Foreign Investment: Down But Not Out!

Most of what you read about foreign investment in the New York City sales market makes it seem like foreign investors are currently non-existent. However, foreign investment in New York's commercial real estate market continues to thrive. While it is true that the 2018 total pales in comparison to the three prior years, the aggregate amount of investment by overseas investors in our local real estate market was still very impressive by historical standards.

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Foreign investment in New York City's commercial real estate market has always had a tangible impact on the marketplace. Over the decades, investors from different countries have been in the spotlight at different times. In the late 1970s and 1980s, investors from Japan were the most aggressive investors in the market, which led to the adoption of the Foreign Investment in Real Property Tax Act (FIRPTA) as some American lawmakers were concerned that there was too much external investment occurring and they wanted to make sure taxes were collected on real estate dispositions by foreign investors. The concern escalated after Japanese investors purchased Rockefeller Center here in New York City. Then came waves of investors from Germany, then Ireland and, most recently, from China. Notwithstanding these periodic concentrations, foreign demand is very broad as evidenced in the 62 different countries from which investors have purchased properties in New York City that I have been directly or tangentially involved in as a broker. As investors from each of these countries grab the spotlight and the headlines at different times, investors from Canada have historically always deployed the most capital into our marketplace.

For the first time, the dominance of Canada was replaced by China in the 2015 through 1H17 period. During that time, Chinese institutional investors, in particular, were seemingly involved in almost every major transaction in the city.

In 2007 through 2014, the average amount of foreign capital invested into the New York market was approximately $3.9 billion per annum. This represented an average of about 16 percent of the total capital deployed into the market. That percentage nearly tripled over the next three years to an average of 42 percent of total capital invested. During those years, a whopping $17.6 billion was invested by offshore buyers on average. This is not surprising, in hindsight, as foreign investment tends to peak late in the investment cycle. According to our observations, the sales market correction began in October 2015.

In 2018, foreign investment represented 22.6 percent of all investment in the market. While this percentage is significantly below the prior three-year average, the absolute level of foreign investment, at $6.24 billion, is in itself an extremely healthy total; it is significantly above the average amount of foreign capital deployed in the period of 2007 through 2014 which was just $3.9 billion per annum.

The explosion of Chinese capital into the market was at its height in the period from 2015 through 1H17. During this period, foreign investment in New York City totaled $4.84 billion per quarter. In the subsequent six quarters, this average dropped to just $1.77 billion per quarter. Comparing these two time periods, we see that investment from China represented 34 percent of total foreign investment during this period, which dropped to just 2 percent in the six subsequent quarters. An advancement was made between these two periods by investors from Japan which represented just 3 percent of total foreign investment during the 2015 through 1H17 period, which increased to 17 percent in the subsequent period. Throughout these periods, old reliable Canada maintained a solid position at 24 percent and 25 percent respectively.

While the percentage of foreign investment was sharply lower in 2018 than the three prior years, the actual dollars invested was impressive. In fact, in 2014 if you asked any investment sales market participant if they would be happy with $6.24 billion of foreign investment in 2018, they would have undoubtedly said, "Yes." Foreign capital will continue to seek investments in the US and, particularly, in New York City. As dysfunctional as we sometimes feel our political system is, and as concerned as we are many times about our broader economy, there is no doubt that from a foreign investor's perspective, the U.S. still offers relative economic and political stability.