The United States will remain the top choice of most global commercial real estate investors in 2012, but the country has lost ground to Brazil which ranked No. 2 this year, according to a survey released Sunday.

While the United States offers the most stable and secure option in commercial real estate, investors said improvement in rent and occupancy growth and the repeal of a 1980 foreign investment tax would have the strongest impact on their investment decisions, according to the 20th annual survey of Association of Foreign Investors in Real Estate (AFIRE) members.

For about the past year or so, investors in U.S. commercial real estate have focused on gateway cities such as New York, Washington, Boston, San Francisco and Los Angeles, driving prices up and yields down.

Meanwhile commercial property in Brazil, with its bubbling economy and safer investment environment, has become a hot spot for global investors. Sao Paulo, Brazil's largest city, jumped to the fourth best city for real estate investment dollars in 2012, up from 26th place last year.

The United States is still very desirable and was second behind the UK in attracting cross border investment in 2011, according to Real Capital Analytics preliminary figures.

"The negative is it doesn't promise a whole lot of capital appreciation because the prime markets are already fully priced," AFIRE Chief Executive Officer James Fetgatter said. "By no means will Brazil replace the U.S., at least not in the forseeable future. Brazil is considered now a much safer place to invest and a place where you can get capital appreciation and good yield."

AFIRE'S survey respondents hold more than $874 billion of real estate globally, including $338 billion in the United States.

Sixty 60 percent of respondents said they plan to increase their investment in U.S. real estate in 2012, down from a record 72 percent last year, according to the 20th annual survey.

Some 42.2 percent said they believed the United States in 2012 would offer the best opportunity for the price of their commercial real estate investments to increase, down from 64.7 percent last year's survey.

The United States lost ground to Brazil, with 18.6 percent saying Brazil's property market offered the best growth opportunity for their investment dollars. That's up 14.2 percentage points, moving Brazil up to second place from fourth, and pushing China down to No. 3, according to the AFIRE survey.

Seventy percent of respondents picked one of the three countries as their favorite, while the remaining 30 percent had top choices from 13 other countries on five continents.

Respondents said they would invest more in U.S. commercial property if the fundamentals of rent and occupancy growth were stronger.

Another U.S. barrier respondents cited was the Foreign Investment in Real Property Tax Act (FIRPTA). The 1980 act, originally designed to protect farm property from foreign ownership, subjects foreign buyers to both their domestic and U.S. taxes when they sell their investment, unless their home country has a taxation treaty with the United States.

FIRPTA opponents have argued that the act unfairly penalizes foreign investors of real estate. Such double taxation does not apply if they buy U.S. stocks or bonds.

As for the top cities for foreign investment in 2012, New York remained No. 1. London moved up to No. 2 from No. 3, swapping ranks with Washington. Sao Paulo was fourth, and San Francisco moved up to No. 5 from No. 10 last year.

Europe's sovereign debt problems and looming recession pushed most of the countries there - except for a few such as Switzerland and Poland - off the map for real estate investors. Germany lost about half its support among respondents in terms of stability and price appreciation, according to the survey.

Emerging markets also seem to be getting more popular among potential investors. Respondents identified 25 countries they would consider for investment, up from 18 last year. Brazil topped the list, with China in second place, as each did last year. Turkey moved up to No. 3 from No. 7 last year. India and Vietnam each dropped down one spot, to No. 3 and No. 4 respectively. Appearing for the first time were Colombia, at No. 10, Hungary at No. 12, and Qatar at No. 17.

As for U.S. commercial real estate, respondents said that this year they would most likely invest in apartment buildings, the fourth consecutive year multifamily topped the list. Of all the types of U.S. commercial real estate, the multifamily sector has not only recovered from the post-2007 real estate slump but rents and occupancy are even stronger than before.

Warehouse and distribution centers ranked second, up from No. 5 last year. Office properties were third, up a notch from No. 4. Retail properties - shopping centers and malls - slipped to No. 4 from No. 2. Hotels ranked No. 5, down from No. 3 last year.

The survey was conducted in the fourth quarter by the James A. Graaskamp Center for Real Estate, Wisconsin School of Business.

Source :reuters.com