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# Asian Capital Investing in US Real Estate

## **Abstract**

Asian capital investment in the United States real estate market is becoming increasingly popular. This article analyzes the patterns and preferences of Asian investors in the US real estate market by examining transaction history and aggregating consensus data to provide the reader an overview of the growing trend.

## **Keywords**

Cornell, real estate, Asian Capital, United States Real Estate, foreign capital, pension fund, state investment, sovereign wealth funds, investment trends, capital flows, foreign capital, joint ventures, Waldorf Astoria, Baccarat, Sunshine Insurance, Manhattan, second tier, gateway cities, tertiary markets, Boston, Seattle, New York, San Francisco, Los Angeles, institutional investors, retail investors, Cornerstone Real Estate Advisors, CREA, industrial real estate, logistics, warehouse, distribution center, retail real estate, State Owned Developer, Orix Real Estate, Japan, Volcker Rule, Hong Kong, China, Korea, Singapore, Malaysia, club deals, Houston, Chicago, investment concentration, private sector, institutional sector, office properties, hotel properties

By: Junwei (Eddie) Zhou

## Author

Junwei (Eddie) Zhou received his Bachelor of Engineering degree in Polymer Material and Science from Tsinghua University, mainland China in 2009. After graduation, he started at a state-owned real estate development company in China. In 2010, Eddie became the project manager of Ecology City, an eminent-domain mixed-use project of nearly 8,000,000 square foot. Creating structured compensation packages for relocation contracts with local residents, Eddie minimized time, effort and budget during this phase, stimulating the company's cash flow. After gaining abundant knowledge in real estate development, Eddie decided to switch careers to real estate investment and finance, by pursuing a Master's degree in the Baker Program in Real Estate at Cornell University. In 2014, Eddie interned at Cornerstone Real Estate Advisers' Hotel Group in Connecticut, where he performed acquisition analysis on over 20 upscale hospitality assets, both flagged and boutique. In addition, he supported asset managers, debt origination groups and other CRE groups within Cornerstone. Upon graduation, Eddie plans to pursue career opportunities in real estate investment and finance, and to bridge the gap between the Asian and United States real estate markets.



## Executive Summary:

Asian capital investment in the United States real estate market is becoming increasingly popular. This article analyzes the patterns and preferences of Asian investors in the US real estate market by examining transaction history and aggregating consensus data to provide the reader an overview of the growing trend.

## Introduction

Today, there is a material rebound of cross-border investment dollars into real estate, with Asia in particular significantly increasing its overseas positions. Based on volumes of executed deals, real estate investment in the United States (US) by Asian investors (pure foreign capital or joint ventures) in 2014 was almost \$13 billion compared to \$10.7 billion in 2013, and \$2.4 billion in 2007, before the Great Recession. Some have called this trend a "tsunami" because both volume and growth are tremendous and have upsides and downsides.

Some signature deals, such as the \$1.95 billion Waldorf Astoria deal by An-bang Insurance, or the \$2 million per key Baccarat deal by Sunshine Insurance, made the market more liquid, while it pushed the price in certain cities even higher.

This paper focuses on three time periods: pre-recession (2001-2007); the recession and recovery period (2008-2012); and most recently (2013-2015). These periods exemplify different characteristics, especially total volume, which is the most important factor in capital markets. By performing this analysis, common patterns and preferences will be exposed, as well as several reasons for the patterns.

## General trends

### Annual Volume

Historically, Asian investment in US real estate had been steadily growing through 2008, when the global financial crisis affected world markets. After hitting a low in 2009, Asian investments in US real estate started to recover quickly. In 2010, the number had already reached pre-recession levels. The number of transactions in 2013 and 2014 more than doubled the volume of transactions in 2007; a previous historic high of 49. This trend is even more significant when focusing on volume. The total deal size in 2014 was almost \$16 billion, compared to the previous peak of \$3.8 billion in 2006.

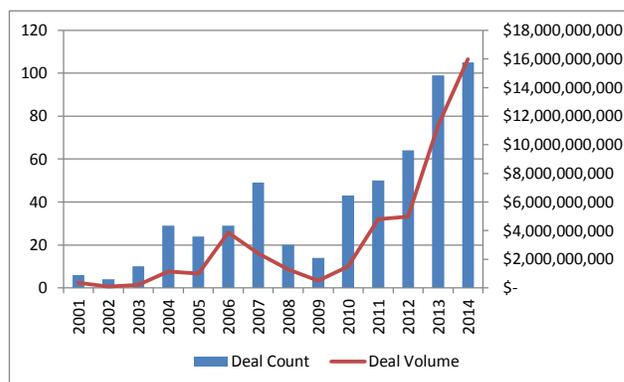


Figure 1: Annual Asian investments in US real estate (Sources: RCA<sup>1</sup>)

<sup>1</sup> Cross-Border Capital Tracker, Real Capital Analytics. The whole data set includes a total of 594 transactions, dating from 01/01/2001 to 02/03/2015. Main parameters used are: Property Type, Geographical Market, Transaction Date, Deal Size, Buyer's Country of Origin, and Buyer's Capital Sector. Detailed explanations of each parameter will be provided in corresponding sections. Also, please note that not every transaction out of 594 contains all the parameters. For example, buyer's capital sector maybe unclear for certain transactions due to complex off-shore corporate structure; or deal size may be undisclosed.

## Geographical Markets

Top 10 US Geographical Markets by Total Deal Size					
2001 - 2007		2008-2012		2013-2015	
US Markets	Total Deal Size	US Markets	Total Deal Size	US Markets	Total Deal Size
Manhattan	\$2,098,383,317	Manhattan	\$4,354,628,636	Manhattan	\$10,793,130,221
San Francisco	\$1,850,577,000	San Francisco	\$2,016,408,493	Hawaii	\$4,191,384,673
Chicago	\$840,143,582	DC	\$954,936,600	Los Angeles	\$4,101,093,562
Boston	\$561,179,484	Chicago	\$937,201,433	San Francisco	\$1,322,776,752
Phoenix	\$386,100,000	Miami	\$796,741,484	DC	\$1,038,300,000
Houston	\$364,300,000	Los Angeles	\$684,502,463	Chicago	\$1,021,472,500
Charlotte	\$315,500,000	Phoenix	\$351,666,167	Houston	\$835,400,000
Richmond	\$292,550,000	Hawaii	\$296,720,000	East Bay	\$636,648,924
San Diego	\$272,726,978	Philadelphia	\$214,080,899	Boston	\$532,197,000
Atlanta	\$201,345,940	Houston	\$205,121,927	Phoenix	\$429,245,788
<b>Grand Total</b>	<b>\$7,182,806,300</b>	<b>Grand Total</b>	<b>\$10,812,008,102</b>	<b>Grand Total</b>	<b>\$24,901,649,420</b>

Manhattan is a clear favorite for Asian capital. San Francisco, Chicago, Phoenix and Houston are also consistently ranked on the list. Besides these favored cities, Asian investments usually follow real estate market trends in the US. For example, some cities, such as Charlotte, Richmond and Atlanta made the list pre-recession, but were not top choices afterward. This is because such “second-tier” cities were hit harder during the global financial crisis, and are not recovering as fast as “gateway cities,” which by today’s Asian investors’ standards, usually include New York, San Francisco, Los Angeles, DC, Chicago; and in some cases, Boston, Houston and Seattle. Miami made the list in the recovering period. However, a single Malaysian investor contributed more than half of that investment amount. Thus, this would not represent a broader trend.

Asian investments by US Geographical Markets by No. of Deals					
2001 - 2007		2008-2012		2013-2015	
US Markets	No. of Deals	US Markets	No. of Deals	US Markets	No. of Deals
Boston	28	Los Angeles	20	Manhattan	27
San Francisco	11	Manhattan	19	Los Angeles	25
Atlanta	8	San Francisco	16	Seattle	15
Chicago	7	Houston	10	San Francisco	13
Manhattan	6	Phoenix	9	Inland Empire	11
Orange Co	5	San Jose	8	Houston	11
Seattle	5	Chicago	8	Boston	11
Phoenix	4	Las Vegas	6	Orange Co	10
Detroit	3	DC	6	Hawaii	10
San Diego	3	Hawaii	6	San Jose	9
Tucson	3	Miami	6	Chicago	9
Orlando	3	NJ	6		
Los Angeles	3	Boston	6		
Baton Rouge	3				
Dallas	3				
East Bay	3				
Others-Northwest	3				
Las Vegas	3				
<b>Grand Total</b>	<b>104</b>	<b>Grand Total</b>	<b>126</b>	<b>Grand Total</b>	<b>151</b>

Ranking the total number of deals yielded interesting results. The deals were widespread throughout the country prior to the recession. Since then, deals have been more widespread. California is receiving lots of attention, with a notable number of deals in submarkets such as Orange County, San Jose, and Inland Empire. Boston topped the list pre-recession thanks to a portfolio deal. If counting that as one deal, the number of deals Boston received was 6, which is steady across time. Seattle, now considered a “gateway” city

Table 1

Top 10 US Geographical Markets by Total Deal Size (Sources: RCA)

Table 2

Asian investments by US Geographical Markets by No. of Deals (Sources: RCA)

by some Asian investors, has seen a large amount of activity recently. Since Seattle is not on the list by volume, it may indicate that Seattle is more attractive to smaller investors. As a trend, gateway cities are gaining more attention from Asian capital, with both institutional and retail investors.

**Table 3**

Asian investments by property types and total deal size (Sources: RCA)

Asian investments by property types and total deal size			
Property Types	Total Deal Size		
	2001 - 2007	2008-2012	2013-2015
Apartment	\$ 565,225,932	\$ 1,156,120,469	\$ 1,424,224,154
Hotel	\$ 1,365,802,650	\$ 2,022,537,797	\$ 10,347,422,254
Industrial	\$ 333,675,202	\$ 348,715,931	\$ 804,136,778
Office	\$ 6,584,913,328	\$ 8,680,823,028	\$ 14,354,488,270
Retail	\$ 180,650,000	\$ 735,577,629	\$ 735,342,500
<b>Grand Total</b>	<b>\$ 9,030,267,112</b>	<b>\$ 12,943,774,854</b>	<b>\$ 27,665,613,956</b>

**Table 4**

Asian investments by property types and number of deals (Sources: RCA)

Asian investments by property types and number of deals			
Property Types	Total Deal Count		
	2001 - 2007	2008-2012	2013-2015
Apartment	29	51	34
Hotel	15	25	49
Industrial	22	26	40
Office	76	69	69
Retail	9	19	19
<b>Grand Total</b>	<b>151</b>	<b>190</b>	<b>211</b>

### Property Types

Addressing property types, office stands out as the favorite, both by volume and by deal count. Its popularity is reasonable since office provides stable and predictable cash flow and is less risky, thus perfect for Asian capital not familiar with the US market.

Second choice, interestingly, is hotels. Hotels usually only represent less than 15% to 20% of a typical domestic investor's asset allocation in real estate and is less than the allocation for multifamily. For Asian investors though, their investments in hotels are consistently more than double the size of multifamily. Most recently, hotel investments represent 37.4% of total real estate investments by Asian investors. Further, reviewing the data reveals that it is not skewed by outliers considering that:

- The investments are made by many investors, including sovereign wealth funds, public REOCs, REITs, private developers, equity funds, and high net worth individuals.
- The investments are geographically diversified, most notably in gateway cities and Hawaii.

Multifamily, alternatively, is not as popular as it would be with US investors. However, by ranking the number of deals, we can see that the volume of apartment deals is roughly equal to that of hotels. One possible explanation could be that because hotels take on more risk, Asian investors prefer to invest in less risky locations, where prices are highest, thus leading to higher total deal sizes. Based on Cornerstone Real Estate Advisers (CREA) data<sup>2</sup>, some institutional Asian investors do not view residential investment, either for sale or rental, as a means of diversification. The reason is that residential markets in Asian countries are huge, already representing a large portion of these institutional investors' portfolios.

<sup>2</sup> Meeting briefs with more than 50 major Asian investors, courtesy of CREA, Cornerstone Real Estate Advisers. This set of data focuses more on investment criteria. In order to protect client information, results are aggregated with the parameters mentioned above.

Industrial, including logistics, is becoming increasingly popular among Asian investors. In recent years, a greater number of deals and larger volume has taken place in these sectors. Based on CREA data<sup>3</sup>, this is because the logistics industry is considered more advanced in some Asian countries like China, South Korea, and Japan. These countries are experiencing fast growth in e-commerce, and investors have been investing in logistics for a long period. As a result, they are more familiar with and comfortable investing in this property type.

Retail has not been invested heavily in by Asian investors. Based on CREA data<sup>4</sup>, the main reason is that Asian investors view retail in the US as a different model from retail in their domestic countries. Retail in Asia is usually vertical and exists in mixed-use projects, whereas, in the US, malls are the dominant form. It should be noted that some investors in the private sector, often developers, are acquiring retail in the US for the purpose of learning this different model and may apply it in their domestic country. Retail is not seeing a lot of attention. Based on CREA data, the main reason is because Asian investors view retail in US as a different model from retail in their domestic countries. Retail in Asia is usually vertical and exists in mixed-use projects, whereas in the US, malls are the dominant form. It should be noted though that some investors in the private sector, often developers, are acquiring retail in the US with the purpose to learn this different model and may apply it in their domestic real estate markets.

**Table 5**

Asian investments by capital sector and total deal size  
(Sources: RCA)

Asian investments by capital sector and total deal size			
Capital Sector	Total Deal Size		
	2001 - 2007	2008-2012	2013-2015
Corporate	\$627,566,110	\$965,606,417	\$835,742,891
Equity Fund	\$45,000,000	\$153,620,000	\$600,000,000
Institutional, Bank	\$47,640,667	\$70,100,080	\$638,000,000
Institutional, Finance	\$372,904,852	\$82,214,000	\$8,000,000
Institutional, Insurance	\$2,187,050,000		\$2,726,250,000
Institutional, Investment Manager	\$593,524,500	\$426,141,847	\$1,558,370,000
Institutional, Pension Fund		\$2,435,837,446	\$1,014,359,671
Institutional, Sovereign Wealth Fund	\$808,506,532	\$910,000,000	\$5,252,802,541
Multiple	\$176,000,000	\$921,050,000	\$255,400,000
Other		\$172,850,200	\$8,075,000
Private	\$93,800,000	\$61,774,300	\$298,855,500
Private, Developer/Owner/Operator	\$638,633,300	\$2,414,094,077	\$5,938,512,009
Private, High Net Worth	\$2,536,907,500	\$1,858,002,861	\$4,265,789,419
Public, REIT		\$16,000,000	\$69,900,000
State Owned Developer			\$4,002,783,925
Public, REOC	\$902,733,652	\$2,288,983,625	\$166,373,000
<b>Grand Total</b>	<b>\$9,030,267,112</b>	<b>\$12,776,274,854</b>	<b>\$27,639,213,956</b>

Notes: Multiple means multiple buyers from different capital sectors are involved. State Owned Developer is different since it is neither private nor public. Other refers to other sectors, such as education or religion, etc.

## Capital Sector

Interesting trends are evident when exploring the data above. Equity funds and banks historically have had low deal counts, and they still do, but the deals have become much larger in size. Investments made by traditional finance companies, such as Orix Real Estate from Japan, saw a steep decline. This may be related to whether the Volcker Rule<sup>5</sup> could affect

<sup>3</sup> Ibid

<sup>4</sup> Ibid

<sup>5</sup> Named after former Federal Reserve Chairman Paul Volcker, the Volcker Rule disallows short-term proprietary trading of securities, deriva-

**Table 6**

Asian investments by capital sector and deal count (Sources: RCA)

Asian investments by capital sector and deal count			
Capital Sector	Total Deal Count		
	2001 - 2007	2008-2012	2013-2015
Corporate	11	36	23
Equity Fund	4	4	8
Institutional, Bank	3	3	2
Institutional, Finance	19	2	1
Institutional, Insurance	12		4
Institutional, Investment Manager	10	3	14
Institutional, Pension Fund		21	21
Institutional, Sovereign Wealth Fund	21	1	8
Multiple	1	4	9
Other		4	1
Private	4	4	10
Private, Developer/Owner/Operator	37	41	49
Private, High Net Worth	6	35	18
Public, REIT		1	1
State Owned Developer			35
Public, REOC	23	29	6
<b>Grand Total</b>	<b>151</b>	<b>188</b>	<b>210</b>

foreign financial institutions, based on concerns of similar investors according to CREA data.<sup>6</sup> Insurance companies, historically having made a moderate number of transactions, completely ceased making deals during the recessions and, while they are recovering, they are making fewer large deals. Sovereign Wealth Funds are becoming a more powerful force in terms of deal size compared to the past. This sector would be even stronger if we include state-owned developers. In a further examination of the data, most of these investors are from China and Japan. Based on CREA data, the reasons are assumed to be twofold: first, they have reached a threshold where they can no longer get higher returns domestically; second, they need to diversify their portfolios. We can expect to see more investments from pension funds as they are increasing their allocation to real estate to achieve higher returns. Other notable investors include high net worth individuals and investment managers.

**Table 7**

Asian investments by country of origin and total deal size (Sources: RCA)

Asian investments by country of origin and total deal size			
Country of origin	Total Deal Size		
	2001 - 2007	2008-2012	2013-2015
Japan	\$ 4,027,772,080	\$ 2,838,287,973	\$ 6,174,680,476
China	\$ 16,380,000	\$ 2,547,787,661	\$ 6,014,494,628
Hong Kong	\$ 3,148,281,700	\$ 1,099,866,123	\$ 4,032,207,548
Multiple	\$ 0	\$ 1,735,300,000	\$ 4,958,733,333
Korea	\$ 0	\$ 2,794,424,146	\$ 2,822,909,671
Singapore	\$ 808,506,532	\$ 146,225,333	\$ 2,630,854,212
India	\$ 280,604,300	\$ 887,557,673	\$ 66,670,000
Malaysia	\$ 0	\$ 503,359,637	\$ 660,000,000
Taiwan	\$ 393,222,500	\$ 251,301,307	\$ 142,795,933
Pakistan	\$ 311,000,000	\$ 0	\$ 0
Thailand	\$ 44,500,000	\$ 86,915,000	\$ 104,000,000
Indonesia	\$ 0	\$ 25,350,000	\$ 26,868,154
Philippines	\$ 0	\$ 16,000,000	\$ 0
Afghanistan	\$ 0	\$ 5,400,000	\$ 0
Macau	\$ 0	\$ 0	\$ 5,000,000
<b>Grand Total</b>	<b>\$ 9,030,267,112</b>	<b>\$12,937,774,854</b>	<b>\$27,639,213,956</b>

tives, commodity futures and options on these instruments for banks' own accounts under the premise that these activities do not benefit banks' customers. In other words, banks cannot use their own funds to make these types of investments to increase their profits.

<sup>6</sup> Meeting briefs with more than 50 major Asian investors, courtesy of CREA, Cornerstone Real Estate Advisers.

Table 8

Asian investments by country of origin and deal count (Sources: RCA)

Asian investments by country of origin and deal count				
Country of origin	Total Deal Count			
	2001 - 2007	2008-2012	2013-2015	Total
Japan	66	45	50	162
China	1	48	56	105
Hong Kong	46	22	29	98
Korea		31	32	63
Singapore	21	7	14	43
Taiwan	8	12	8	27
India	7	9	5	21
Multiple		4	11	15
Malaysia		5	1	6
Thailand	1	3	1	5
Indonesia		1	2	3
Afghanistan		1		1
Pakistan	1			1
Philippines		1		1
Macau			1	1
<b>Total</b>	<b>151</b>	<b>189</b>	<b>210</b>	<b>554</b>

### *Capital's Country of Origin*

The list is sorted in order of descending total in their respective categories. While the common assertion is that Chinese capital is leading the herd, Japan is still the top country investing in US Real Estate regarding both deal size and deal count. China, however, is quickly catching up especially since China made a key investment pre-recession, resulting in an amazing speed of the increase in China's capital. This is because China invested in the Chinese real estate market, which was booming at the time. Now with the domestic market cooling down, the Chinese capital is seeking investments overseas.

Not surprisingly, Hong Kong, Korea, and Singapore are also the top countries/regions of the capital's origin. Other countries and regions such as India, Malaysia and Taiwan are also making sizable investments though smaller compared to the top countries. The rest of the countries/regions made minimal investments and did not form a large enough data set to generate any meaningful findings.

An interesting trend is that we see more and more club deals not only with different capital sectors, but also from different countries/regions. Most of these deals are institutional capital, indicating some commonality between the players.

### **Particularly strong trends**

In this section, we will use multiple parameters from the previous section to analyze if a certain correlation exists. The analysis is based mainly on recent (2013 to 2015) data.

Here are the findings:

Japanese investments in Hawaiian hotels: Since 2013, there were ten investments in Hawaii, of which 9 were hotels. Of these 9, 8 were Japanese investors. Though one portfolio deal contributed more than 70% to the trend, it should be noted that the Japanese have a taste for Hawaiian hotels since Hawaii is a favorite destination of the Japanese. In 2013, the Japanese share of total tourism expenditure in Hawaii was 17.1%, only rivaled by that of the US domestic consumers.

Chinese investments in Houston multifamily: Since 2004, there were 27 investments in Houston made by Asian investors. 20 were multi-family. One portfolio deal made by

a JV between Gaia Holding (US), Menora Mivtachim Holdings (Israel) and Grand China Fund (China), contributed nine deals. Another portfolio deal made by Standard Portfolios (China) contributed eight. Based on CREA data<sup>7</sup>, more than half of the Chinese insurance companies expressed interests in Houston and multifamily. We can expect to see this momentum continue in the coming years. Part of the reason for this is that capital to be deployed overseas, a certain protocol must be followed. Government officials have the power to prevent an investment from being made; as a result, investors would choose cities that government officials would be familiar with to reduce time spent persuading said officials. Houston, being the home of the Houston Rockets where Yao Ming played in the National Basketball Association (NBA), gained a level of popularity amongst Chinese people, including the government officials. Also of note, these gateway cities are not only large in the economic base, but also house a large population of Chinese immigrants.

Chinese insurance companies investing in hotels: Some signature deals last year would easily make people think that there is a trend of Chinese insurance companies investing in hotels. However, that is not the case. Based on CREA data,<sup>8</sup> though more than half of insurance companies would consider hotel investments, they do not prefer it to multifamily, and office. This so-called trend is heavily influenced by personal preferences of a few executives overseeing overseas investments at those insurance companies, thus it would not represent a pattern.

Table 9

Investor Consensus (Sources: Cornerstone Real Estate Advisers LLC<sup>9</sup>; Author<sup>10</sup>)

## Consensus data from Cornerstone

In this section, investors are categorized by capital sector because they share strong commonalities in preference.

	Required Return	Property Types	Deal Size	Key Driver	Key Concern	Other Issues
Sovereign Wealth Fund	High-single digit for Core 15% for Value-added	Office, Residential (Retail, Hotel, Others)	\$100 MM Minimum	Diversification		Will also consider debt investments, some agree to do development debt if can understand the risk. Some will consider secondary and tertiary markets.
Insurance Company	6% Cash on Cash	Office, Residential (Retail, Logistics, Others)			Tax Structure FIRPTA	Some are willing to do development deal. Would only invest in gateway cities.
Pension Fund			\$100 MM Minimum	Diversification	Tax Structure FIRPTA	
Bank		Some would only consider office.			Whether the Volcker Rule would apply	Would only consider core investments in major cities.
Private, Owner/Developer	15% levered IRR	Has individual rules for property types to invest in.	\$100 MM average	Return		Have individual rules for cities to invest in. Some would consider real estate securities.
High Net Worth	>10% levered IRR		\$50 MM Minimum		Control of asset	Holding period can be very long.

<sup>7</sup> Ibid

<sup>8</sup> Ibid

<sup>9</sup> Meeting briefs with more than 50 major Asian investors, courtesy of Cornerstone Real Estate Advisers. This set of data focuses more on investment criteria. In order to protect client information, results are aggregated with the parameters mentioned above.

<sup>10</sup> Conversations with more than 20 Asian investors. This set of data is similar with CREA Data, but is based on the author's conversation with Asian investors, specifically for the topic discussed here. The investors don't overlap with CREA Data, thus will be used at the same time, and will not be specifically referred to differently.

## Conclusion

Through analysis of the data presented, we can clearly see that investments from Asian capital are on the rise:

1. Volume wise, the total transaction size in the past two years is more than that before 2013, indicating a tremendous growth.
2. Geographically, Asian capital is more focused in gateway cities such as New York City, San Francisco, and Chicago.
3. Office and hotel are the most invested property types.
4. Both the private and institutional sectors are growing strong, led by Sovereign Wealth Funds and developer/owner/operators.
5. Japan is still the top country of origin though China is quick catching up.

It should be noted that many of the types of investors mentioned are still testing and learning the US market. That is why they currently focus investments in “gateway cities,” and in less risky property types. As they know more about the market, and as some countries (such as China) are lifting their restrictions on foreign investments, we can expect to see more capital investment.

