

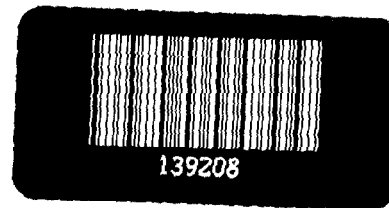
GAO

Fact Sheet for the Honorable
Quentin N. Burdick, U. S. Senate

July 1989

FOREIGN INVESTMENT

Trends in Foreign Ownership of U. S. Farmland and Commercial Real Estate





United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-234511

July 10, 1989

The Honorable Quentin N. Burdick
United States Senate

Dear Senator Burdick:

Your letter of April 15, 1988, expressed concern about foreign interests controlling farmland in the United States. As you requested, we are providing information on the extent of foreign direct investment in agricultural land and commercial real estate nationwide and specifically in North Dakota and how such investment has changed over time.

Results in Brief

This fact sheet presents information on foreign investment based on U.S. Department of Agriculture data for farmland and U.S. Department of Commerce data for commercial real estate. Overall, these statistics indicate that the amounts of foreign direct investment are a small percentage of total holdings in these sectors. Foreign persons held 1 percent of U.S. farmland, comprising almost 12.5 million acres with an adjusted current value of almost \$9.5 billion in 1988. Foreign companies had 4,278 U.S. commercial real estate affiliates with total assets of \$67.75 billion and ownership of 2.53 million acres in 1986.

The amounts and values of foreign-owned real estate are higher than the Commerce statistics on commercial real estate indicate, however. Commerce classifies investments according to the primary line of business of the firm, and real estate owned by firms in other industry sectors is folded in with the other holdings of those sectors and does not show up under real estate. This includes industrial real estate (property and plant owned by manufacturers), real estate owned by insurance companies or pension funds for investment purposes, and hotels (which are classified under the services sector). For this reason, there has been serious undercounting of real estate holdings to date. This will be redressed to some extent in the 1987 Benchmark Survey of Foreign Direct Investment in the United States (scheduled to be published in full in August 1989). This will break out values for real estate held by firms classified in other sectors.

Agricultural Land

Foreign persons¹ held 1 percent of U.S. agricultural acreage in 1988. A total of 13,215 parcels comprising almost 12.5 million acres with an adjusted current value of almost \$9.5 billion were held by 7,790 foreign persons. Foreign persons from the United Kingdom held the largest share (22.3 percent) of all foreign holdings with 2.78 million acres. Those from Canada held the second largest share (20 percent) with 2.5 million acres, with France third (9 percent) with 1.14 million acres, and West Germany a close fourth (9 percent) with 1.13 million acres.

In North Dakota specifically, foreign persons held about 0.07 percent of all privately owned farmland. A total of 65 parcels comprising 29,146 acres with a reported current value estimated at \$8.1 million were held by 54 foreign persons from 10 countries, as of April 1989². Foreign persons from Canada held 64 percent of this total, or 18,747 acres. Of this, almost 10,000 acres were held by E.I. du Pont de Nemours and Company's Consolidation Coal Company. (More than 10 percent of Du Pont's outstanding shares were purchased by Joseph E. Seagram and Sons, Inc., a Canadian company, in August 1981 and since then it has been considered a "foreign person.") Total agricultural holdings reported for foreign owners increased from 19,205 acres in 1982 to 28,846 acres by the end of 1988, an increase of about 50 percent. Most of this increase was due to Du Pont's holdings, which were not reported until 1987.

Commercial Real Estate Sector

Commerce has several different measures for foreign direct investment levels. It collects a variety of information in four data series which capture different aspects of the total investment picture, such as the amount of foreign capital inflows, total investment outlays (including funds borrowed in the United States), and total assets of U.S. affiliates over which foreign investors have management influence. Each of the data series is broken out into industry sectors, one of which is commercial real estate.

One measure of foreign direct investment is based on balance of payments data. These data provide the foreign direct investment position in

¹For federal foreign investment reporting requirements, foreign persons are generally defined as foreign individuals or corporations with a 10-percent or more foreign ownership interest. Where multiple smaller shares are held by foreign persons not acting in concert, the foreign ownership threshold is 50 percent.

²We examined the individual report filings for North Dakota. This information is as of April 1989; all other data are based on Department of Agriculture publications and are provided through December 31, 1988.

the United States, which is the accumulation of foreign investment capital that has flowed into the United States over time. The foreign direct investment position in the U.S. commercial real estate sector reached \$24.5 billion in 1987, a fourfold increase over the \$6.1 billion of 1980. The United Kingdom had the largest position, with \$5.5 billion. Japan had the second largest position, with \$4.4 billion. Capital inflows in 1987 alone totaled \$1.7 billion, of which \$1.49 billion was Japanese capital.

A second measure of foreign direct investment is derived from investment outlays for new acquisitions or the establishment of new U.S. business enterprises. This figure comprises all financing, including funds from U.S. as well as foreign sources. There is no aggregate number for all years. In 1988, for the commercial real estate sector, foreign direct investment amounted to \$2.79 billion in outlays for 241 new investments. Of these, 209 were newly established and 32 were acquired. Japan accounted for \$1.38 billion or 49 percent of the total \$2.79 billion in investment outlays in that year.

A third measure of foreign direct investment is based on the operations of U.S. affiliates of foreign companies, defined as companies having 10 percent or more foreign ownership. For the commercial real estate sector, there were 4,278 U.S. affiliates of foreign companies, with total assets of \$67.75 billion and ownership of 2.53 million acres at the end of 1986.³ In this measure, U.S. affiliates of Canadian companies owned the largest amount of commercial real estate assets, totaling \$21.7 billion, followed by U.S. affiliates of United Kingdom companies (\$11.6 billion), Japanese companies (\$6 billion), and Kuwaiti companies (\$5.0 billion). From 1977 to 1986, according to Commerce reports, the value of assets of U.S. affiliates of foreign companies increased almost tenfold and their acreage by about two-and-a-half times.

The following hypothetical case is a simplified example of how each data series captures a different aspect of foreign direct investment transactions. Suppose that ABC Company of the United Kingdom undertakes a new investment and buys 50 percent of XYZ Company in the United States, which is worth a total of \$200 million. Its transaction is structured so that it raises \$50 million in the United Kingdom and, through a U.S. affiliate, another \$50 million is borrowed in the United

³This is the most recent year for which these data are available. Detailed data for 1987 are scheduled to be published in August 1989.

States, for a total investment outlay of \$100 million. The balance of payments data series would report the \$50-million capital inflow from the United Kingdom, the enterprises acquired or established data series would report the \$100-million investment outlay, and the operations data series would report the ownership in the \$200-million U.S. affiliate. In addition, the \$50-million capital inflow would be added into the accumulation of net capital inflows over time as a part of the foreign direct investment position through the balance of payments data series.

Commerce has a fourth data series which is a benchmark survey usually conducted every 5 years. It is the most comprehensive of the Commerce data series, covering in much greater detail the entire universe of foreign direct investment data down to \$1 million for all three data series. The last benchmark year was 1980, and because of the age of the data we have not included it in this report. The next benchmark survey, covering 1987, is scheduled to be published in full in August 1989.

The National Association of Realtors estimated that in 1986 the total asset value of all foreign real estate holdings was about 1.5 percent of non-farm, non-residential real estate assets in the United States. While the definition of real estate used in arriving at this estimate is broader than that for commercial real estate used by Commerce in its foreign direct investment data collection, it roughly indicates the foreign share of total U.S. holdings. By this measure, the foreign share of total U.S. real estate holdings is very small.

North Dakota

Commerce data are available on foreign direct investment in North Dakota commercial real estate in the third data series, operations of U.S. affiliates, discussed above. These data indicate that the total gross book value of property, plant, and equipment of U.S. affiliates of foreign companies was \$27 million in 1986, up from \$1 million in 1977. The Netherlands held the largest share, with over half the total value in 1986, followed by West Germany, with more than 10 percent.

U.S. affiliates of foreign companies specifically in the real estate sector owned 5,000 acres of North Dakota land in 1986, while the total acreage held by affiliates in all North Dakota industry sectors amounted to 49,000 acres. According to unpublished Commerce data, countries of foreign ownership in commercial real estate in North Dakota can be ranked by acreage as follows: Italy, the United Kingdom, Switzerland, and Canada. Data showing foreign held acreage as a percentage of total commercial real estate in North Dakota are not available.

Appendix I contains further information on foreign direct investment in U.S. agricultural land and appendix II contains further information on investment in U.S. commercial real estate.

Objectives, Scope, and Methodology

Our objective was to obtain information on the extent of foreign direct investment in U.S. farmland and commercial real estate. We used Agriculture's files which identify individual transactions in farmland and examined the individual report filings for the state of North Dakota. We made a detailed analysis of foreign holdings in North Dakota farmland as of April 1989. Other data are from Agriculture's annual publications and were used to provide information on investment in U.S. agricultural land nationwide and in North Dakota from 1981 to 1988.

Commerce's commercial real estate data are made available only in aggregated form and do not disclose individual transactions. These data provide information on investment in commercial real estate based on four surveys. The first, balance of payments data, provides data for affiliates in real estate from 1974 to 1987. The second, enterprises acquired or established data, provides data from 1979 to 1988. The third, operations of U.S. affiliates of foreign companies, provides data from 1977 to 1986. Finally, the fourth survey, which is the benchmark survey, provides more detailed data for all three data series every 5 years. The forthcoming benchmark survey, which is scheduled to be summarized in the July 1989 Survey of Current Business and published separately in August 1989, will provide detailed data for 1987. In preparing this report, we used data from the first 3 surveys. All report values are expressed in unadjusted dollars.

We did not examine the accuracy or comprehensiveness of the databases and, therefore, cannot attest to the accuracy of the data presented in this report.

Unless you publicly announce its contents earlier, no further distribution of this report will be made until 7 days from its issue date. At that time, we will provide copies to other interested parties. Major contributors to this fact sheet are listed in appendix III. If you have questions about the information, please contact me on (202) 275-4812.

Sincerely yours,



Allan I. Mendelowitz, Director
Trade, Energy, and Finance Issues

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Abbreviations

BEA	Bureau of Economic Analysis
ERS	Economic Research Service
USDA	U.S. Department of Agriculture

Foreign Direct Investment in Agricultural Land

Data Collection

Data on foreign direct investment in agricultural land are collected by the Department of Agriculture (USDA) under the Agricultural Foreign Investment Disclosure Act of 1978 (Public Law 95-460, 7 U.S.C. 3501-3508). These data are available at the national, state, and county levels and are public information. Two factors contribute to the data's completeness: (1) there are mandatory reporting requirements and (2) USDA relies on its 3,000 county offices to work closely with county committees, consisting of county executives and local farmers, to ensure that all foreign-owned agricultural land is reported. However, USDA states that it does not always identify the ultimate beneficial owner,¹ since it has concluded that it does not have the legal authority to require disclosure beyond the third tier of ownership. We did not evaluate the accuracy or completeness of USDA's foreign direct investment data.

USDA's Economic Research Service (ERS) publishes two annual reports based on its analyses of the data collected by the Agricultural Stabilization and Conservation Service. The first report provides data at the national and state levels as of the end of every year and has been published since 1979. The most recent issue is entitled Foreign Ownership of U.S. Agricultural Land Through December 31, 1988. The second report is an aggregation of information collected at the county level which provides detailed state and county level data at the end of every year, and has been published since 1982. The most recent issue is entitled Foreign Ownership of U.S. Agricultural Land Through December 31, 1988: County-Level Data.

We examined the individual report filings for the state of North Dakota and analyzed them in detail. This information is provided as of April 1989. No time series for annual totals of acreage can be constructed from the file because foreign-owned land which reverts to U.S. ownership is deleted from the file. However, limited historical information is available in USDA's published reports from prior years.

¹The first tier, or the foreign person actually holding the direct interest in the land, is considered the reporting entity. However, USDA does track the ownership chain up to the third tier in an attempt to identify the ultimate beneficial owner in certain cases, especially those involving countries often used as identity havens. Identity havens are countries whose laws place restrictions on revealing the identities of owners or shareholders of corporations through such means as issuance of bearer bonds or allowing citizens of other countries to funnel investments through "shell" or paper corporations established in that country in order to prevent the disclosure of the investors' identities.

Investment in U.S. Agricultural Land

Foreign direct investment in U.S. agricultural land in 1988 consisted of 13,215 parcels² held by 7,790 foreign persons.³ These holdings comprised almost 12.5 million acres with an adjusted current value of almost \$9.5 billion and represent about 1 percent of privately owned agricultural acreage, as shown in table I.1.

The country with the largest share (22.3 percent) of all foreign holdings of agricultural investment in 1988 was the United Kingdom, with 2.78 million acres, closely followed by Canada, with 2.5 million acres (20 percent). France and West Germany were the only other countries with over 1 million acres of U.S. agricultural land, with 1.14 million acres (9 percent) and 1.13 million acres (9 percent), respectively. These four countries together accounted for approximately 60 percent of foreign agricultural holdings in the United States.

Because USDA has concluded that it does not have the legal authority to require investor disclosure beyond the third tier of corporate organization, it does not always identify the ultimate beneficial owner. It is noteworthy that if the acreage held by foreign persons from four countries that are often used as identity havens (i.e., the Netherlands Antilles, Switzerland, Panama, and Liechtenstein) is combined, it would account for the third largest share of agricultural foreign investment, with 1.78 million acres (14.2 percent).

Table I.2 shows the extent of foreign investment by country of foreign person from 1981 through 1988, in terms of agricultural acreage held.

Reliable published historical data go back only to 1981.⁴ Between 1981 and 1988, there were no significant shifts in the total amount of U.S. agricultural acreage held by foreign persons. The only exception to this is in the years 1984-1985, when foreign holdings dropped 14 percent in terms of acreage and 20 percent in terms of adjusted current value. This was due to two reasons. The first was the large decrease in holdings by

²All land held in the same manner (type of interest), located in one county, and acquired at the same time is considered a parcel and is reported on a single form. Land does not have to be adjacent to be considered part of one parcel.

³The definition of foreign person includes U.S. entities in which there is a significant foreign interest or substantial control. This is defined, in turn, as a 10-percent or more interest in the entity if held by a single foreign person or group of foreign persons acting in concert, or a 50-percent or more interest if held by a group of foreign persons not acting in concert, none of whom individually holds a 10-percent or greater interest in that entity.

⁴Because ERS does not feel that the 1979-1980 data from the early start-up years for the data base are reliable or complete, we have not used these data in this report.

**Appendix I
Foreign Direct Investment in
Agricultural Land**

Table I.1: Summary of U.S. Agricultural Land Held by Foreign Owners, 1981-1988

Summary of Holdings	1981	1982
Number of parcels	12,587	13,889
Number of acres	12,709,845	13,461,028
Number of owners	7,398	8,035
Reported value (1,000 dollars) ^a	7,257,511	9,579,370
Adjusted current value (1,000 dollars) ^b	8,455,121	10,933,253
Proportion Foreign- to U.S. Privately-Owned Acreage (percent)	1	1

Table I.2: U.S. Agricultural Land Held by Country of Foreign Owner, 1981-1988

Country	1981	1982
Canada	4,034,550	4,100,768
France	2,021,579	367,578
West Germany	1,040,335	1,155,631
Hong Kong	181,948	1,867,405
Japan	136,424	139,134
Liechtenstein	168,980	165,564
Luxembourg	247,141	241,421
Mexico	230,561	243,609
Netherlands	350,161	363,762
Netherlands Antilles	989,582	1,039,609
Panama	198,182	208,445
Switzerland	350,233	421,892
United Kingdom	1,770,637	1,885,419
	11,720,313	12,200,237
Other	989,532	1,260,791
Total	12,709,845	13,461,028

**Appendix I
Foreign Direct Investment in
Agricultural Land**

1983	1984	1985	1986	1987	1988
14,806	15,192	12,973	13,071	13,209	13,215
13,739,602	14,037,736	12,094,293	12,418,997	12,534,972	12,484,738
8,498	8,724	7,846	7,765	7,836	7,790
10,165,499	10,645,803	9,218,763	9,703,734	9,698,358	9,689,473
11,435,174	12,124,438	9,830,455	9,708,709	9,346,173	9,480,142
1.1	1.1	0.9	1	1	1

^aReported value is purchase price or the estimated value at time of acquisition if the asset was not purchased.

^bAdjusted current value is reported current value adjusted to February 1 of report year in 1981, 1986, and 1987, and to April 1 of report year in 1982-1985, for all years prior to report year. Reported current value for holdings acquired in the report year is unadjusted.

Source: ERS, Foreign Ownership of U.S. Agricultural Land Through December 31, 1981 and subsequent issues through December 31, 1988.

Acres					
1983	1984	1985	1986	1987	1988
4,305,875	4,594,728	2,291,267	2,282,710	2,497,246	2,498,177
400,420	403,330	392,452	377,150	389,375	1,135,661
1,195,332	1,209,854	1,285,413	1,219,520	1,131,956	1,130,697
1,867,592	1,708,418	26,664	26,604	25,955	24,374
139,783	141,379	161,862	142,791	149,209	217,735
170,786	171,245	223,151	245,225	250,238	346,987
124,587	125,027	123,528	125,072	122,563	239,396
246,656	255,019	301,732	303,906	351,774	327,928
479,225	484,504	469,211	475,510	521,815	510,662
777,210	788,791	781,448	755,653	727,228	679,359
216,775	239,841	238,754	244,751	260,243	275,430
445,469	464,062	542,237	514,428	490,530	475,445
1,929,114	1,930,240	3,611,731	3,912,712	3,795,106	2,779,886
12,298,824	12,516,438	10,449,450	10,626,032	10,713,238	10,641,737
1,440,778	1,521,298	1,644,843	1,792,965	1,821,734	1,843,001
13,739,602	14,037,736	12,094,293	12,418,997	12,534,972	12,484,738

Source: ERS, Foreign Ownership of U.S. Agricultural Land Through December 31, 1981 and subsequent issues through 1988.

Hong Kong and Canada, which was only partially offset by the increase in United Kingdom holdings.⁵ The second reason was that USDA changed its reporting requirements for foreign ownership from 5 percent to 10 percent for individuals and a group of persons acting in concert, from 5 percent to 50 percent for a group of persons not acting in concert (none of whom individually own more than 10 percent), and it increased the minimum reporting threshold from 1 acre to 10 acres. According to ERS, this resulted in 2,596 parcels comprising 1,202,283 acres being purged from the data base in 1985.

Although there has been little change in the aggregate holdings, individual countries' shares have significantly shifted in certain cases. Holdings by foreign persons from Hong Kong increased over tenfold from 1981 to 1982 and then dropped by 98.7 percent from 1982 to 1988. France's share decreased by 81.8 percent from 1981 to 1982, then remained steady until 1988, when it increased almost threefold from its 1987 level. From 1981 to 1988, there was a sharp decline in the holdings not only of foreign persons from Canada (38.1 percent) but also of the Netherlands Antilles (31.35 percent). In contrast, the United Kingdom sharply increased its share, more than doubling its acreage from 1981 to its peak in 1986, and then decreased it by 29 percent from 1986 to 1988, for an overall 1981 through 1988 increase of one-and-a-half times.

Investment in North Dakota Agricultural Land

In analyzing the individual report filings for North Dakota, we found that foreign direct investment in North Dakota agricultural land in April 1989 consisted of 65 parcels held by 54 foreign persons from 10 countries. These holdings comprised 29,146 acres with a reported current value estimated at \$8,119,962 and represented about 0.07 percent of U.S. privately owned agricultural land in the state.

Table I.3 summarizes individual foreign direct investment filings by country in North Dakota as of April 1989.

⁵ According to ERS, it discovered that the ultimate beneficial owner (beyond the third tier of ownership) of 1.6 million acres of timberland reported held by a Hong Kong corporation was instead a United Kingdom corporation. The acreage was, therefore, shifted from Hong Kong to the United Kingdom in 1985. In the case of Canada, in 1985 a U.S. corporation bought back 20 percent of its shares which a Canadian corporation had acquired in 1981 and it was no longer considered foreign owned.

**Appendix I
Foreign Direct Investment in
Agricultural Land**

**Table I.3: Summary of Foreign Holdings
in North Dakota Agricultural Land as of
April 1989**

Country	Number		Owners	Reported current value ^a
	Parcels	Acres		
Canada	38	18,746.82	30	4,308,835
Norway	11	3,199.21	11	798,652
Lebanon	3	1,109.00	2	400,000
United Kingdom	4	1,394.00	3	432,000
West Germany	3	445.70	2	186,875
Sweden	2	640.00	2	231,800
Austria	1	800.00	1	200,000
Cayman Islands	1	1,491.00	1	671,800
France	1	800.00	1	760,000
Turkey	1	520.00	1	130,000
Total	65	29,145.73	54	8,119,962

^aReported current value reflects value at time of reporting after February 1, 1979.

Source: North Dakota file, Agricultural Foreign Investment Disclosure Act Report, Agricultural Stabilization and Conservation Service, USDA.

Foreign persons from Canada held 64 percent of the total acreage, accounting for 18,747 acres. Of this, about 10,000 acres was held by one owner, E.I. du Pont de Nemours and Company's Consolidation Coal Company. When Joseph E. Seagram and Sons, Inc., a Canadian company, bought more than 10 percent of Du Pont in August 1981, Du Pont was then considered a "foreign person" and its agricultural land holdings became subject to USDA reporting requirements as of its acquisition date. Du Pont's farmland holdings were not reported until 1987, however, when USDA became aware of them. As a result, according to ERS, it included the Du Pont acreage in the 1981 data in the national-level annual report⁶ published in 1988, but it could only add this acreage into the 1987 data in the county-level annual report since it provides no historical data in this data series.

The second largest single foreign person was a Cayman Islands corporation whose ultimate beneficial owner was not identified. This was the Realco Investment Corporation, which acquired 1,491 acres in 1978. It was the only holding in North Dakota from the Cayman Islands, which has been extensively used as an identity haven country by investors desiring to conceal their identity behind a "shell" corporation.

⁶Foreign Ownership of U.S. Agricultural Land Through December 31, 1987. It was added to the historic table, table 40, but not discussed in the acquisition tables (tables 18-32), which addressed only 1987.

**Appendix I
Foreign Direct Investment in
Agricultural Land**

In analyzing the North Dakota file, we found that few parcels had been obtained in recent years. Of the total 65 parcels, 53 had been acquired by 1979 and 12 between January 1980 and April 1989 (6 of the 12 were the Du Pont holdings).

Most holdings were obtained through gift or inheritance rather than as the result of an investment decision. Of the 65 parcels, 46 (71 percent) were acquired through gift or inheritance, 5 through a combination of gift/inheritance and credit purchase, and 14 through cash purchases (6 Du Pont).

As shown in table I.4, total farmland held by foreign owners increased one-and-a-half times from 1982 (19,205 acres) to 1988 (28,846 acres), while the adjusted current value of that investment decreased by 25 percent (from \$8.1 million dollars to \$6.1 million dollars). Virtually all of the increase in foreign-owned acreage is accounted for by the increase in the Canadian share, due to the Du Pont farmland holdings reported in 1987.

Table I.4: Summary of Foreign Holdings of North Dakota Agricultural Land, 1982-1988

Summary of Holdings	1982	1983	1984	1985	1986	1987	1988 ^a
Number of parcels	59	60	61	61	61	68	65
Number of acres	19,205	19,524	20,004	20,004	20,004	30,043	28,846
Reported value (1,000 dollars) ^b	3,222	3,549	3,750	3,750	3,750	5,111	5,063
Adjusted current value (1,000 dollars) ^c	8,057	7,970	8,508	6,987	6,137	6,328	6,079
Proportion Foreign- to U.S. Privately-Owned Acreage (percent)	0.05	0.05	0.05	0.05	0.05	0.08	0.07

^aThe 1988 data differ from that in table I.3, which was developed from our analysis of individual filings. This is due to 1 parcel being erroneously included and 1 parcel being omitted (due to being held up beyond the publication deadline by a legal question) in the published data for North Dakota.

^bReported value is purchase price or the estimated value at time of acquisition if the asset was not purchased.

^cAdjusted current value is reported current value adjusted to February 1 of report year in 1986, 1987, and 1988, and to April 1 of report year in 1982-1985 for all years prior to report year. Reported current value for holdings acquired in the report year is unadjusted.

Sources:

ERS, Foreign Ownership of U.S. Agricultural Land Through December 31, 1982: County-Level Data and subsequent issues through 1988.

Foreign Ownership of U.S. Agricultural Land Through December 31, 1982 and subsequent issues through 1988.

**Appendix I
Foreign Direct Investment in
Agricultural Land**

This increase in foreign-owned acreage can also be seen in table I.5, which shows country of foreign person.

Table I.5: Foreign Holdings of North Dakota Agricultural Land by Country of Foreign Owner, 1982-1988

Country	Acres						
	1982	1983	1984	1985	1986	1987	1988
Canada	7,335	7,654	7,654	7,654	7,654	17,538	18,421
West Germany	472	472	472	472	472	472	472
United Kingdom	1,394	1,394	1,394	1,394	1,394	1,394	1,394
France ^a	NA	NA	NA	NA	NA	NA	800
All others ^b	10,004	10,004	10,484	10,484	10,484	10,639	7,759
Total	19,205	19,524	20,004	20,004	20,004	30,043	28,846

^aData for France was provided for the first time in 1988.

^bNo further breakdown by country of foreign investor is available in the published aggregated data for 1982-1988. Table I.3 provides a complete breakdown by country as of April 1989 through examination of individual reports but cannot provide the historical information above.

Source: ERS, Foreign Ownership of U.S. Agricultural Land Through December 31, 1982: County-Level Data and subsequent issues through 1988.

Foreign Direct Investment in Commercial Real Estate

Definition of Real Estate

The definition of real estate is often not entirely clear due to the complexity of classification. The Commerce Department's Bureau of Economic Analysis (BEA) states that residential real estate held exclusively for personal use and not for profitmaking purposes is not subject to the reporting requirements. This more or less confines its definition to commercial real estate. BEA's "Guide to Industry and Foreign Trade Classifications for International Surveys" lists the following under real estate: "Buying, selling, developing, owning, and leasing real property by real estate operators, lessors, developers, subdividers, agents, brokers, and managers. Owners and lessors of real estate used for agricultural or timber growing purposes that the owners or lessors do not operate themselves but lease to others. Real estate investment trusts." According to BEA, this definition does not include hotels, which are classified under the services industry.

Because BEA classifies investments according to the primary industrial classification code or line of business of the firm, real estate owned by firms in other sectors would be folded in with the other holdings of that sector and would not show up under real estate. This includes industrial real estate (property and plant owned by manufacturers) as well as real estate owned by insurance companies or pension funds for investment purposes.

For this reason, there has been serious undercounting of real estate holdings to date. This will be redressed to some extent in the 1987 Benchmark Survey of Foreign Direct Investment in the United States, which is scheduled to be published in full in August 1989. This will break out values for real estate held by firms classified in other sectors.

Data Collection

BEA collects detailed information on all foreign direct investment in the United States and breaks the data out by industry sectors, one of which is commercial real estate. The information is based on four surveys that have mandatory reporting requirements in accordance with the International Investment and Trade In Services Survey Act of 1976 (Public Law 94-472, 22 U.S.C. 3101 to 3108, as amended). However, the individual responses are considered business proprietary information and only aggregated data are publicly released.

The four BEA foreign direct investment surveys are as follows.

1. Foreign Direct Investment Position and Balance of Payments Flows, which measures flows of capital, income, fees and royalties, and other

services transactions between foreign parent companies and their U.S. affiliates¹. This data series also includes the foreign direct investment position in the United States, which is the accumulation over time of foreign investment capital². The foreign direct investment position includes only funds coming from foreign parents, not funds derived by a U.S. affiliate of a foreign firm from U.S. sources. Data for affiliates in real estate are available since 1974.

2. U.S. Business Enterprises Acquired or Established by Foreign Direct Investors, which includes the outlays made each year by foreign investors to establish or acquire new U.S. affiliates. This data series covers transactions only for the year in which the outlays are made and includes all financing, including local borrowing in the United States. Data are available since 1979.

3. Foreign Direct Investment in the United States: Operations of U.S. Affiliates of Foreign Companies, which covers a broad range of measures of the overall operations of U.S. affiliates. A key measure is the value of total assets of U.S. affiliates at year end. Other measures include other balance sheet items; income statements; employment and employee compensation; sales of goods and services; property, plant, and equipment; merchandise trade; and research and development expenditures. A company that is 10 percent or more foreign owned will have 100 percent of its assets included in this data base because of the foreign investors' capability to influence the company management. This is the only data series which publishes a breakdown by state of foreign investment information. Data are available since 1977.

4. Benchmark Survey of Foreign Direct Investment in the United States, which is the most comprehensive of the BEA data series, covering the entire universe of foreign direct investment data down to \$1 million

¹A U.S. affiliate is a U.S. business enterprise in which a single foreign direct investor owns or controls, directly or indirectly, 10 percent or more of the voting securities of an incorporated business enterprise or an equivalent interest if the business enterprise is unincorporated. This data series identifies the sources of incoming capital only by the first foreign parent company, not by the affiliate's ultimate beneficial owner, which may be in another country. However, according to BEA, if any of the foreign parents along the ownership chain, called the "foreign affiliated group," has direct investment inflow to the U.S. affiliate, that is included in the data.

²BEA defines the foreign direct investment position as the book value of foreign direct investors' equity in, and net outstanding loans to, their U.S. affiliates. In calculating the position, BEA adds that year's capital inflow to the prior year's position and then factors in any valuation adjustments necessary.

investments in the benchmark year, including the three data series discussed above, as well as merchandise trade data for affiliates.³ Although it is normally published every 5 years, the benchmark survey due out in August 1989 with data for 1987 will have been published after a 7-year interval because Commerce wanted it to coincide with the Census Bureau's quinquennial economic census. According to BEA, the other three data series, which are sample surveys, are used by BEA to update the information in the benchmark.

The following hypothetical case is a simplified example of how the first three data series capture a different aspect of foreign direct investment transactions. Let us suppose that ABC Company of the United Kingdom undertakes a new investment and buys 50 percent of XYZ Company in the United States, which is worth a total of \$200 million. Its transaction is structured so that it raises \$50 million in the United Kingdom and, through a U.S. affiliate, another \$50 million is borrowed in the United States, for a total investment outlay of \$100 million. The balance of payments data series would report the \$50-million capital inflow from the United Kingdom, the enterprises acquired or established data series would report the \$100-million investment outlay, and the operations data series would report the ownership in the \$200-million U.S. affiliate. In addition, the \$50-million capital inflow would be added into the accumulation of net capital inflows over time as a part of the foreign direct investment position through the balance of payments data series.

Investment in U.S. Commercial Real Estate

BEA's balance of payments data series shows that the direct investment position of foreign investors in affiliates classified in U.S. commercial real estate totaled \$24.5 billion in 1987. This is a fourfold increase over the position in 1980, which totaled \$6.1 billion. The amount of net capital inflows⁴ in each year between 1980 and 1987 ranged between \$1.5 billion to \$3.1 billion, with \$1.7 billion in 1987. Detailed information is provided in table II.1.

On a country basis, in 1987 the largest position was held by the United Kingdom (\$5.5 billion), followed by Japan (\$4.4 billion), Canada (\$3.4 billion), the Netherlands Antilles (\$3.3 billion), and the Netherlands

³The balance of payments data is collected for investments \$20 million and above, the new enterprises data for those \$1 million and above, and the operations data for those \$10 million and above.

⁴The sum of equity capital, reinvested earnings, and intercompany debt.

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Table II.1: Position and Balance of Payments Flows in U.S. Commercial Real Estate, 1980-1987^a

Dollars in millions

	1980	1981	1982	1983	1984	1985	1986	1987
Direct investment position	6,120	8,964	11,520	14,636	17,761	19,402	22,512	24,478
Capital inflows (outflows(-)) ^b	2,002	2,795	2,521	2,933	2,667	1,574	3,099	1,714
Equity capital	1,429	1,854	1,839	1,933	2,095	1,820	3,028	2,075
Reinvested earnings ^c	-62	-222	-584	-238	-361	-1,279	-669	-1,186
Intercompany debt	635	1,163	1,267	1,238	933	1,033	741	824
Income	111	37	-167	343	740	29	73	-81

^aInformation about (1) royalties and license fees and (2) charges for other services are not available. However, in the aggregated data for all sectors, they are relatively small amounts.

^bSubtotals may not add up to the total capital inflow amount due to rounding.

^cReinvested earnings are generally negative in real estate due to large paper losses stemming from depreciation of the real property.

Source: BEA, "Foreign Direct Investment in the United States: Detail for Position and Balance of Payments Flows, 1984," and subsequent articles for 1985, 1986, and 1987; Survey of Current Business, August 1985 and subsequent issues for August of 1986, 1987, and 1988.

Table II.2: Foreign Direct Investment Position by Country in U.S. Commercial Real Estate, 1981 - 1987

Dollars in millions

Country	1981	1982	1983	1984	1985	1986	1987
All countries ^a	8,964	11,520	14,636	17,761	19,402	22,512	24,478
Canada	1,743	1,881	2,274	2,844	2,750	3,320	3,360
Europe (total)	3,721	5,119	6,835	8,255	8,921	9,821	10,709
France	24	24	24	66	41	57	57
Germany	650	778	893	966	1,100	1,133	1,115
Netherlands	1,554	1,821	2,254	2,471	2,212	2,614	3,305
United Kingdom	1,221	2,060	3,196	4,135	4,764	5,211	5,506
Switzerland	149	300	328	393	447	456	389
Japan	305	396	515	744	1,536	2,941	4,431
Australia, New Zealand, & South Africa	55	60	70	120	122	235	329
Latin America	2,617	3,308	4,068	4,664	4,881	4,786	4,186
Netherlands Antilles	1,915	2,566	3,244	3,715	4,065	3,915	3,313
Middle East	363	544	602	709	738	954	865
Other Africa, Asia, and Pacific	160	212	273	423	453	456	598
OPEC (Addendum) ^b	376	555	614	707	726	933	833

^aSubtotals may not add up to total for all countries due to rounding.

^bThis is a memorandum entry and should not be included in adding together individual items to reach a total for all countries.

Source: BEA, "Foreign Direct Investment in the United States: Detail for Position and Balance of Payments Flows, 1984," and subsequent articles for 1985, 1986, 1987; Survey of Current Business, August 1985, and subsequent issues for August of 1986, 1987, 1988.

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(\$3.3 billion), as shown in table II.2. In the 1984-1987 period, the Japanese position grew by \$3.7 billion, compared with increases of \$1.4 billion for the United Kingdom and \$0.8 billion for the Netherlands.

However, the net capital inflow in 1987 from these five countries with the largest positions was a mixture of high, relatively low, or negative: United Kingdom (-\$44 million), Japan (\$1.49 billion), Canada (\$22 million), the Netherlands Antilles (-\$346 million), and the Netherlands (\$649 million). As shown in table II.3, most countries had relatively low or negative net capital inflows in the last few years. One notable exception to this was Japan, which has been rapidly increasing its investments in the real estate sector. In 1987, Japanese capital accounted for \$1.49 billion of the \$1.71 billion in net inflows.

Table II.3: Capital Inflows by Country in U.S. Commercial Real Estate, 1981 - 1987

Dollars in millions

Country	1981	1982	1983	1984	1985	1986	1987
All countries ^a	2,795	2,521	2,933	2,667	1,574	3,099	1,714
Canada	574	119	384	441	-342	550	22
Europe (total)	1,423	1,392	1,660	1,184	838	802	490
France	-1	1	4	42	15	34	(b)
Germany	164	122	115	78	113	34	-18
Netherlands	539	271	398	18	22	257	649
United Kingdom	632	833	1,113	948	502	474	-44
Switzerland	54	150	28	61	53	10	-67
Japan	42	91	119	222	792	1,315	1,490
Australia, New Zealand & South Africa	-2	5	1	51	2	113	50
Latin America	659	706	657	537	197	72	-413
Netherlands Antilles	517	651	557	425	355	132	-346
Middle East	(c)	163	52	82	41	248	-72
Other Africa, Asia and Pacific	(c)	46	61	150	45	-1	147
OPEC (Addendum)	63	161	52	67	31	240	-80

^aSubtotals may not add up to total for all countries due to rounding.

^bIndicates less than \$500,000 (+ or -).

^cIndicates that data in the cell have been suppressed by BEA to avoid disclosure of data of individual companies.

Source: BEA, "Foreign Direct Investment in the United States: Detail for Position and Balance of Payments Flows, 1984," and subsequent articles for 1985, 1986, 1987; *Survey of Current Business*, August 1985 and subsequent issues for 1986, 1987, 1988.

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The enterprises acquired or established data series shows that \$2.79 billion in investment outlays were made for 241 business enterprises acquired or established in the U.S. commercial real estate sector in 1988. Of these, 209 were newly established and 32 were acquired. The assets of these enterprises totaled \$3.07 billion. Detailed information on outlays for 1979 through 1988 is shown in table II.4.

Table II.4: U.S. Business Enterprises Acquired or Established by Foreign Direct Investors in U.S. Commercial Real Estate, 1979 - 1988^a

Selected data	1979	1980
1. Investment outlays (millions of dollars)	3,259	3,483
2. Type of Investments (number)		
Total	920	952
Acquisitions	235	301
Establishments	685	651
3. Type of Investors (number)		
Total	1,064	1,060
Foreign direct investors	722	781
U.S. affiliates	342	279
4. Total assets of U.S. Enterprises Acquired or Established (millions of dollars)	4,250	5,540

It is interesting to note that the level of investment outlays was relatively stable from 1979 to 1982. It then decreased steadily from 1983 to 1985, until it surged in 1986,⁵ then decreased slightly in 1987. Preliminary data for 1988 appear to indicate a substantial drop; however, it is comparable to the preliminary level for 1987 and may well be revised upward when final data is available. Preliminary data tend to be understated and revised upward when late filings are received and accounted for in the next year's report. For example, the preliminary investment outlay for 1987 was reported as \$2.86 billion in May 1988 but was revised upward to \$4.765 billion in the May 1989 report.

A breakdown of this foreign investment data by country shows significant fluctuations from year to year. Again, the case of Japan is noteworthy. Japanese investments generally fluctuated according to the overall trend, until 1986. They then surged from \$236 million in 1985 to \$2.77 billion in 1986, while most others remained steady or declined. Japan totaled \$3.57 billion in new investments in 1987, which is 75 percent of

⁵This pattern appears to parallel changes in the foreign exchange value of the dollar, which was relatively strong in 1983 through 1985 and then began a sharp decline in value.

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the \$4.77 billion in total investment outlays in that year. In 1988, Japan accounted for \$1.38 billion (49 percent) of the \$2.79 billion in total outlays. The data also show that from 1980 through 1985 roughly a third to a half of new investments originated from European countries, which were the predominant regional source for new commercial real estate investments. Japan has surpassed Europe in this respect since 1986. Table II.5 shows the breakdown of investment outlays by country during 1980 through 1988.

	1981	1982	1983	1984	1985	1986	1987	1988
	3,737	3,289	2,659	2,227	1,921	5,171	4,765	2,788
	680	485	321	307	248	309	260	241
	92	42	26	21	19	21	39	32
	588	443	295	286	229	288	221	209
	806	540	359	342	278	337	281	267
	594	369	210	214	127	184	150	125
	212	171	149	128	151	153	131	142
	5,417	4,122	3,491	2,786	2,426	6,425	6,777	3,070

^aData for 1987 are revised from preliminary data published in the May 1988 Survey of Current Business. Data for 1988 are preliminary.

Source: BEA, "Foreign Direct Investment in the United States: U.S. Business Enterprises Acquired or Established by Foreign Direct Investors, 1980-1985," September 1988.

List of Supplementary Tables to Accompany May 1988 Article ("U.S. Business Enterprises Acquired or Established by Foreign Direct Investors in 1987," Survey of Current Business, May 1988, Volume 68, No. 5).

List of Supplementary Tables to Accompany May 1989 Article ("U.S. Business Enterprises Acquired or Established by Foreign Direct Investors in 1988," Survey of Current Business, May 1989, Volume 69, No. 5).

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**Table II.5: U.S. Business Enterprises
Acquired or Established in U.S.
Commercial Real Estate, 1980 - 1988:
Investment Outlays by Country of Each
Ultimate Beneficial Owner^a**

Dollars in millions		
Country	1980	1981
All countries ^b	3,483	3,737
Canada	817	1,411
Europe (total)	1,327	1,315
France	14	64
Germany	196	289
Netherlands	596	135
United Kingdom	215	602
Switzerland	114	72
Japan	57	39
Australia, New Zealand, & South Africa	(c)	(d)
Latin America	815	397
Netherlands Antilles	523	182
Middle East	252	370
Other Africa, Asia, and Pacific	206	205
United States ^f	(c)	1
OPEC (Addendum)	222	364

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1982	1983	1984	1985	1986	1987	1988
3,289	2,659	2,227	1,921	5,171	4,765	2,788
178	354	317	367	298	81	187
1,729	1,294	1,089	990	1,257	532	808
115	(c)	(c)	(c)	42	4	23
158	115	113	82	85	52	61
141	98	85	212	256	154	130
967	768	439	492	616	224	355
210	70	93	(c)	88	41	51
414	111	77	236	2,771	3,571	1,376
3	0	30	5	(c)	(c)	(c)
282	177	215	99	99	172	21
28	30	(c)	0	(c)	(c)	(c)
403	529	332	172	110	68	(c)
279	194	167	50	(c)	(c)	(e)
0	0	0	0	0	(c)	0
337	538	336	142	106	65	44

^aThe foreign parent is the first foreign person in the ownership chain of the acquired or established U.S. business enterprise. The ultimate beneficial owner is that person in the ownership chain, beginning with the foreign parent, that is not owned more than 50 percent by another person. In this table, which is by country of "each ultimate beneficial owner," where more than one investor participated in a given investment, data for each investor are classified by country of each individual ultimate beneficial owner. Generally, in BEA tables, where more than one investor participated in a given investment, data are classified by the country of the ultimate beneficial owner with the largest interest, i.e., the largest percent equity interest.

^bSubtotals may not add up to total for all countries due to rounding.

^cIndicates that data in the cell have been suppressed by BEA to avoid disclosure of data of individual companies.

^dIndicates less than \$500,000.

^eNot available. BEA's country classification has been revised for 1988 data to reflect geographical, rather than political or economic, groupings of countries. Data for Australia is suppressed, New Zealand is 0, South Africa is 3, Other Africa is suppressed, Asia & Pacific (not including Japan, but including Australia which is suppressed and cannot be factored out) is 348.

^fThe United States is listed here because it is the country of the ultimate beneficial owner for investments for which there are intermediary foreign parents.

Source: BEA, "Foreign Direct Investment in the United States: U.S. Business Enterprises Acquired or Established by Foreign Direct Investors, 1980-1985," September 1988.

List of Supplementary Tables to Accompany May 1988 Article ("U.S. Business Enterprises Acquired or Established by Foreign Direct Investors in 1987," Survey of Current Business, May 1988, Volume 68, No. 5).

List of Supplementary Tables to Accompany May 1989 Article ("U.S. Business Enterprises Acquired or Established by Foreign Direct Investors in 1988," Survey of Current Business, May 1989, Volume 69, No. 5).

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Table II.6: Operations of U.S. Affiliates of Foreign Companies in U.S. Commercial Real Estate, 1977-1986

Year	Number of affiliates	Total assets (millions)	Number of employees	Acres of land owned (thousands)
1986	4,278	67,751	34,715	2,526
1985	4,160	62,213	30,768	2,510
1984	4,058	54,274	27,182	2,515
1983	3,886	47,514	26,603	2,469
1982	3,681	41,736	25,660	2,562
1981	3,290	31,269	28,701	2,388
1980	2,734	19,872	19,748	1,885
1979	1,579	13,592	21,811	1,576
1978	1,214	9,149	10,579	1,153
1977	890	7,103	8,058	979

Source: BEA, "Foreign Direct Investment in the United States: Operations of U.S. Affiliates of Foreign Companies, revised estimates for 1977-1985" and preliminary estimates for 1986.

Table II.7: Operations of U.S. Affiliates of Foreign Companies in U.S. Commercial Real Estate: Total Assets of Affiliates by Country of Ultimate Beneficial Owner, 1977-1986

Dollars in millions		
Country	1977	1978
All countries ^a	7,103	9,149
Canada	2,013	3,121
Europe (total)	3,175	3,781
France	409	478
Germany	476	769
Netherlands	1,266	(b)
United Kingdom	639	899
Switzerland	185	310
Japan	358	356
Australia, New Zealand, & South Africa	49	28
Latin America	529	638
Middle East	696	805
Other Africa, Asia, and Pacific	268	396
United States ^c	15	26
OPEC (Addendum)	738	859

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The third data series, operations of U.S. affiliates of foreign companies, shows that there were 4,278 U.S. affiliates of foreign companies in U.S. commercial real estate with total assets of \$67.75 billion and ownership of 2.53 million acres of real estate in 1986. This is the most recent year for which BEA has published operations data. Historical data for 1977 through 1986 show that the value of total assets increased by almost 10 times and acreage held increased by about two-and-a-half times. Table II.6 shows available information for 1977 through 1986.

In 1986, the largest single country of ultimate beneficial ownership was Canada, with total assets of \$21.7 billion, followed by the United Kingdom, with \$11.6 billion. Japan ranked third, with assets of \$6.0 billion, and Kuwait⁶ was fourth, with \$5.0 billion. See table II.7 for detailed information.

	1979	1980	1981	1982	1983	1984	1985	1986
	13,592	19,872	31,269	41,736	47,514	54,274	62,216	67,751
	5,297	7,764	13,620	16,930	17,341	19,122	21,432	21,694
	5,242	7,134	10,324	13,982	16,899	19,785	22,543	23,956
	602	416	599	656	809	825	880	664
	871	1,153	1,488	2,138	2,487	2,738	2,917	3,037
	(b)	2,056	2,841	3,530	3,485	3,853	3,793	3,991
	1,525	1,938	2,604	4,570	6,715	8,830	10,308	11,613
	437	874	992	1,446	1,471	1,368	1,949	2,021
	549	654	851	1,133	1,422	1,923	2,974	6,014
	81	86	(b)	158	187	233	582	821
	765	1,414	(b)	(b)	2,911	2,918	3,114	3,359
	1,174	1,843	2,906	5,330	6,691	7,811	8,836	8,997
	427	862	1,280	1,586	1,923	2,333	2,573	2,746
	59	115	(b)	(b)	141	148	159	164
	1,225	1,906	2,960	5,270	6,550	7,720	8,669	8,982

^aSubtotals may not add up to total for all countries due to rounding.

^bIndicates that data in the cell have been suppressed by BEA to avoid disclosure of data of individual companies.

^cThe United States is listed here because it is the country of the ultimate beneficial owner for investments for which there are intermediary foreign parents.

Source: BEA, "Foreign Direct Investment in the United States, Operations of U.S. Affiliates of Foreign Companies, revised estimates for 1977-1985" and preliminary estimates for 1986.

⁶Unpublished data for Kuwait provided by BEA.

BEA does not have an estimate of the percent of U.S. commercial real estate held by foreign persons. However, the National Association of Realtors⁷ estimates that in 1986 the total asset value of all foreign real estate holdings was 1.5 percent of non-farm, non-residential real estate assets in the United States. While the definition of real estate used in arriving at this estimate is broader than that for commercial real estate, it roughly indicates the foreign share of total U.S. holdings. By this measure, the foreign share of total U.S. real estate holdings is very small.

Investment in North Dakota Commercial Real Estate

BEA data on foreign direct investment in affiliates in commercial real estate in North Dakota is published only as part of the operations of U.S. affiliates of foreign companies data series.⁸ The total gross book value of property, plant, and equipment of affiliates in commercial real estate in North Dakota was \$27 million in 1986. This grew from \$1 million in 1977 and 1978 to \$17 million in 1979, peaked at \$33 million in 1982, and has remained at \$24 million to \$27 million since then. Table II.8 shows more detailed information for 1977 through 1986.

Table II.8: Operations of U.S. Affiliates of Foreign Companies in North Dakota Commercial Real Estate, 1977 - 1986

Selected data	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Gross book value of property, plant, & equipment of affiliates (millions of dollars)	1	1	17	(a)	(a)	33	24	25	25	27
Acres of land owned by affiliates, by industry of affiliate (thousands of acres)										
Total, all industries	16	25	25	32	40	49	49	49	49	49
Agriculture, forestry, & fishing	1	1	1	1	1	1	2	1	1	1
Real estate	4	(a)	(a)	(a)	4	4	4	4	4	5

^aIndicates that data in the cell have been suppressed by BEA to avoid disclosure of data of individual companies.

Source: BEA, "Foreign Direct Investment in the United States: Operations of U.S. Affiliates of Foreign Companies, revised estimates for 1977-1985" and preliminary estimates for 1986.

⁷National Association of Realtors, Foreign Investment in U.S. Real Estate: Status, Trends and Outlook, 1988, Nov. 1988.

⁸According to BEA, data are classified by the overall industry of affiliation in the United States, not by industry of affiliation in any individual state. Therefore, holdings in North Dakota may or may not all actually consist of commercial real estate.

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According to unpublished information from BEA, the Netherlands held over 50 percent of the total \$27 million in property, plant, and equipment in 1986, followed by West Germany, with more than 10 percent.

Affiliates in the commercial real estate sector in 1986 owned 5,000 acres in North Dakota (although the total acreage held by affiliates in all industry sectors amounted to 49,000 acres). According to unpublished BEA data, the four countries of foreign ownership were ranked by acreage as follows: Italy, the United Kingdom, Switzerland, and Canada.

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