Global Capital Flows to US Are Slowing: A Summary of 2022 Cross-Border Investment

Aaron Jodka
Colliers

In 2022, rising interest rates, elevated inflation, a strong dollar, and geopolitical strains combined to reduce direct cross-border investment in US commercial real estate. On the surface, this is not a surprise—volumes fell across the globe last year after a record-setting 2021. However, the pace at which international capital remained parked is notable. In total, $34.8 billion traded, per MSCI, the lowest annual amount since 2012, when the investment sales market was recovering from the effects of the global financial crisis. Back then, $31.4 billion transacted. Last year's activity represents a more than 50% decline in volume from 2021, substantially higher than the overall decline in investment sales volumes in the US, which fell 14% on the year. Similarly, this drop represents a more than 50% reduction compared to the 2015–2019 average of $74.5 billion.

The largest contributor to this change was the slowdown in portfolio activity. Individual asset trade volume was down 38%, and portfolio activity decreased by 74%. Portfolio sales volume totaling $9.6 billion was the lowest since 2012. Furthermore, the share of foreign investment amounted to just 4.7% of total transaction volume, the lowest total since 2001. This figure stands out, given that 2022 was the second-strongest year of investment sales activity on record by a wide margin.

Net acquisitions were also in the red, with dispositions totaling $12.0 billion more than acquisitions in 2022, marking the strongest net decline in holdings in MSCI's data series (Exhibit 1). The lack of foreign investment in the US is further stunting investment sales activity. All regions, except Europe, were net sellers on the year.

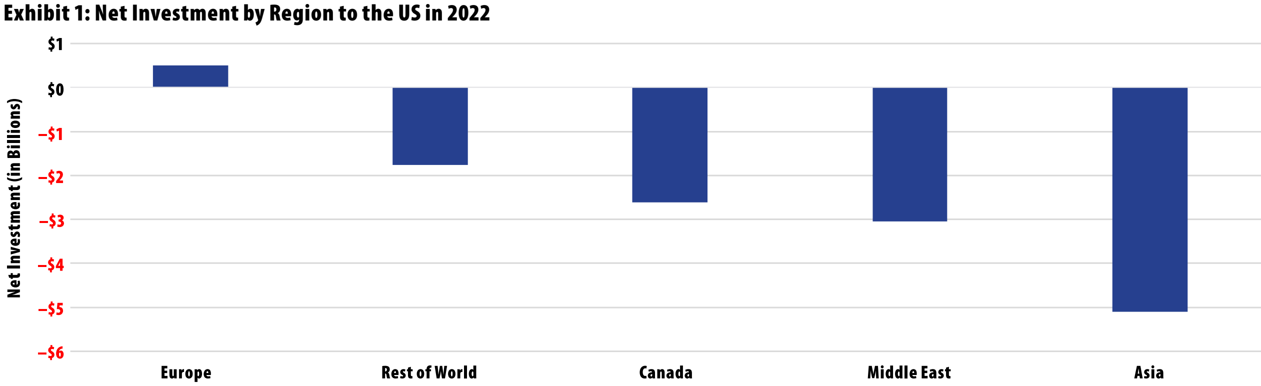
US property prices are adjusting more rapidly than Asian markets are, suggesting that US real estate could be an attractive acquisition target in 2023 and beyond. Meanwhile, foreign currencies are strengthening when compared to the dollar.

Key Trends in 2022 Cross-Border Activity

As shown in Exhibit 2, Canada led all countries with investment into the US, as it has since 2017. Japan, South Korea, Germany, and Switzerland round out the top five. Before Chinese capital was repatriated, Asian capital sources drove activity from 2014 to 2017. In 2021, Canadian and Asian capital sources were close to a match, but activity diverged widely in 2022. Canadian investment fell 46%, and Asian capital declined 74%. Meanwhile, European capital was the most stable, falling 33% on the year. The biggest movers in 2022 were Japan, rising from 15th to 2nd; Spain, from 25th to 6th; and the Netherlands, from 26th to 13th. Thailand cracked the top 25, rising to 15th.

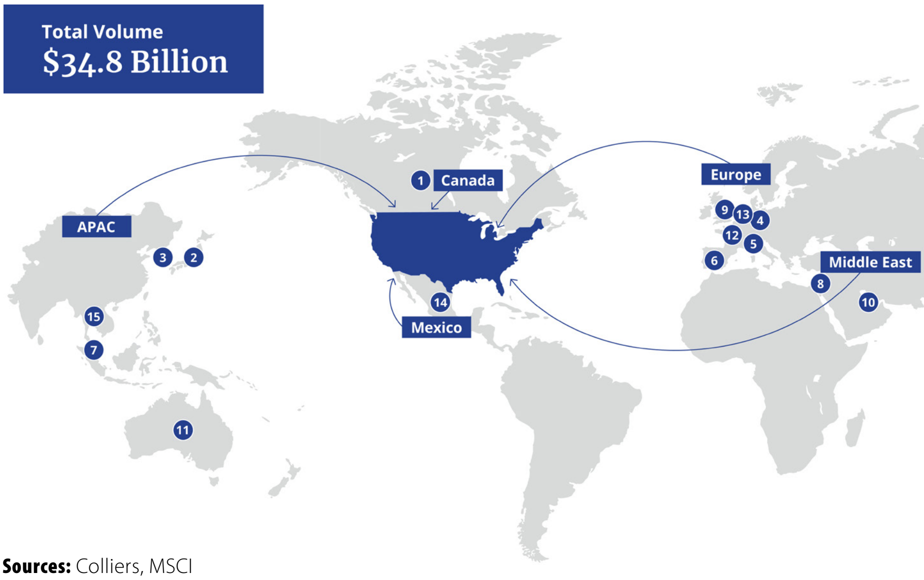
The sources of capital also showed a wide variance in 2022. Bank and insurance sources increased by 20%

Exhibit 1: Net Investment by Region to the US in 2022



Sources: Colliers, MSCI

Exhibit 2: Top Cross-Border Investors to the US



Top 15

1.	Canada	$14.37 Billion
2.	Japan	$2.23 Billion
3.	South Korea	$2.18 Billion
4.	Germany	$2.04 Billion
5.	Switzerland	$1.84 Billion
6.	Spain	$1.82 Billion
7.	Singapore	$1.78 Billion
8.	Israel	$1.49 Billion
9.	United Kingdom	$1.42 Billion
10.	Bahrain	$1.32 Billion
11.	Australia	$0.97 Billion
12.	France	$0.71 Billion
13.	The Netherlands	$0.58 Billion
14.	Mexico	$0.45 Billion
15.	Thailand	$0.38 Billion

Sources: Colliers, MSCI

and 22%, and professional fund managers and sovereign wealth funds declined by 51% and 83%, respectively. The drop-off from sovereign wealth funds brought total investment to $3.6 billion, the lowest level since 2010. In 2015, sovereign wealth funds drove $46.1 billion in investments. These funds were less active in the years since, though a notable increase began in late 2021.

Investment Flows by Asset Type

Given the broader slowdown in cross-border investment in 2022, it should not come as a shock that most asset classes experienced a decrease in sales volume. In fact, all major investment classes except hospitality posted declines. With $5.4 billion in volume, hospitality was up 143% compared to 2021, marking the asset class's most robust volume since 2018. Hospitality's strong market performance and continued revenue per available room (revPAR) upside remain attractive to investors.

Retail, industrial, suburban office, and multifamily all declined between 53% and 58% on the year. Central business district (CBD) office was the standout, dropping 74%. CBD sales volume of $2.8 billion was the lowest since 2009, marking the first time full-year volume was lower than that of suburban properties. The stress on CBD markets is well documented. Core coastal markets, such as San Francisco, Los Angeles, New York, Boston, and Washington, DC, have been top historical destinations for foreign capital to the office market. These markets are struggling with above-trend vacancies and, in some cases, all-time high vacancies, causing investment to flow elsewhere.

CBD office investment was net negative on the year, with dispositions well outpacing acquisitions by $6.1 billion, marking the largest net outflow of capital to the office asset class in at least a decade. Multifamily fell into the same boat, with $5.4 billion in net dispositions. Retail also experienced foreign capital as net sellers, with a $3.3 billion acquisition deficit. Hospitality and suburban office had slight net purchases, and industrial was a net $2.2 billion positive.

Top Markets

Dallas took the number one spot for total international capital flows, with $2.4 billion in activity (Exhibit 3). This market had capital flows from all major regions of the globe, reflecting its appeal. With a large inventory of industrial and multifamily, Dallas was also the top investment sales market overall. Seattle came in second, thanks to strong European capital flows. Deka Immobilien and Pontegadea drove this activity on the office and residential sides. Manhattan placed third, despite zero investment from Canada. Canadian capital also avoided Washington, DC, last year. Atlanta, 2021's top market, ranked fourth, with a strong flow of capital from all regions. Chicago rounded

Up on the roof

Revenue can hide in plain sight.

Attempting to extract revenue from every square inch of our properties is what we do.

With a cellular carrier operating from the roof of one of our property investments, additional revenue flows, well, from thin air.

Find out more at: **ubs.com/realestate-us**

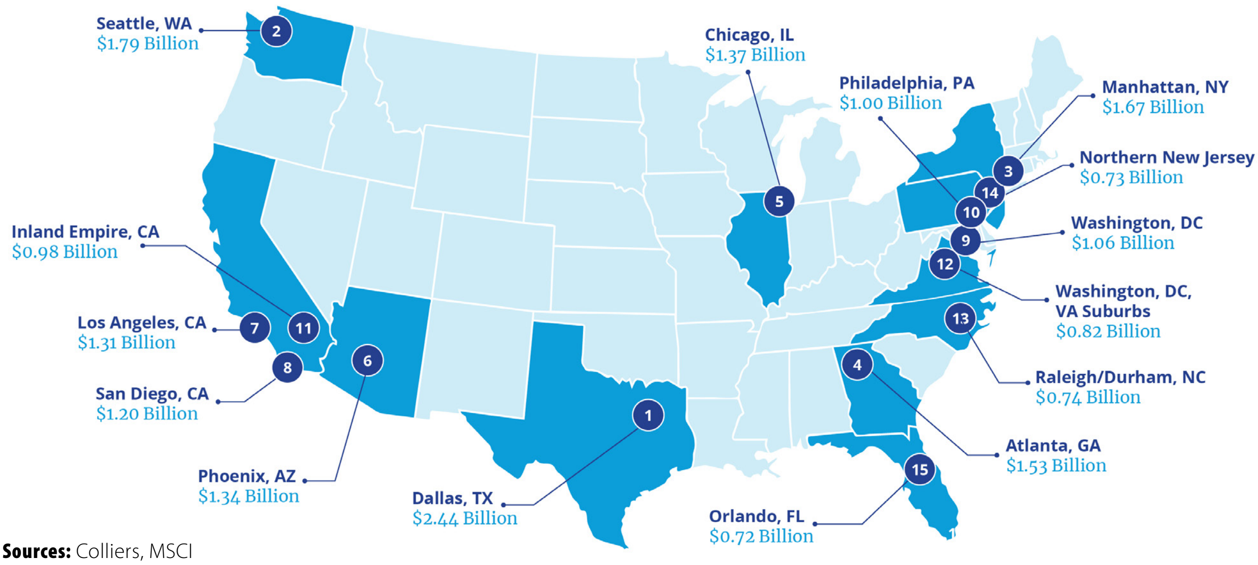
Contact our team for more information:

Thomas O'Shea
Tel. 860-616 9158
thomas.oshea@ubs.com

UBS Realty Investors LLC
Hartford | San Francisco | Dallas | New York | Chicago

UBS

Exhibit 3: Top US Markets by International Capital Acquisitions



Sources: Colliers, MSCI

out the top five, thanks predominantly to Canadian capital sources.

Across the top 25 markets, only two posted year-over-year gains. Miami increased by 5% to $672 million, 16th overall, and Orange County bumped up 5% to $390 million, 25th overall. San Diego was flat, with $1.2 billion in volume because Oxford acquired multiple life sciences assets. As a result, San Diego shifted from the 21st spot to the 8th. Philadelphia was another big mover, up to 10th from 22nd, and the New York City boroughs advanced to 21st from 38th.

On the opposite end of the spectrum, Boston faced the most significant reduction in foreign capital placement last year, falling from 2nd to 23rd, with $393 million in activity. In addition, volume was down 90%. Finally, San Jose experienced a 74% reduction in volume, falling from 8th to 18th and posting $612 million in sales.

Outlook

Based on the latest pulse survey by the Association for International Real Estate Investors, the US is considered an attractive destination for capital. The survey showed that US allocations were up 6% from 2022, and European investment was down 5%. Based on 2022's cross-border results, a 6% increase will still fall short of recent volume trends. Multifamily and industrial remain the top choices for acquisition. Given the long-term positive trends for these asset classes, they are high on many investors' lists. Their recent low going-in cap rates have created a wide bid-ask spread during sales negotiations.

Meanwhile, hospitality emerged as a more attractive option for a number of investors, and office is considered the most challenging. New York ranked first for investment in the US, where it has remained historically. Unsurprisingly, investors are watching interest rates, as higher costs limit transaction ability. Finally, though ESG is garnering a lot of headlines, investors in this survey did not believe that valuations reflected climate risks.

Investment sales activity to start 2023 has been muted. However, there is rising hope that the Federal Reserve will pivot its rate policy later in the year. As of this writing, the forward Secured Overnight Financing Rate (SOFR) curve indicates rate reductions in the year's second half. Lower rates will help with refinancings and overall market activity. ■

Aaron Jodka is the National Director of Capital Markets Research at Colliers.