



World's Best Places for Real Estate Buys

*by Matt Woolsey
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Washington, D.C., traditionally takes a back seat to world cities like London, New York and Tokyo when it comes to real estate investment.

That's likely to change.

Thanks to a proposed \$1 trillion wave government spending, investors are flocking to D.C. for opportunities in the commercial and residential real estate markets. All these new programs will need offices, after all, and their employees will need places to live. This year, Washington leapfrogged London for the first-place ranking in the world's best cities for real estate investment. But don't count out the world's financial capitals just yet--even with massive financial troubles in London and New York, those cities finished second and third, respectively.

Why? It's the appeal of long-term stability, and fears that emerging countries are going to take a harder hit. While the U.S. property market sputters, China is poised for its worst deflation in a decade, focused heavily on property price declines, according to Deutsche Bank.

"For the U.S. and U.K., part of it is flying back to safety," says François Ortalo-Magne, a real estate professor at the Wisconsin School of Business. "For China and India, there's a sense that we went there and tried it, but it wasn't producing."

Behind the Numbers

Forbes' rankings come from the Association of Foreign Investors in Real Estate, a research association that tracks where member investors are finding the best opportunities around the world. AFIRE surveys its 200 members, who collectively hold \$700 billion in cross-border real estate.

U.S. cities surged up this year's list: San Francisco moved to sixth from 24th last year; Los Angeles moved to seventh from 19th; Houston moved to eighth from 32nd. Cities in the Asia Pacific region dropped: Sydney fell to 11th from ninth; Hong Kong dropped to 22nd from 10th place.

This year, investors know that valuations can't be trusted. In 2008, the American residential market fell 19%, according to the Case-Shiller index; U.K. prices dropped 16% according to Nationwide, a U.K. builder. Commercial values in both countries have started to soften due to recessions on either side of the pond.

In 2008, investors to spend tried to call the bottom and gambled in emerging markets. This year, they're looking at premium locations in cities with proven track records.

"We don't feel comfortable that we are able to identify what value is," says Richard Kessler, chief operating officer of Benenson Capital Partners, a global real estate investment group. "Having said that, if an opportunity exists on Park and 57th Street, or something we've always wanted to

own on Pennsylvania Avenue in D.C., or some other very strategic long-term asset, we would look at it."

That makes 2009 the year of playing it safe and not chasing exotic opportunities in far-flung locations. It's even injected a sense of humility into the investing world.

"There used to be a rivalry between New York and London," says Kenneth Patton, divisional dean of the New York University Schack Institute of Real Estate. "The subject has shifted to the fact that we're both in the same lifeboat, and maybe it's leaking."

While some investors play it safe, others are content to wait out the real estate downturn entirely.

"Most of the [usual] participants are sitting on the sidelines," says Kessler. "There's a lot of capital, but everyone is uncomfortable about deploying that capital."

For their part, the optimists think 2009 might be the year that sideline money starts to come back into the marketplace--and, especially for the cities on this list, it will come back in a flood, not a trickle.

"There's a lot of money that needs to be invested, says Ortalo-Magne. "The instant people feel an inkling of a turnaround, money is going to flow in."

Whether that inkling comes in 2009 or 2010, however, is an altogether different question.

No. 1: Washington, D.C.

Commercial and residential real estate often function as different markets, but both need low unemployment and strong job growth to put money in the pockets of consumers and help businesses to succeed.

At present, D.C. has the lowest unemployment rate in the country--4.1%, compared to the 7.2% national average. With President Obama's stimulus package recommending \$1 trillion in new spending, it's unlikely government jobs--and those they support--will be leaving the District anytime soon.