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Foreigners Flocking to the U.S. – Part II

China is the world's second largest economy and the most populous country on Earth. By many accounts, China is projected to surpass the U.S. as the world's economic powerhouse within the next five to ten years. You don't have to look much further than our own real estate market to see evidence of China's rise to prominence. Investors, big and small, have been on the prowl for both residential and commercial real estate in the U.S.

On the commercial side, Chinese companies and investors have recently snatched up ownership on properties such as the Sheraton Universal in Universal City, CA, the Cassa Hotel in Times Square, and a large stake in the General Motors Building in Midtown Manhattan. These are just a few of examples that touch on China's foray into commercial real estate. China Investment Corp., which is China's \$500 billion sovereign wealth fund, has also stated they are interested in diversifying their assets and are looking into the U.S. property market.

On the residential side, please see below for some points that discuss trends, news and developments and their impact on the U.S. housing market.

- **China moves up to #2.** The Chinese (People's Republic of China and Hong Kong) were the second-largest group of foreigners buying homes in America last year, behind only the Canadians. Chinese buying has gone up dramatically since 2007, when only 5% of international sales were derived from there. In 2013, China accounted for 12% of all international sales here.
- **Increase in wealth in China.** According to a 2012 study by WealthInsight, China had the 4th most millionaires in the world while the 2013 Forbes list of billionaires shows that China had the 3rd most billionaires in the world and those numbers are still growing fast. The Chinese buy real estate in the U.S. for several reasons which include providing a good place for their children to attend school, for business/work, as an investment, and as a status symbol. As the number of wealthy Chinese grow, so will the pool of Chinese buyers looking to buy homes in the U.S.
- **Appreciation of the Chinese Yuan.** The strengthening of the Chinese currency relative to the U.S. dollar over the past several years has given Chinese buyers an artificial discount on U.S. real estate. The yuan is more or less pegged to the U.S. dollar although the Chinese Central Bank allows it to float within a range. The government sets a midpoint and intervenes once the currency moves too far from it. Ten years ago, you got back a little more than 8.2 yuan per \$1 USD; five years ago, it was at about 6.8 yuan to each U.S. dollar; it now stands at about 6.15 yuan. If the Chinese government didn't intervene to keep their currency pegged, it would appreciate substantially more.
- **Unstable real estate market and unstable government in China.** Efforts by the Chinese government to cool off the red hot speculative real estate market there by imposing stricter policies and restrictions have led investors to look for safer and more profitable places to put their money to work. In the National Association of Realtors' 2013 Profile of International Home Buying Activity, 31% of respondents viewed U.S. real estate as a profitable investment when asked what the most important factor was that influenced them to buy real estate here.

- **We are actively seeking their business.** The state of Washington's Commerce Department and the Washington State China Relations Council have made concerted efforts in the past to reach out to Chinese businesses and leaders to invest in their state. The Austin and Central Texas area recently hosted a Chinese delegation to hopefully attract business into their region through the federal EB-5 visa program. Real-estate brokers from all over the country offer all-inclusive vacation packages that bring potential buyers from abroad on trips to the U.S. with the sole purpose to sell them homes.
- **Catering to their needs.** Some builders in Southern California are building homes specifically to accommodate to Chinese buyers' needs. Since many Chinese households are multi-generational, they have included first floor bedrooms in floorplans and offered homes with both Chinese and Western-style kitchens. Also, big public builders like K.B. Home and Standard Pacific in California along with smaller condo developers in New York City have incorporated feng shui into their homes since many Chinese believe heavily in this discipline.

Some of the most popular destinations for Chinese buyers are areas that already have a large Chinese community. The National Association of Realtors recently-released 2013 Profile of International Home Buying Activity states that approximately 53% of all reported purchases by Chinese buyers were in the state of California. The Chinese do not stray too far away from employment hubs and urban centers with 92% of their purchases being located either in a urban or suburban setting. About 69% of Chinese buyers purchased homes with all cash over the past year. The major factors that drive Chinese demand are schools, location/community, and price. As the world becomes increasingly flat and globalization continues, international homebuyers – especially the Chinese – will have a bigger impact and play a larger role in the U.S. real estate market going forward.

About Meyers Research

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