

contributing SIORs



**HANS
BERENDES, SIOR, CRE, FRICS**



**ARLON BROWN,
SIOR,**



**KEITH EDWARDS,
SIOR, CCIM**



**JOHN HAMILTON,
SIOR, CCIM, CPM**



**DANNY ZELONKER,
SIOR, CCIM**



Commercial real estate investors from countries beyond U.S. borders have been traveling a lot more lately. Major investors generally stick to a small group of gateway cities in this country, but they are now finding compelling reasons to buy buildings even in secondary metros not on any coast.

Last year, foreign investment in U.S. commercial real estate markets totaled about \$24 billion. By mid-year 2015, that notch had already been breached, reports Jones Lang LaSalle, and by some estimates, total foreign investment in U.S. commercial property markets this year could end up between \$35 billion and \$40 billion.

The trend line remains strong due to the lengthy, but consistent, recovery of the U.S. economy as compared to elsewhere around the globe: slump-

ing commodities blowing up third-world economies; a slowdown in China production and manufacturing; and myriad problems confronting Europe ranging from Greece loan defaults to out-of-control immigration inflows.

Investors turning to U.S. property markets are generally seeking safety, stability, and decent opportunities for capital appreciation. Which is one reason why Chinese investors, both institutional and individual, have been moving monies to the U.S. They



SIX TIPS FOR WORKING WITH FOREIGN INVESTORS FOR THE FIRST TIME

By John "Mac" Hamilton, SIOR, CCIM, CPM,
president of Hamilton Real Estate Inc.

- 1) Be straight with foreign investors so that you can develop a relationship built on trust.
- 2) Share with foreign investors your knowledge of the market so they can understand and appreciate the market in which they are looking to deal.
- 3) Make sure you stay in communication when they are not in town and even when they are. They need to know their money is being dealt with continuously and they are not being disregarded when they are not physically present.
- 4) Have an accurate and honest accounting of how their properties are performing and that you give them narrative descriptions as to what has happened when a problem comes up; foreign investors need to know the why, what plans are in place to remedy the problem, and what the remedy will cost.
- 5) Make sure you regularly distribute cash flow checks to foreign investors so they gain increasing confidence in your ability to work with them.
- 6) Don't generalize. Different cultures have different motivations to invest in the United States.

have become the largest cross-border investors in this country's property markets this year and are expected to continue to do so for the next few years.

Most cross-border institutional funds choose to invest in just a small clutch of gateway cities. Last year, the highest volumes of investment went to New York, Boston, Washington D.C., Los Angeles, San Francisco, and Chicago, reports Real Capital Analytics. Other cities popular with foreign investors include Seattle, Austin, Houston, and Miami. *Professional Report* decided to check-in with commercial real estate profession-

als in selected markets around the country to see where the action was and if any SIOR members were getting any of that cross-border business.

A GATEWAY CITY

Boston is a unique city in one important regard: a very high concentration of students attend universities in the city's metro area. Indeed, some 200,000 college students attend institutions of higher learning from Harvard and MIT to Boston College and Northeastern. Just under 25 percent of Boston's university students are now foreigners, some of

which will end up living and investing in Boston real estate or returning home, but at some point in the future come back to Boston to invest.

"A lot of students are from China and the Pacific Rim, and families of the students are buying high-end condominiums and other residences as a way to move money out of Asia and to the United States," reports **Arlon Brown, SIOR**, a senior vice president with the Parsons Commercial Group Inc., in Framingham, Mass. "So, there has been tremendous growth in the Boston market fueled by education."

FOREIGN INVESTORS IN EUROPE

Over the past few years, Europe has rolled through one crisis after another, from the failure of the Greek state to the current refugee situation; yet foreign investment in European real estate hasn't diminished. Last year, well over half of cross-border investment globally owed to Europe, reports Real Capital Analytics. That trend hasn't

The big surprise is that Germany has been catching up to London as the venue of choice for foreign investors. *Professional Report* checked in with **Hans-Ulrich Berendes, SIOR, CRE, FRICS**, a principal in Hamburg-based Berendes & Partner Consulting GmbH/CORFAC International, to see what was going on.

which appears to be
Europe because it is still quite cheap,
and that
a
ment market this year.

London was always number one, but a lot of investors are feeling that London is over-priced and the German investors are selling there, Berendes continues.
possibilities around Europe. Berlin is a good example, also Spain is recovering. Madrid is the number three investment market in Europe

investors are buying loans and debts in Italy, mostly in the triangle

For a core-plus product, investors would get a cap rate of 3 to 4 percent yield. For an average, multi-tenant office rate would rise to 4 to 5 percent. An office
Berendes, would see a cap rate of 4.75 to 5 percent.

Most of the big German cities are overdone with shopping centers, so that market is only interesting if you can find something, but the market is dominated by two or three shopping center companies and it is tough to crack open, Berendes continues.

Germany is not centralized like France or the U.K. Instead of just Paris or London, Germany has seven, and investors are going out of these core cities and looking at secondary cities because core real estate is very expensive.

yields, 7 to 7.5 percent for neighborhood shopping centers, as an example, instead of 4.5 to 5 percent,

and more at niche assets, things like hotels, student housing, and senior housing.

That's just one cross-border group. Making an even bigger impact are the institutional investors. This year, one Chinese fund bought a portfolio of properties valued at \$129 million, says Brown.

"Recently I read where Boston ranked fifth amongst U.S. cities for the value of commercial real estate transactions," says Brown. "I would guess 25 to 30 percent of those deals were to foreign groups. That big portfolio transaction was done by a fund based in Beijing, but we also have a lot of investors out of Europe, from places like Germany, London, and Ireland."

Dublin-based retailer, Primark, opened its first U.S. store in an old Filene's Basement venue in downtown Boston.

Another company from France that Brown worked with was seeking hotels in Boston.

"Foreign buyers are looking at all asset classes and residential," says Brown. "The targets really depend on how big their pocketbooks are and what their appetite for risk is. The amount of deals I'm doing today with foreigner investors is definitely greater than in past years. Foreigners with capital are much more comfortable coming to Boston to invest."

ALMOST TIER ONE

Institutional investors prefer to park their money in just a limited group of tier one, gateway cities, but you can only buy so many Manhattan office buildings. So, foreign investments have been migrating outward to other significant metros; places like Houston, Dallas, Miami, and Seattle.

Early in 2015, Japanese manufacturer, Daikin Industries Ltd., announced it would build a \$410 million air-conditioner factory near Houston, Texas. **Keith Edwards, SIOR, CCIM**, a senior vice president of brokerage services and land specialist for the Caldwell Companies in Houston, handled the sale of the land, which totaled 491 acres.

It was a good deal for Edwards, but it was not his largest, recent, land transaction. He also sold a 795-acre tract to a group of investors out of China.

"I do a few, large international deals every year," Edwards says. "These are usually sizeable land sales to developers who will build industrial properties. Foreign companies come to Houston because the economy is good, schools are healthy, growth continues, and we are a strong international city."

Years ago, Houston's principal foreign investors came from countries such as Germany and Israel, but now most cross-border investors are from Mexico or Asia. "I'm seeing more Chinese money than ever before," says Edwards.

When asked if he knew any Mandarin, Edwards replied, "my Chinese is not good at all, but my Texan is great."

On the Atlantic side of the Southeast, the other hot market is Miami.

"I don't know if there are more 'Mi-amians' or foreign investors here," says **Danny Zelonker, SIOR, CCIM, CREW-Miami**, a broker-partner with Real Miami Commercial LLC in Miami.

"I just did a deal with a bunch of French investors originally from Tunisia who are in the perfume business. They wanted a warehouse as their company is expanding."

Every asset class in the Miami metro is desirable, but the old warehouses are especially attractive, sometimes just for the land value.

"I sold 10 warehouses in the last six months," says Zelonker. "Refrigerated is an especially good asset. I just sold a couple of those. I could sell more but I just don't have the inventory. Of the two refrigerated warehouses I sold, one was to a Venezuelan group and one was domestic. In fact, a lot of the 10 deals I did were with foreign nationals: one was with Venezuelans, another to investors from Argentina and there were a couple investments by Brazilians."

A lot of Chinese investors that are coming here fall under Eb5, a visa requirement, says Zelonker. "If you buy a business and put in a certain amount of investment you can get a green card to come here. These are the people who are building condos."

Summing up, Zelonker comments, "I get a dozen calls a day from foreigners. Our board caters to them. We have 63 alliances with brokers all around the world. My

website is in four languages. I'm doing a deal today with French investors, where the sellers are Israelis."

SMALL TOWN WINDFALL

Rochester, Minn., cannot boast Tier One or even Tier Two status as a destination for foreign capital, but it has something better. It's the home of the famous Mayo Clinic, which employs 35,000 people locally and has the highest payroll in the state of Minnesota. Recently, the Mayo brokered a deal with University



"The targets really depend on how big their pocketbooks are and what their appetite for risk is.

of Minnesota to become the pre-eminent genomics biotechnology center in the world.

With that deal, the state will spend \$600 million on infrastructure improvement while the Mayo Clinic will ante up \$3.5 billion of its capital over the next 20 years to attain that lofty genomics goal. Estimates are that the local workforce for the Mayo Clinic will double to 70,000.

As if that wasn't good enough, the Mayo Clinic attracts full-pay clients from around the world, many of whom like what they see locally and have started investing in Rochester real estate.

"Just this weekend I was with an investor from Hong Kong," notes **John "Mac" Hamilton, SIOR, CCIM, CPM**, president of Hamilton Real Estate Inc. in Rochester, Minn. "We have clients from France, Venezuela, and Abu Dhabi, all of whom were attracted to Rochester because of the medical prowess of the Mayo Clinic. We have sold properties to them and we are in the process of selling more."

Recently, he adds, there has been a frenzy of Emirate activity in downtown Rochester "that's driving property values beyond any level of reason, to the point that it just no longer make sense to develop property because of the land prices on an effective per-square-foot basis."

About a year ago, on the corner of Broadway and Second Street Southeast, Emirates investors targeted the Associated Bank Building. The investors paid \$7.7 million. The building was upwards of 100,000 square feet, but the land area on which it sat meant that the purchase price was \$854 a square foot. Approximately a block closer to the Mayo clinic, a circa 1954 building sold for \$1,000 a square foot based on the land underneath the building.

"In Rochester these numbers make no sense whatsoever, but it is not only in the downtown area that foreign investors are looking" Hamilton says. "One of our Venezuela clients has amassed a portfolio of Rochester apartments and a couple of commercial buildings as well, which we manage for them. Over time, our French investors also accumulated a portfolio of apartments close to the Mayo Clinic and Saint Mary's Hospital."

Big cities have big stories, but knowledgeable foreign investors understand there are big stories even in smaller cities. ■