

NATIONAL ASSOCIATION OF REALTORS®

Profile of International Home Buying Activity 2011



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2011 Profile of International Home Buying Activity

Purchases of U.S. Real Estate by International Clients for the Twelve Month Period Ending March 2011

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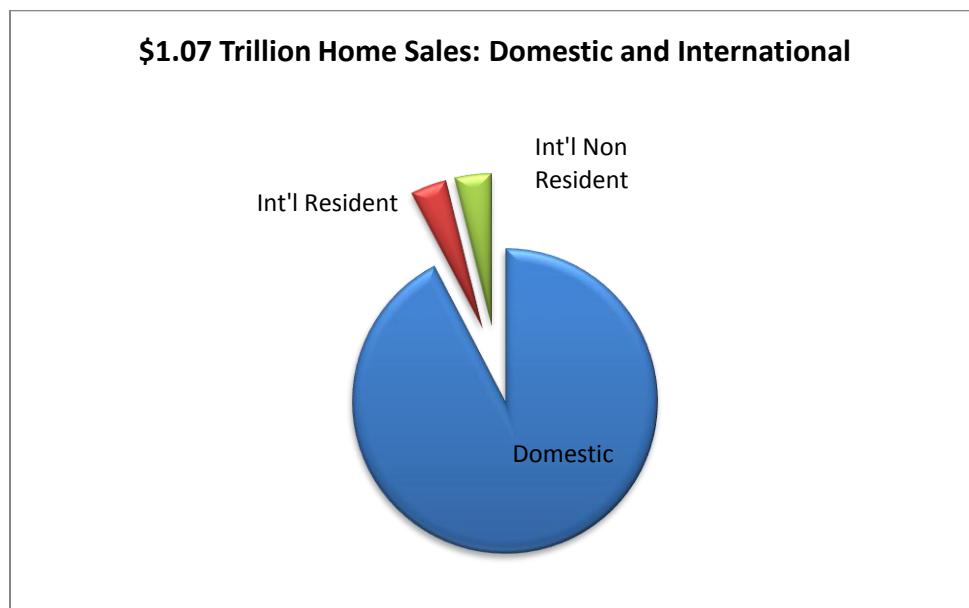
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The 2011 NAR Profile of International Home Buying Activity

INTRODUCTION AND SUMMARY

The total U.S. Existing Home Sales market was approximately \$1.07 trillion in the 12 months ending in March 2011 based on a recent NAR survey.¹ Foreign clients purchased an approximate \$41 billion share of homes, the same as the previous year. In addition, recent immigrants (who have moved to the U.S. within the past 2 years) and individuals with visas for more than 6 months purchased an additional \$41 billion, for total internationally oriented sales of \$82 billion, up from \$66 billion reported in 2010.



The April 2011 survey obtained input from a random sample of Realtors® on their experiences over the 12 months ending March 2011 with two types of international clients:

- Type A: Foreign clients with permanent residences outside the U.S. These types of clients typically are purchasing property for investment, vacation, or visits of less than six months to the U.S.
- Type B: Clients who are recent immigrants (less than two years) or temporary visa holders residing for more than six months for professional, educational, or other reasons.

¹ Looking at a technical issue, an economist would note that the sales figures do not measure additions to GDP (that is, additional output) but, rather, measure transfers of existing assets. Nevertheless, there is a substantial amount of GDP generated from sales of existing homes resulting from subsequent additions, alterations, and decorating efforts as well as the costs of title transfer (certain indirect business taxes and commissions).

Survey results are reported on a combined basis except for those cases where differentiation by type of client provides significant information.

The market for U.S. real estate to international clients is characterized by geographic market concentration and specialized Realtor® expertise, is subject to international economic forces, and appears to be segmented by types of buyers:

Foreign purchasers buy U.S. property for investment, vacation, and locational reasons.

Specialized Expertise: Twenty-eight percent of Realtors® reported experience with an international client, but only 4 percent of Realtors® reported that they obtained more than 75 percent of their transactions from international clients. There appears to be significant Realtor® specialization on the buyer's side of the market, based on foreign language capabilities, cultural orientation, and expertise in bringing an international transaction to successful conclusion. This type of expertise does not appear to be required on the sellers' side of the market.

International Economic Forces: The strength of the dollar, perceptions about trends in the U.S. real estate markets, and general economic trends impact international transactions and home sales.

Geographic Market Segmentation: International buyers came from a total of 70 countries; the top five (Canada, Mexico, China, U.K., and India) accounted for 53 percent of transactions. Most states had at least one international transaction, but four states—Arizona, California, Florida, and Texas—accounted for 58 percent of transactions.

Proximity to the home country, the convenience of air transportation, and climate and location appear to be important considerations to purchasers. For example, the East Coast attracts Europeans. The West Coast is attractive to Asian purchasers. Mexican purchasers are active in the Southwestern markets. Florida appears to be attractive to South Americans as well as Europeans and Canadians. Within markets in an individual state it is not unusual to find concentrations of people grouped by nationality; one could speculate that word-of-mouth and shared experiences influence the purchase.

Realtor® Experience in Serving International Clients

There are a variety of reasons motivating the purchase of U.S. residential property. Homes in this country are less expensive than comparable foreign properties, are viewed as a secure investment, and provide rental and long term appreciation possibilities.

Many U.S. colleges and universities have significant numbers of international students. Some families are reported as purchasing U.S. properties in college areas—sometimes based on the combined resources of a number of family members. The student(s) then use the property as a residence while studying in the country. In addition, the properties can also acquire rental and investment aspects, with the student(s) functioning in a landlord capacity with other students.

Another source of international demand is foreign executives temporarily working in this country. Typically, foreign executives on temporary assignments in the U.S. seek rental properties; however, depending on family and personal preferences the purchase of a home is not unusual.

Finally, in the case of recent immigrants to the U.S., home ownership is viewed by many as an important accomplishment in their efforts to become established in this country.

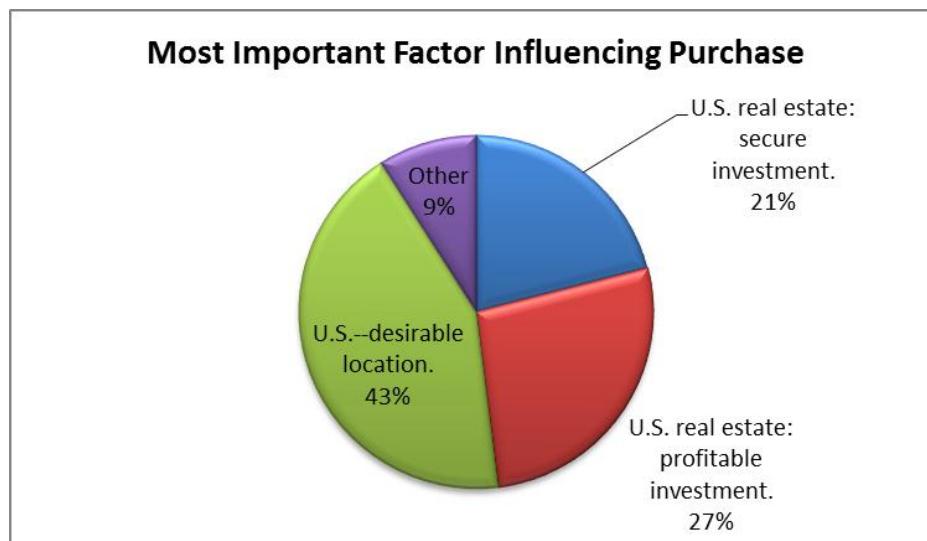
Here are some direct quotes from Realtors®:

- International buyers to date have been due to a transfer to the U.S. and job location.
- Many Canadians are looking for investment or lakefront recreational.
- Many international buyers work here and bring their families.
- Most of my international clients are in the US working for American companies.
- Some clients are parents of college students planning to get their education in the US. They purchase the property for college residence and investment purposes.
- Have international investors buying bulk from Singapore & China. The U.S. is viewed as a very opportune place to start and grow a business, core property leases, etc.
- Clients move here for college or jobs. They like it here and decide to buy a home. Since it is expensive, many times parents will help them with the down payment money.
- When the local high tech companies are in a hiring mode, they bring many international buyers to our area.

Home ownership is viewed by many as an important accomplishment in their efforts to become established in this country.

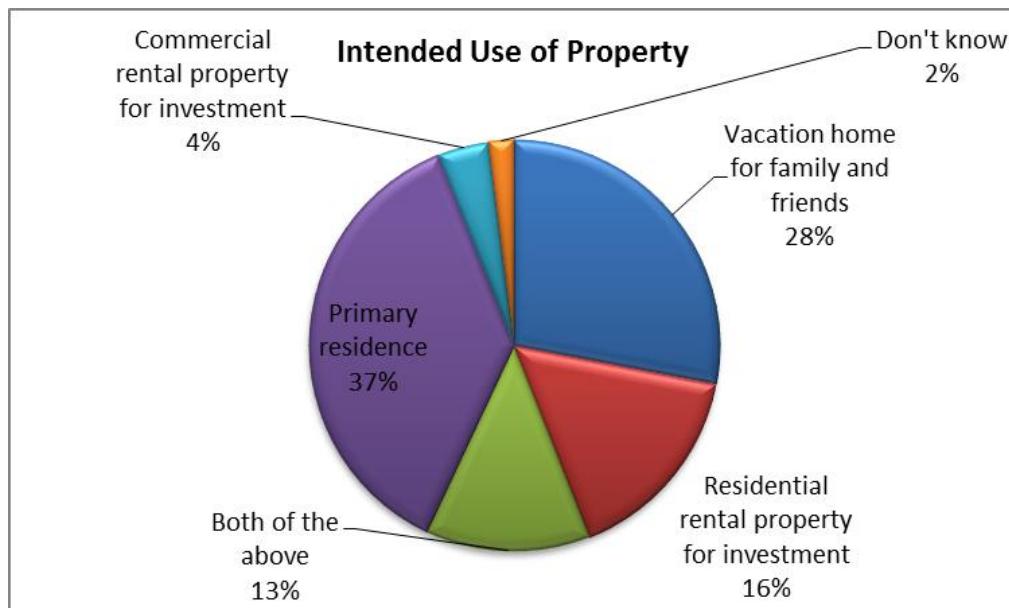
Location Remains a Key Factor

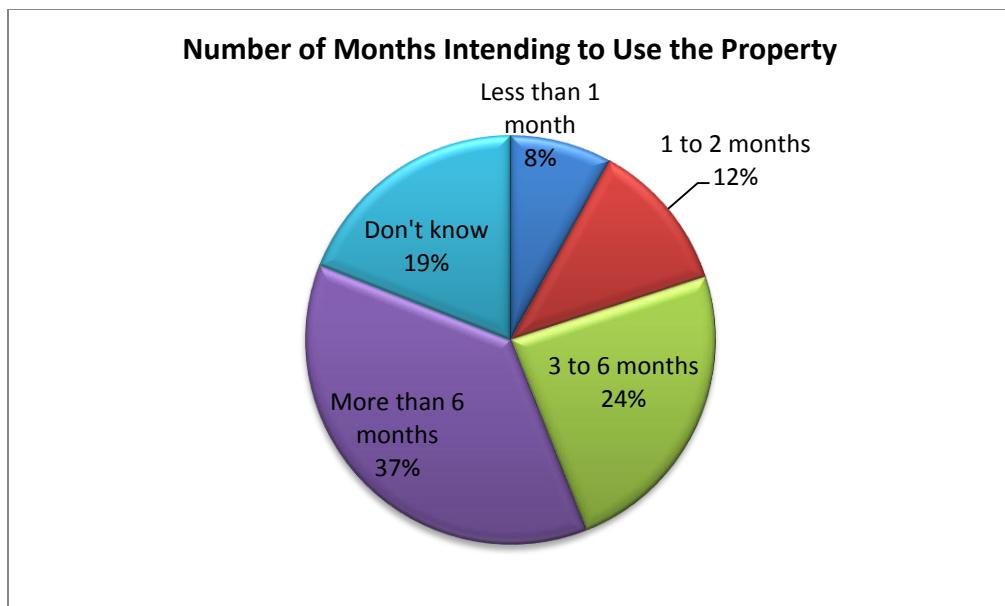
Location, security, and profitability are important factors influencing purchases.



Intended Use

The intended use of the property and expected yearly occupancy is a function of the type of buyer. Non-resident foreigners are limited to 6-month stays in the U.S. In many cases, international buyers expect to use the property for vacation/rental purposes: one frequently mentioned example is Canadians using Florida and Arizona properties during parts of the winter. In other cases, professional people in the U.S. for a temporary but extended time period may plan on using the property year round, as would be the case for recent immigrants. The Survey did not collect information on commercial properties purchased, but it is well known that some foreigners open commercial businesses in the U.S.





Frequency of International Clients

In addition to being concentrated in specific geographic regions, international sales appear to be bifurcated between the buyer and seller sides of the market. On the buyer side of the market, a small number of Realtors® appear to concentrate on international business:

- Nine percent or Realtors® reported 6 or more sales to international clients.
- Eight percent of Realtors® obtained 50 percent or more of their transactions from international clients.
- 55 percent of respondents served 1 or 2 clients; in contrast, 13 percent of respondents served more than 6 clients.

Most Realtors® serve relatively few international clients.

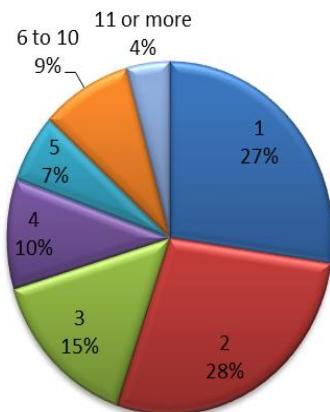
The Buyer Side

On the buyer side of the market cultural affinity with the buyer appears to be important. A variety of sources indicate that knowledge of international customs, languages, and culture are important in facilitating sales on the buyer side of the market. Frequently a Realtor® will have language capabilities and personal ties to the country of the prospective purchaser:

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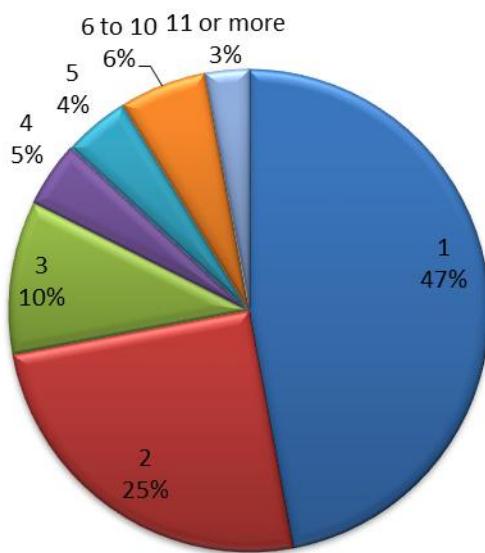
- I am a foreign national, so I view this buyer within my comfort level.
- I am bilingual English/Spanish.

REALTORS: Number of International Clients

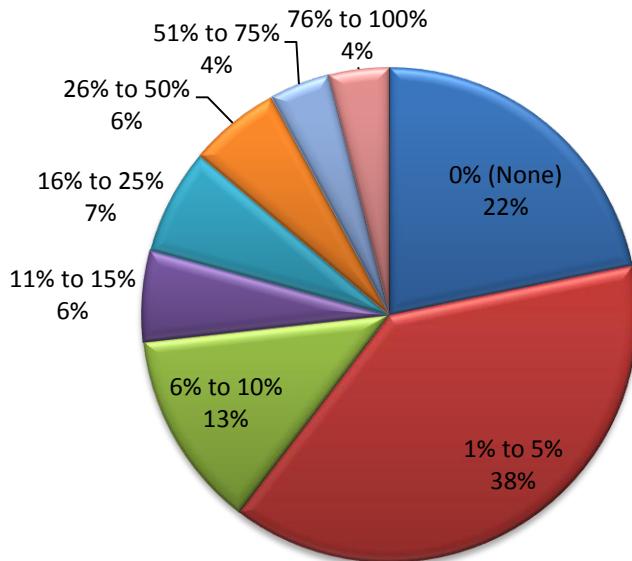


- I am especially interested in German investors, since I speak German fluently.
- It is somewhat difficult to work with international clients. Language barriers.
- It would be nice if we had information on the different customs so that we can better serve these clients.
- Information on clients' country's customs is helpful. Some of their customs are very stringent in how you communicate personally with them.
- Language is the big issue and trust is the second big issue. I find it best to get people connected with a Realtor who speaks the buyer's language.
- Using an American Realtor® of a different culture than the client takes some time to establish trust. Language barriers are also difficult, even though the client may speak English.
- The international clients we see are usually drawn to communities with similar established ethnic populations. These clients have some family/a friend connection in the US. A high percentage of them start out as renters in multi-family buildings.
- We are involved in transactions with International buyers or sellers - but they are usually represented by an agent of the same ethnic makeup. It is difficult due to language and custom differences - Language is the key issue - they are sometimes very hard to understand and negotiate with.
- I have sold homes to children of families that have moved to the US from other countries. Their parents are very involved in their buying decisions...Muslim, Palestinian and Chinese so far this year. It is very important to be familiar with their cultures and be sensitive to their housing needs.
- They paid cash because debt is bad luck.

International Clients Purchasing A Property in U.S.



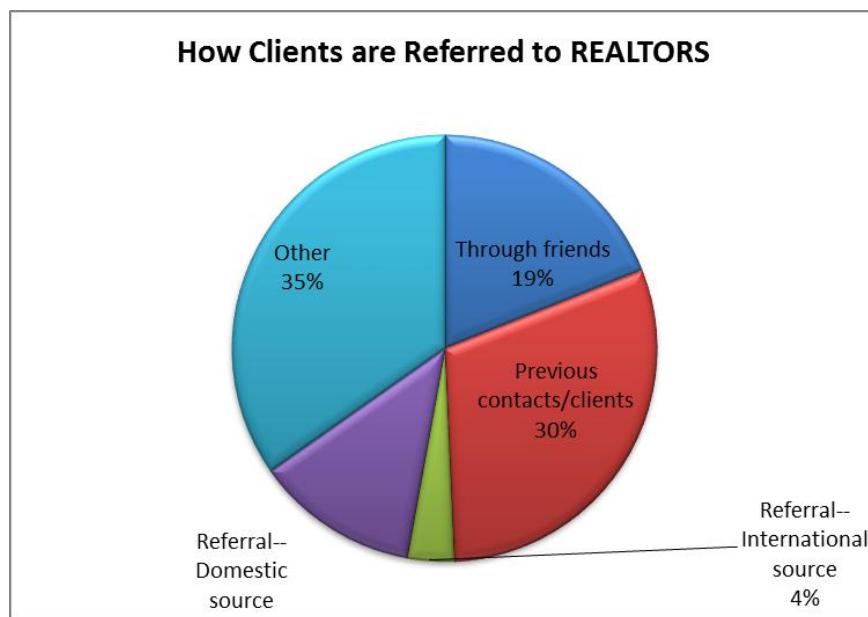
Percent of Transactions with International Clients



From a marketing viewpoint, Realtors® on the seller side of the transaction may find that knowledge of the prospective purchaser's national customs and culture may facilitate the transaction. Realtors® on the seller side of the market appear to encounter international customers on an infrequent basis, given that international sales are less than three percent of the total market.

High visibility and a wide network of contacts are important in international sales.

High visibility and a wide network of contacts are important in international sales. The importance of contacts was mentioned by many survey respondents. Realtors® reported that 53 percent of clients were referred to them through friends, previous clients, and international referrals.



The Choice to Buy

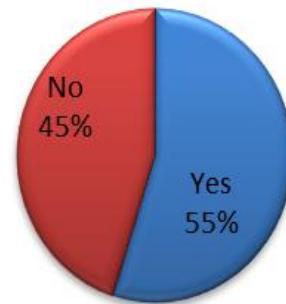
Fifty five percent of responding Realtors® indicated that at least one client did not purchase property. Financing problems appeared to be the major reason by international clients for not purchasing property, followed by the inability to find a property. Realtor® responses indicated that individuals may encounter delays in transferring substantial amounts of money internationally on an expedited basis:

Some international clients choose not to purchase a property.

- Even with 20% down, very often foreign clients face mortgage financing problems. Lenders rely too much on Credit Reports and ratings. Even with Certified Assets, mortgage financing is not available. Lenders MUST be taught about diversity, different cultures and other countries financing methods.

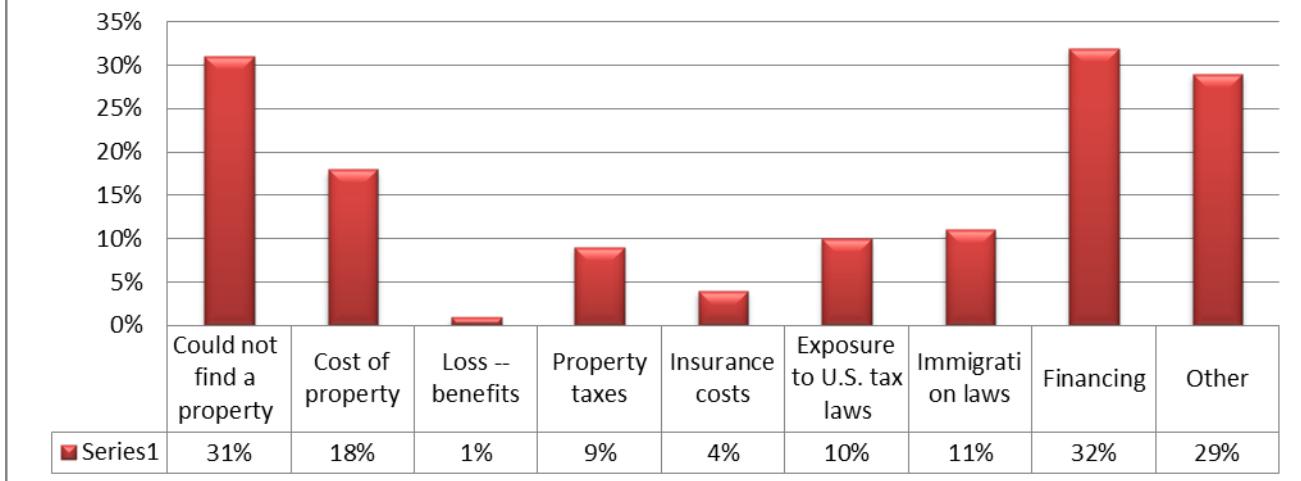
- Sometimes financing is the biggest obstacle. For one client it took a long time to close, and we had to use FHA, and getting social security numbers really delayed us. The couple did not have US credit scores.
- I believe that more foreigners would buy in the USA if financing was easier for them.
- Financing is too hard for well qualified buyers. I have Canadian nationals who amount for 50% of the part time residents and they have trouble including any bank without significant (40%) down payment.
- My client base is mostly Canada. Due to the mortgage changes they do not want to buy. Not only are they required to put 30-40% down but interest is 2-3% higher. For years Canadian had the same options as any U.S. citizen.
- Clients, especially from China, have a limited understanding of the loan process in our country and most of the lenders that I have had them contact have been arrogant and condescending in addition to the explanation of the qualification process. My clients could pay cash but for obvious reasons won't.

Did Any International Clients Decide Not to Purchase?



Inability to find a property was the second biggest impediment to completing a transaction. The failure to find a suitable property may also represent a marketing issue. The agent may be failing to meet the client's expectations, possibly due to differences in expectations. This problem may also represent an opportunity for participating Realtors® to acquire additional information about the client's background and culture.

Reasons for Not Buying



- My Swiss client was so blown away by the amount of paperwork involved in listing a property here in California, that besides hiring me, he retained an attorney to deal with the legal aspects. He also stated a sales agreement there is about a half-page in length. And he is fluent in English, among other languages.
- A New Zealand client of mine thought the paperwork was "laughable."
- Over the years I have sold property in Europe, Canada, South America, and represented buyers from those and other areas. The legal environment has become so hostile that I don't feel it's worth the time to pursue the market at all anymore.

Legal, Tax, and Immigration laws also impede international sales.

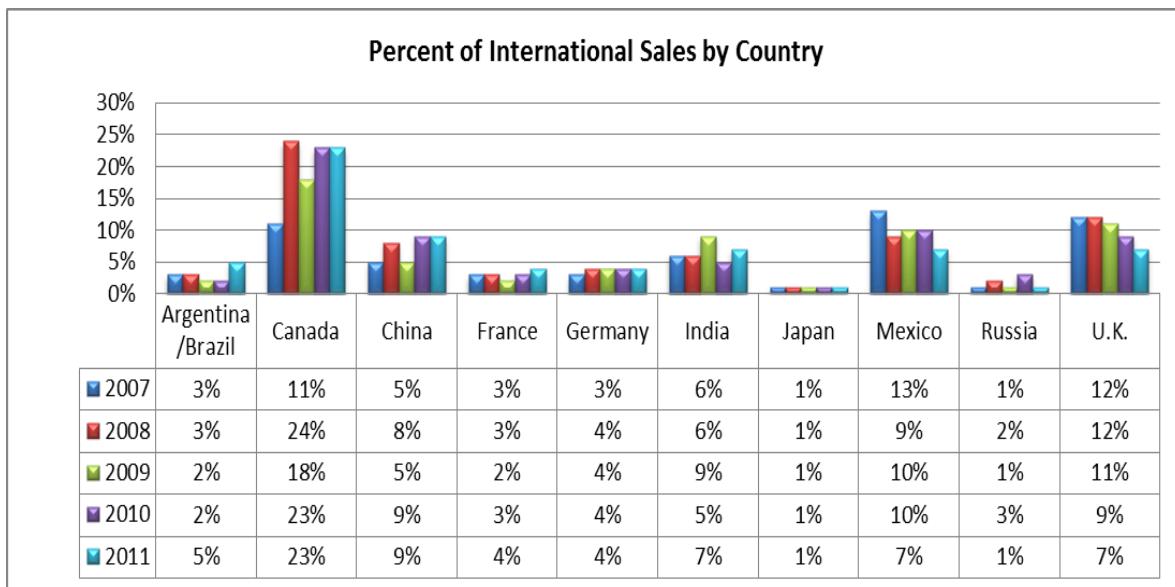
International Buyers: Their Origins and Purchases

Respondents reported sales to international buyers from 70 countries. Canada, China, Mexico, India, and the U.K were reported as having the most international buyers. It is possible to offer some general comments on buying preferences—although one can easily find counter examples to any statement:

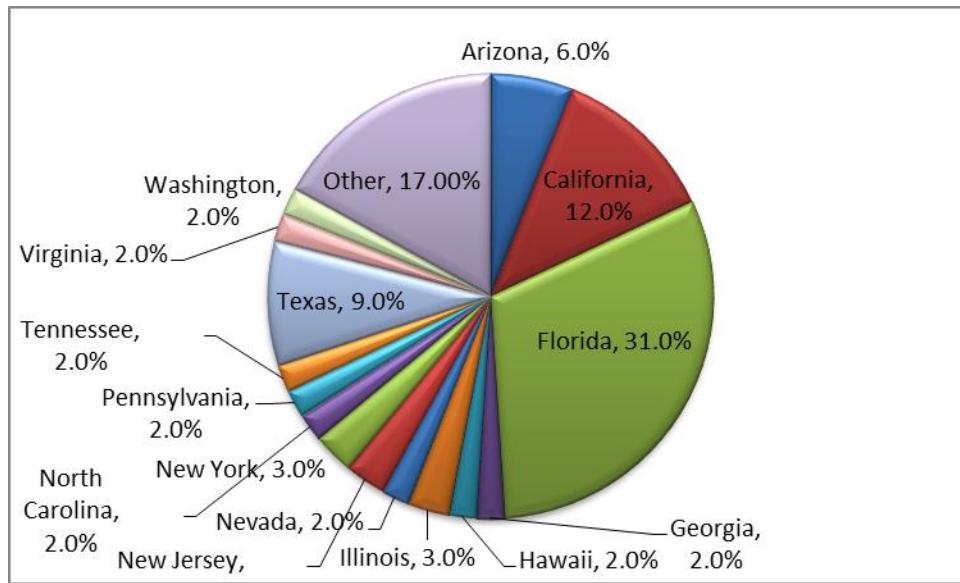
Respondents reported sales to international buyers from 70 countries.

- Purchasers from South America frequently find Florida attractive. Miami is viewed as a culturally diverse, international city. Canadians tend to focus on Florida and Arizona, possibly vacationing from the weather of northern winters. Mexican purchasers tend to focus on Arizona and Texas, possibly due to geographic proximity. Asian purchasers frequently locate in California.

- Buyers tend to cluster in specific locations based on their countries of origin, probably based on word-of-mouth and shared experiences.
- International buyers are diverse—some looking for trophy properties and others looking for very modest vacation properties.
- Recent immigrants tend to have many of the buying characteristics of non-immigrant purchasers.
- The three major areas originating international purchasers are Asia, North America, and Europe.

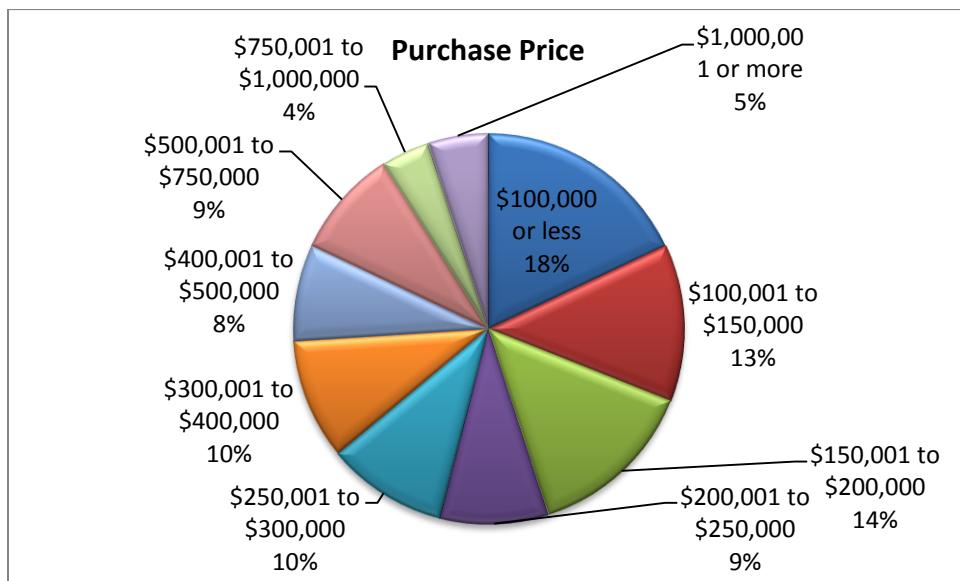


Most states have had some type of international buyer activity—vacation, investment, job, or educational related properties. However, property purchases are heavily concentrated in four states: Florida, California, Texas, and Arizona, accounting for 58 percent of sales.

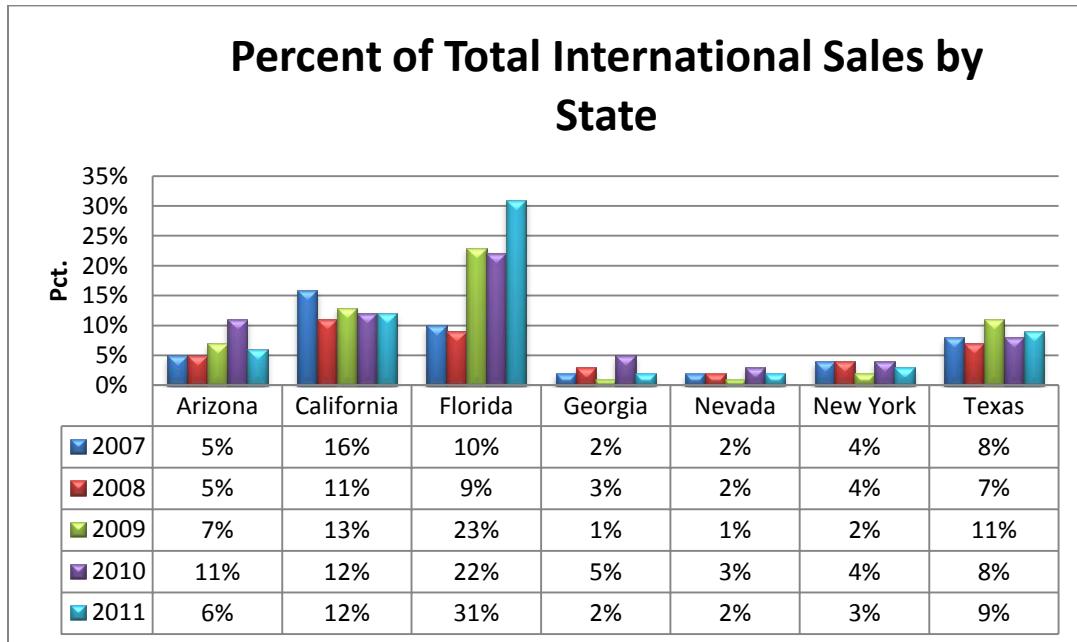
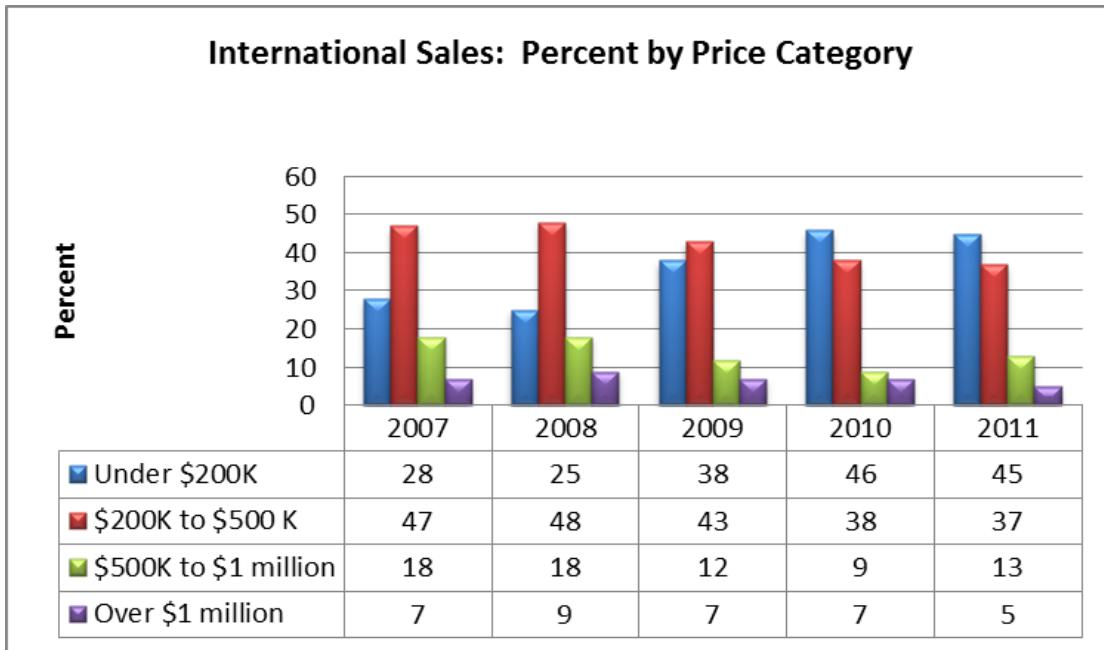


PROPERTY PRICES, TYPES, AND FINANCING

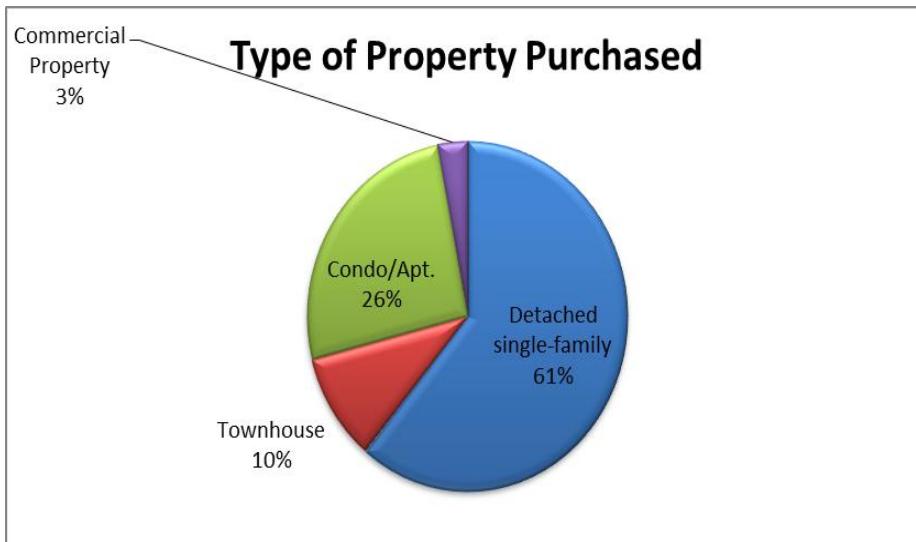
The average price paid by International buyers was \$315K, in comparison to the overall U.S. average of \$218K. Comparable median prices were \$200K and \$170K. Approximately 61 percent of international purchasers bought single family detached homes; the comparable figure for overall U.S. sales was 88 percent. Approximately 3 percent of international sales involved the purchase of commercial property.



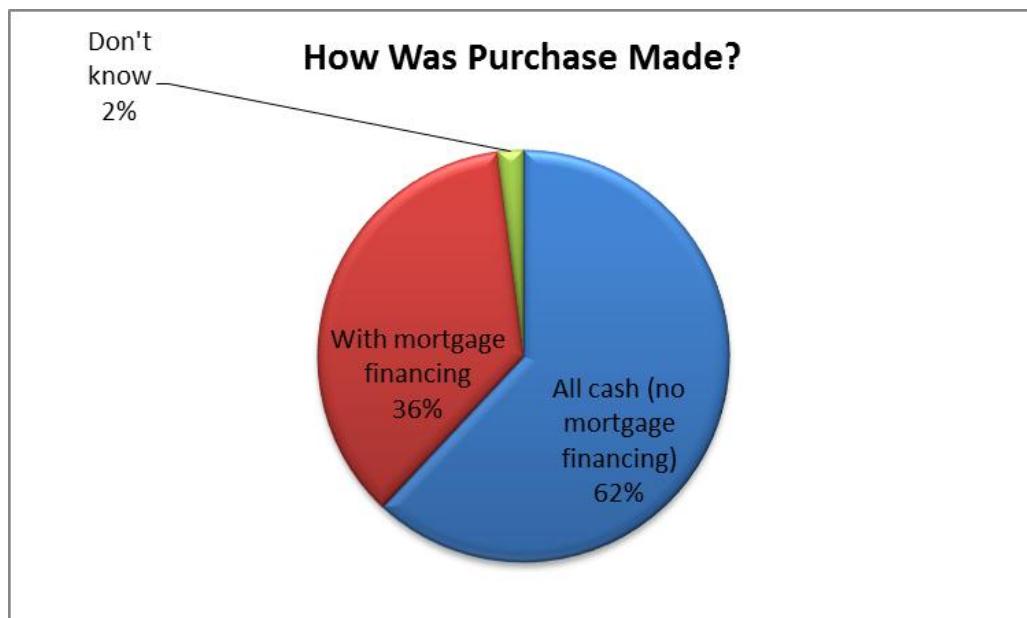
The “under \$200,000” category has been a growing segment, probably due to overall price declines plus the strengthening of some foreign currencies.



International purchasers typically buy detached single-family homes.

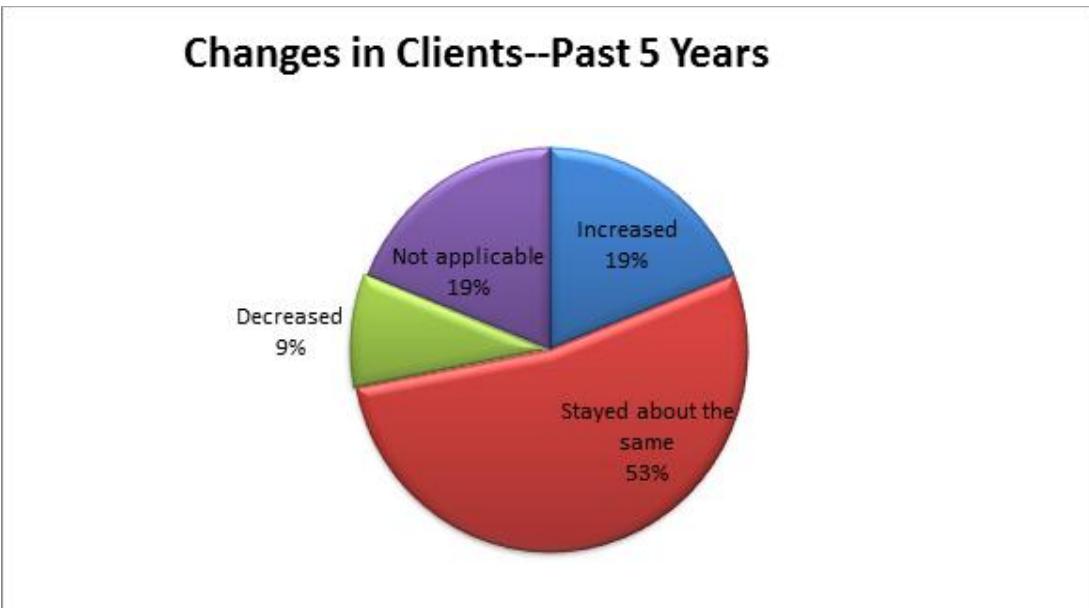
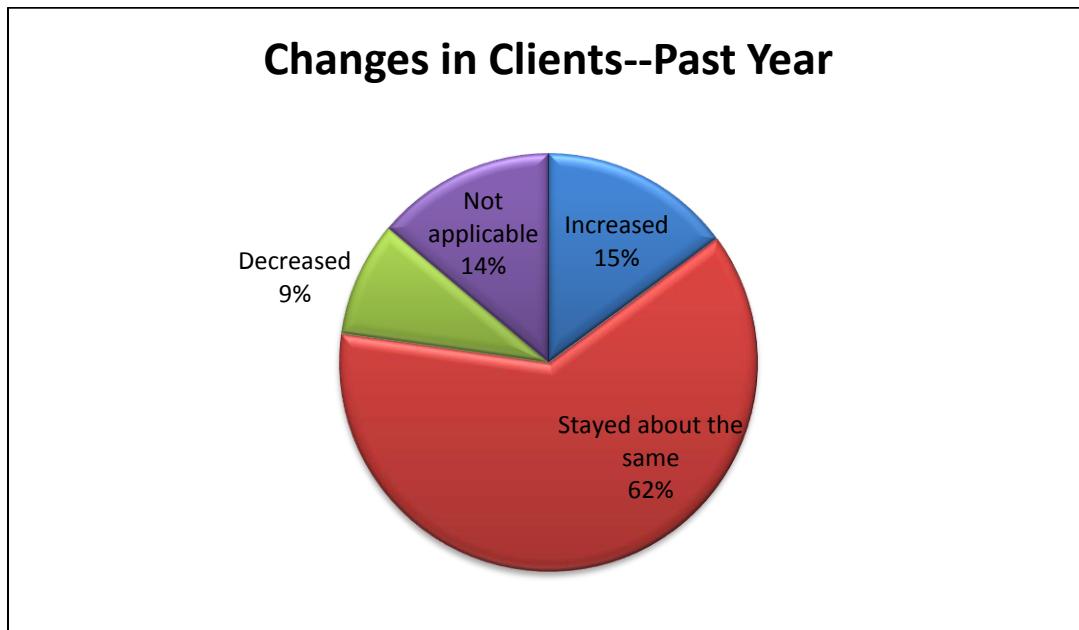


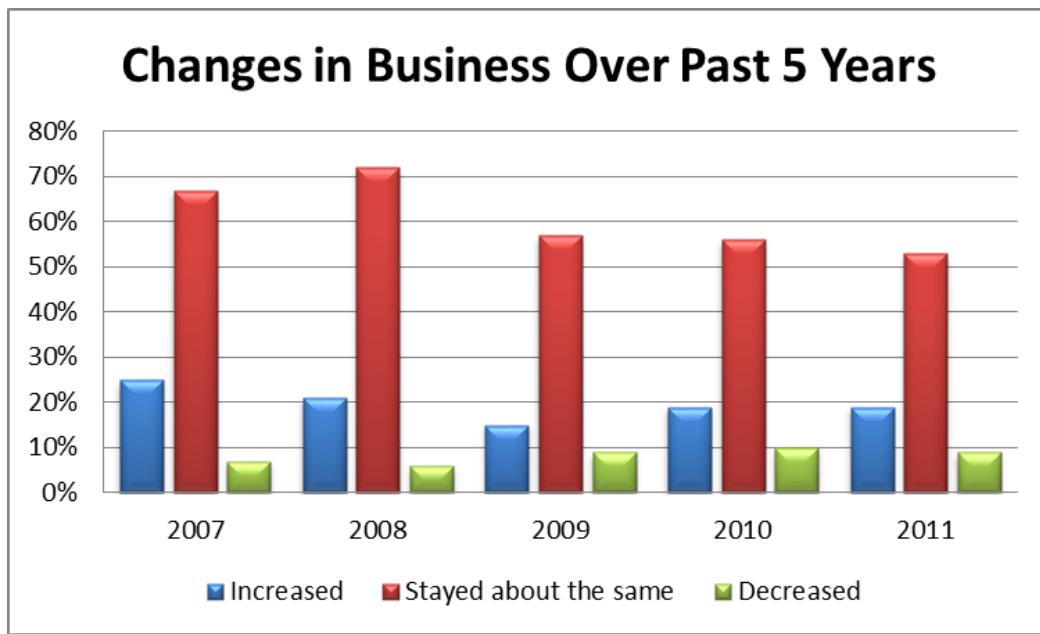
Due to differences in credit reporting standards internationally, 62 percent of international purchases are reported as being all cash.



TRENDS AND OUTLOOK FOR INTERNATIONAL SALES

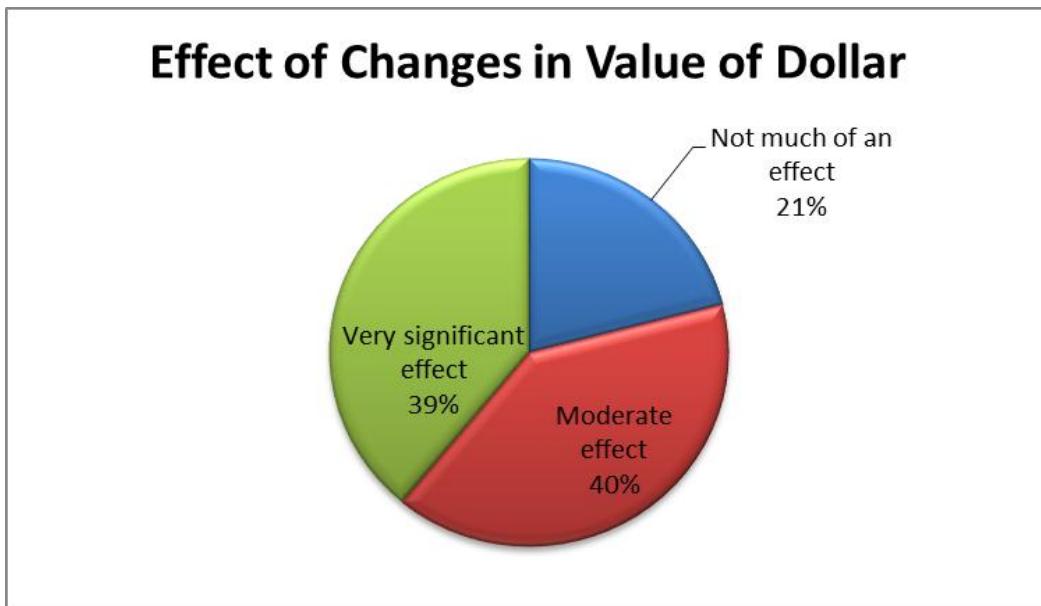
There has been a modest net increase in the number of international clients interested in U.S. properties, with increases outweighing decreases on a continuing basis.





Changes in the Value of the Dollar Impacts Sales

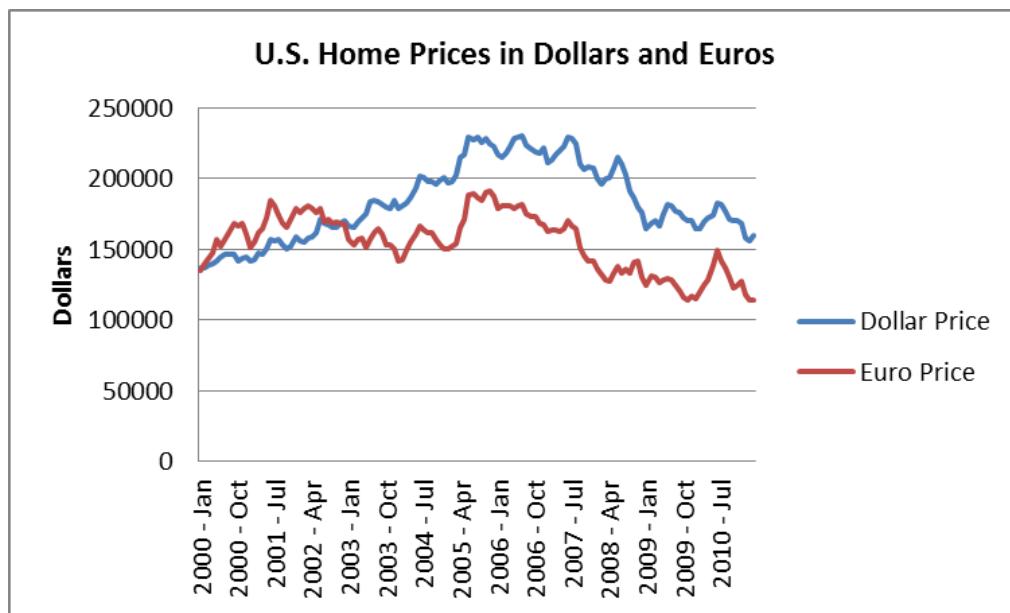
Almost 80 percent of Realtors® reported that the value of the dollar had an impact on international sales. U.S. home prices have declined in recent years in both dollars and euros. When the euro's value relative to the dollar increases the real price of a U.S. home to a euro based purchaser declines.



Almost 80 percent of Realtors® reported that the value of the dollar had an impact on international sales.

The values of all currencies fluctuate based on a variety of supply and demand factors influenced by trends in international commodities, industry competitiveness, and the flow of international investments. During the past 10 years the strength of the euro has in general increased the purchasing power of international buyers. Declining U.S. home prices have also increased the attractiveness of the U.S. market. Due to the arbitrage nature of international currency markets, when the dollar depreciates against the euro it also tends to depreciate

against other currencies, so overall the U.S. home buying market has become increasingly attractive to international purchasers.



CONCLUSIONS

The international market for U.S. residential property approaches \$82 Billion on an annual basis, split equally between non-resident foreigners and recent immigrants. In serving the market, Realtors® on the buy-side of the market rely heavily on contacts and reputation in obtaining clients.

The international market appears to be very specialized on the buyer side. Typically agents have a language and cultural background in common in dealing with prospective buyers, specialized experience in identifying buyer needs, and a knowledge of the intricacies of property transactions on an international basis. The biggest problem for international customers appears

The international market appears to be very specialized on the buyer side.

to be the transfer of assets internationally for the house purchase and/or obtaining the mortgage.

On the seller side the international market is much less specialized, for international purchasers have a wide variety of housing opportunities; the listing agent may have no experience in dealing with international customers. Given differences in culture, customer needs, negotiation styles, and other factors a listing agent may benefit from reviewing relevant material available from NAR in the event of having an opportunity to work with an international customer.

The bulk of international customers are concentrated in terms of countries of origin and in terms of states in which they purchase property. The market has grown slowly over recent years, with much of the recent growth coming from increased sales to recent immigrants.



NATIONAL
ASSOCIATION *of*
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The NATIONAL ASSOCIATION OF REALTORS®, "The Voice for Real Estate," is America's largest trade association, representing 1.1 million members, including NAR's institutes, societies and councils, involved in all aspects of the real estate industry. NAR membership includes brokers, salespeople, property managers, appraisers, counselors and others engaged in both residential and commercial real estate.

The term REALTOR® is a registered collective membership mark that identifies a real estate professional who is a member of the NATIONAL ASSOCIATION OF REALTORS® and subscribes to its strict Code of Ethics.

Working for America's property owners, the National Association provides a facility for professional development, research and exchange of information among its members and to the public and government for the purpose of preserving the free enterprise system and the right to own real property.

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The Mission of the NATIONAL ASSOCIATION OF REALTORS® Research Division is to collect and disseminate timely, accurate and comprehensive real estate data and to conduct economic analysis in order to inform and engage members, consumers, and policymakers and the media in a professional and accessible manner.

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