Cross-border capital investment across global commercial real estate markets

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While the majority of global real estate transactions in the most liquid real estate markets are by domestic investors, cross-border capital flows where the capital source isn't the same country as the asset purchased, are also significant. Due to the recent shift in US tariff policy, cross-border investments into the US are being delayed or deferred. Since the US is the largest global commercial real estate (CRE) market, accounting for 38% of global transaction activity in the past 10 years, if capital flows are reallocated away from the US, how might this impact other key global real estate markets? (We also look at the implications on US commercial real estate liquidity and pricing in our companion piece, "Cross-border capital investment in U.S. commercial real estate".)

A look at cross-border CRE investments since 2010 can help answer that question:

- US is the largest market for in-bound, cross-border CRE investment globally.
- As a share of total investment activity, however, cross-border CRE US investment is lower than other key global CRE markets.
- Canadian investors are the largest investors in US CRE, investing more than twice as much as in the next 10 markets combined.
- Any reallocation away from the US would have a significant impact on the next largest global CRE markets, such as the UK, Germany, France and Australia.

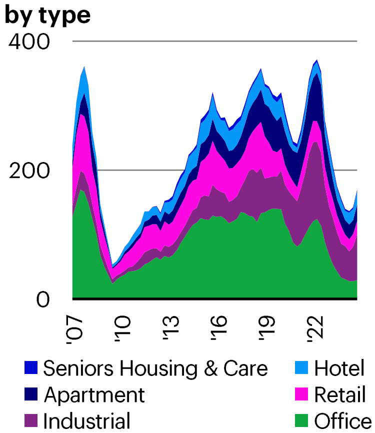
International real estate capital flows are heavily pro-cyclical

The volume of overall global CRE transactions demonstrate far greater cyclicality than domestic transaction volumes. When separating out cross-border transactions, in periods of market stress, investors tend to focus on their domestic markets and return to international expansion as global liquidity eases.

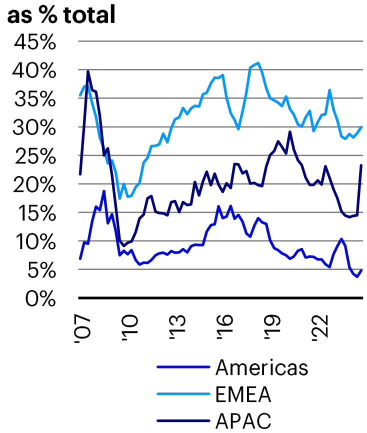
- Sentiment towards offices fell significantly during COVID-19, with a more than 80% fall in cross-border office asset purchases by type (See chart below, left).
- The Americas are less reliant on cross-border purchases than Europe or AsiaPac, (see middle chart below) but even their share of cross-border investments is down considerably in the past couple of years.
- The right-hand side looks at where that capital comes from, and the data shows that the share of flows from Europe and the US declined the most in the last two years. We shall expand further on these flows in the remainder of this piece.

Global cross-border CRE transactions show significant cyclicality

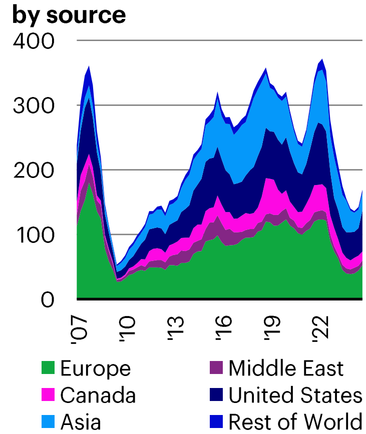
Cross-border purchases by type



Cross-border purchases as % total



Cross-border purchases by source

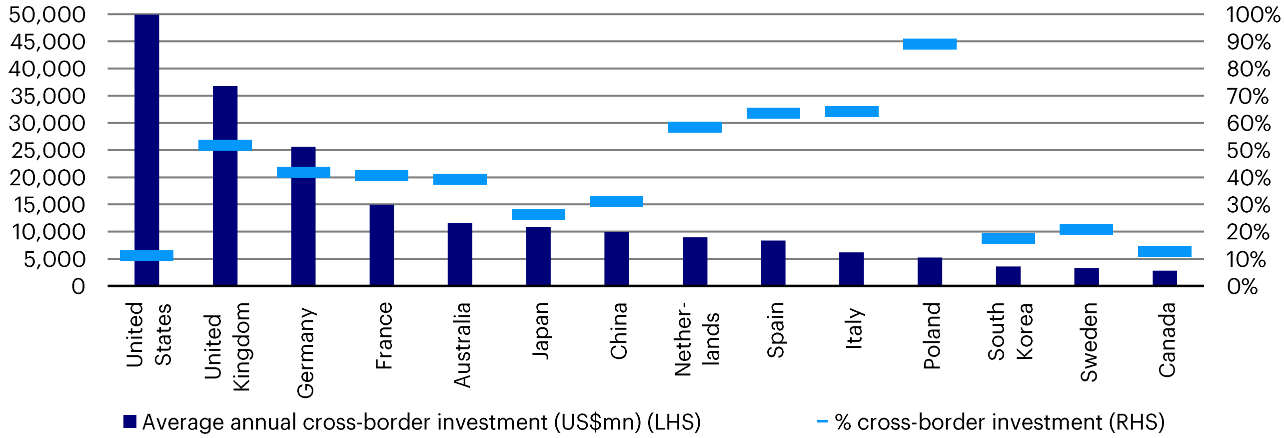


Source: Invesco Real Estate using data from MSCI RCA as of June 2025, trailing 4-quarter data, US$ billion

The US is the largest market for cross-border real estate investment
The US has seen long-term average in-bound annual cross-border investments of almost US$50 billion. Despite being, by far the largest market for inward investment into CRE, cross-border investors only represented 11% of all US CRE purchased from 2015 to 2024.

The value and share of cross-border transactions varies significantly by market

Average annual cross-border CRE investment volumes (2010-24, US$mn and % of total transactions)



LHS: Left-hand side; RHS: Right-hand side
Source: Invesco Real Estate using data from MSCI RCA as of June 2025, covering the period 2010-2024

Three key takeaways from this analysis:

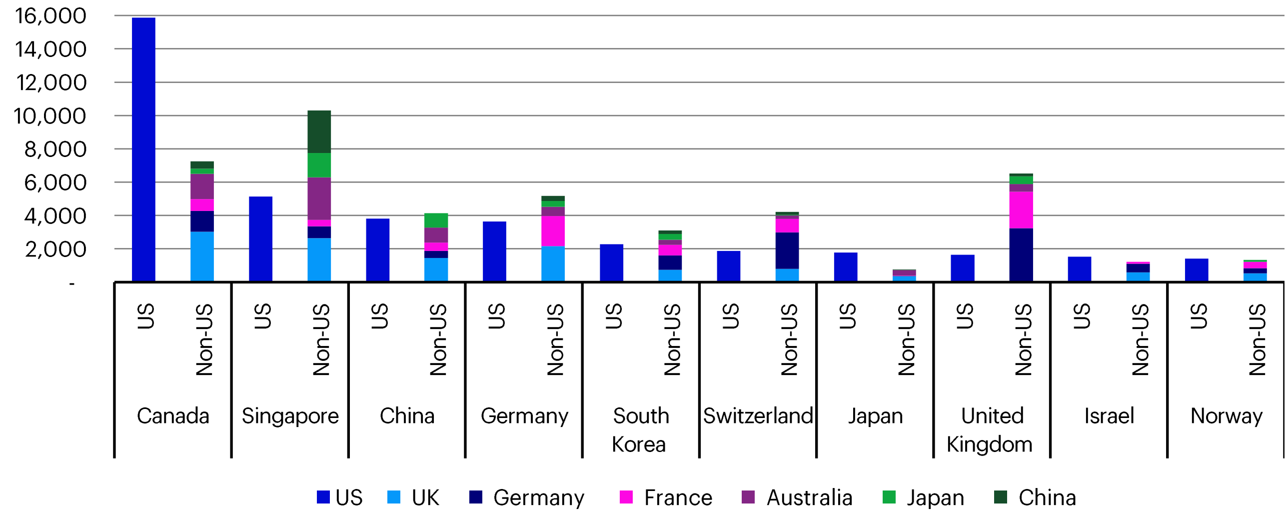
1. The impact of any pullback of cross-border capital from US real estate will be relatively limited in terms of the pricing and liquidity. In fact, cross-border capital was disproportionately concentrated in certain US metros and sectors – see the companion piece, “Cross-border capital investment in U.S. commercial real estate”.
2. Most other key global real estate markets are more reliant on cross-border investment:
   - The potential share of the domestic real estate investor base varies by market, for example dependent on how pension and investment vehicles in it are structured. For example, as we see in the chart above, Poland stands out for its high share of cross-border CRE transactions, partly due to the lack of legislation to encourage local investors to invest in CRE on a similar tax-efficient basis as other markets.
   - A CRE markets tends to have a higher share of cross-border capital when it offers strong transparency, liquidity, and legal protections, which makes it attractive and accessible to international investors.
   - There are regional differences; European markets tend to see a high share of intra-European cross-border capital flows.
3. Any shift in capital flows out of the US would likely have a greater positive impact on pricing and liquidity in other markets versus the US, in our view.

Mapping investment flows to non-US markets

In reviewing the investment activity from the 10 largest sources of cross-border CRE into the US and the three largest European and AsiaPac investment markets certain trends become clear. (See chart below.)

The largest cross-border CRE investors have very different target destinations

Average annual cross-border CRE investment flows by source of funds (2010-24 average, US$mn)



Source: Invesco Real Estate using data from MSCI RCA as of June 2025, covering the period 2010-2024

Canadian capital dominates cross-border purchasers of US CRE; one-third of all funding of US CRE purchases made by cross-border capital sources over the past decade came from Canada.

Also, Canadian investors put more than twice as much capital to work in the US as in these next largest markets.

Below we look at this trend from a slightly different perspective, taking the flow of cross-border CRE transactions across these destination markets, calculating the "neutral" weight of transactions for each based on the average share of total cross-border investment received by each market. We then look at the ten largest cross-border investor countries, comparing their allocations to each market relative to the theoretical neutral. Again, we clearly see that six of the ten largest capital sources are overweight to the US, and significantly so for Canadian, Chinese and Korean investors, again highlighting the potential impacts on other markets of any reallocation of capital away from the US by global cross-border investors.

Allocations to global CRE markets relative to "neutral" vary materially

	US	UK	Germany	France	Australia	Japan	China	Nether-lands	Spain	Italy	Poland	South Korea	Sweden	Canada
United States		29.2%	15.2%	9.1%	5.1%	10.5%	3.7%	5.7%	7.3%	3.9%	2.5%	2.4%	1.8%	3.6%
Canada	64.8%	12.4%	5.1%	2.9%	6.2%	1.3%	1.8%	1.8%	0.9%	0.6%	0.4%	1.7%	0.2%	
Singapore	29.9%	15.4%	4.1%	2.2%	14.8%	8.4%	14.9%	1.9%	0.3%	0.4%	0.8%	5.0%		1.6%
Germany	26.4%	15.7%		13.1%	4.0%	2.5%	2.2%	11.6%	5.8%	5.0%	6.4%	0.8%	6.1%	0.4%
UK	12.9%		25.5%	17.2%	3.5%	3.6%	1.4%	12.1%	8.6%	5.0%	4.0%	1.8%	3.5%	0.8%
Hong Kong	11.4%	19.6%	0.5%	1.3%	11.2%	12.5%	36.8%	0.1%	0.6%	0.1%	0.2%	3.5%		2.2%
China	42.7%	16.1%	4.8%	5.6%	9.9%	9.6%		1.8%	1.6%	1.6%	2.8%	2.1%		1.2%
France	13.9%	12.5%	27.9%		3.9%	4.6%		8.3%	10.5%	14.8%	2.7%	0.1%	0.8%	0.1%
Switzerland	26.8%	11.3%	31.4%	11.7%	3.0%	0.7%	2.3%	2.5%	3.9%	2.9%	1.2%	0.4%	1.5%	0.5%
South Korea	39.5%	12.8%	15.0%	11.1%	5.3%	5.9%	3.7%	1.7%	1.2%	1.3%	1.4%		0.2%	0.8%

Source: Invesco Real Estate calculations based on data from MSCI RCA as of June 2025
Note: neutral weight calculated as % of overall inbound cross-border flows to that destination country.

Impact of changing allocations

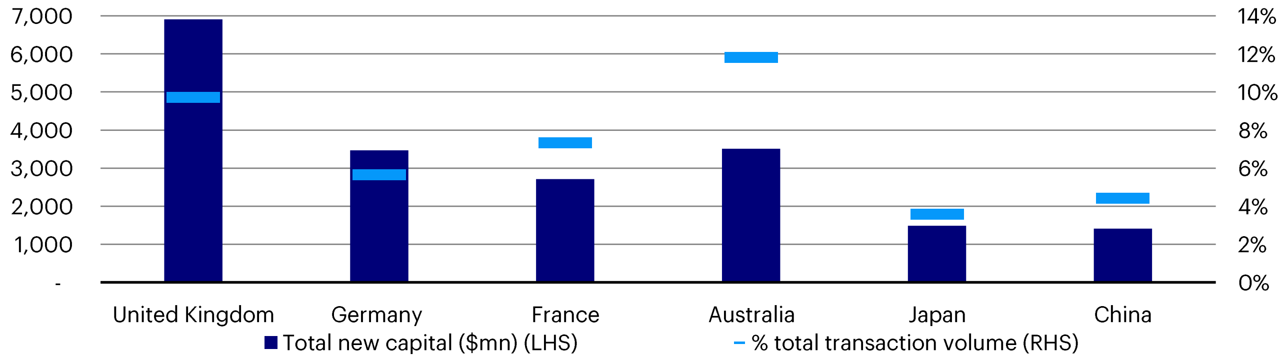
The smaller sizes of non-US CRE investment markets relative to the US means that a meaningful reduction of capital inflows into the US could have a significant impact on inflows to other countries.

Consider a theoretical reallocation of capital flows away from the US. (See chart below.) We looked at what would happen if the 10 largest cross-border investors into US CRE reallocated 50% of their US investment into the next six largest CRE markets. (For simplicity we assumed that the next six largest CRE investment markets continue to receive the same relative share of this reallocated capital.)

The result is a material increase in capital flows to all of these markets in dollar value. Also, when considered as a percentage of the total investment in those markets, we see a reallocation would result in an increase in capital flows of almost 10% of the UK's annual deal volumes, and almost 12% in Australia.

Diversion of capital from the US would particularly impact the UK and Australia

Illustrative impact of a reallocation of 50% of cross-border flows to US CRE



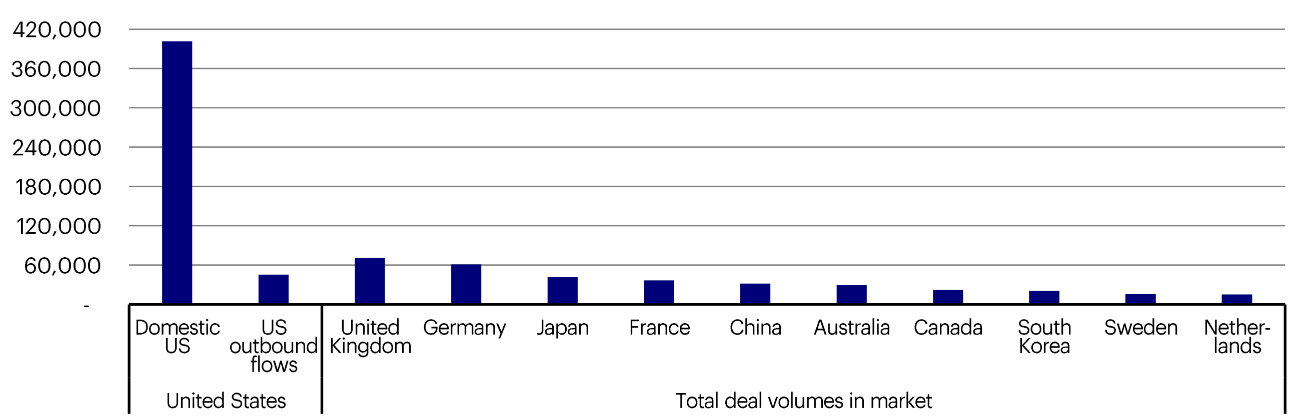
LHS: Left-hand side; RHS: Right-hand side
Source: Invesco Real Estate calculations based on data from MSCI RCA as of June 2025. Model assumes the top 10 country investors into the US divert 50% of the average annual capital invested. The model then distributes this capital in line with the proportions of capital invested in those markets by each investor country. For illustrative purposes only.

While the above calculation is purely for illustrative purposes, it highlights the potentially significant impact that would occur if non-US investors shifted allocations in any material way.

The bulk of this paper considers the potential impact of a reallocation of cross-border capital by global investors away from US CRE. Another consideration is the potential for US CRE investors to reduce new activity in the US and redirect capital to global markets, though we have not seen nor do we expect significant changes in behavior. But the substantial size of the US market means that small capital shifts domestically can exert outsized impacts on smaller markets. The chart below highlights the scale of US domestic CRE investment volumes relative to other global CRE markets. On average over the past 15 years, US investors in CRE have allocated 10.2% of capital outside of the US, compared to over 25% for countries like the UK, Germany, France, China and South Korea, and over 50% for Canada. Given the size of the US CRE market versus the next ten largest CRE markets, even a relatively small reallocation by US capital away from domestic CRE investment and into other markets would have a disproportionately larger, albeit currently unquantified, impact on volumes in the destination country.

Both US domestic and cross-border investments outweigh most other markets

US domestic and outbound CRE investment volumes relative to the next ten largest global markets
Average investments made in 2010-24

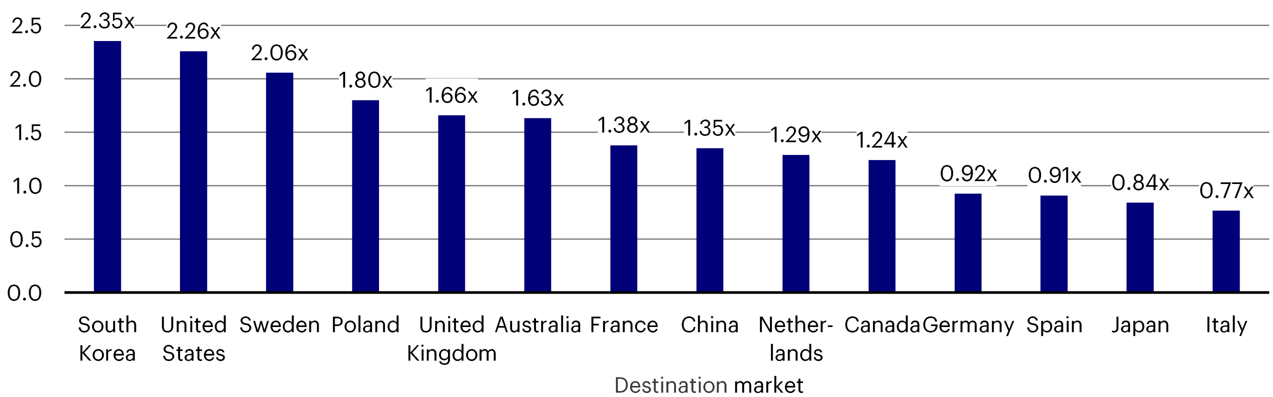


Source: Invesco Real Estate calculations based on data from MSCI RCA as of June 2025

Cross-border is generally focused on larger assets
Cross-border investors, on average, over the past decade, purchased larger valued assets than domestic investors in the same market. This trend holds across most of the 10 largest markets for cross-border CRE investment, though interestingly this pattern doesn't hold in Germany, Spain, Italy, and Japan. (See chart below.) Japan is an outlier here because of the strength of domestic capital, which will also seek larger assets, while the trends for the three European markets are clouded somewhat by the strength of intra-regional flows in Europe.

Cross-border investors generally target larger "trophy" assets

Price and size of cross-border funded CRE investments as a multiple of domestic capital-funded investments
Average investments made in 2010-24

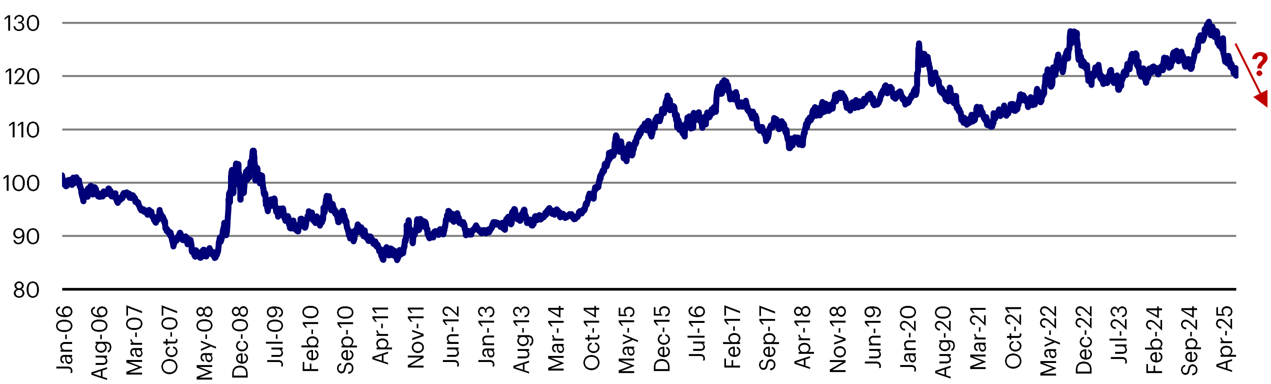


Sources: Invesco Real Estate, utilizing data from MSCI/Real Capital Analytics, June 2025.

Is the US dollar seeing a turning point?
The US dollar has started to weaken relative to other key currencies, which Invesco's macro strategists believe could be the start of a multi-year trend. The purpose of this piece is not to opine on FX rates, but were this trend to persist (particularly as a result of capital outflows resulting from a reversal of investment flows) it would weaken the returns offered by US real estate investments net of exchange rate movements. In our view, this could potentially further compound a pullback of capital.

Does the recent peak in the US$ mark a longer-term turning point?

US$, Nominal Broad Index (Jan 2006 = 100)



Source: Invesco real estate using data from Macrobond as of July 2025. The broad index is a measure of the value of the United States dollar relative to other world currencies. An investment cannot be made directly into an index.

Conclusion
While recent shifts in investor sentiment towards the US could drive significant changes in the behavior of global CRE markets, the outcome will depend on multiple factors related to geopolitics and currency exchange dynamics. If the recent tariff-induced pullback by cross-border investors from the US persists, the sheer size gap between the US CRE market and others would mean that a reallocation of capital out of the US would have a significant market impact in the next most liquid global CRE markets.

Finally, investors with significant exposure to US CRE could benefit from understanding how the inbound cross-border investment patterns impact US markets specifically.

Investment risks

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested. Property and land can be difficult to sell, so investors may not be able to sell such investments when they want to. The value of property is generally a matter of an independent valuer's opinion and may not be realised.

Generally, real estate assets are illiquid in nature. Although certain kinds of investments are expected to generate current income, the return of capital and the realization of gains, if any, from an investment will often occur upon the partial or complete disposition of such investment.

Investing in real estate typically involves a moderate to high degree of risk. The possibility of partial or total loss of capital will exist.

Investing in commercial real estate assets involves certain risks, including but not limited to: tenants' inability to pay rent; increases in interest rates and lack of availability of financing; tenant turnover and vacancies; and changes in supply of or demand for similar property types in a given market.

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