MANSION GLOBAL

5 Ways for Foreign Property Buyers to Get Around the Strong Dollar

Despite recent wobbles, the dollar remains formidable

BY KERRY CURRY

ORIGINALLY PUBLISHED ON FEBRUARY 16, 2016

International buyers accounted for 65% of all residences sold at the Marina Palms Yacht Club & Residences in North Miami Beach.

THE DEVSTAR GROUP

South Florida developer George Helmstetter knows first-hand the impact of wealthy foreign buyers on the region's luxury real estate market.

International buyers accounted for 65% of all residences sold at the Marina Palms Yacht Club & Residences, a two-tower luxury condominium and marina under construction in North Miami Beach by The DevStar Group, where Helmstetter is a principal.

Foreign purchases of existing U.S. homes declined an estimated 12% in 2015 based on National Association of Realtor's monthly sales data and Realtor Confidence Index surveys, says Realtor.com Chief Economist Jonathan Smoke. Realtor.com is a part of Move Inc., a subsidiary of News Corp., which also owns Mansion Global via Dow Jones.

"The stronger dollar, weaker economies abroad and higher prices made it more of a challenge for foreign buyers to compete against U.S. buyers," says Smoke.

Helmstetter said foreign buyers considering the yacht club are split on whether to wait or to buy now.

"Some buyers are waiting because of the strength of the dollar," he says. "They want the real (Brazil's currency) to come back before they make the conversion. But you have another camp who thinks the dollar will only get stronger," he says, and don't want to wait.

Chinese buyers remain very interested in U.S. real estate, says Sam Van Horebeek, director of East-West Property Advisors Ltd., a Shanghai-based company that helps connect Chinese buyers with the U.S. real estate market.

"The depreciation of the yuan leads many citizens here to believe that it is time to further diversify their investments," he says. "Assets denominated in U.S. dollars are in strong demand and the focus remains on U.S. properties."

For foreign buyers interested in the U.S. market, here is some advice from housing and financial experts on how to minimize the impact of the strong dollar:

1. HEDGE AGAINST CURRENCY RISK

Invest in an exchange-traded fund (ETF). ETFs act as a hedge against current rate fluctuations, says Richard DeNapoli, chief trust officer at Coral Gables Trust, a wealth management firm in Coral Gables, Florida. “There are quite a few ETFs out there that act as hedges against currency rate fluctuations,” he says “A foreign buyer concerned about this can invest when considering making a U.S. purchase, or can invest the difference of the cash needed to close at the time of contracting on their property.”

2. TAKE OUT A U.S. MORTGAGE

“It is challenging, however, to get a mortgage if you are a foreign national,” says Mike Larsen, co-branch manager of Castle & Cooke Mortgage, a lender in Park City, Utah, that deals with international buyers. “It all depends on the risks the lender wants to extend,” he says. International buyers should expect to put more money down than a domestic buyer, pay a slightly higher interest rate and be patient as the process will take time.

3. ADJUST EXPECTATIONS

Jacky Teplitzky, an associate real estate broker with Douglas Elliman Real Estate in New York, says foreign buyers interested in U.S. luxury properties may need to lower their price range. “My suggestion is to avoid buying in buildings where the price per square foot has reached its highest point; instead, buy in buildings and areas where there is upside potential.”

4. SET UP AN LLC

A limited liability company provides protection of the asset, says Tim Speiss, a partner in charge of the Personal Wealth Advisors Group at New York accounting firm EisnerAmper. “You could mitigate, avoid and maybe eliminate a U.S. estate tax,” he says. Although $5.4 million of the estate of domestic buyer is exempted from the federal estate tax, only $100,000 of a deceased nonresident’s estate is exempt from the estate tax, Speiss says.

5. CONSULT WITH TAX, LAW AND REAL ESTATE PROFESSIONALS

Tax regulations are different if the buyer is going to live in the house vs. rent out the property. Rules surrounding passive vs. active investors also apply.

For international buyers with a history of investing in U.S. real estate, a strong dollar isn’t that big a deal, says Jason Kim. Kim is a deal lawyer and partner in the Los Angeles law firm of Blank Rome where he assists a client base of Asian business interests, including high-net-worth shareholders from businesses wanting to invest in residential real estate.

“From the Korean side, high-net-worth-individuals have been buying up expensive mansions in Southern California for decades,” Kim says. “The general feeling I get from the people I talk with is they are used to the fluctuations in the currency market. They are used to economic slowdowns. They are pulling back, but there is no sense of panic. There is definitely a slowdown in the pace of acquisition in the residential market."