Oil Crash Hasn't Blunted Abu Dhabi's Interest in Real Estate

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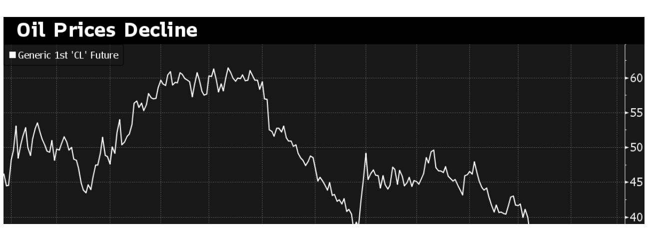
- Sovereign wealth fund has strong base, Americas head says
- `U.S. has benefited from being a safe haven,' Arnold says

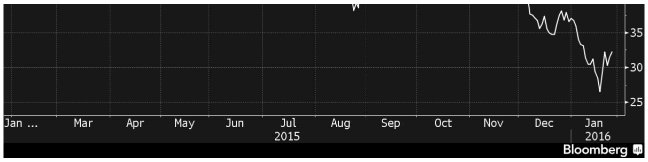
The falling price of oil is having a negligible effect so far on Abu Dhabi's interest in real estate globally, said the nation's head of property investment in the Americas.

"I would think it would have to show up at some point, but I don't think it really has yet," Tom Arnold, who oversees real estate investment in the U.S. and other Western Hemisphere countries for the Abu Dhabi Investment Authority, said at an Urban Land Institute New York conference Wednesday. "ADIA was built when oil was $15 to $20 a barrel."

Crude prices have fallen about 15 percent this year, dragging down stocks. That continues a slump which began in the middle of last year, when oil futures were around $60 a barrel. Crude was trading at $31.66 at 2:15 p.m. in New York Mercantile Exchange trading.

The Abu Dhabi sovereign wealth fund has investments in 542 assets with an estimated property value of $23.5 billion across 14 countries on four continents, and had acquisitions of about $8.3 billion last year, according to property-research firm Real Capital Analytics Inc. The fund has invested in two future Times Square hotels, London's Cutlers Gardens Estate office complex, properties in Paris and Hong Kong, and the U.S. cities of Atlanta; Dallas; Austin, Texas; and Memphis, Tennessee, according to Real Capital.





“The U.S. has benefited from being a safe haven and a very attractive investment market, based on transparency and a number of other drivers, as well as its relative economic growth,” Arnold said. Going forward, the price of oil “will affect the amount of incremental new capital that comes in, but when you have a sufficiently large base,” it’s not likely to change the fund’s profile dramatically.

The Abu Dhabi Investment Authority has allocated 5 to 10 percent of its capital to real estate, according to the fund’s website.

Arnold’s associates at the authority’s home office are growing anxious about how U.S. stocks have been performing, based on “the e-mails I’ve been getting over the last 10 days,” he said. “My first comment is ‘don’t panic.’ That’s what I’m writing to some of the senior people in the organization.”

• Oil • Abu Dhabi • Real Estate • Real Capital Analytics Inc

- FOMC omits reference to `balanced' risks amid market turmoil
- Central bank leaves benchmark interest rate unchanged

Federal Reserve officials left interest rates unchanged and said they still expect to raise borrowing costs at a “gradual” pace while watching to see how the global economy and markets impact the U.S. outlook.

The Federal Open Market Committee is “closely monitoring global economic and financial developments and is assessing their implications for the labor market and inflation, and for the balance of risks to the outlook,” the central bank said in a statement Wednesday following a two-day meeting in Washington. The Fed omitted a line from the previous statement in December saying the risks to the outlook were “balanced.”

Since the Fed raised interest rates last month for the first time in almost a decade, turmoil in financial markets and a dimming of the outlook for global growth have spurred investors to expect a slower rise in borrowing costs. The median projection of policy makers’ forecasts in December called for four quarter-point rate increases in 2016; futures markets indicated ahead of the FOMC statement that traders see just one or two hikes coming.

“This doesn’t read like a statement from a committee that is expecting to tighten again in March,” said Jonathan Wright, a professor at Johns Hopkins University in Baltimore and a former Fed economist. “Four rate hikes this year is not impossible, but I think it is unlikely and would be unwise.”

The change in the statement to point to global economic and financial developments, instead of repeating that risks are balanced, “implicitly means that risks are tilted to the downside,” Wright said.

Stocks fell after the announcement, erasing earlier gains. The Standard & Poor’s 500 Index was down 1.3 percent to 1,878.08 at 3:06 p.m. in New York after having been up as much as 0.7 percent earlier in the day.

Job Market

Chair Janet Yellen and her Fed colleagues, explaining their unanimous decision to leave the target range for their benchmark federal funds rate at 0.25 percent to 0.5 percent, said that recent information “suggests that labor market conditions improved further even as economic growth slowed late last year.”

Reiterating the interest-rate outlook from the December statement, the FOMC said Wednesday that it “expects that economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate.”

Household spending and business fixed investment have been growing at “moderate rates in recent months,” the FOMC said, after labeling such gains “solid” in the December statement.

The Fed stuck to its projection that the pace of price gains will rise to 2 percent over the medium term but stated that inflation “is expected to remain low in the near term, in part because of the further declines in energy prices.”

Market-based measures of inflation expectations have “declined further,” while survey-based measures were “little changed” in recent months, the FOMC said.

Congressional Testimony

Yellen won’t hold a post-meeting press conference and isn’t scheduled to speak publicly until she appears before the House Financial Services Committee on Feb. 10 to deliver the Fed’s semi-annual monetary policy report to Congress.

Since the FOMC met Dec. 15-16, the U.S. labor market showed more of the improvement that encouraged the Fed to raise interest rates. Employers added 292,000 new jobs in December, bringing the 2015 total to 2.65 million. Wages also showed tentative signs of accelerating, providing good news for a Fed hoping to see inflation move closer to its 2 percent target this year.

Global stocks, however, have had their worst start to any year, dropping 8 percent, spooked by the slowing of China’s economy and perhaps by a delayed response to the end of near-zero interest rates in the U.S.

Oil prices have slid about 16 percent as of 11 a.m. New York time and the Bloomberg Dollar Spot Index has risen 1.4 percent. Such moves help to restrain inflation that policy makers see as too low.

Inflation Low

The Fed’s preferred price gauge rose 0.4 percent in November from a year earlier. Core inflation, which excludes food and energy, was 1.3 percent in November.

Though numerous private economists argue that China’s direct impact on the U.S. economy is limited, and the drop in oil should ultimately prove a stimulus to growth, investors had pushed out their expectations for the next Fed interest-rate increase.

The probability of an increase in March had fallen to as low as 22 percent on Jan. 21 from a high of 53 percent on Dec. 30, based on prices in the federal funds futures market.

Economic Outlook

New York Fed President William C. Dudley, the only regional Fed chief with a permanent FOMC vote, said Jan. 15 that “in terms of the economic outlook, the situation does not appear to have changed much since the last FOMC meeting,” noting the stronger labor market.

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In contrast, James Bullard, president of the St. Louis Fed, sounded a more cautious note on Jan. 14 by saying the latest decline in oil prices may delay the return of inflation to the central bank’s 2 percent target.

The regional Fed presidents who vote on the FOMC rotate each January. This year’s new voters are Bullard, Boston’s Eric Rosengren, Cleveland’s Loretta Mester and Kansas City’s Esther George. They replaced John Williams from San Francisco, Chicago’s Charles Evans, Richmond’s Jeffrey Lacker and Atlanta’s Dennis Lockhart.

Members of the Fed’s Board of Governors hold permanent votes on the FOMC.

The FOMC announced a separate decision on Wednesday to revise its 2012 statement on longer-run goals to say that the FOMC “would be concerned if inflation were running persistently above or below” its 2 percent objective.

Bullard dissented from approving this change because the language “is not sufficiently focused on expected future deviations of inflation from the goal,” according to the Fed.

• Core Inflation • Interest Rates • Labor