

# 2022

## Commercial Real Estate International Business Trends

February 2022

National Association of REALTORS® Research Group



NATIONAL  
ASSOCIATION OF  
REALTORS®

# 2022 COMMERCIAL REAL ESTATE INTERNATIONAL BUSINESS TRENDS

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The *2022 Commercial Real Estate International Business Trends Report* discusses the trends in foreign buyer purchases of U.S. commercial real estate in 2021 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 year 2021 was a remarkable year for the commercial real estate market because it bucked expectations of a prolonged downturn. While the office property market had a huge loss in office occupancy of about 143 million square feet from 2020 Q2 through December 2021, absorption increased in the multifamily, industrial, and retail trade sectors. Since the pandemic, about 1 million more rental apartment units have been absorbed through December 2021. In the industrial property market, nearly 700 million square feet was absorbed since 2020 Q2 through December due to the strong demand for logistics space to support the acceleration of e-commerce. Surprisingly, the retail brick-and-mortar property market saw positive net absorption of 48 million square feet since the pandemic, with strong absorption of neighborhood malls and strip centers that offset the declining occupancy in malls. Hotel occupancy rates also rose in 2021, to about 56% by year-end from 42% in the prior year due to rising vaccination rates and more personal and business travel.

With a strong U.S. commercial real estate market in 2021, cross-border capital flows of \$2.5 million or higher surged 44% to \$52.9 billion during the four quarters through 2021 Q3, accounting for 8% of total domestic and cross-border transactions of \$638.2 billion. This brings the 2021 cross-border flows back to the pre-pandemic level, at \$52.6 billion in 2019. However, investors shifted their acquisitions towards secondary markets, with Seattle, Atlanta, and Dallas outranking Manhattan and the other major markets as the top destinations for foreign investors. Canada was the major source of capital. Institutional investors accounted for 70% of the cross-border flows.

Meanwhile, in the “small” commercial real estate market where approximately 80,000 commercial members of the National Association of REALTORS® mostly do business, NAR estimates that foreign investor acquisitions of commercial real estate facilitated by NAR commercial members more than doubled in 2021, to \$4.8 billion from \$2.0 billion in 2020. Foreign buyer transactions accounted for 3.1% of the estimated commercial transactions of \$155.9 billion among NAR commercial members. Florida, Texas, and California were the top destinations. Latin Americans were the major investors. Individual investors made up 97% of this market. NAR commercial members expect an increase in foreign buyer transactions in 2022 in all markets, except the office market.

Enjoy this year’s report!



# 2022 COMMERCIAL REAL ESTATE INTERNATIONAL BUSINESS TRENDS

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# Cross-Border Financial Flows in the Large Commercial Real Estate Market in 2021\*

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

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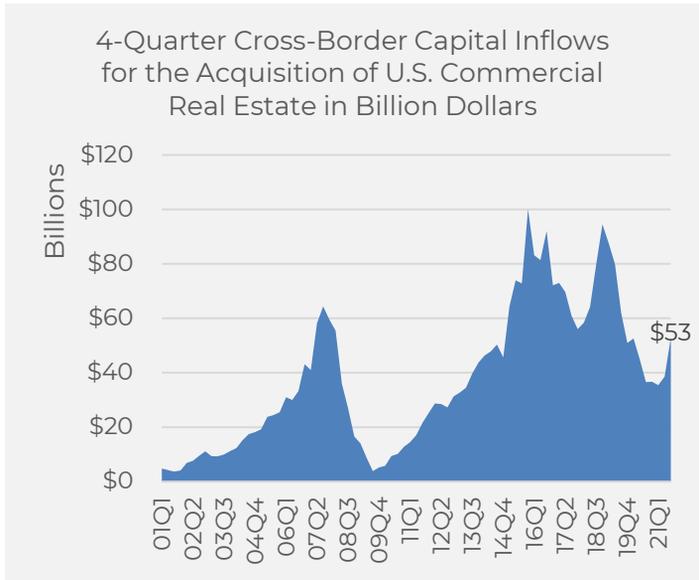
# CROSS-BORDER FINANCIAL FLOWS IN THE LARGE COMMERCIAL REAL ESTATE MARKET IN 2021

## Cross-border flows of \$2.5 M or more increase 44% in 2021

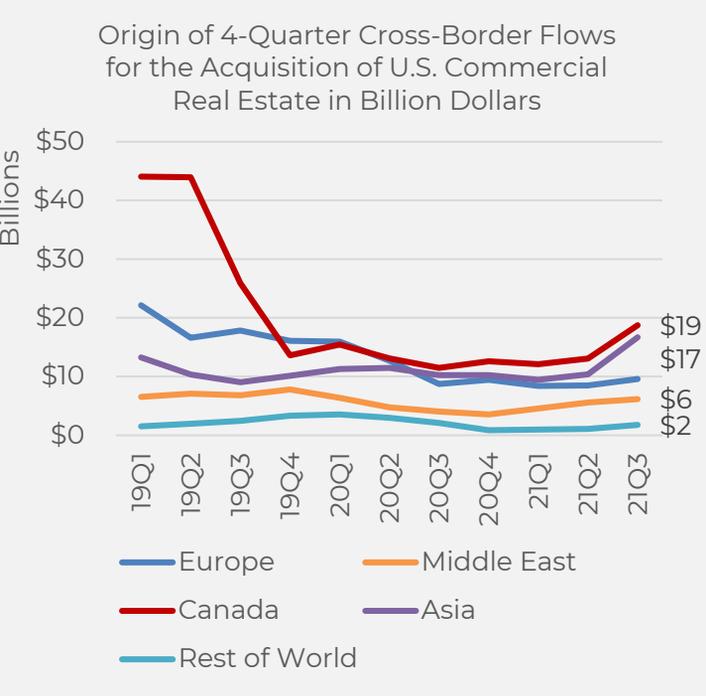
Cross-border inflows of at least \$2.5 million or more for the acquisition of U.S. commercial real estate have recovered to pre-pandemic levels. In the four quarters ending 2021 Q3, cross-border inflows rose 44%, to \$52.9 billion (\$36.6 billion during the same period in 2020). The 4-quarter level is at par with the \$52.6 billion in cross-border flows in 2019, according to data from Real Capital Analytics.

Cross border flows accounted for 8% of the \$638.2 billion in U.S. commercial real estate acquisitions during the four quarters ended 2021 Q3, also the same share in 2019.

Cross-border flows increased across the major regions, led by Canada (63%), followed by Asia (63%) and the Middle East (52%), with modest growth in Europe (10%). Canada is the largest source of cross-border flows, at \$19 billion or 35% of the inflows followed by Asia, at \$17 billion, or 32% of the inflow.

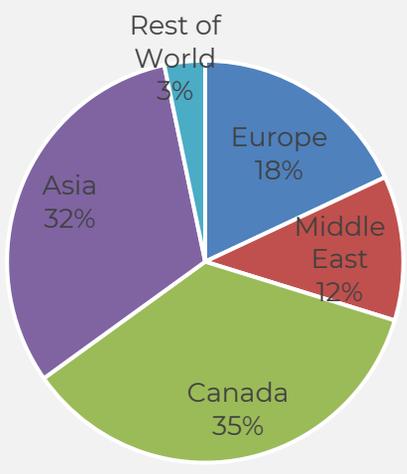


Source of data: Real Capital Analytics



Source of data: Real Capital Analytics

Composition of Cross-Border Flows



# CROSS-BORDER FINANCIAL FLOWS IN THE LARGE COMMERCIAL REAL ESTATE MARKET IN 2021

## Canada and Asia are the largest sources of cross-border flows

Canada remained the top investor in the U.S., acquiring \$19.2 billion of commercial real estate in the United States in the four quarters ending 2021 Q3, up 63% from the prior four quarters.

Singapore rose to become the second-largest investor (from #4 in 2020), purchasing \$7.9 billion of U.S. commercial real estate, up 153%.

South Korea was the third largest investor (from #2 in 2020), acquiring \$6.8 billion of commercial real estate, an increase of 75%.

Saudi Arabia rose to the fourth spot (from #11 in 2020), with \$2.68 billion of acquisitions, nearly four times the level in 2020, or an increase of 300%.

Other countries that invested at least \$1 billion dollars were the European countries of Germany, the United Kingdom, and Switzerland, and the Middle Eastern country of Bahrain.

4-Quarter Cross-Border Inflows for the Acquisition of U.S. Commercial Properties as of 2021 Q3 in Billion Dollars



Source of data: Real Capital Analytics.  
4-quarter levels as of 2021 Q3

Source of data: Real Capital Analytics

# CROSS-BORDER FINANCIAL FLOWS IN THE LARGE COMMERCIAL REAL ESTATE MARKET IN 2021

## Non-major markets draw higher share of cross-border flows

Seattle, Atlanta, and Dallas dislodged Manhattan as the top destinations among foreign investors of U.S. commercial real estate.

Investors purchased \$3.2 billion in Seattle's commercial real estate market during the four quarters ending 2021 Q3, an increase of 25% from the level in 2020. Seattle (#2 in 2020) placed ahead of the other tech-heavy metros of San Francisco, San Jose, and San Diego.

Atlanta jumped to second place (#5 in 2020), as investors poured in \$2.8 billion, up 85%.

Dallas was the third largest destination (#4 in 2020), with foreign investor acquisitions of \$2.3 billion, up 43% from the level in 2020.

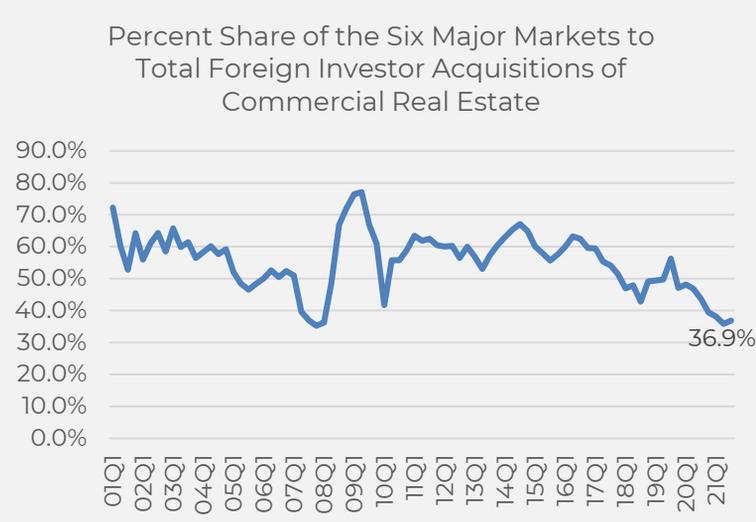
Manhattan, the #1 destination for years, fell to #8, as foreign investor acquisitions fell 52% to \$1.9 billion.



Source of data: Real Capital Analytics. 4-quarter levels as of 2021 Q3

# CROSS-BORDER FINANCIAL FLOWS IN THE LARGE COMMERCIAL REAL ESTATE MARKET IN 2021

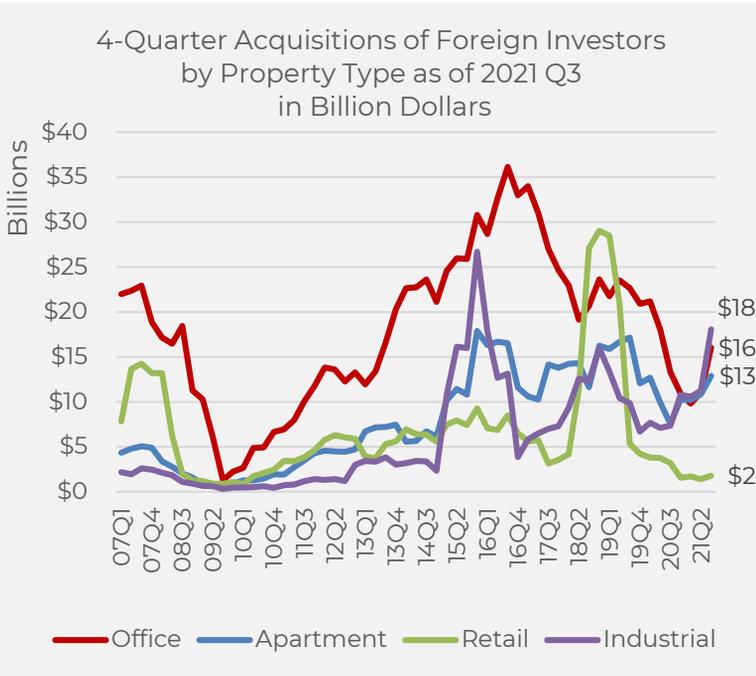
The share of cross-border capital of the six major markets (New York, Chicago, Boston, Washington DC, Los Angeles, and San Francisco) continued to decline, to 37% in the first four quarters of 2021 from 45% in 2020. In 2019, the six major markets accounted for 50% of acquisitions. Non-major markets are attracting foreign investors given the migration in these areas and the relatively cheaper cost of acquiring real estate in these markets.



Source of data: Real Capital Analytics

## Foreign investors target apartment, industrial, and office property markets

During the four quarters ended 2021 Q3, foreign investors made more investments in multifamily, office, and industrial properties, but stepped away from retail.



Source of data: Real Capital Analytics

The industrial market drew the largest share of acquisitions totaling \$18 billion, or 34% of \$52.9 billion in total foreign investor acquisitions.

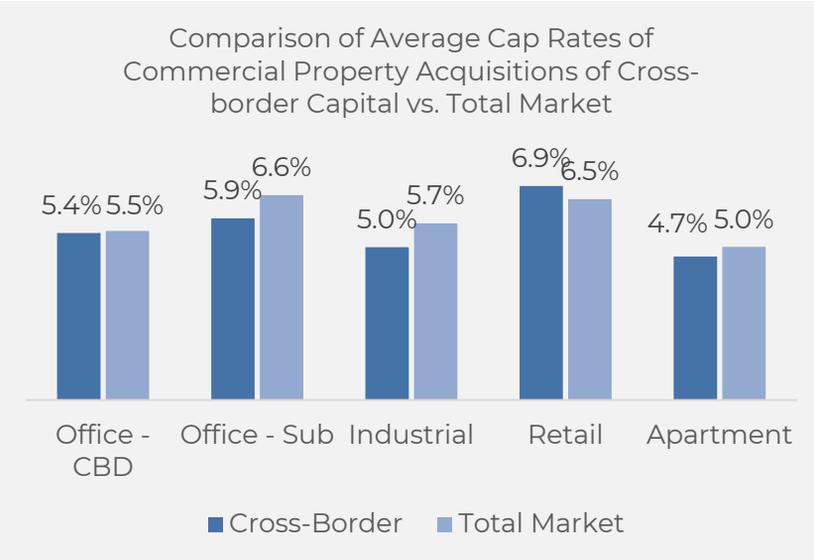
Surprisingly, when the office market is suffering from its highest vacancy since the Great Recession, it drew the second largest share of foreign investor acquisitions, at \$16 billion, or 30% of total acquisitions. Investors

purchased an almost even mix of assets in the central business district area, accounting for 53% of total office acquisitions, and the rest in non-central business district areas.



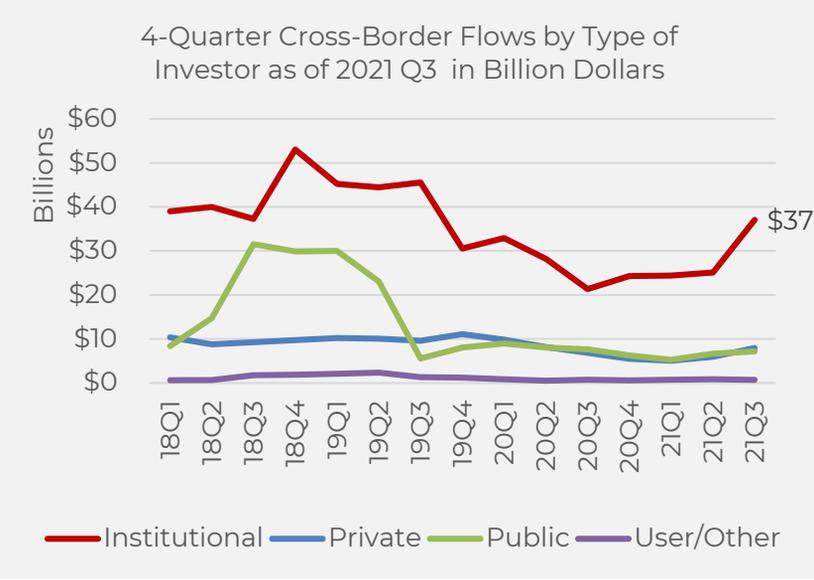
# CROSS-BORDER FINANCIAL FLOWS IN THE LARGE COMMERCIAL REAL ESTATE MARKET IN 2021

In the apartment market, foreign investors purchased \$12.9 billion of assets, the third largest property type. However, apartment acquisitions rose at the strongest pace, up 70% from the level one year ago when foreign investor acquisitions were halved to just \$7.6 billion. The level of investor acquisitions is now back to pre-pandemic levels. The property market has been attractive for both domestic and foreign investors, with rent growth up 11% year-over-year, according to CoStar data in 390 markets.



Source of data: Real Capital Analytics

Foreign investors are apparently purchasing high-value properties compared to the total market acquisitions. The average cap rates of foreign investor acquisitions of office, industrial, and apartment properties were lower than those of the total market, which means investors were purchasing higher-valued properties (or placing a premium on the properties). Only in the retail sector were cap rates lower than that of the overall market.



Source of data: Real Capital Analytics

## Institutional investors accounted for 70% of acquisitions

In the large commercial market, foreign institutional investors drove the rise in commercial real estate acquisitions, acquiring \$37 billion or 70% of the total \$52.9 billion in cross-border flows.

Professional fund managers were the largest investor group, at \$20.4 billion in investments (55%) followed by pension and sovereign wealth funds, at \$12.6 billion (34%). Banks/finance and insurance companies accounted for the remainder of 11%.



# Foreign Buyer Transactions in U.S. Commercial Real Estate Among NAR Commercial Members in 2021\*

\*The information on the small commercial market is based on the responses of 1,200 commercial members of the National Association of REALTORS® (NAR) who responded to NAR's international commercial real estate survey that was sent out to approximately 80,000 NAR commercial members in January 2022. NAR also conducts a quarterly market survey that asks respondents if they had an international client. The quarterly survey has about 200 respondents.

The approximately 80,000 NAR commercial members that were asked to respond to the survey are members of NAR who reported that their main field of specialization is commercial or are members of NAR's commercial Affiliates or hold designations from CCIM®, Society of Industrial and Office REALTORS® (SIOR®), REALTORS® Land Institute (RLI®), Institute of Real Estate Management (IREM®), and the Counselors of Real Estate or CRE®.

# FOREIGN BUYER TRANSACTIONS IN U.S. COMMERCIAL REAL ESTATE AMONG NAR COMMERCIAL MEMBERS IN 2021

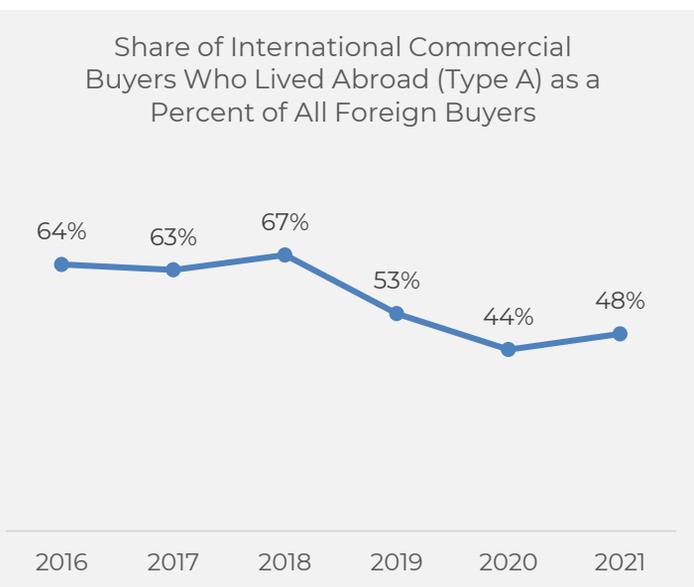
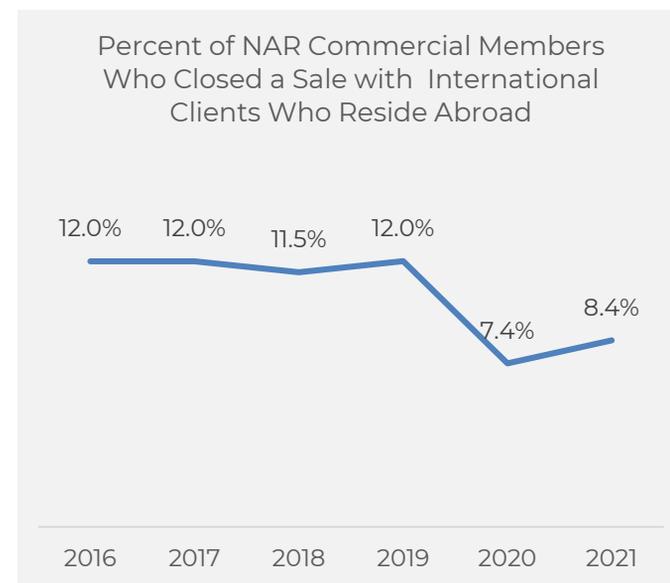
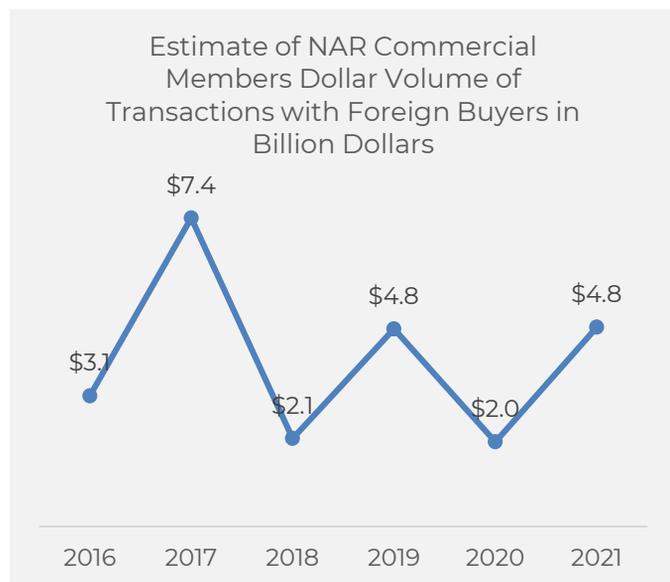
## Commercial foreign buyer transactions of NAR commercial members increase to \$4.8 billion

Transactions of NAR's commercial members increased to an estimated \$4.8 billion in 2021 from \$2.0 billion in 2020. The dollar volume of international sales is now at par with the pre-pandemic level in 2019.

Foreign buyers accounted for 3.1% of the estimated \$155.9 billion in commercial real estate transactions in 2021 among NAR commercial members numbering approximately 80,000 in 2021.

In NAR's quarterly market surveys, a higher fraction, 8.4%, reported they closed a sale with an international client who resided abroad in 2021 (7.4% in 2020).

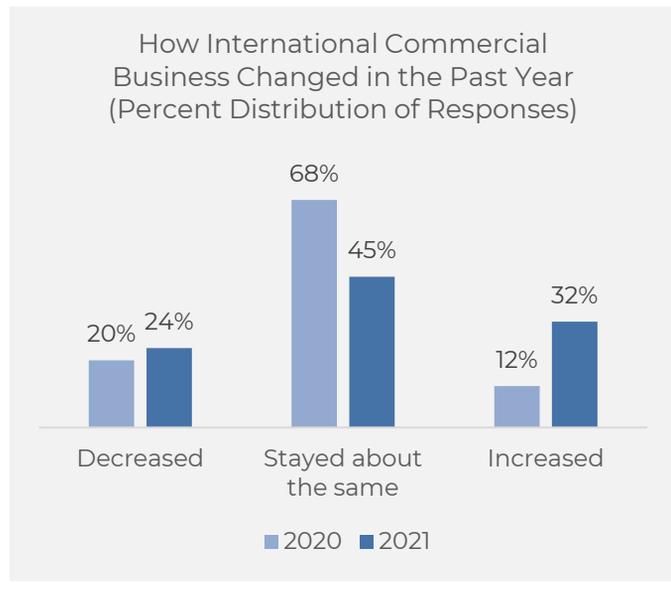
Respondents reported a higher share of foreign commercial buyers who lived abroad (Type A), at 48%, compared to the share in 2020 (44%).



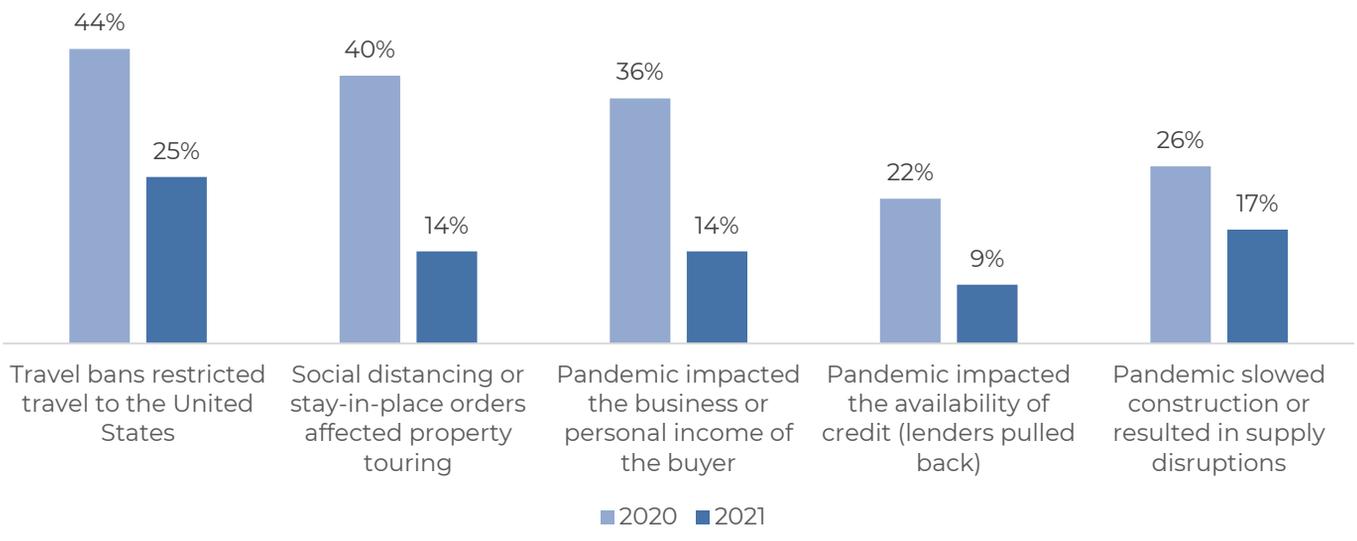
# FOREIGN BUYER TRANSACTIONS IN U.S COMMERCIAL REAL ESTATE AMONG NAR COMMERCIAL MEMBERS IN 2021

A higher fraction of respondents, 32%, also reported an increase in their international commercial business in 2021, a higher share compared to 2020 (12%).

These positive trends reflect the waning impact of the COVID pandemic on international transactions. For example, only 25% of respondents reported a negative impact of the travel ban in 2021 compared to 44% in 2020. Only 14% reported that the pandemic affected the touring of the property compared to 40% in 2020. Fewer respondents also reported a negative impact of the pandemic on buyer’s income, credit availability, and supply disruptions.



Percent of Respondents Who Reported Impact of COVID-19 on International Business Transactions Reported by NAR Commercial Members in 2020 and 2021



# FOREIGN BUYER TRANSACTIONS IN U.S COMMERCIAL REAL ESTATE AMONG NAR COMMERCIAL MEMBERS IN 2021

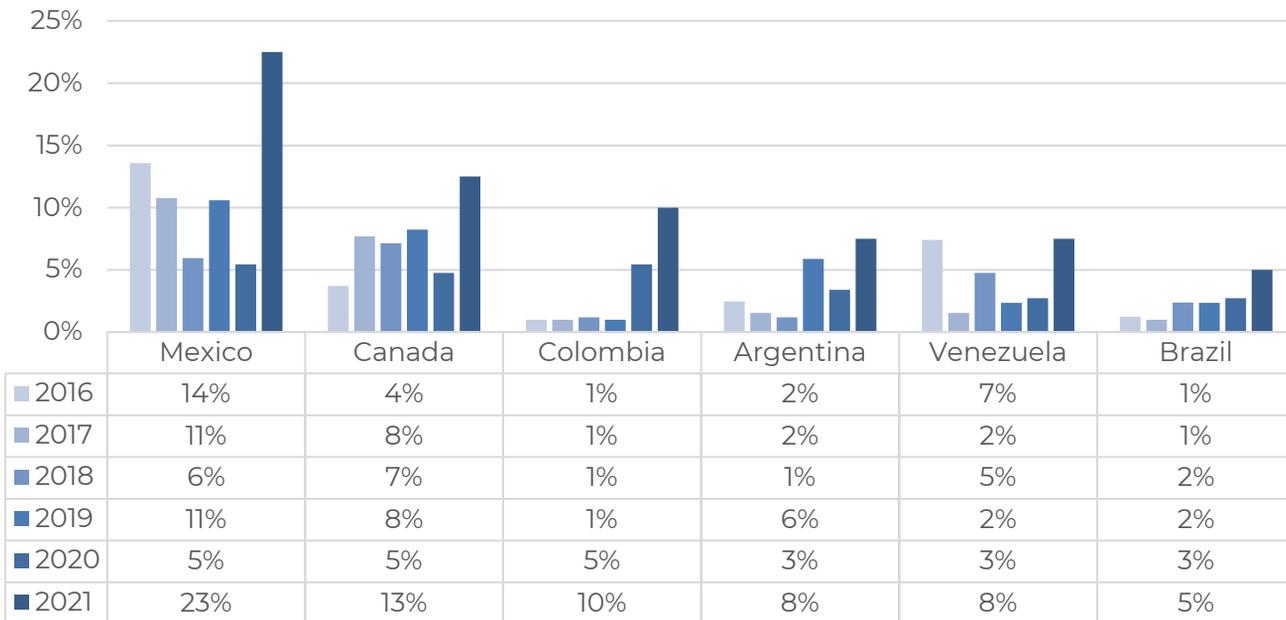
## Latin Americans were top foreign buyers of commercial real estate in 2021

While Canadians, Asians, and Europeans were the largest buyers of U.S. commercial real estate valued at \$2.5 million or over, the major buyers of NAR’s commercial members were from Latin America and Canada. Mexico was the top country of origin (23%). Other Latin American buyers were from Colombia (10%), Argentina (8%), Venezuela (8%) and Brazil (5%). Rounding out the Latin America buyers were from the Dominican Republic, Chile, Ecuador, Honduras, and Peru.

Canada was the second largest foreign buyer of commercial real estate brokered by NAR commercial members, at 13%.

No respondent reported a buyer from China. In 2020, Chinese buyers were the top foreign buyers of U.S. commercial real estate brokered by NAR commercial members, accounting for 14% of foreign buyers.

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



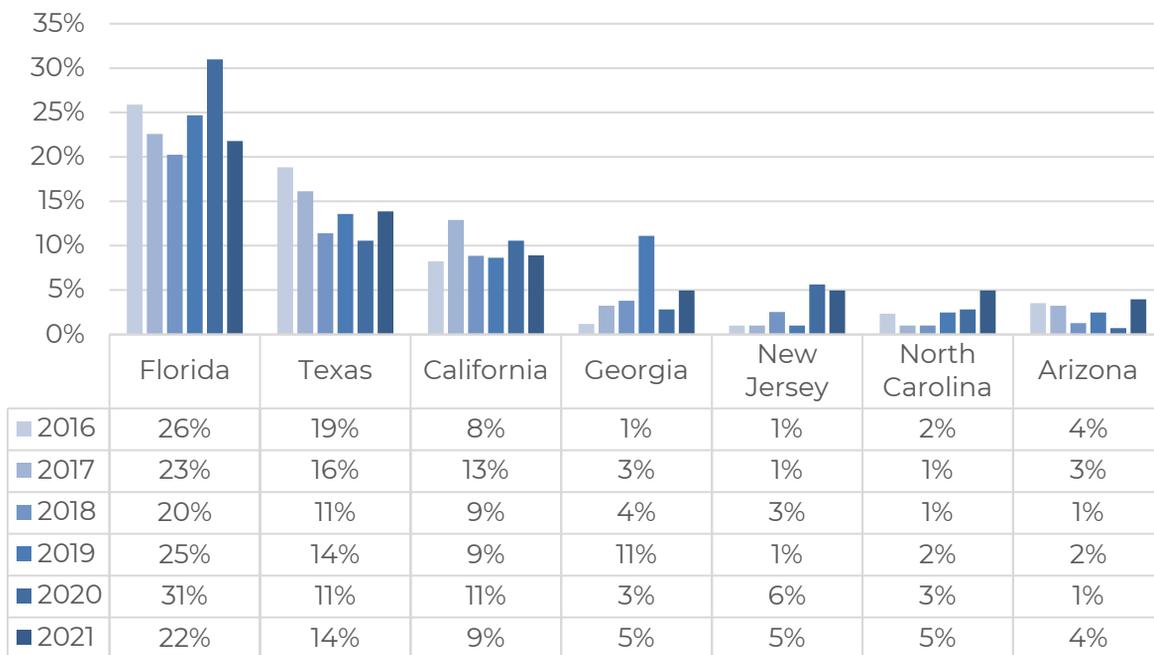
# FOREIGN BUYER TRANSACTIONS IN U.S. COMMERCIAL REAL ESTATE AMONG NAR COMMERCIAL MEMBERS IN 2021

## Florida remains the top state for U.S. commercial buyers

Florida was the top destination of foreign buyers of U.S. commercial real estate for NAR commercial members, with a 22% share. Texas came in second with a share of 14%, followed by California with a share of 9%. Georgia, New Jersey, and North Carolina each took a 5% share of the market while Arizona accounted for 4%.

No respondents reported a foreign buyer buying in New York, even though it accounts for 3% of NAR commercial members' business. On the other hand, New Jersey attracted foreign buyers, accounting for 5% of foreign buyers when that state only accounted for 1.3% of NAR's commercial membership.

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



The share of the state mainly reflects the distribution by state of NAR commercial members although there is some divergence. The membership distribution of Florida (18%) and Texas (14%) are somewhat lower than the foreign buyer share. Only California's foreign buyer share is lower than its membership share (14%) while only New Jersey's foreign buyer share is far outstripping its membership share (1.3%). The membership distribution shares of Georgia (5%), North Carolina (4%), and Arizona (2.5%) are about the same as the foreign buyer shares.

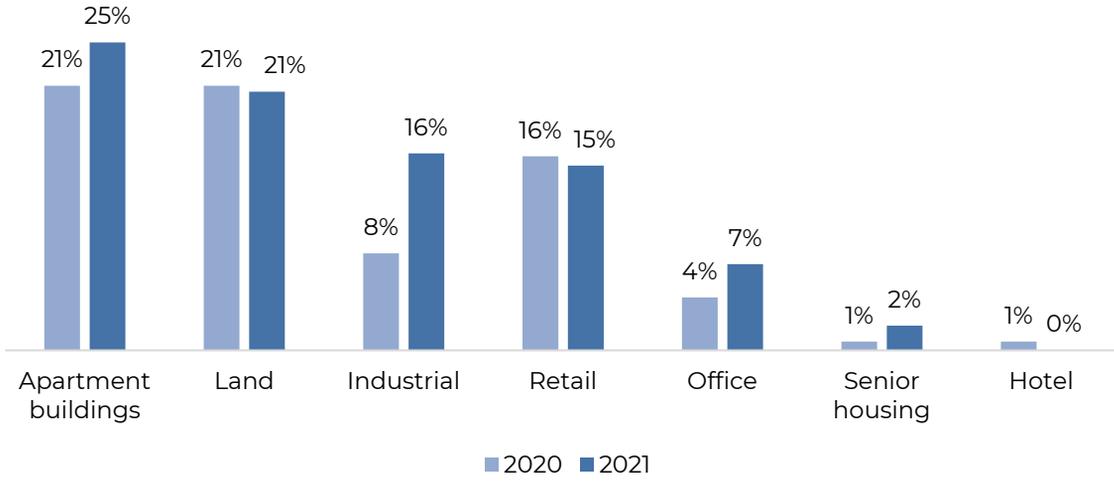


## Multifamily buildings and land are preferred property acquisitions

Multifamily buildings and land were the preferred property acquisitions of foreign buyers working with NAR commercial members. Multifamily buildings accounted for 25% percent of foreign buyer commercial purchases, while land accounted for 21%. Industrial acquisitions made up 16%. Foreign buyers find these property types profitable, with asking rents up 11% year-over-year in the multifamily market and 8% year-over-year in the industrial market, as of December 2021. Steep home price appreciation and the demand for e-commerce logistics space are driving demand for these property types.

Office acquisitions only accounted for 7% of the purchases made by NAR commercial members' foreign buyers, which sharply contracts with the 30% share of office acquisitions by large investors. Suburban and small-town office markets where NAR members mainly operate have been less impacted by the pandemic than office buildings in central business districts.

### Commercial Real Estate Purchases Closed by NAR Commercial Members



# FOREIGN BUYER TRANSACTIONS IN U.S COMMERCIAL REAL ESTATE AMONG NAR COMMERCIAL MEMBERS IN 2021

## Primary purpose: rentals

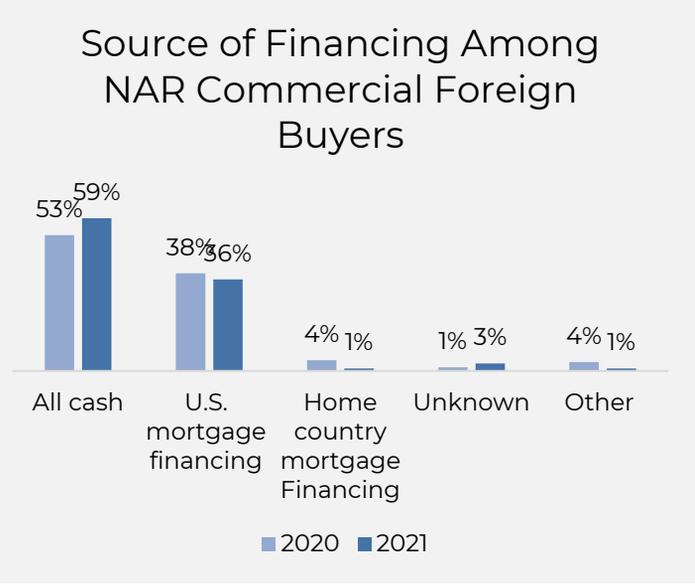
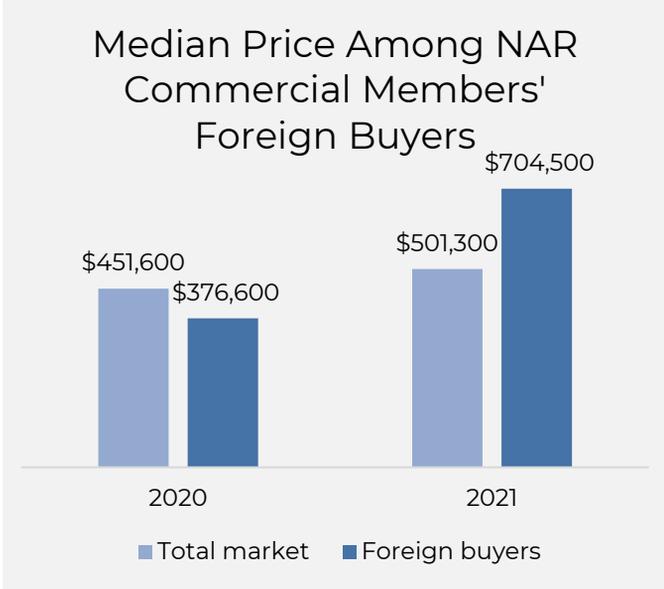
Foreign investors of commercial property purchased properties mainly to rent out (43%), and to use for their own business (31%).

## Median foreign buyer purchase price

Foreign buyers purchased a property that is typically valued (median) at \$704,500, which is higher than the median commercial sales price of all buyers that NAR commercial members worked with at \$501,300.

## 59% of foreign buyers paid all-cash

Fifty-nine percent of foreign buyers paid all-cash, a higher share compared to 2020 (53%). The higher share of all-cash sales is consistent with the higher share of foreign buyers who reside abroad who tend to pay all-cash. In 2021, the share of non-resident foreign buyers rose to 48% (44% in 2020).

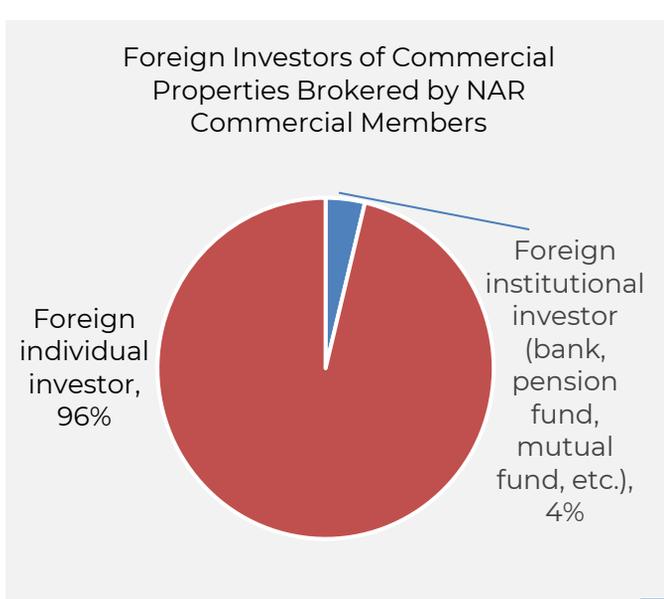
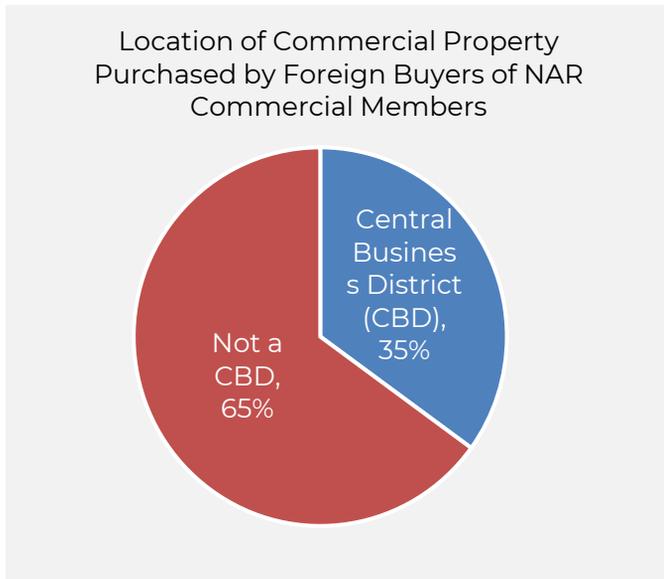


# FOREIGN BUYER TRANSACTIONS IN U.S COMMERCIAL REAL ESTATE AMONG NAR COMMERCIAL MEMBERS IN 2021

## **NAR commercial members mainly work with individuals who purchase property in areas outside central business districts**

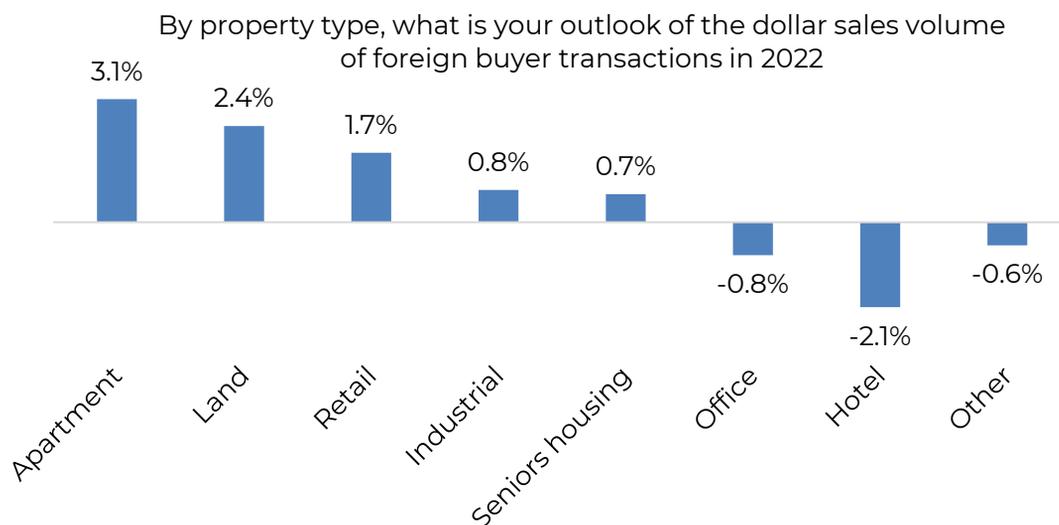
Foreign buyers working with NAR commercial members primarily purchased properties in non-Central Business Districts (CBD), accounting for 65% of foreign commercial buyers. In comparison, non-CBD sales made up only 47% of the investments in the large commercial real estate market (\$2.5 million or over).

The foreign investors that NAR commercial members work with are also mostly individual investors, making up 96% of the transactions, with foreign institutional investors accounting for only 4%. In the large commercial market (\$2.5 million sales or more), institutional investors account for 70% of the foreign buyers.



## Positive Outlook in 2022 for Most Property Sectors

With the easing of travel restrictions and increasing rates of vaccination and herd immunity, NAR commercial members expect commercial property acquisitions by foreign buyers to increase for most property types except office and hotel properties. They expect the strongest increase in acquisitions for apartment buildings (+3.1%) and land (2.4%).



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

- The United States is a safe and stable place to do business
- Cap rates are better than larger markets
- Strong demand and growth
- Relatively cheap land and lower cost of housing
- Proximity to Canada
- There's available inventory and opportunity in commercial properties like Class B turn-around retail centers

## What are your market's biggest challenges for International clients?

- Current travel restrictions/difficulties due to COVID remain an issue
- Access to investor visas
- Limitations on amount of funds that can be transferred from other countries and money transfer requirements
- Language/communication difficulties
- Client awareness of the local market

# 2022 COMMERCIAL REAL ESTATE INTERNATIONAL BUSINESS TRENDS

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