



Jim Costello
MSCI



Michael Savino
MSCI

Cross-border capital

A study of historical investment trends into US commercial real estate and what they may portend about future flows

KEY TAKEAWAYS

CAPITAL SIGNALS

Macro signals operate differently depending on whether the capital behind them is predominantly institutional or private. This distinction matters as much as the macro environment itself.

LOOK BEYOND DOLLAR STRENGTH

Instead of a currency hedge, cross-border investors should use the hedged cap rate in underwriting. When it falls below the cap rate available at home, US deals require heroic assumptions about income growth to hit target returns. This hurdle potentially shuts down cross-border capital flows to US investments.

JUDGMENT MATTERS

Investment decisions involve mandate constraints, regulatory conditions, market sentiment, and factors specific to individual markets and investors that macro variables will never fully capture. How much weight to place on those signals is ultimately a judgment call.

Recent geopolitical instability, trade policies, and regulatory changes in the US have made investors question if the country continues to be a safe haven and to offer attractive returns. Investigating several signals in home countries that drive long-running investment patterns by cross-border investors can offer clues as to whether cross-border investors will return, when, and to what degree.

Investors from outside the US have, at times, hit cycles of market pricing poorly, coming in too late following price appreciation to the benefit of domestic investors. Will these cross-border investors from outside the US always prop up asset prices and clear stalled markets? Current global geopolitical and economic upheavals raise fears that they may not. Even before the Middle East conflict that began in February 2026, the Trump administration had been rearranging long established market structures on trade and investment.

Market participants wanting to understand whether cross-border investors will return to the US when the market transitions to an expansion in prices need to step back from the current noise around geopolitics. Rather than shooting from the hip as directed by whatever headlines currently dominate the news cycle, market participants need a framework within which to understand the decision-making process that cross-border investors use to make commitments to real estate investments.

This article investigates signals of the forces driving long-running investment



There are clear and predictable patterns in the differences in macroeconomic factors that alternatively push or pull cross-border capital to the US.

patterns by cross-border investors. A clearer picture of the motivations and incentives that have driven cross-border investors over the long term can help market participants evaluate scenarios of what may happen next for cross-border capital flows.

The analysis will first examine cross-border investment structures with an eye towards dispelling notions of who these investors are and what types of deals work for them. With this information as a base, we then leverage academic analysis on the macro forces driving cross-border investment. We add to the academic analysis with measures used in the investment world.

What the modeling approach shows is, like our examination of market structures for cross-border investment, the world is more complicated than it seems at first glance. There are clear and predictable patterns in the differences in macroeconomic factors that alternatively push or pull cross-border capital to the US, but there are also noisy moves that

have nothing to do with macro factors and may more likely be driven by factors that cannot be measured, such as unique deal characteristics, long-running relationships, sudden shocks, and market structure from changing regulations that cross-border investors face at home.

Timing is everything

There are several vehicles cross-border investors might use to gain exposure to the US commercial real estate market, including investments in funds, direct property purchases, and capital invested in REITs. These are all elements of the flow of capital into the US. For purposes of this analysis, investment volumes and deal activity are defined as direct purchase of properties. These purchases may either be a partial acquisition in a joint venture structure or the sole ownership of an asset.

Cross-border investment surged as a share of total investment into 2008 even as commercial property price

growth slowed from the 2005 peak. These investors were too late to the game as their action relative to the earlier increase in prices was delayed. The share of cross-border investment climbed again into 2016 after price growth had peaked in 2014 (see [1](#)).

The relationship between price growth and the investment share broke down in 2020, when commercial property prices surged before collapsing following COVID-19 and the subsequent roller coaster of interest rate changes. The pandemic and the aftershocks that followed were different from any other shock the economy and commercial property market had faced in the past. Never before had such a large portion of the global economy been sent home to sit on the couch for months on end.

These cross-border investors exhibited new market timing behaviors in the period after 2020. The share of cross-border investment surged into 2023 just as the price collapse was nearing the

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A question many investors face today is: Will cross-border investors come back to the US if the market continues to move forward on a path of recovery in price growth?

bottom. And then into 2025, as price growth moved tentatively towards positive territory, the cross-border share began to slip again.

A question many investors face today is: Will cross-border investors come back to the US if the market continues to move forward on a path of recovery in price growth? Will the cross-border

share of investment climb once again as prices work through the shocks of 2020 and 2022?

Cross-border investor profiles

Not all cross-border capital operates on the same logic, and that distinction matters for understanding what drives the volume of flows from any given

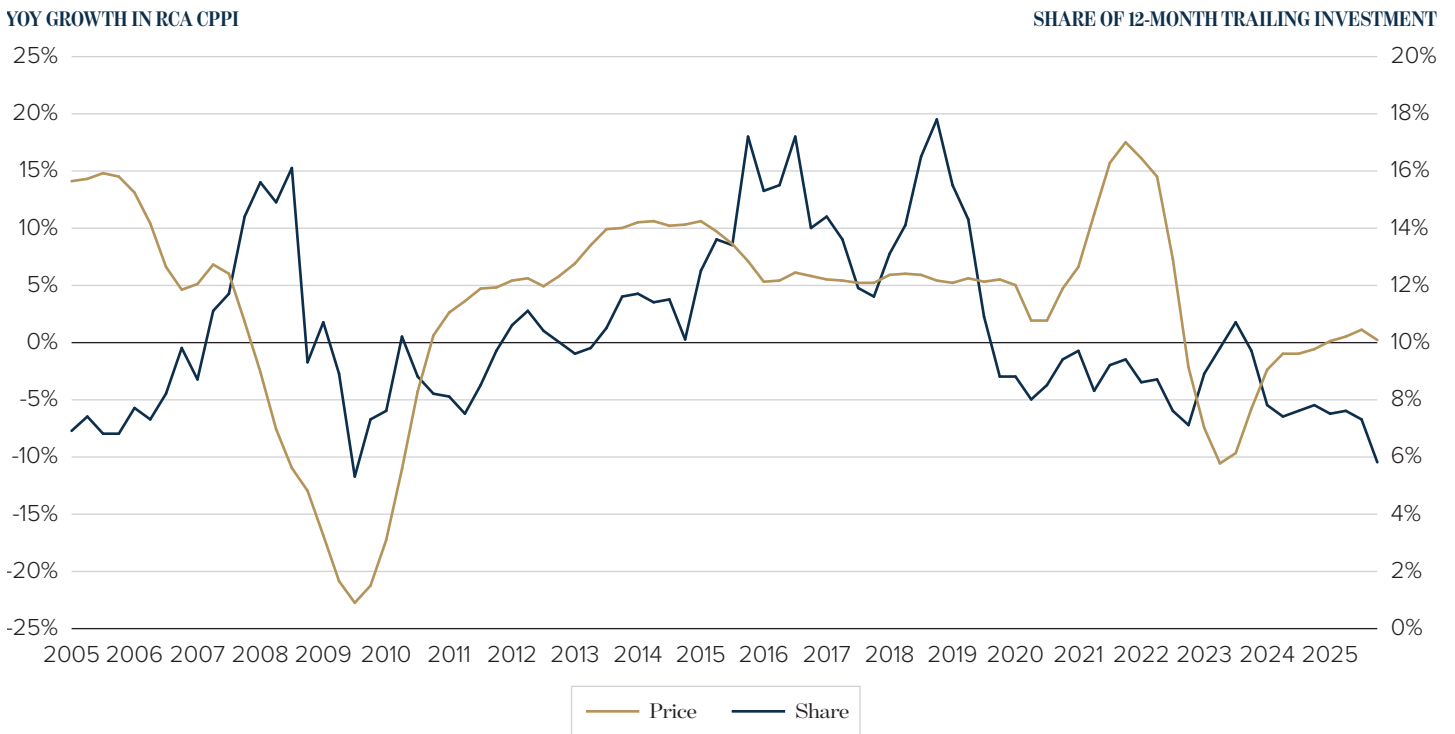
country. For example, a sovereign wealth fund in Norway deploying capital into US logistics is solving a fundamentally different problem than a private equity shop from the same country chasing a value-add opportunity in the same market. The pension fund has a return target promised to beneficiaries, a benchmark allocation to US real estate, and a mandate that does not disappear when market conditions get choppy. The private equity fund has a deal to underwrite and a fund life to manage. When conditions deteriorate, one of these investors is structurally more likely to stay at the table than the other.

This difference in the logic facing each type of investor raises a question: Does

1

Cross-border investors have missed turning points in previous cycles

Even as prices slowed from the 2005 peak, cross-border investment surged as a share of total investment into 2008. The same pattern repeated in 2016 after price growth peaked in 2014. This relationship broke down in 2020 with the COVID-19 pandemic.



Notes: Price trends are taken from MSCI's RCA CPPI™. Transaction data shown represents US cross-border investment as a share of total investment for all property transactions priced \$2.5m and greater in the US.

Source: MSCI Real Capital Analytics.

it matter who is writing the check? And, if so, does the composition of a country's outbound capital change the sensitivity of those flows to macroeconomic conditions at home? The answer appears to be yes (see [2](#)).

- **Predominantly institutional.** Countries in the upper right of the chart, including Germany, Norway, and Switzerland, combine high institutional share with above-average annual inflows to the US, suggesting that institutional dominance and deployment scale tend to go together.
- **Predominantly private.** At the other end, countries like Spain and Ireland combine low institutional share with modest average volumes, reflecting

outbound capital driven primarily by private investors with fundamentally different decision-making processes and return expectations.

- **Canada** stands apart, averaging over \$10 billion in annual inflows across the sample period, more than three times the next highest source country. Geographic proximity, integrated capital markets, and deep familiarity with US real estate lower the barriers to entry that investors from most other countries face, making the US market more accessible to Canadian capital than to almost any other source in the sample.

The analysis that follows examines these questions. We model the

macroeconomic drivers of total cross-border volume, introducing institutional share as an additional variable to test whether the composition of a country's outbound capital changes how sensitive those flows are to conditions at home.

The findings suggest it does: the same macro signals operate differently depending on whether the capital behind them is predominantly institutional or private, a distinction that turns out to matter as much as the macro environment itself.

Relative returns

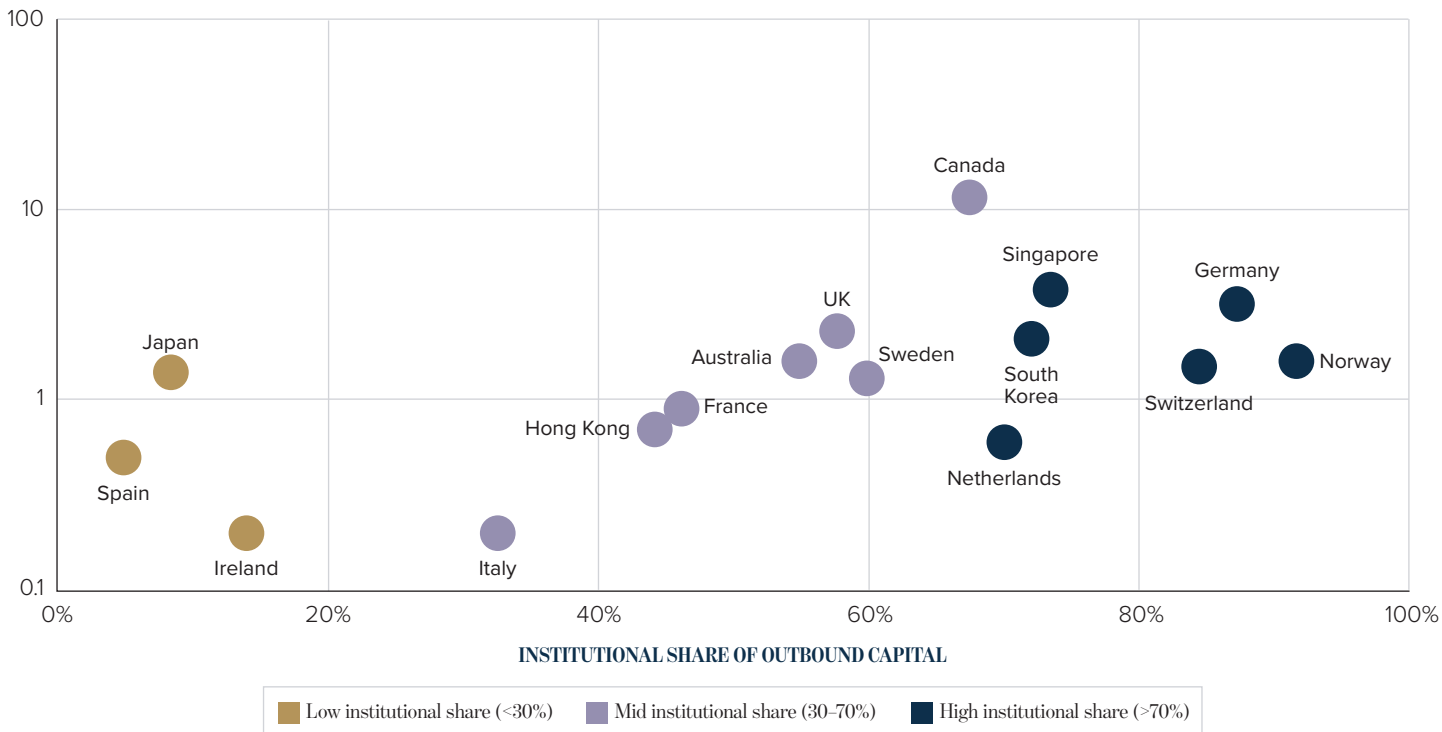
Real estate is fundamentally an income-generating asset, and the decision to

2

Cross-border investment flows depend on macroeconomic conditions at home

Predominantly institutional investors have above average inflows and higher deployment scale, while predominantly private investors with different decision-making processes and return expectations have modest average deal volumes in the US.

AVERAGE ANNUAL INFLOW (\$BN, REAL 2017 US\$, LOGSCALE)



Source: MSCI Real Capital Analytics for the period from 2007 to 2025.

invest across borders begins with a straightforward question: Does the US offer a better potential return than what is available at home? Market participants often dive into the notion that changes in the strength of the dollar will motivate thinking on returns. But investors are not going to change their thinking just because US assets might look cheaper if the dollar falls.

When acquiring US real estate, cross-border investors will hedge their dollar exposure in some manner, if even just at the total plan level across all asset classes in their portfolio. The cost of that hedge is not fixed. The differential of one-month government bond rates acts as a proxy for the cost of hedging currency

exposure for hedging costs move closely in line with the short-term interest rate differential between two countries. When US rates are elevated relative to a source country, hedging costs rise, which works against the attractiveness of US assets on a net yield basis.

Japan illustrates this dynamic clearly. When US short-term rates run well above Japanese rates, a Japanese investor buying a US asset must find extra basis points (bps) somewhere in the deal just to break even. At the peak in 2023, that extra burden was over 500 bps (see [3](#)). A Japanese investor looking at a US office asset yielding 7.2% was, after paying to hedge the currency, earning just 2.0% in yen terms. Domestic

Japanese office assets were yielding 3.8% at the time with none of that friction.

One can roll the cost of the hedge directly into cap rates through subtraction. That hedged cap rate is the number a Japanese investor should use in underwriting. When it falls below what is available at home, US deals require heroic assumptions about income growth to hit target returns, potentially shutting down Japanese capital flows to US investments.

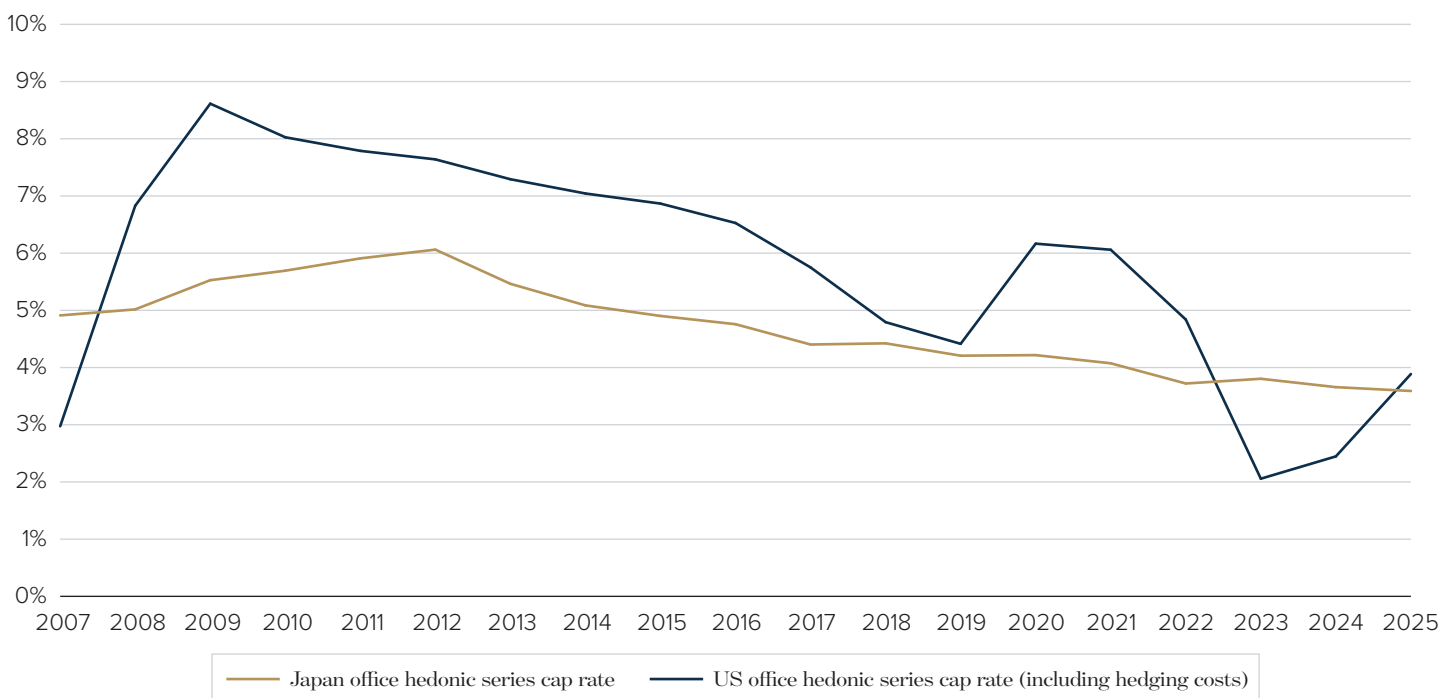
As hedging costs have pulled back from their peak and US office cap rates have moved higher, the spread between hedged US office cap rates and Japanese office cap rates has turned

3

Currency differences do not tell the whole story; the cost to hedge impacts relative cap rates

The hedged cap rate is the number a cross-border investor should use in underwriting. When it falls below what is available at home, as it did in 2023 for Japanese investors, US deals require heroic assumptions about income growth to hit target returns, potentially shutting down cross-border capital flows to US investments.

HEDONIC SERIES CAP RATE



Sources: MSCI Real Capital Analytics, MSCI Fixed Income Research, calculations by authors.

positive again. By 2025 the hedged US office cap rate stood at 3.9%, modestly above Japan's 3.6%. The nominal spread never disappeared. The hedged spread did, and it was the hedged spread that determined investor behavior.

Macroeconomic forces driving cross-border investment

In addition to structural factors of deal sizes and views on property sectors driving the decision making of cross-border investors active in the US commercial real estate markets, there are macroeconomic factors at play as well. Every country will face differences in the real and financial sides of their domestic economy compared with those seen in the US; sometimes these differences can meaningfully boost investment volume in the US.

To examine these macroeconomic factors, we built on foundational work by Glenn Mueller analyzing the drivers of cross-border capital flows¹ and extended it in several important respects.

We built a panel regression model explaining cross-border inflows to the US from 16 source countries between 2007 and 2025. Inflows are measured in real 2017 dollars and expressed in logs. The model tests three macroeconomic drivers alongside the institutional share of each country's outbound capital, to examine both what moves cross-border investment in aggregate and whether the composition of that capital changes how those macro signals operate.

Two-way fixed effects absorb both the permanent baseline differences across source countries and any global shocks common to all markets in a given year. What remains is the within-country signal: Does a given country send more or less capital to the US when its own conditions shift relative to its own historical norm? The model identifies three forces that

have historically driven that variation, each operating with a one-year lag.

For institutional investors like pension funds and sovereign wealth funds with global mandates, a weakening domestic economy is a catalyst to deploy abroad, while private investors tend to follow confidence and pull back when conditions at home deteriorate.

The three forces behind cross-border capital flows into the US

Cross-border investment into US commercial real estate is governed by three interlocking forces.

1. The first is straightforward: When US property yields stand meaningfully above those available at home, foreign capital follows.
2. The second is the cost of hedging dollar exposure, which rises when US interest rates run well above those of the source country and can erode an apparently attractive yield premium to the point where the net advantage disappears.²
3. The third concerns how home-country employment conditions push and pull capital in opposite directions depending on who is doing the investing.

For institutional investors like pension funds and sovereign wealth funds with global mandates, a weakening domestic economy is a catalyst to deploy abroad,

while private investors tend to follow confidence and pull back when conditions at home deteriorate.

Where do we stand today?

The interest rate differential in the current environment is a headwind for almost every country in the sample in 2025. With US rates remaining elevated relative to most developed economies, hedging dollar exposure is expensive, and for many investors that cost alone is enough to offset the yield advantage US real estate offers (see [4](#)).

Singapore, Hong Kong, and Japan clear that bar, with cap rate spreads of 385 bps, 349 bps, and 413 bps, respectively, overwhelming the hedging drag. Switzerland is the most striking illustration of where it fails: a cap rate spread of 310 bps, yet an interest rate differential of 4.3%, produces a hedging drag large enough to tip the net signal negative. Conversely, Norway, with a positive 157 bps cap spread, benefits from near-zero hedging cost though modest home employment growth works partially against the net positive signal for inflows.

The scorecard identifies directional tendencies grounded in historical data, not forecasts. Canada illustrates both the value and the limits of that distinction. Two of the three macro signals work against Canadian inflows: elevated hedging costs and an employment growth rate that, at Canada's institutional share level, historically correlates with capital staying home. A modest cap rate spread in favor of the US provides some offset, but not enough to flip the net signal positive.

But history is one input among many. Cross-border investment decisions involve mandate constraints, regulatory conditions, market sentiment, and factors specific to individual markets



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and investors that three macro variables will never fully capture. The trade tensions and tariff disputes that have emerged through early 2026 add a further layer of uncertainty. The scorecard indicates where the fundamentals have pointed historically. How much weight to place on that signal is ultimately a judgment call.

Conclusion

The descriptive picture painted in the first half of the paper raises an obvious question: What drives international, non-US investors to send capital to the US in the first place? To answer this question, we built a panel regression model covering 16 source countries over a 19-year period. The model asks a simple

question: When conditions in a foreign investor's home country change, does more or less capital flow into US commercial real estate? We control for each country's baseline investment level and global year-to-year swings, thus what we are isolating is the within-country signal: Does this country invest more or less in the US when its own conditions shift?

4

Signals point to predominantly institutional investors more likely to return in 2026

The net signal indicates how the three fundamental macroeconomic forces of employment growth, interest rate differential, and cap rate spread combine to produce a country inflow scorecard. How much weight to place on the signal is a judgment call.


| Country | Institutional share | Employment growth | Interest rate differential | Cap spread | 2026 direction |
|----------------|---------------------|-------------------|----------------------------|------------|----------------|
| Norway | 100% | 0.5% | 0.0% | 157 bps | ↑ Higher |
| Sweden | 100% | 0.3% | 2.1% | 313 bps | ↑ Higher |
| Singapore | 92% | 0.6% | 2.2% | 385 bps | ↑ Higher |
| Australia | 82% | 1.9% | 0.4% | 142 bps | ↑ Higher |
| United Kingdom | 77% | 1.0% | -0.1% | 22 bps | ↓ Lower |
| Canada | 64% | 1.4% | 1.6% | 39 bps | ↓ Lower |
| France | 63% | -0.2% | 2.0% | 128 bps | ↓ Lower |
| Hong Kong | 54% | 0.5% | 1.5% | 349 bps | ↑ Higher |
| Germany | 46% | -0.5% | 2.2% | 146 bps | ↓ Lower |
| Switzerland | 30% | 0.3% | 4.3% | 310 bps | ↓ Lower |
| South Korea | 24% | 0.3% | 1.8% | 367 bps | ↑ Higher |
| Japan | 16% | -0.3% | 3.8% | 413 bps | ↑ Higher |
| Netherlands | 4% | 0.3% | 2.1% | -105 bps | ↓ Lower |
| Ireland | 0% | 1.9% | 2.3% | -16 bps | ↓ Lower |
| Italy | 0% | 0.9% | 2.1% | 15 bps | ↓ Lower |
| Spain | 0% | 1.8% | 2.1% | 206 bps | ↑ Higher |

■ Positive for inflows ■ Negative for inflows

Notes: *Employment growth*: The employment signal interacts with institutional share — above the crossover, strong home employment keeps capital home; below it, positive employment supports outward deployment. *Rate differential*: a positive differential means expensive hedging, negative for inflows. *Cap spread*: a positive spread means US yields exceed home market, positive for inflows. The dashed line marks the 47.8% institutional share crossover point, above which the employment signal reverses direction.

Sources: MSCI Real Capital Analytics, IMF World Economic Outlook, MSCI Fixed Income Research, calculations by authors.

Taken together, the model reinforces what the descriptive analysis from the start of this paper suggests. Cross-border investors are not simply chasing prices. Historically, flows have responded when conditions align across three dimensions: US property yields offer a meaningful advantage over home-market alternatives, the cost of hedging currency exposure does not eat away that advantage, and for the large institutional markets, domestic economic conditions are softening enough to push capital outward in search of better returns.

When those conditions line up, capital moves, typically within a year. What the model cannot capture is the uncertainty premium that any investment committee has to price today when committing to a typical real estate 10-year investment span in a market where trade policy, regulatory conditions, and geopolitical relationships are all in flux. The fundamental forces that have historically driven cross-border flows into the US are not obviously broken. Whether they are strong enough to overcome the friction of the current environment is the harder question, and one the data cannot yet answer. 

¹ Mueller, G. and R. Peiser. 2021. "Global Capital Flows to Real Estate." Presented at the American Real Estate Society 2021 Annual Conference.

² McIntosh, W. 2018. "The Rising Cost of Currency Hedging." *IREI*. November.

Jim Costello is Executive Director and Michael Savino is Vice President, both at MSCI Research & Development.