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INVESTORS' CORNER

The New Real Estate Investors

When it comes to investment in real estate assets, America is the land of opportunity, for both domestic family offices and overseas investors. With a view toward more long-term investment goals that reflect prevailing market conditions, both of these groups have shown a growth trend in real estate investing in recent years.

HIGH NET-WORTH FAMILIES

Family offices have always included real estate in their portfolios but today, they are becoming a more prominent investor pool. Although we can name many famous families who historically generated wealth through real estate (with names on iconic buildings), many others have made their money elsewhere and are now increasing their investment allocations into real estate for several reasons.

By Jahn Brodwin

For one, they are generational investors. Family offices are not necessarily looking at an asset's ROI today; rather, they are looking for long-term asset appreciation and wealth preservation. They're also attracted to the liquidity US real estate offers as well as the inflation protection and stability, as they hold on to the assets for long periods of time.

Further, more wealthy families are looking to develop institutionalized portfolios, diversifying them to include class A office space or upscale multi-family projects. Many US markets offer ample opportunities to expand investment portfolios to include these assets and enjoy long-term gains for generations to come.

FOREIGN INVESTORS

These investors typically come from countries with much smaller economies (China being an exception) who are seeking to fulfill their government and institutional real estate investment mandates.

However, their financial resources far outweigh their domestic investment opportunities, as they may lack the same ground-up or repositioning projects we have in the States, for a variety of reasons. These include the resurgence of the suburban office market and suburban downtowns; the development of transit hub villages; neighborhood gentrification; the repositioning of assets from office (or other, such as schools) to residential; and the redevelopment of mall properties.

Stability is attractive and so are the returns. Just as the family offices are attracted to US real estate's stability, foreign countries seek increasing exposure to the US because of our relatively stable currency, stable government and laws.

The strength of the US dollar is a substantial contributing factor to foreign real estate investment activity. Even if the asset does not increase in value, if the dollar's strength improves against the foreign currency; these investors may harvest returns on the currency fluctuation, making the US a terrific inflation and currency hedge.

Additionally, foreign investors enjoy generous returns in comparison to their home countries. Thanks to our low interest rate environment, US investments are yielding returns in the high single digits to low teens. And thanks to tax treaties, many governments and other investors (depending on the country) are able to make tax-efficient real estate investments here. They often invest all or part of the acquisition costs as secured lenders and/or provide mezzanine financing to recapitalize existing properties. Or, they acquire minority stakes in a property, in participating debt or preferred equity structures.

Liquidity, too, is as much a factor for foreign investors aa it is for high-net worth families. Office buildings on the market for $1 billion in New York City have bidders lining up with cash in hand to make a deal. In cities such as Boston, Miami, Chicago, Houston, Los Angeles, San Francisco and Washington, DC, for example, foreign buyers are investing largely in office, hotel and mixed-use assets, knowing they can exit at a fair market price in a reasonable time period.

Investors taking a long-term approach can do well with US real estate assets, and generate strong returns over time. Whether domestic or foreign, family, institutional or sovereign, the US real estate market offers investors safety, currency and inflation hedging, strong returns and liquidity.

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