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Foreign Investors Like Lay of San Diego's Land

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BY JULIE POUCHER HARBIN

For the first time, San Diego has been named one of the top five cities in the United States for foreign investors to spend their commercial real estate dollars.

San Diego came in fifth after Washington, D.C., New York City, Los Angeles and San Francisco, edging out Chicago, according to a survey released Jan. 24 by the Washington-based Association of Foreign Investors in Real Estate. Of the group's 175 members, representing 17 countries, about half responded.

Craig Shute, managing director for broker CB Richard Ellis' University Towne Centre office, said that's not surprising, considering another recent survey — PricewaterhouseCoopers LLP and the Urban Land Institute's Emerging Trends in Real Estate 2006 — named San Diego the No. 1 market in the country to watch for commercial/multi-family real estate investment and development prospects.

"It's that sort of feedback and that sort of research that's demanding interest in San Diego as a market for foreigners," said Shute, an Australian who ran CBRE's Adelaide, Australia, office from 2000 until April 2005 when he transferred here.

Australian Mark Baillie, the newly elected chairman of the foreign investors association, commonly called AFIRE, and head of Real Estate, North America and Europe for Macquarie Real Estate, said, "I think from a broader perspective, that San Diego popped up in the top five is certainly not going to hurt getting broader exposure of the San Diego market to foreign investors when they see that there is increasing interest in the area and more activity."

AFIRE did not have a breakdown by country or company detailing which foreigners have invested the most in commercial real estate in San Diego, and the information was not readily available locally, but Shute said that Australians are one of the biggest investors in this sector in San Diego.

Australians Tops in 2005

For the first time, Australians invested more last year in U.S. commercial real estate than any other country, according to industry analysts. For the last several years, Germany has been the leading foreign investor in the U.S. commercial real estate market.

According to commercial real estate investment market research firm Real Capital Analytics, Australians became the largest buyers of strip centers in 2005 and acquired billions of dollars' worth of office and industrial properties.

Shute has numerous Australian clients and contacts who are active investors in the United States, including Australia-based Macquarie Real Estate, which is active in San Diego.

Speaking of his company's holdings, Macquarie's Baillie said, "Out of our total portfolio of $10 billion in the U.S., we have about $130 million invested in and around San Diego.

"We have a reasonably significant focus in San Diego and I guess that's come about because we like the demographics in San Diego; the population has grown," he said.

He said the company owns five community shopping centers anchored by grocery or big box chains that were acquired between June and November — and one office building acquired this month.

Two of the shopping centers are owned jointly by Macquarie DDR Trust and Developers Diversified Realty Corp. The other three centers are owned jointly by Macquarie CountryWide Trust and Regency Centers.

The San Diego Tech Center, in Sorrento Mesa, was acquired by Macquarie Office Trust in conjunction with Los Angeles-based Maguire Properties.

Macquarie Bank Limited Representative Office has been involved in financing Cortez Lofts — $31 million in participating debt for an office to residential condo conversion — and provided a $13.7 million mezzanine loan for a 113-unit condo tower and retail center across from Petco Park.

The Macquarie Infrastructure Group owns 100 percent of the South Bay Expressway, the toll road running from state Route 54 to the Otay Mesa border.

The Sydney, Australia-based Westfield Group, a retail property group, also likes San Diego's demographics. Westfield owns and operates eight shopping malls in the San Diego region: Westfield Horton Plaza, Mission Valley, Mission Valley West, North County, Parkway, Plaza Camino Real, Plaza Bonita and University Towne Centre.

"Our philosophy is to invest in top U.S. markets with good, strong, healthy opportunity and expectation for growth," said Katy Dickey, the executive vice president of communications for Westfield's U.S. operations, explaining how the San Diego area meets that criteria. Of the 68 shopping centers Westfield owns in the United States, most are in the top 25 domestic markets, she said. In terms of population, San Diego is No. 17.

Growing Pension Funds

Baillie said that Australian pension funds have driven much of the capital that's been invested in U.S. commercial real estate, and Aussies find U.S. legal and governmental standards very compatible with their way of doing business.

"Five years ago, the amount of real estate left in Australia wasn't sufficient for the capital (from pensions) that was available to invest, and so the U.S. was, if you like, the first port of call," he said.

"It's good news for San Diego that foreign capital also starts to appreciate the potential of one of my favorite cities," said Albert Behler, the president and CEO of the New York-based Paramount Group, Inc., in an e-mail interview.

Key Property

Paramount purchased Downtown's Class A 27-story First National Bank Building in September, the company's only holding in the area. The company was established in 1968 as an American corporation with German funding, he said, and is one of the biggest foreign investors in the country.

"We would like to buy more (in San Diego), if properties become available," said Behler, who's mainly interested in core business district office buildings and new developments.

Behler said residential construction, the rejuvenation of the Gaslamp Quarter, the development of full-service hotels, the new ballpark, a 24-hour central business district and the city's diversified economy had all made the city an attractive place to invest, and that the city was "no longer a sleeper."

While AFIRE's survey put office buildings at the top of the list of foreign investors' preferred property in the United States, followed by hotel, retail, industrial and multi-family, there was no specific data for San Diego.

"With the weight of foreign equity floating around, there would be no shortage of interest in retail, office or industrial product. It just remains to be seen how the foreigners compete with local U.S. investors," said CBRE's Shute.

Shute's colleague, Jeb Bakke, the senior vice president at CBRE's San Diego office, said, "If I'm a foreign investor and have the choice between Dallas, Phoenix and San Diego, I'm picking San Diego because it's so hard for people to get in.

"We have the high barriers to entry, politically, lack of land and high construction costs. That's a positive for investors because once you get in, others can't get in."

He also pointed to some "good commercial real estate fundamentals," such as low vacancies, high rental rates and good demand and absorption, which he attributes to the kind of diversified economy that San Diego didn't have two decades ago when he started working for CBRE.

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