

America for Sale?

BY LOUISE L. SCHIAVONE

**The world knows there's a fire sale
going on in American real estate.**

In April 2009, the government of China opened the doors of the Beijing Hotel to Realtors® and developers from the United States. The event was called “America Is for Sale.” American Realtor Elizabeth Davidson of Seattle was there. She recalls business was brisk. ■ “There was a real estate broker from Texas and he took up three booths, selling foreclosed properties,” says Davidson. The only inquiries she received were about immigration. However, it was obvious at that point there was strong potential to do business with the Chinese. ■ Two years later, there are still just as many anxieties about the global economy. But despite insecurities of all kinds in the United States, international interest in properties here has not abated. ■ Global financial strategist David Smick, chairman and

chief executive officer of Johnson Smick International Inc., Washington, D.C., says there’s no safe haven for international investment that matches the United States. “It is not surprising that wealthy elites around the world are looking to diversify into U.S. dollar-denominated assets,” says Smick.

“In the global pageant for ugly people, the U.S. may ironically turn out the winner as the least-ugly contestant. Say what you may about our problems, but we are perceived as a nation of rock-solid political stability and rule of law,” he says.

The most up-to-date snapshot of residential market activity from analysts at San Diego-based DataQuick shows there were 21,516 sales of U.S. properties to foreign buyers from May 2011 to November 2011.

Randy Wussler, DataQuick’s vice president for product development and marketing, says 55 percent of those sales were in Florida. Four states account for 80 percent of the residential sales to foreign buyers—Hawaii, Florida, Arizona and Nevada.

DataQuick notes that its statistics are comprehensive, drawing from 115 million property records in the United States, but not all-inclusive. Wussler sizes up the hot markets this way: “As I’m looking at the percentage of all foreign purchases since May, the order is: Florida, California, Arizona, Nevada and Hawaii.” Within that run-down, the analytics show that New York is the only state in the Northeast in the top 20 (see Figure 1).

One intriguing characteristic of the data is that, in

each of the top five states, condominiums account for a significant number of purchases by foreign buyers (see Figure 2). In Hawaii, condos were 69 percent of the purchases by foreign nationals. In Florida, where condos account for just 17 percent of all properties, they accounted for 54 percent of purchases by foreign buyers.

DataQuick figures show international purchasers snapping up properties in warmer climates. Four of the top five counties for foreign buyers, as a percentage of state sales, are in Florida (see Figures 3 and 4).

Jed Smith, managing director of quantitative research with the National Association of Realtors (NAR), Chicago, says that within communities where international buying is hot, there are neighborhoods of one nationality or another. In many cases, Smith says, houses are “a little cheaper than they were before, and that would mean more buying power.”

Mike Fratantoni, the Mortgage Bankers Association’s (MBA’s) vice president, research and economics, says the foreign buyer is a boon for U.S. real estate. “At the same time when we have a lot of homes on the market and an overhang of distressed properties, there is relief that there are buyers out there,” he says. Fratantoni says Miami is a classic case in point. The condominium construction explosion there ran head-on into the recession. “The fact that there’s an active foreign demand relieves those worries,” he says.

At Atlanta-based Jamestown Properties Corporation, a real estate private equity company, Managing Director

Figure 1 Top 40 States*, Ranked by Percentage of All U.S. Foreign Buyer Sales (May 2011–Nov. 2011)

State	Percentage of All U.S. Foreign Buyer Sales	Percentage of Sales Within State to Foreign Buyers	Percentage of All U.S. Sales Accounted for, by State
FL	54.7%	3.4%	14.3%
AZ	17.2%	2.2%	7.0%
CA	5.9%	0.3%	18.7%
NV	4.9%	1.3%	3.3%
HI	2.7%	4.2%	0.6%
MI	2.3%	0.5%	4.3%
GA	1.8%	0.4%	4.0%
NY	1.7%	0.5%	3.4%
WA	1.5%	0.5%	2.8%
TX	1.3%	0.1%	9.5%
NC	0.9%	0.4%	2.2%
OR	0.8%	0.4%	1.8%
SC	0.8%	0.4%	1.7%
TN	0.8%	0.5%	1.5%
OH	0.4%	0.1%	3.1%
MO	0.4%	0.2%	1.6%
CO	0.3%	0.1%	2.3%
IL	0.3%	0.1%	3.8%
NM	0.2%	0.3%	0.6%
MN	0.1%	0.1%	1.6%
UT	0.1%	0.1%	1.3%
WI	0.1%	0.1%	0.9%
NJ	0.1%	0.1%	1.7%
MD	0.1%	0.1%	1.7%
PA	0.1%	0.0%	1.7%
IN	0.1%	0.1%	0.6%
VA	0.1%	0.0%	1.2%
OK	0.1%	0.1%	0.8%
AL	0.0%	0.1%	0.8%
DE	0.0%	0.1%	0.3%
AK	0.0%	0.2%	0.1%
MT	0.0%	0.2%	0.0%
ID	0.0%	0.1%	0.2%
KY	0.0%	0.3%	0.0%
AR	0.0%	0.1%	0.1%
LA	0.0%	0.0%	0.2%
WY	0.0%	0.1%	0.1%
NE	0.0%	0.0%	0.1%
IA	0.0%	0.0%	0.2%
DC	0.0%	0.0%	0.2%

* Includes District of Columbia
SOURCE: DATAQUICK

Matt Bronfman says Miami is a very good market. “It’s a dense urban area, which I really like,” says Bronfman, “and it also has the benefit of attracting a lot of South American capital.” Bronfman says these buyers are frequently professional people: businesspeople, doctors, dentists, real estate investors—all of whom, he says, “decide that having an investment in South Florida is a good thing. Maybe they want a vacation home, or they have family and friends there.”

In Arizona, according to DataQuick data, 57 percent of properties sold to international purchasers were in the single-family residence category; in Nevada, it was 51 percent (see Figure 5).

That’s not surprising to Paul Bell, president of the Greater Las Vegas Association of Realtors. He is a practicing Realtor, with a focus on residential property, for Prudential Americana Group, Las Vegas. Bell says Las Vegas is slowly coming back since the rock-bottom days of the burst housing bubble, but there’s still a significant overhang of available properties in Las Vegas.

“We made substantial progress through an intensive-care recovery process since January 2008,” says Bell. “We have sold nearly 130,000 single-family homes, out of 449,000, in Clark County. We think that we will probably still be in intensive care through the first quarter of 2012. We have had, for just 2011 alone, a 50-percent-cash closing rate of sales.”

Russians, Ukrainians, acrobats and magicians

Enter the foreign investor. Most foreign purchases are in cash, for a variety of reasons—the majority having to do with the red tape of financing and, in some cultures, a predisposition against the kind of big-ticket borrowing that is common in the United States.

Bell says of international buyers, “They’re here!” At his office, he says, “we’re doing about 20 [percent] to 25 percent of properties being sold to people from overseas or people who might be first-generation Americans who moved here from overseas.” Read: performers on the Las Vegas strip.

“The people who work in the shows here, Russians, Ukrainians, acrobats, magicians—the works—have family who figure out ways to send money over here to buy real estate,” says Bell. “It’s amazing. They’re buying real estate here, and they love coming to Las Vegas.”

Bell says single-family sales are popular among the international workers who live in Las Vegas.

There is other business to be done in Las Vegas, Bell notes. The port of Los Angeles and the port of Long Beach continue to grow, and when goods are trucked from the ports to Las Vegas warehouses, including shipments from other countries, industry representatives often need to be in place to make sure everything is in order. Also, for businesspeople spending a good amount of time at the ports, Las Vegas is an easy trip for rest and recreation.

“They might buy a condo or townhouse and rent it out, or for investment,” Bell reports. “We’re seeing quite a bit of our condominium buyers from overseas and other parts of the U.S.,” especially the industrial Northeast.

There’s also interest from prospective buyers in Canada, Mexico, South America, China and Western

Europe. In a report measuring one year of activity ending in March 2011, the National Association of Realtors reported \$1.07 trillion in home sales. “Foreign clients,” the report finds, “purchased an approximate \$41 billion share of homes, the same as the previous year. And \$41 billion more was purchased by recent immigrants, “for total internationally oriented sales of \$82 billion, up from \$66 billion in 2010,” the report continued.

In terms of purchase price, the NAR breaks it down this way: “The average price paid by an international

buyer was \$315,000 compared to the overall U.S. average of \$218,000. However, 45 percent of international purchases were under \$200,000.”

The report adds, “This price segment has grown significantly over the years, most likely due to overall price declines in the U.S. as well as the strengthening of some foreign currencies.”

Jed Smith, managing director of quantitative research with the National Association of Realtors, describes the responses in the NAR findings this way: “We ask Realtors, ‘Are you doing more international business now than before?’; they’re saying yes. Over the past eight years, it’s not rocketing, but it’s increasing. We can’t predict what the world will do, but as we continue to be an international world, you might expect this to increase gradually.”

Figure 2 Top Five States by Number of Condos Sold To Foreign Buyers (May 2011–Nov. 2011)

State	Total in State	Condos as a Percent of All Properties in State	Number of Foreign Sales	Percent of All Foreign Sales Within State
FL	1,739,346	17%	6,377	54%
AZ	262,749	8%	1,053	28%
CA	1,296,120	10%	407	32%
NV	162,000	14%	445	42%
HI	153,729	28%	394	69%

SOURCE: DATAQUICK

Figure 3 Top 20 Counties by Percentage of Sales to Foreign Buyers (May 2011–Nov. 2011)

State	County	Sales to Foreign Buyers	Total Sales	Percentage of Sales Within County to Foreign Buyers
FL	Osceola	652	6,714	9.7%
WA	Whatcom	205	2,603	7.9%
FL	Charlotte	550	7,146	7.7%
HI	Maui	181	2,371	7.6%
FL	Lee	1,673	26,425	6.3%
FL	Collier	604	9,997	6.0%
FL	Polk	569	10,392	5.5%
FL	Levy	43	791	5.4%
FL	Broward	1,826	33,890	5.4%
FL	Orange	1,038	19,508	5.3%
FL	Sarasota	506	9,886	5.1%
FL	Palm Beach	1,053	25,721	4.1%
HI	Hawaii	120	3,280	3.7%
FL	Pinellas	490	13,400	3.7%
FL	Manatee	229	6,475	3.5%
HI	Honolulu	256	7,446	3.4%
AZ	Pinal	603	17,639	3.4%
FL	Indian River	101	3,226	3.1%
HI	Kauai	17	608	2.8%
OR	Deschutes	127	4,664	2.7%

SOURCE: DATAQUICK

Why all the foreign interest?

Why do these international buyers want these properties? For many reasons, says Smith: investment, personal security, vacation access, the excellent purchase price and roominess of available properties. And, overall, The United States is regarded as a desirable place to own housing.

“Many people from around the world like the spaciousness of single-family homes,” says Bell, “and the Europeans find Las Vegas the easiest place to meet their Asian clientele” because—to some degree—it’s halfway between Europe and Asia.

“Buyers from Europe are surprised at how spacious American housing is in general. In European cities, there are small appliances, small showers and so on. They’re surprised that you could get a nice yard where the kids could play,” he says.

In a nation built on the notion of Manifest Destiny, land has a deep and visceral significance. One of the most enduring American novels, Margaret Mitchell’s tale of the antebellum South, *Gone With the Wind*, constantly reverts back to the theme of the land. Scarlett O’Hara’s father, Gerald O’Hara, chides her: “Do you mean to tell me, Katie Scarlett O’Hara, that Tara, that land doesn’t mean anything to you? Why, land is the only thing in the world worth workin’ for, worth fightin’ for, worth dyin’ for, because it’s the only thing that lasts.”

In the 21st century, where holding on to one’s dignity and keeping a roof over one’s head is of far greater import than holding on to acres of agricultural land, the realities are stark. Bell says that the real estate opportunities in Las Vegas are tremendous right now, especially in raw land, despite the fact there’s not much new-home construction.

Businesses are hoping that unemployment will decline, with a new boom in retail, medicine of all kinds and technology. The challenges are great, though, says Bell, with high unemployment in professional services such as law and accounting. There are layoffs and significant attrition in government jobs, and the universities and liberal arts are feeling the strain as well.

“It will be another two years before we start to see the first visible signs of recovery,” predicts Bell. “We’re seeing early signs, but it will take another year or two before we really see progress. We rely on the banking industry. There are a number of employers who would be happy to expand, but financing is an issue.”

The Asian influx

NAR's Smith has this view: "I think anytime you have additional buyers, that's good. And you could make a good case for increased international exchange of people and ideas."

Economist Smick agrees. "There is nothing fundamentally wrong with foreign investment. What is troubling is that the global economy is still out of balance," he says.

"Nations like China," Smick observes, "rig their currencies as they set up their economies as enormous export platforms. They build up huge reserves, which allows them to go on a global shopping spree buying up important, sometimes strategic, assets."

A senior U.S. government official recently predicted to a group of American businessmen that a wave of Chinese sovereign wealth-fund and private investment would soon take place in the United States—not in trophy commercial office properties favored by the Japanese in the 1980s, but rather in agricultural land, mining resources and manufacturing facilities.

Interestingly, DataQuick figures show that, in the top 20 states registering foreign property acquisitions since March 2011, Michigan is sixth, Ohio is 15th, Missouri is 16th and Wisconsin is 19th.

Realtor Davidson is a native of Hong Kong and, through marriage, is a U.S. citizen. Of the Asian influx into the United States, she says, "We're just seeing the beginning. There's a wave of Chinese coming, and more and more will be coming. Even those who go to British Columbia, they ultimately want to come to the U.S."

Davidson is on the boards of the Asian Real Estate Association of America (AREAA), Carlsbad, California; and the Greater Seattle Chinese Chamber of Commerce. She is president of the Pacific Northwest Council of the International Real Estate Federation, Falls Church, Virginia. Her focus is Asian buyers.

They are picking up, she says—"typically single-family homes, but it varies. You have the families that are middle-income. They will typically buy a \$500,000 to \$700,000 house. On the other end of the spectrum, some Asian buyers are so rich and want their child to have the best of everything, they wouldn't bat an eye to spend a couple of million dollars even if they were only going to live in it for five or six years."

A single-family dorm, with garage

Like many real estate agents who sell to Chinese customers, Davidson has observed that foreign parents often buy apartments, condominiums and even houses for their children who are attending college in America. Virtually all transactions are in cash. Once these students are in the United States, Davidson says, many end up staying and working.

"Life is good here. There's a better standard of living. The air is so bad in China, people have health issues; it doesn't matter how much money you have. For us to live in a single-family home is common. In China, even if you have money, this is not common. When these buyers come here, they want single-family homes."

Sometimes, she says, the families are able to secure a visa for one parent to stay with the child or children, typically the mother, while the father stays in China to work.

While Americans think of Asian students as extraordinarily accomplished in math and science, Davidson says there are other characteristics of American education that Chinese parents want for their children. "The U.S. encourages free thinking, whereas in most Asian countries learning is by rote. There is no education that is comparable to the U.S. In China, you have to be in the top 1 percent or have good connections to succeed academically. Even if you got into the top universities in China, the quality of the education you would get is not comparable to the U.S.," she says.

While determined Chinese buyers are enthusiastic about American property, cultural demands remain. Most Realtors have their own stories about the demand for *feng shui*, the laws of spatial arrangement that allow for maximum positive energy flow.

"Who are the cash buyers now? The Chinese! If the house is not *feng shui*, they're not going to buy the house," says Davidson.

Few people know that *feng shui* translates to "wind and water." Davidson believes that in Seattle, with beautiful lakes and winds from mountain

ranges, she is well situated to appeal to the cultural demands of *feng shui*. The demands of this ancient tradition are numerous, and each has an explanation.

"If you have a road that leads to the front of the house, a tree that faces the front door, a freeway nearby—that is not *feng shui*," says Davidson.

"One client from China comes with his compass. If the front door faces north, he says, 'Let's not bother going in.' The ideal direction is east- or south-facing, because it's warmer and the sun rises in the east. These buyers don't want the front door facing west."

Among other *feng shui* requirements: One should not be able to stand at the front door and look through a window facing the back of the house, because legend has it that fortune will go into the house and right out the window. A staircase should not lead to the front door, because it will lead fortune out the door. **MB**

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