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DLA Piper's Global Real Estate's Annual State of the Market Survey

March 22, 2019 - Front Section

John Sullivan

Boston, MA According to DLA Piper's Global Real Estate's Annual State of the Market Survey, a significant shift in cross-border investment in U.S. commercial real estate is taking place, with a new country predicted to become the major source of non-U.S. capital for U.S. commercial real estate. In a dramatic change in the prediction of the likely source of foreign investment in U.S. commercial real estate, Canada was cited by 56% of survey respondents as the most likely source of foreign capital in the U.S. commercial real estate market.

In the previous two DLA Piper surveys, China had topped the list of expected foreign investors; respondents to this survey dropped China to eighth place. The U.S.-China relationship has faced real and potential political pressures from both sides, with Beijing tightening capital outflows and overseas acquisitions and Washington, D.C., mulling China-specific trade protection measures.

More generally, a majority of respondents moved towards a bearish position on the U.S. commercial real estate market, while 40% maintained a bullish posture. The availability of capital was cited as a positive sign for the commercial real estate market. Signs of dynamism were present, with respondents expressing keen insights into how technological change will both disrupt and open new opportunities within the U.S. commercial real estate market.

"There has been sustained strength in the U.S. commercial real estate market," said John Sullivan, chair of DLA Piper's U.S. Real Estate practice and co-chair of its Global Real Estate practice. "Although there will no doubt be continued disruption and change, the U.S. economy continues to perform well and the U.S. remains a safe haven for investment capital, particularly in hard assets such as commercial real estate."

Another significant finding in the DLA Piper survey is the increasing importance of blockchain: Approximately 40% of respondents indicated they plan to use the distributed ledger technology in the near or long term. Such quick adoption of a technology that many did not know existed only 24 months earlier is remarkable. If 40% of the market actually adopts blockchain, the manner in which we conduct CRE transactions will be radically transformed.

Other highlights of DLA Piper's Global Real Estate's Annual State of the Market Survey include:

Fifty percent of respondents identified co-working spaces as the most likely catalysts of disruption within commercial real estate in 2019. With prominent co-working companies expanding and evolving, respondents may watch for related business opportunities. Continuing a trend from the last DLA Piper survey, almost as many respondents cited e-commerce as a key disruptor. Other highly cited disruptors included the continued evolution of logistics and warehousing, cited by 40%, and the sharing economy, cited by 30%.

Despite continued concerns with regards to Brexit, London was identified as the international city most attractive for investment during the next 12 months. Berlin, Frankfurt, Hong Kong and Sydney were also highly ranked. This is similar to the last DLA Piper survey, with four of the top five cities holding steady and Hong Kong displacing Paris.

Over half of respondents plan to invest in opportunity zones that were created by the recent federal government's Tax Cuts and Jobs Act which contain attractive tax-incentives established for distressed areas.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540