

Boston Gaining On New York, San Francisco As Foreign Investors' Market Of Choice

August 22, 2019 | Cameron Sperance, Bisnow Boston ✉

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While the largest destinations for cross-border capital into the U.S. have lost momentum in recent years, Boston is gaining ground.



Foreign investment in office, multifamily, industrial, retail and hotel assets have averaged about \$2B annually in Boston's urban core in recent years, but increased to \$3.1B in 2018, according to Real Capital Analytics.

In downtown San Francisco, foreign investment fell from more than \$3B in 2016 to \$1.6B last year. Foreign investment in New York City real estate **dropped by 50%** between 2015 and 2018.

"On the basis and return side, we're an even more attractive market than New York or San Francisco right now," CBRE Executive Vice President Scott Dragos said. "Boston has historically been behind, so that's a breath of fresh air."

Chinese capital in U.S. real estate fell 72% between the first quarter of 2018 and Q1 2019, according to RCA, and the pullback from the world's second-biggest economy is largely responsible for the drop in foreign investment in New York and San Francisco.

But Boston has typically attracted investors from Canada and Europe. There was only about \$79M in Chinese investment in Boston between 2014 and 2018, or just 0.14% of all U.S. real estate investment activity involving Chinese buyers.

Foreign investment in U.S. net-lease assets (office, industrial and retail) totaled \$1.9B for Q1, up 6.6% from last year, according to CBRE. Boston was third behind New York and San Francisco, respectively, for foreign investment.

Given the size of New York, it is unlikely Boston will ever outrank it in terms of cross-border capital, but Dragos has noticed an increase in foreign capital in the New England city over the last year, especially in deals structured where the offshore investments are paired with local investors.

"Most foreign investors view the U.S. as more stable than most countries," Dragos said. "People view Boston specifically as an even more stable and a growth-driven economy."



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Canada and Europe have been leading sources for foreign investment in Boston, but for his last three projects put out to bid, Dragos said **Asian investors** accounted for about 20% of the bidding pool, about 15% came from European countries and 30% had ties to the Middle East.

Israeli investment interest in Boston is on the rise, including the arrival of **Gazit Horizons**, a subsidiary of Israel-based Gazit Globe. The Israeli retail investment firm **established a Boston office** in 2018 and acquired 41 Winter St. in **Downtown Crossing** and closed in April on an \$82M deal for Marketplace Center, a 62K SF retail center by **Faneuil Hall**.

"One of the things that is fascinating is all of the neighborhoods that have emerged over the last few years," Gazit Horizons Chief Investment Officer Alison Lies told *Bisnow* in 2018. "It's really consistent with where we see urbanization going and mixed-use environments with access to employment, education and public transportation."

On a recent \$100M deal, four of the five finalists — narrowed down from 16 initial bids — involved foreign capital, Dragos said. He added that the Boston market's seven- to 10-year growth trajectory is expected to continue to stoke more interest from foreign investors, especially in the industrial, multifamily and office sector.



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More than half of Boston's Class-A office buildings have traded this economic cycle, and half of those purchases have had a "known" foreign buyer, according to Colliers Managing Director [Aaron Jodka](#). Toronto-based [Oxford Properties](#) and Norway's sovereign wealth fund's real estate arm, Norges Real Estate Management, are the top foreign investors in Boston's Class-A office market.

Oxford's 4.5M SF Boston portfolio includes [500 Boylston St.](#) and [60 State St.](#) The real estate arm of the Ontario Municipal Employees Retirement System has acquired eight Class-A office buildings in Boston since [2014](#) and is currently [proposing a 24-story](#) Leather District office building.

Norges has an ownership stake in several properties, including [100 Federal St.](#), Atlantic Wharf and 33 Arch St.

Buyers' interest is driven by factors like "eds and meds" — Boston's numerous hospitals and universities that treat and educate people from around the world — as well as population growth, urban core changes like the growth of the Seaport, liquidity when needed and a high barrier to entry, which Jodka said foreign buyers are attracted to.

"Boston has had a higher cap rate than New York over time, and higher than London, Tokyo and Chinese cities," he said. "There's certainly recognition across the globe that this is a good place to park your capital."

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