11:00-12:20 PM Panel 2: Foreign Investment in US Real Estate
Moderator: Prof. Edward Glickman
Panelists: Jeffery Alpaugh, Managing Director, March Inc.
James Fetgatter, CEO, AFIRE
Frank Lively, Executive Vice President, Wafra Real Estate Division
Jon Mechanic, Partner, Fried Frank, Chairman Real Estate Department
Bob White, President, Real Capital Analytics

The US real estate market has long been the safe haven for foreign investment capital. This panel discusses what would continue to attract foreign investors into the US market and the challenges they would face along the way. It concludes with a discussion of the impact of foreign investment on the US gateway cities.

Trends of Foreign Investment Bob White presented the growing trend of foreign investment, with capital flowing from emerging markets into traditional safe havens like New York and London. Specifically, the amount of capital coming from China and Middle East had tripled, with half of it focusing on land deals. In the US, since the financial crisis, foreign investment had bounced back close to the historical peak, with Asian capital being the leading force in the rally.

Motivations for Foreign Investment James Fetgatter analyzed the major motivations for foreign investors to invest in the US real estate market. First, investing in the US helped foreign investors diversify their asset and currency portfolios. Second, the US real estate market was regarded as the most transparent, professional and resilient large markets in the world, making it the natural first choice for real estate investment. Third, being an English-speaking country could open doors to investors that shared the same language and culture.

Challenges in Foreign Investment Transactions Jeffrey Alpaugh and Frank Lively shared their thoughts on the challenges of transactions based on their experience advising foreign investors. In general, advisory varied on a case-by-case basis, depending on the investor type, project type, home jurisdiction, and investment goals. Moreover, they added value to their clients by bringing in lawyers and accountants who truly understood the US regulations and market. For sophisticated investors, they could also facilitate larger deals by proposing joint ventures. To create and maintain relationship with foreign investors, they needed to travel to their home countries; and they were often impressed by the competency and sophistication of people there, who had substantial US education and working experience. Furthermore, they pointed out that in addition to seeking financial returns, they strived to maintain the transparency and efficiency of the US property market so that it could continue to be an attractive destination for foreign capital.

Global Cities As the price level of US gateway cities rose far faster than does the rest of the country, the proposition that these so-called global cities were going to be separated from the US real estate market and to form their own class was discussed by the panelists. Jon Mechanic said it would be too soon to tell if this trend was cyclical or real, but he indeed observed a huge and growing discrepancy between the office rental price in Manhattan and that in other parts of the country. Also, he observed the price correlation among the global cities was stronger than that among all cities, indicating a new class out of the overall US real estate market. However, he mentioned that high-net-worth foreign investors seemed not to bias towards the global cities per se; they just bought properties everywhere in the US, which could help iron out the discrepancies.