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Chinese investors aren't likely to cool on U.S. property investments

The economic turmoil in China had a hand in causing the U.S. stock market to plunge in recent days as jittery investors fled to the safety of U.S. Treasuries.

But the slowdown in the world's second-largest economy won't necessarily cool a recent red-hot trend in Chinese investment in real estate in large U.S. cities, analysts say.

China's sudden move to devalue its currency in response to flagging exports will make properties in the U.S. more expensive, analyst told Scotsman Guide News. But a slowing Chinese economy could also make stable U.S. property assets even more attractive.

"Chinese investors may have a slightly more difficult time buying U.S [commercial real estate] due to currency movements, but there is some growth here and yield, which will be attractive," said Jim Costello, senior vice president for Real Capital Analytics.

"Other investment options are less attractive in China, though, and investors may find U.S. CRE [commercial real estate] more attractive in that regard and buy more of it. Which one dominates? Hard to say."

Chinese investment rose rapidly after the recession, as state-owned enterprises, Chinese banks, insurance companies and wealthy private investors invested in homes and undervalued commercial real estate in major coastal gateway cities like New York City, Los Angeles and San Francisco.

China is now the second largest investor in U.S. real estate after only Canada, according to Deloitte. Direct Chinese investment in U.S. real estate and hospitality totaled $3.04 billion in 2014, up from $2.2 billion in 2013, with private investors accounting for more than three quarters of the deals, according to the Rhodium Group, which tracks deals totaling more than $500,000 in investment. This excludes potentially thousands of other deals involving Chinese investors.

Chinese investors have traditionally looked to invest in California and Hawaii, but some of the biggest commercial deals have come along the East Coast. Chinese investors bought into the $5.5 billion sale of the former Atlantic Yards in Brooklyn. This past October a Chinese insurance company purchased the Manhattan landmark Waldorf Astoria for $1.95 billion.

On the residential side, Chinese investors have been most active in big cities with well-established Chinese communities, particularly along the California coast. About three quarters of the buyers pay with cash and less than half use the properties as a permanent residences, a 2014 study by the National Association of Realtors reveals.

Cash flows into home purchases

It is not clear if the devalued currency and the rapid drop in the Chinese stock market will translate into less cash flowing into U.S. neighborhoods, said John Burns of the Irvine, Calif.-based John Burns Real Estate

Consulting.

“We have seen the dollar get a lot stronger in the last few years against just about every currency, except China, particularly the South American countries and Russia,” he said. “We have seen declining buying activity from all of those buyers. I am assuming the same from China, but the devaluation that has occurred thus far is a lot less than has occurred from these other countries. It is a matter of how much more expensive U.S. real estate investment becomes in their currency.”

Burns said the impact is also hard to forecast because the financing sources of a typical Chinese investor aren't well known.

“They are buying with cash, but I don’t know if they are borrowing back home,” Burns said. “In the analogy I remember from the late 1980s, the Japanese were buying a lot of U.S. real estate with cash. We found out later that they were borrowing a lot of money in Japan. We frankly don't know."

Others, though, don’t believe the market turmoil in China will hurt investment in the U.S., and could potentially spur on more interest in safe U.S. assets. Miami has seen strong Chinese investment in condominiums. Developers travel overseas and pitch to buyers directly, said Alan Lips, a partner with Gerson Preston Robinson, a Miami-based accounting firm that structures deals involving foreign investors.

“They are going to feel uncomfortable and less safe keeping their money in China, and they are going to look for the opportunity to take it out and put it in places where they are comfortable,” Lips said. Lips said people with money locked in China may have to pull back, but others could be even more active in foreign investment if the stock market and housing market crashes in China.

“There are many who already have their money out,” he said. “For those, this has no impact on them whatsoever other than [proving] their plan of not keeping their money in China.”