



INVESTING IN REITS AROUND THE WORLD

Whether a U.S. REIT is courting international investors or investors are seeking acquisitions abroad, the landscape for foreign direct investment (FDI) is rapidly evolving.

STATE OF FDI IN U.S. REAL ESTATE

Within the domestic market, the most notable shift is the decline in Chinese investment, historically the largest source of FDI. Chinese investors made \$54.1 billion worth of acquisitions and \$5.3 billion in dispositions since 2007, according to [Real Capital Analytics](#). While China still accounted for the largest group of foreign buyers last year, Chinese investment in U.S. commercial real estate [fell 30 percent](#).

This year, Chinese investors became net sellers of U.S. commercial real estate, selling off \$1.3 billion worth of properties, which Real Capital Analytics notes is more than any single year before. The disposition trend is partly driven by Chinese investors' financial distress, but it is also partly a consequence of China's capital control restrictions on outbound investment.

RULES OF THE ROAD FOR INTERNATIONAL INVESTORS

As U.S. commercial real estate and its investor pool continue to shift, global markets are changing just as quickly. For U.S. investors eyeing international properties, it's critical to keep in mind the diverse rules, regulations and nuances of a new market. [BDO's Foreign Property Ownership report](#)¹ offers an in-depth regulatory primer for foreign investors.

Here's a look at a few notable markets:

Canada

Canada has seen substantial activity in recent years by foreigners looking to invest in residential and commercial real estate. Canadian REITs are performing well, with the total market capitalization increasing from CAD \$42.3 billion in 2012 to CAD \$57.7 billion in 2017, according to [S&P Dow Jones](#).

Canada generally encourages foreign ownership of real estate, and most provinces treat foreign purchasers of residential and commercial real estate the same as residents. Some change

¹ Disclaimer: Information in the publication is for reference only. Taxpayers should consult with BDO prior to making foreign investments, as several jurisdictions have tax legislation pending.

is likely on the horizon, however. Canada announced plans to introduce an annual speculation tax to discourage foreign and domestic speculators from removing properties from the “long-term housing stock,” meaning the properties are not owner-occupied or qualifying long-term rental properties.

Singapore

DBS Group Research predicted Singapore REITs were at the start of a multi-year upturn at the end of 2017. An analyst note states, “we remain bulls in the Singapore property market as we believe that most real estate subsectors have turned the corner on the back of improving demand-supply dynamics. Supporting a more buoyant outlook for landlords (REITs) and developers is abating supply risk, which will drive prices and rentals higher as the year goes by.”

With a rapidly expanding population and tight supply, the Singapore government has taken steps to control inbound investment. All foreign investors are required to apply for approval before purchasing properties.

Malaysia

In Malaysia, which adopted the REIT approach in 2005, [CBRE](#) recently noted that the pursuit of mega projects and high-value

economy should continue to catalyze business activities and bring about new growth drivers and opportunities.

The country's regulatory environment is also somewhat lenient when it comes to foreign investors, as long as minimum requirements are met.

WHAT THE FUTURE HOLDS

A real estate fund's most valuable asset is their in-depth knowledge of their target real estate markets. This leads to geographic concentration in REITs' portfolios, with many specializing in certain regions and the majority staying within U.S. borders. To bridge the knowledge gap in a new market, investors often establish joint ventures with local real estate groups. As foreign real estate sectors heat up and REITs continue to search for yield, U.S. REITs are likely to adopt the joint venture model and become more active international investors.

This article originally published in *Commercial Property Executive*. You can view the original article, [here](#).



Stuart Eisenberg is an assurance partner and leader of BDO's Real Estate & Construction practice. He can be reached at seisenberg@bdo.com.

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CONTACT

STUART EISENBERG

Real Estate and Construction
Practice Leader
212-885-8431 / seisenberg@bdo.com

IAN SHAPIRO

Real Estate and Construction
Practice Co-Leader
305-420-8052 / ishapiro@bdo.com