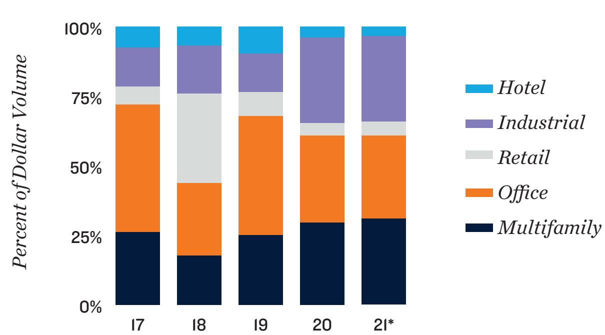
International trades shift to industrial and multifamily assets. While the overall level of cross-border investment did not significantly change during the pandemic, the property types under consideration did. For the past year ended in the first quarter, 90 percent of international capital went toward multifamily, office and industrial assets, at a roughly even split. This distribution marks a notable increase in trades for industrial facilities and a decrease in office transactions in response to the health crisis. Mandated shutdowns, capacity restrictions, and the adoption of remote work have clouded the long-term outlook for urban offices, while at the same time these factors fostered greater e-commerce spending that accelerated the demand for distribution, logistics and storage space. Investment into retail and hospitality assets has also fallen well below historical norms. International investors may continue to concentrate more on multifamily and industrial options until the fundamentals for the more impaired property types recover to a higher degree than they stand now.

International Investment Normalizes

2021 Investment by Country of Origin*



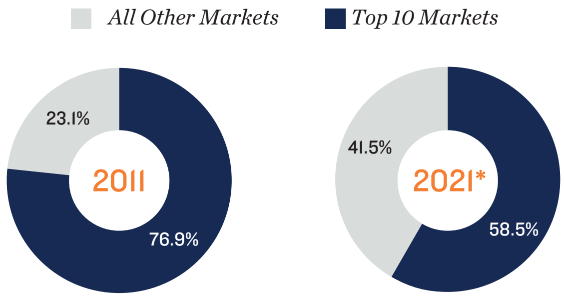
Buyers Shift Focus to Industrial, Multifamily



* Trailing 12 months through 1Q

Source: Real Capital Analytics

— Foreign Investors Moving Into Smaller Metros —



Percent of Dollar Volume | *Percent of Dollar Volume*

** Trailing 12 months through 1Q*
Source: Real Capital Analytics

Top 25 Markets by Total Cross-Border Allocation 2021 Ranking

Metro	2011	2015	2019	2021*
San Francisco	6.5%	4.9%	8.6%	10.4%
New York City	31.9%	30.1%	17.6%	8.9%
Seattle-Tacoma	1.3%	2.7%	7.4%	7.6%
Los Angeles	4.6%	7.7%	7.6%	6.2%
Dallas-Fort Worth	3.0%	3.9%	4.9%	5.4%
Chicago	5.8%	5.1%	3.7%	4.7%
Washington, D.C.	8.2%	6.1%	6.5%	4.5%
Atlanta	2.0%	4.1%	3.9%	4.3%
Phoenix	1.5%	1.8%	2.0%	3.3%
Boston	6.2%	3.8%	2.8%	3.1%
Philadelphia	0.4%	0.7%	2.0%	3.1%
Austin	1.2%	1.3%	2.8%	2.7%
Baltimore	0.2%	0.6%	0.6%	2.4%
Charlotte	0.4%	0.6%	1.4%	2.4%
Miami-Dade	4.5%	3.4%	3.7%	2.1%
Raleigh	0.2%	0.7%	1.1%	1.9%
Denver	2.0%	1.0%	2.8%	1.4%
Tampa-St. Petersburg	0.6%	0.6%	1.5%	1.3%
Indianapolis	0.1%	0.5%	0.3%	1.3%
Houston	4.2%	2.3%	3.1%	1.2%
San Diego	0.5%	1.6%	0.6%	1.1%
Minneapolis-St. Paul	1.5%	0.3%	0.5%	1.1%
Orlando	0.7%	1.0%	1.3%	0.9%
Memphis	0.1%	0.7%	0.8%	0.8%
Richmond	0.0%	0.3%	0.2%	0.8%

** Trailing 12 months through 1Q*
Source: Real Capital Analytics

Cross-Border Sales Trends Reveal Years-Long Shift Away From the Country's Largest Gateway Cities

International investors broaden criteria, consider smaller markets. Over the past decade the locations where foreign investors allocate their capital in the U.S. have become more diverse. In 2011 the 10 markets that attracted the most cross-border capital comprised over three-quarters of all real estate transactions made by foreign buyers. Less than 25 percent of total dollar volume was allocated to other metros across the country. By the first quarter of 2021, that ratio had expanded to over 40 percent. The top 10 that foreign investors favored also changed. In 2011 about a third of commercial property investment dollars from abroad went to New York City. That ratio has been declining since 2015 and was accelerated by the pandemic and its outsized impact on the large urban gateway city. For the 12-month period ended in March, less than 10 percent of cross-border capital was flowing into the metro. Instead, buyers from abroad were turning their attention toward Seattle-Tacoma, Dallas-Fort Worth, Atlanta and Phoenix, as well as a series of smaller markets including Indianapolis, Tallahassee, Florida, and Savannah, Georgia. A stronger long-term population growth outlook in many secondary and tertiary markets, paired with fewer disruptions from COVID-19, likely motivated more investors to broaden their criteria in recent quarters. As the health crisis abates, both domestic and international buyers are likely to continue to consider properties in non-primary markets at a high frequency. As the U.S. population ages, more young adults are expected to relocate to suburban areas in lower-cost cities, increasing the demand profile for local properties. Assets in smaller locations also often feature lower entry costs and higher initial returns, and may face less competition from new supply.

Prepared and edited by
Cody Young
Research Analyst | Research Services

For information on global capital trends, contact:
John Chang
Senior Vice President | National Director, Research Services
Tel: (602) 707-9700
john.chang@marcusmillichap.com

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