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## Foreigners Flocking to the U.S. – Part I

The investor has played a significant role in the U.S. housing recovery. According to the National Association of Realtors, individual investors accounted for 19% of existing home sales in April. In 2012, nearly one in every four homes sold were investment sales.

Furthermore, the role of real estate investors from abroad has been equally important and the dynamics driving foreign investment are all the more interesting. In the National Association of Realtors' 2012 Profile of International Home Buying Activity report, total sales volume to international clients was estimated to be \$82.5 billion for the 12 months ending March 2012 which equates to roughly 9% of all activity.

Major metropolitan areas in the U.S. have long been an attraction for foreign real estate investors, especially popular locales like New York City, Los Angeles, San Francisco, Las Vegas, and Miami. However, foreign interest in U.S. real estate has gone beyond these common places and now includes areas in Florida and Arizona that were the hardest hit during the downturn and Texas where economic growth is outperforming. Here are some major factors driving foreign real estate investment:

- **There are several socio-economic trends that are driving foreigners to buy homes in the U.S.** Some are buying homes in the U.S. with the hopes of sending their children to school here. Others are buying due to political uncertainty in their native country. There are many that have purchased homes trying to fast-track their residency and citizenship status. Demand for highly skilled workers who are here on H-1B work visas are also attributing to higher home sales activity to foreigners.
- **Foreigners are looking to diversify their assets.** The number of millionaires in developing nations, especially in China and India, is rapidly growing. With this increase in wealth, foreigners look at owning U.S. real estate as both a status symbol and an investment. According to NAR's report, only 39% of international buyers in 2012 intended to occupy their home as a primary residence versus 48% in 2010. Only 36% of these buyers are in their home more than six months out of the year.
- **A weaker dollar and low bond yields have forced investors to look for returns in real estate.** Buying real estate offers investors a hedge against currency and interest rate risk. Also, the decline in the value of the dollar in recent years has given some foreign buyers an artificial discount on U.S. real estate.
- **Our neighbors up north are big buyers.** Over the past six years, Canadians have made up a significantly larger portion of the international home buyer community in the U.S. Canadians accounted for only 11% of international sales in 2007 but now account for 24% which makes it the largest international buyer of homes here. One of the biggest reasons for this is that home values in Canada have been steadily appreciating while U.S. home prices have fallen. Home prices in Canada are up 16% in the past five years, according to the Teranet-National Bank Composite House Price Index while the Case-Shiller Index shows an 11% drop in U.S. home prices during that same time period.

- **The U.S. is currently in the middle of an upturn in its real estate investment cycle.**  
Following its biggest downturn in history, the residential real estate market is now up 25% from its lows. Supply is low and demand is rising due to improving labor market conditions and low mortgage rates. Home prices are increasing and the appetite for home buying is coming from both the domestic and international front.

International demand for housing in the U.S. has only increased since NAR's report last year so expect to see even higher sales volume from foreign buyers for this past year. With rental prices rising and a weak U.S. dollar, these social and economic trends suggest that foreign investment in U.S. real estate can be expected to continue for quite some time.

Another huge factor driving international home purchases in the U.S. has been the emergence of China. We will devote the second part of this two-part newsletter series to examine what is driving the Chinese to the U.S. housing market, the impact they have had on housing and trends that are evolving from Chinese demand.

#### **About Meyers Research**

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