Real Estate

World's Best Places For Real Estate Buys

Matt Woolsey, 01.21.09, 04:30 PM EST

Ten cities investors will target in 2009.

In Depth: World's Best Places For Real Estate Buys

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.

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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** (nyse: DB - news - people).

"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.

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No. 10: Singapore

In a global economic boom, it's great to have the world's biggest port, but when shipping slows, so does your economy. After jumping in rank from 24th to sixth between 2006 and 2007, Singapore has slid as an investment market. The shipping sector and supporting sectors of office and commercial space have slipped with decreased worldwide volume. For example: The Baltic Dry Index, which measures bulk carrier shipping worldwide, is at an abysmal 1,760 after climbing to 19,700 in June of 2008. While that has dampened investors' take on Singapore, it's still seen as a strategic link in Asia Pacific with a good shot at rebounding.

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No. 9: Houston, Texas

At a time when commercial rents have decreased across the U.S., Houston's market has improved. In the last three years, most cities experienced a peak in 2007 and 2008, then a bust that returned prices to 2006 levels. In Houston's case, specifically in the office market, prices grew from $21.39 a square foot in 2006 to $29.07 a square foot in 2009, a 36% increase, according to Newmark Knight Frank. The city continues to attract new residents, and Texas's low business costs make it an attractive place for corporate relocations, which require real estate.

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No. 8: Paris, France

Whether or not you believe French President Sarkozy's claims about his tough regulation helping the country avoid the mortgage bubbles of Spain and the U.K., there are some things to like in France's property sector. According to Knight Frank, a U.K. property investment firm, residential prices were up 2.8% last year, while Paris commercial properties have a vacancy rate of 5%, one of the lowest on the continent. While prices are expected to flatten and perhaps dip, it does not look like a market is primed for the sort of U.K.-, U.S.- or Spanish-style collapse, where properties disintegrate by double-digit values.

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No. 7: Los Angeles, Calif.

Last year, only the most contrarian of investors would have mentioned Los Angeles as a site for real estate investment. One of America's hardest-hit subprime areas, bad loans and one of the nation's highest foreclosure rates destroyed property values and zapped consumer spending as housing troubles spread to other sectors of the local economy. For good reason, it received a bearish 19th ranking last year. However, a flurry of transaction volume in the residential sector--sales surged 102%, according to Radar Logic, a derivatives firm--has that market hinting at a bottom.

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No. 6: San Francisco, Calif.

San Francisco metro area residential prices have fallen by 25% in year-over-year terms, according to the National Association of Realtors. On the commercial side, tech and financial services firms have been downsizing their operations--this in a year when 7 million square feet of new office space is projected to come onto the market, according to Newmark Knight Frank. Considered together, these factors makes 2009 a buyers' market.

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No. 5: Shanghai, China

China's growth has slowed from 9% to 7%, and the global slowdown threatens to sink that rate further. According to Deutsche Bank, China is poised for its worst deflation in a decade, driven by property price declines. What makes Shanghai attractive however, is the chance at getting discounted properties in a market that overheated in the last decade. Unless you believe China won't be important by the time the global economy bounces back, it's difficult to bet against a blue-chip locale like Shanghai, which will likely have a quicker recover cycle than secondary cities like Shenzhen.

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No. 4: Tokyo, Japan

Japan knows a thing or two about dealing with a real estate collapse. Their "lost decade" of the 1990s came as the result of a speculative real estate bubble. As a result, Japanese investors largely avoided buying and issuing the subprime products flowing through American and European institutions. That makes Tokyo a safer bet in terms of determining reasonable valuations, since there are fewer unknowns in the property market.

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No. 3: New York, N.Y.

The New York residential market, which most termed bulletproof during the general housing downturn, has finally started to slip, with sales volume down by as much as 75% in some neighborhoods, according to Miller Samuel, a Manhattan-based appraisal firm. According to Cushman Wakefield, a New York-based commercial real estate firm, prices have started to slip in even premium areas like 57th Street or Soho, though this hasn't yet appeared in quarterly reports.

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No. 2: London, U.K.

A pure opportunity market. Home prices in central London continue to decline at a rate of 3.5% per month, according to Knight Frank, while commercial properties have been slipping at 2% per month. The office for market space is particularly overbuilt, according to Knight Frank, and vacancy rates have steadily inched upward. Even as the country sits firmly in recession, London is a market where investors feel safe making long-term plays and believe they can get reasonable discounts on prices.

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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 puts 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.