

'The builder had sold 130 homes the first day': Foreign buyers may add to housing woes, prices



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USA TODAY

Published 12:01 a.m. ET Aug. 5, 2021 | Updated 3:51 p.m. ET Aug. 5, 2021

In June, when real estate agent Nitin Gupta took two clients to see a new housing development in the Dallas-Fort Worth area, a sales representative for the builder told him all the units were gone.

The builder had planned to sell 100 homes to investors, out of roughly 1,500 he was planning to build. Investors had come to the site the day before, the rep told Gupta, and another agent had pitched the homes to a group of buyers in China over Zoom.

“He said, “The people were saying, I want one, I want two, I want three. Boom, boom, boom,” Gupta recalls. “The agent sold about 50 to 60 homes and the builder had sold 130 homes the first day.”

While the global COVID-19 pandemic has squashed sales of U.S. homes to foreign buyers over the last year, local buyers should be prepared for a rebound in competition from other countries in the next 12 months, economists say.

Texas, Gupta's state, ranked as the third-most-popular destination for foreign real estate buyers between April 2020 and March 2021, according to a recent report by the National Association of Realtors. Florida and California claim the top two spots, while Arizona, New Jersey and New York follow Texas.

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Chinese clients have been the top buyers of U.S. residential homes by sales-dollar-volume for a decade, and continue to rank No. 1 even as sales from April 2020 through March 2021 plunged 70% from the same period a year earlier.

Housing market gets more competitive

The downward trend was reflected across international buyers of all nationalities (China is followed by Canada, India, Mexico and the United Kingdom) who purchased 3%, or \$54.4 billion, worth of U.S. existing homes from April 2020 through March 2021, a 27% decrease from the previous 12-month period.

The decline in foreign real estate investments last year is hardly surprising given the global pandemic and travel restrictions that came with it. But what will happen when vaccinations pick up pace globally and things begin to get back to normal? Will the pent-up foreign demand put pressure on a U.S. housing market already grappling with low housing inventory and soaring prices?

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Economists say you should expect to compete with those buyers, especially since a large percentage of foreign buyers tend to make all-cash offers. Those offers, which are preferred by sellers as they provide certainty, accounted for 39% of international buyer transactions from April 2020 to March 2021, according to the National Association of Realtors.

That's significant since the demand for U.S. homes by foreign investors pushes up home prices, exacerbating concerns over housing affordability, says Benjamin Keys, a professor of real estate in the Wharton School at the University of Pennsylvania.

House prices climbed 8 percentage points more in U.S. zip codes with high foreign-born Chinese populations from 2012 to 2018, according to a 2020 paper co-authored by Keys.

Even without foreign buyers driving up the market, the median price of existing U.S. homes in June reached \$363,300, up 23.4% from June 2020.

Home prices top \$300K

The median existing-home sales price among international buyers from April 2020 to March 2021 touched \$351,800, 15% more than the \$305,500 median price for all existing homes sold in the U.S., according to the National Association of Realtors.

The price difference primarily reflects the locations and type of properties desired by foreign buyers. At \$476,500, Chinese buyers had the highest median purchase price and more than a third purchased property in California.

The number of available homes for sale has improved since June as more construction gets underway for higher-priced homes and a greater number of existing homes hits the market. Still, the supply of lower-priced homes remains tight, says Lawrence Yun, chief economist for the National Association of Realtors.

“Not having as active of a foreign buyer market last year was a welcome change especially when we were dealing with a severe housing shortage,” says Yun. “Now with the vaccinations making progress, it’s inevitable that in the next 12 months there will be a lot of interest.”

Housing markets appeal to foreign investors (which peaked at 10% of existing home sales in 2017) looking for healthy returns, vacation homes, safe havens for their money, or a way to dodge tax restraints and corruption crackdowns in their home countries, Keys says.

Foreign investment had steadily increased from \$66 billion in 2009-2010 to \$153 billion in 2016-2017, but declined after that, slipping to \$54 billion this year.

Experts have blamed the decline on factors including capital controls by the Chinese government, a weakened Canadian dollar, which makes it more expensive for Canadians to buy homes in America, and a rise in anti-immigrant rhetoric.

During the height of the pandemic, Keys says it was “impressive” that the number of foreign buyers stayed as high as it did, given the restrictions and international lockdowns.

Foreign buyers used virtual tours to view homes and could make their purchases remotely.

In the coming months, foreign demand could pick up, worsening an already tight housing market, Keys says.

Millennials, low interest rates keep the market crowded

“Interest rates are very low. A generation of millennials who have not had the financial wherewithal to buy houses are aging into (their) homebuying years,” he says. “And those whose jobs weathered the pandemic are in a good financial position to purchase a home right now.”

Adding foreign buyers to the mix could mean that home prices in states such as Florida, California, Texas New York and New Jersey (the top 5 most popular states among international buyers), will continue to soar, benefitting current homeowners and making it harder for those looking to enter the market.

Vickie Arcuri, a real estate agent in Florida who specializes in properties in Miami, Fort Lauderdale and Palm Beach, says she’s already seeing an uptick in foreign buyer interest.

The number of visitors from other countries to her website doubled in 2021 compared with 2020, with visitors from Canada representing 7.5% of the traffic.

“The foreign buyers I’ve spoken with are planning future travel to South Florida to view properties,” says Arcuri, who has previously sold properties to buyers from Canada, Colombia, Venezuela, Italy, Austria, and the U.K. “I’ve also visited several properties and viewed the properties with the buyers virtually through FaceTime, Whatsapp, and Zoom.”

Arcuri says she’s also been fielding a few questions and concerns about building safety since the Surfside condo collapse in Miami.

Knowing her Chinese real estate clients

But she believes there will be a stronger demand for new condominium buildings in the next year. Real estate agents in other states said they hadn't heard of any such concerns.

In the most popular state for Chinese buyers, Jojo Romeo of California has learned what to avoid when it comes to clients from that country.

Romeo, a real estate agent in Irvine, will not show a house with the number four in its address. A house located at a T-junction (where two roads meet a perpendicular intersection) is another no-no. Ditto if there are stairs that face the door.

“These are things I research in advance,” says Romeo, who became Feng-Shui-certified (the ancient Chinese practice that charts the flow of energy) when Chinese buyers started flocking to Irvine about a decade ago for its good schools and investment potential. “I don’t even bother to show properties that don’t fit those criteria.”

California has long been the number one destination for Chinese investors in U.S. residential real estate. In the 12-month period from April 2019 to March 2020, 35% of China’s \$15 billion residential real estate investments in the U.S. went to the Golden State.

Romeo sold a house in Irvine for a little under \$3 million to a family from China in March. The entire viewing happened via FaceTime and the purchase of the property was handled by a friend who had the power of attorney.

“The clients didn’t speak English so their daughter, who is about 17, was the translator,” she says.

The family wanted their son, who will be starting high school this fall, to get an American education, says Romeo.

Last month, the mother and son arrived at their new home in Irvine, which had been renovated and furnished by Romeo.

“Education is their first priority and that's why they are moving here," she says.

Gupta, in Texas, says he's been fielding five calls a day about homes. His state is a popular destination for buyers from India.

One of the biggest attractions of the area has been affordability.

“You can buy something decent for \$300,000 to \$400,000 and still make money" when you sell later, he says. “There’s also lots of new construction which is another thing Indian buyers like.”

But the prices have shot up.

Less than two years ago, Gupta says, new construction homes could be purchased for \$250,000. Now the price of entry is closer to \$400,000.

“Texas is the new California,” he says.

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