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Foreign Investors Flocking to Boston, Gateway US Cities

By John Jordan | Boston

John Sullivan, DLA Piper

BOSTON—Foreign investment has been fueling significant commercial real estate acquisitions and developments so far this year in major US cities. With the Chinese economy slowing down, some expect that Far East investors may look to increase their funding allocations to real estate ventures in the United States.

John Sullivan, co-chair of the US real estate group, for the law firm **DLA Piper, LLC**, tells Globest.com, “Across the country and particularly in the gateway cities (such as Boston, New York City, Washington, DC, Los Angeles, and San Francisco) there has been a huge uptick of inflow of non-US capital into real estate in the last couple of years.”

Sullivan, who works out of DLA Piper’s offices in Boston, says that initially foreign capital was mainly focused on office product, but has now spread to luxury multifamily and condo residential properties as well as mixed-use developments.

A majority of the foreign investors, such as sovereign wealth funds, are looking to acquire trophy properties in the gateway cities, while others are pumping significant capital into new development projects. Earlier this year, it was reported that China Insurance Group Co. and Ping An Insurance Co. planned to acquire a majority stake in New York City-based Tishman Speyer’s $500-million **Pier 4 project** in Boston.

Sullivan explains that the Chinese government liberalized regulations several years ago to make it easier for firms there to invest in real estate outside of China. “That is what has unleashed this sort of wall of Chinese capital that has hit US real estate,” Sullivan says.

Sullivan, who has more than 30 years legal experience, including representing US fund sponsors of US and European real estate funds, tells Globest.com that his firm is aware of other Chinese investors that are in the throes of pumping capital into other Boston-based real estate projects.

Other major sources of foreign investment in US gateway cities include Canadian-based funds, such as Oxford Properties Group. Oxford made headlines last year with the more than $2-billion purchase of five office buildings in the Boston region, including 100 High St. and 125 Summer St. and the purchase of 60 State St., 225 Franklin St., and One Memorial Drive in Cambridge with partner JP Morgan Chase & Co. The Oxford-JP Morgan partnership is reportedly currently working on the purchase of **two additional Boston office buildings** at 500 Boylston St. and 222 Berkeley St. in a deal valued at approximately $1.3 billion.

Another significant investor in Boston has been Norges Bank Investment Management, which in 2014 invested $1.5 billion to secure a 45% stake in three buildings owned by Boston Properties. The properties included the Atlantic Wharf building and 100 Federal St. in Boston and 601 Lexington Ave. in New York City. While not in Boston, South Korean based funds have also invested in US commercial real estate in Los Angeles and New York City.

Sullivan said foreign investment really began ratcheting up a few years ago and was centered in New York City and then moved elsewhere to major cities on the West Coast as well as in Boston and Washington, DC. He expects foreign investors to continue to seek deals in the US real estate market because it is viewed as a relatively safe haven as compared to other global markets.

His views are supported by brokerage firm JLL that reported earlier this month that an expanding supply of domestic and foreign capital is shifting the US commercial real estate investment environment. JLL reported that US cities are dominating global activity, accounting for seven of the 10 most active markets in the first half of 2015. The United States has seen $232 billion of investment sales across property types year-to-date, and the multifamily, retail and industrial asset types are above or on pace to surpass peak 2007 investment levels by year end.

JLL stated that going forward, strong activity and an active deal pipeline are supportive of year-end growth forecasts of 20%. While the expected hike in interest rates may put a damper on activity, Sullivan continues to expect foreign investment to play a major role in the US commercial real estate finance sector in 2015 and beyond. He says one benefit that may come with a slight slowdown in foreign investment is that it will help bring sale prices down. Aggressive foreign investment funds have helped fuel property price increases in some markets, he notes.

It is unclear what reaction Chinese investors will have in light of the recent economic slowdown in China. He says that one school of thought is that investment overseas by Chinese-based companies will slow down. However, he adds, “It could actually increase it (outbound investment) because there is less opportunity to invest in China.”

About Our Columnist

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