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Who is the average foreign buyer in NYC?



Buyers from overseas don't always have the greatest reputation in the world of New York City real estate. There's a broad perception that international investors are snatching up luxury condos which then sit empty, leaving beautiful-but-vacant boxes scattered across the city skyline. Last year, the New York Post even tried to extract some vigilante justice, calling for an unmasking of the foreign buyers who are turning the city "into a secrecy haven to stash their cash through the use of shell companies."

But is that reputation deserved? As with anything in New York City, though, it's hardly that simple, and foreign buyers are not a monolith. We spoke to real estate experts who have worked with international clients to find out what this particular cohort is really like.

An introduction to the "average" foreign buyer

First, when it comes to people from overseas looking to purchase New York real estate, the word "average" doesn't really apply. "By definition, if they're able to buy an apartment in NYC, they're not average," says Keren Ringler, a broker for CORE, referring to the fact that being able to afford a part-time home in New York is hardly within the purchasing power of the average person.

That said, she adds that the typical foreign buyer tends to be using their NYC real estate as a second home or an investment property rather than a permanent residence. "There are usually three scenarios," Ringler explains. "The foreign buyer who wants to purchase something for their child who's studying in NYC, the buyer who wants to invest in NYC, and the buyer who wants an apartment in NYC to use as a pied-à-terre."

This seems to spell considerable wealth, but Jonathan Miller, president of the appraisal firm Miller Samuel, says that foreign buyers don't always represent the top one percent. "There's a sense that the average foreign buyer is buying at the very high end of the market. I see them all over the map and much more spread out across price points and geography," he says.

There isn't data that crunches the numbers for foreign buyers in NYC specifically, due to concerns about Fair Housing laws, but Miller estimates that about 15 percent of all real estate transactions in New York come from people from overseas. A National Association of Realtors survey of international clients who made investments in American real estate offers some insights into who makes up this group. The survey reveals that while they are spending more on homes than Americans, their mean purchase price—\$499,600—doesn't represent the peak of luxury.

In terms of country of origin, the NAR survey suggests that buyers from China represent the largest proportion—16 percent—of investors in American real estate, closely followed by buyers from Canada (14 percent). When it comes to Europeans, the largest cohorts of international buyers hail from the U.K., France, and Germany; Indians, Mexicans, and Venezuelans also made significant purchases in 2015.

Miller notes that in 2013 and 2014, there was a major upswing in NYC real estate purchase from foreign buyers. "We were in recovery from the financial crisis and interest rates across the globe were at record lows, so investors were chasing higher returns," he says. Now, with the American dollar stronger, we're seeing a more average amount of interest from international buyers, Miller adds.

According to Adie Kriegstein, a broker with CORE, fluctuations in currency can have a big impact on the amount of foreign investments in U.S. real estate, as can political uncertainty—certainly a factor in these post-election days. "I've had a handful of clients say that things aren't looking good," she says. "But at the same time, other foreign buyers say that because of conditions in their home countries, they still want to invest in the U.S., but they're being extra picky about the product because of the volatility of the real estate market."

What are foreign buyers looking for?

Kriegstein agrees with Ringler that most foreign buyers are often either using NYC real estate as an investment, or purchasing a home for a child who is studying or working in the city. In both cases, she says, "they want the biggest bang for their buck."

Much of what is on a foreign buyer's wishlist, according to Kriegstein, would appeal to most New Yorkers, too: views, great light, a lot of amenities, and the promise of a good return on their investments.

One notable distinction is that foreign buyers may be less drawn to charming, prewar co-ops or historic brownstones. Instead, Kriegstein says, they're interested in condos in relatively new developments in locations where they can expect to get top dollar by the time they're ready to sell. This is not only a matter of taste, but also due to the fact that it's more challenging for foreigners to purchase co-ops, due to strict requirements about finances and the tendency of some boards to not permit pied-à-terres. (More on that below.)

This can mean neighborhoods undergoing some dramatic revamping, where the next few years promise to bring new residential and commercial developments; think areas like Two Bridges and Hudson Yards.

"15 Hudson Yards is the first residential building located in the center of Hudson Yards, and apartments there just started selling," Kriegstein says. "[Foreign buyers] are investing there based on what Hudson Yards will do for the entire city. It's good to get in early."

Another area to keep an eye on? Hudson Square, at the confluence of Soho and Tribeca, which was rezoned in 2013 to make way for higher density development, per DNA Info. "That area is going to take off, so it's a prime spot for investors," says Kriegstein.

Kriegstein cautions, though, that because NYC is still in the midst of a luxury construction boom, there could be a high supply of high-end units once foreign buyers are ready to sell. For some, that risk rules out some of the more burgeoning areas of the city.

To that end, Ringler has found that some of her clients are drawn to the more tried-and-true, covetable corners of NYC, like the Upper West Side, or the neighborhoods around Columbia and NYU, if their children are college students.

And in terms of the amount of space foreign buyers are looking for, "two-bedrooms are the sweet spot," Kriegstein says. "It optimizes their investment return when they sell or rent it out, because it appeals to the widest number of would-be purchasers or tenants."

What are some of the challenges foreign buyers face?

One of the main reasons that foreign buyers are more inclined toward condos is that it's much more difficult for them to get co-op board approval. Ringler notes that boards are hesitant for financial reasons: Would-be homeowners from abroad lack social security numbers, have their money in foreign accounts, and present challenges when it comes to running credit checks. (Some co-ops also have policies forbidding pied-à-terres, narrowing the field of options for investors who won't be living there full-time.)

Nevertheless, Ringler works with international clients who do want that old-school, co-op charm. In these cases, she says, "the challenge is how to present the buyer so that the board can feel confident they're making the right decision. That comes from providing excellent letters of references, having good bank balances, and choosing a co-op that understands this buyer will be a good shareholder because they'll look after the apartment."

And according to a Nest Seekers International guide for foreign buyers, opening a bank account in the U.S., or transferring the necessary funds to an escrow account, will help ease the financing process.

She says that many co-op boards appear to be recognizing the need to loosen some of their stricter requirements. "I do think co-ops are realizing that the market has changed and foreign buyers are going to be an important part of the buying portfolio," she says.

Taxes can pose another major obstacle: Barron's offers a rundown of some of the levies foreign buyers might face here, like the 40 percent inheritance tax that the heirs of foreign investor could end up paying here when the property is passed down to them.

Many buyers opt to use an LLC for their purchase, because it helps to minimize such tax burdens: Barron's explains that if it's technically a foreign company rather than an individual that owns the U.S. property, the U.S. government is unable to charge an inheritance tax. Such companies are also occasionally used for more unscrupulous reasons. It's enough of a problem, Housing Wire reports, that the Treasury Department launched an investigation of international investors using American real estate to launder money.

For her average clients, though, the concerns are far more mundane: Foreign buyers need a little extra help navigating the very complex world of NYC real estate, so it comes down to providing in-depth explanations, Kriegstein says, and occasionally when there are language barriers, a translator's help.

How do foreign buyers affect NYC's real estate market?

An article in DNA Info points out that contrary to some concerns about foreign buyers in NYC, they can actually help drive down the prices of apartments in high-end developments, as they begin renting out the luxury condos they purchased, flooding the market with options for renters.

And while much attention is paid to the ultra-wealthy foreigners investing in residential real estate—the New York Times even has a series about this issue, called "Towers of Secrecy"—Jonathan Miller notes that as the market becomes oversaturated with buyers from overseas, foreigners will begin looking into other possibilities.

"In 2014 and 2015, it was all about luxury condos. Now it might be commercial real estate in Houston," he says. "New York is not the exclusive purview of Chinese real estate investors—it was just the first stop on the path to investment."

However, NYC's residential market will likely always hold considerable appeal to buyers from abroad, because it's seen as a smart investment no matter what might be unfolding politically. "Who financed all the new developments we have now?" Miller points out. "It really was private capital coming from abroad, seeking out the perceived safety of real estate."