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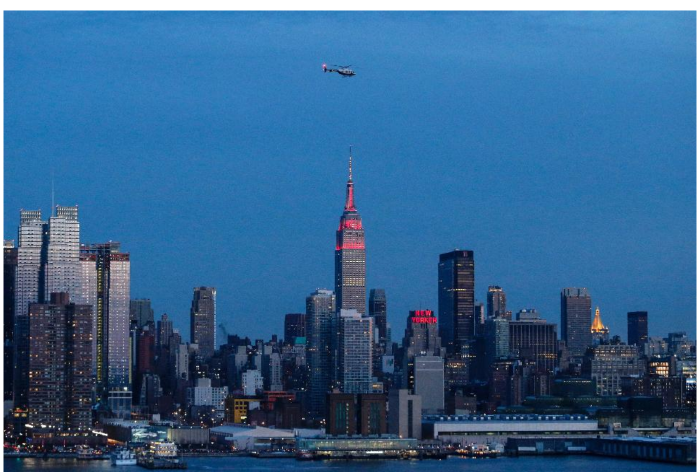
# The New Flight To Safety: Foreign Money Pours Into U.S. Real Assets

As trouble brews around the world, we have entered an era of disinvestment in the emerging markets. After over a decade of intense capital investment into the world's growth economies, which paused only briefly for the global financial crisis, we are now witnessing a complete reversal of that trend.

Not only have capital flows into these markets slowed, local capital accumulated over this period of investment is quickly flowing out in the form of investment in established markets. The oil nose dive of 2015 may now slow this trend, as governments and individuals alike begin to look to accumulated wealth for current expenses, but the basic architecture is now firmly in place: money is now flowing into the USA from everywhere, and not the reverse.

Why then are the US stock markets falling? Easy answer. Foreign investors are seeking safety and it has been a long time since listed markets have represented that portfolio characteristic. Certainly, the new low rates on direct US Treasury obligations reflect the continued global appetite for US sovereign credit, long the refuge for the fearful, but fears of currency risk, interest rate risk and inflation, plus the small problem that there is effectively no current investment return, all dampen enthusiasm for US direct debt.

The sector that is experiencing unprecedented inbound capital is American real assets, principally but not exclusively real estate. With headline numbers of $87 billion of foreign capital invested in US real estate in 2015, up from $9 billion in 2009,$23 billion of that in Manhattan alone, it is not hard to see where this is headed. Keep in mind that the US has a high tax on foreign investment in real estate.



*The Empire State Building light up in red and gold in honor of the Chinese lunar new year and the skyline of New York from Weehawken, New Jersey, on February 6, 2016. / AFP / KENA BETANCUR (Photo credit should read KENA BETANCUR/ AFP/Getty Images)*

Why real estate and why Manhattan? This is a more complicated question than it may seem, since it was real estate investment that was at the core of the global financial crisis as well as a big contributor to the early ’90s recession. But foreign investors today are not buying collections subprime mortgages, as they were before the crisis, nor are they (mostly) providing highly leveraged loans to speculative developments as many, particularly Japanese, banks were in the ‘80s.

Current inbound investors are being much more careful, seeking only gateway cities, mostly seasoned cash-flowing assets, with moderate, and sometimes no, leverage. They are buying net leased suburban office parks and super prime urban center buildings. In every direction from my office windows in Midtown Manhattan, I can see an iconic property now fully or partially owned by a Chinese institutional investor. These are not the secretive multi-million dollar apartment sales that the *New York Times* has been reporting on, but the billion dollar headline news purchases.

While the real estate sales have been the most prominent asset to attract inbound foreign capital, the desire for US real assets goes well beyond, to energy assets, many currently selling at a discount, infrastructure and, indeed, to basic industrial companies. The Chinese downturn may have slowed the relentless thirst for commodities that was driving the world economy until recently, but the thirst for US real assets by Chinese private wealth, as well as private accumulated wealth from around the world has only grown with the emerging market crisis.

It is hard to keep track of the many ironies that this trend represents. That citizens of the very countries into which Americans have long been told to invest are now pushing capital out of those countries and investing in the US. That a major portion this historic capital migration is eschewing Wall Street products and going directly into assets, using brokers and other Main Street like intermediaries. That in many foreign money centers, there is a often a better grasp of the latest US development trends—whether which is the latest hip neighborhood in Queens or the details of the Detroit recovery—than by most Americans. That despite Wall Street’s continued focus on technology, it is real things that are the prized investment assets.

Are these new inbound investors setting themselves up for the next big market fall? Are they missing the bonanza to be made in the next generation of technology companies? Are they driving a tulip craze of prices for prime real estate? Time will tell. What they are doing now is following the most basic of investment strategies: buying real things with real underlying long-term value in a country that has a well developed legal system and a fundamental regard for the rights of private ownership including foreign ownership. It used to just be called investing.