CONCRETE THOUGHTS

Foreign Capital Continues to Flow Into New York City

Often in this column, we talk about supply-and-demand dynamics within the New York City investment sales market. It is clear that the volume of sales has been struggling within the past five quarters, and the perception is that the small amount of activity that is occurring has predominantly been catalyzed by local buyers who have been buying properties in New York for many years.

However, foreign buyers have not completely evaporated from the market and, in fact, are still providing a significant amount of the activity. Before addressing foreign buyers specifically, it is important to have perspective on general market conditions, because, after all, it is relative shifts that indicate trends and provide insight.

Our second-quarter 2021 numbers won't be available until next week, so I will use first-quarter 2021 and 2020 numbers as a reference. In 2020, the Manhattan investment sales market for sales above $10 million produced just $11.1 billion of investment sales activity, which was down massively from the $57.5 billion of sales volume in 2015. In 2Q20, sales volume dropped to $1.9 billion from $5 billion in 1Q20. That was the lowest quarterly total for dollar volume going all the way back to 4Q09. In 3Q20, volume fell even further, to $1.2 billion.

In 4Q20, volume picked up to nearly $3 billion, and we thought that the market was pulling out of its trough for dollar volume of sales. However, in 1Q21, sales volume dropped to a cyclical low of $1.2 billion. This put the market on pace for just $4.8 billion for the year, which, if the pace continues, would be 92 percent below where we were at the cyclical peak in 2015.


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However, market indications tell us that the volume of sales will pick up significantly over the balance of the year.

Much of this uptick can be attributed to two factors. First, prices have dropped to the point that acquisitions are very compelling. Second, cap rates on properties around the United States have dropped significantly relative to New York City, which historically had always been the reverse. These higher cap rates are motivating domestic buyers, who may never have purchased property in New York City before, to take a look at assets here and, yes, it is continuing the flow of foreign capital into New York City.

Last year, foreign buyers spent $3.9 billion on the Manhattan investment sales market. That number was down about 50 percent from the $7.8 billion that was invested by buyers outside the U.S. in 2019. However, the $3.9 billion in, and of, itself is most meaningful when we look at it on a relative basis.

The $3.9 billion represented about 35 percent of the $11.1 billion that was invested in New York in 2020. So, the question becomes: How does that percentage compare with past percentages and what has the historical average been?

It is clear that the peak of foreign capital invested in New York City occurred in 2015 and 2016. This was led mainly by Chinese institutional capital that seemed to be buying every large asset that traded hands during those two years. In 2015, there was a massive $24.1 billion of foreign capital invested, and, in 2016, there was $17.2 billion of foreign capital invested in the market. Those amounts represented 41 percent and 43 percent, respectively, of the total investment in the market in those years — all historic highs.

So, if we look at our $3.9 billion total for 2020, it seems very low on a relative basis. However, the 35 percent in 2020 compares very favorably to the 27 percent total we saw in 2019, and the 22 percent total that 2018 represented. If we go back to 2010 through 2014, we see that foreign capital represented an average of 18.5 percent of total investment during those years; so, on a relative basis, the 35 percent that we saw last year is actually almost double the pre-cyclical peak average.

Of the total foreign capital invested, more than half was invested in the office sector and more than 25 percent was deployed into the multifamily space.

Fortunately, for us, here in New York, Gotham remains a prime target for foreign capital and we expect this dynamic to continue.

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