

Data dig: Are foreign investors driving up real estate in your California neighborhood?

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Scott and Erica Rothenberg thought the years of scrimping and saving had finally paid off.

The three-bedroom house outside of Elk Grove—an upper-middle-class suburb of Sacramento—checked all of the boxes: quiet neighborhood, quality school district, ample space to start a family.

But the couple knew competition for the house—like most houses in desirable California neighborhoods—would be cut-throat. Their agent warned they’d be bidding against not only a glut of young Sacramento-area families vying for a starter home, but also wealthier Bay Area residents fleeing astronomical prices. Even wealthy foreign investors from China, sensing an opportunity to park their cash and make steady returns, were getting in on the action.

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“I was like, ‘Are you serious?’ In Elk Grove?,” said Scott. “It’s really hard to deal with because it’s like, how do I compete with this? How do I compete with all this money? It really kind of blew me away.”

The Rothenbergs offered \$10,000 above asking price, in the low \$300,000s, and wrote the owners to explain who they were and how they loved the house. Days went by. Then their agent broke the news. The bid wasn't too low—it was actually the highest offer the seller received, the realtor told them. But another buyer offered cash—meaning a cleaner, quicker sale.

“We were pretty upset, we figured it was just some investor who was going to rent it out,” said Scott. “If we would have lost out to a person who was going to occupy, we wouldn't have been as upset.”

Their hunch was right. The property ended up being rented out, to another California family hoping to own a house someday, maybe when the market cools a little.

Which made Scott wonder: How much are foreign buyers and investment firms—two of the most common sources of all-cash transactions—impacting the average California family's ability to buy a home? He reached out to CALmatters to help answer that question. So we tried—starting with foreign buyers. Here's what we learned.

See how many all-cash home sales happened in your neighborhood

With the help of real estate data firm ATTOM Data Solutions, we've mapped all-cash home sales for each zip code in California from 2005 to 2017. Zip codes with less than 100 total sales over that time period were omitted from the map. Enter your zip code or city name to find your neighborhood on the map.

The data on foreign buyers is weak. And likely underplays their influence.

Back in 2006, about 10 percent of California single-family homes were purchased in all-cash transactions, according to the real estate data firm ATTOM Data Solutions. A decade later, it's nearly 25 percent. That means a quarter of California's extremely tight housing inventory is unlikely to go to households like the Rothenbergs—moderate-income families who need a mortgage to buy a home.

While all-cash buyers are often treated as a rough proxy for international buyers—the California Association of Realtors estimates they are more than twice as likely to pay in cash as domestic buyers—in reality they are more varied. Some are rich enough to not need to finance a first (or second or third) home, or simply prefer California real estate to the stock market. Private investment firms snapped up a ton of cheap homes during the foreclosure crisis—at one point more than one in three California homes was being purchased with all-cash. And increasingly older people, or their children, are liquidating assets to make all-cash offers.

But experts came to see foreign buyers as a bigger force in the market, and a contributor to the rise in single-family rentals California has seen the past 10 years.

“My guess would be that it’s flipped and that foreign buyers are now having a bigger impact than institutional investors,” said Daren Blomquist, senior vice president at ATTOM. “They aren’t a huge percentage of buyers, but certainly they are one of the reasons that the California market has bounced back so strongly from the recession.”

So what percentage of California’s housing stock is owned by foreign investors?

Let’s start with this major caveat: Foreign buyer real estate data is not good. California sales deeds don’t require a buyer or seller to disclose citizenship or residency status. So analysts rely on rough proxies for foreign ownership.

The house the Rothenbergs tried to buy is a good example. You can verify that the transaction was all cash, which is a good flag for a foreign buyer. You can verify that the tax address for the buyer is outside California, which is also a good flag. You can see the buyer’s surname, but given California’s demographic diversity, that’s hardly evidence foreign ownership.

But that’s all you can really say. Judging by the records, the owner of the Rothenbergs’ dream house could be a foreign-based investment buyer—or he might just be a wealthy Chinese-American who lives outside California and wants to invest in Sacramento real estate. (Attempts to contact the owners and the management company of the property were unsuccessful).

The California Association of Realtors estimates that 3 percent of last year’s purchases went to international buyers. Their data even suggests the share of international buyers has been on a downward trajectory since 2008—but that data relies on a survey of realtors, and could be undercounting.

“For one thing, the survey is conducted in English,” said Oscar Wei, senior economist for the California Association of Realtors. “So if you have Chinese buyers and Chinese agents, they may not necessarily want to participate in a survey written in English.”

Wei also acknowledges that Realtors may not always know the citizenship status of their clients, and that the timing of the survey could bias the overall results towards domestic buyers.

His rough estimate: 5 to 10 percent of the state’s single-family housing stock could be owned by international buyers.

So can we conclude anything reliable about foreign buyers?

We do have a decent grasp on where they’re coming from.

The fear of Chinese millionaires gobbling up American homes as just another piece in their global investment portfolio can veer into the cartoonish and xenophobic very quickly. As recently as 2014, Canadians purchased more U.S. homes than Chinese buyers, according to the National Realtors Association. And while Canadians are actually more likely to make all-cash offers, they receive nowhere near the scrutiny as the Chinese.

In California, however, Asian buyers do dominate: Last year they accounted for 71 percent of California homes sold to foreign buyers. That dwarfs the next closest group of international buyers, Latin Americans at 14 percent.

No state in the country has attracted nearly as much attention from Chinese buyers as California, site of nearly 40 percent of all Chinese home purchases in the U.S.

Why are the Chinese so enamored with California real estate? First, it's important to understand what we mean by "foreign." Those statistics include recently arrived immigrants, of which California has quite a few. There's legitimate debate over whether those immigrants should be counted as "foreign."

Many of the recently arrived Chinese snapping up California properties are holders of EB-5 visas—a U.S. program granting green cards to foreigners who invest \$500,000 in U.S. business.

"The wife and kids are in the U.S., some of the husbands are here some of the time and some are not, they have a portion of their money here and they have a portion of their money in China," says Lin He, a real estate investor and developer who courts Chinese property speculators in places like Newport Beach and Irvine.

The number of Chinese diaspora already settled in areas such as Orange County and the San Gabriel Valley attract a great deal of foreign investment because cultural and language similarities make the purchase process easier.

Much of that money goes towards primary residences—Chinese visa holders living with their family in a U.S. home. But after getting a foothold in California, many recently arrived Chinese view residential real estate as an attractive investment strategy—one that was not readily available to them in China, either because of government policy or exorbitant cost.

"The real estate in Beijing and some other places is really expensive," says He. "They spend a year here, they buy a house, they say, 'You won't believe it, it's so cheap here.'"

The National Realtors' survey found only 40 percent of Chinese foreign buyers intend to use their U.S. home as a primary residence for their recently immigrated family. The remainder eyed it as an investment vehicle, vacation home, or for use by a student.

The Chinese government is not fond of letting its citizens' burgeoning wealth wind up in American housing tracts. For years they've tried to clamp down on private investment leaving the country. A rule that limited Chinese citizens from taking more than \$50,000 outside the

country was more rigorously enforced last year, reducing Chinese home buying here according to [some reports](#).

But He cautions that people “will figure out ways to get money out of China. The appetite is always there, it’s just a matter of how they get the money out.”

What can California learn from Vancouver’s Foreign Buyer Tax?

The housing market in Vancouver, Canada resembles many California cities. Costs for single-family homes and condos have skyrocketed, making the city and its surrounding suburbs among the priciest places to live in North America.

Vancouver homes have also been a favored destination of overseas investment, primarily from China. Many residents fretted about the influence of foreign dollars on the city’s limited housing stock, but although good data was scarce, experts figured foreign buyers accounted for about 5 percent of home purchases.

Two years ago, under intense pressure from Vancouver residents, the British Columbia provincial government began mandating that homebuyers disclose citizenship on sales documents. The data revealed that in fact, 10 to 15 percent of houses were going to neither Canadian citizens nor permanent residents.

So the provincial government slapped a 15 percent tax on all sales to foreign home buyers. The immediate response was stunning: Within a few months, the price of a single-family property in the greater Vancouver area dropped 20 percent. In contrast, prices in Toronto and other major Canadian cities kept rising—buoyed in part by foreign capital searching for a new market outside Vancouver.

But the impact of the foreign buyer tax on Vancouver’s housing market appears to have waned somewhat. While foreign ownership is down, the price of single family home is about back to where it was before the tax enacted—well beyond reach for many Vancouver families. That doesn’t mean the tax isn’t making Vancouver home prices slightly more affordable than they otherwise would be, proponents say. It means the tax isn’t singlehandedly making Vancouver home prices affordable.

“The foreign buyer tax will have helped, and there is zero doubt about that,” says Joshua Gordon, public policy professor at Simon Fraser University and a tax supporter. “Whether it’s a panacea, and it is quite clear that is not a panacea, is a different question.”

Gordon cautions that taxing foreign buyers is not the same thing as taxing foreign money going into local real estate. Foreign investors can use local friends and families to purchase property for them. Or they can channel their money through investment funds or other instruments.

Are foreign buyers driving up prices by keeping homes off the market?

The idea of a foreign buyer tax has been floated in some quarters of California, including Silicon Valley, but has never received significant legislative attention at the state or local level.

That's partly because without solid data on foreign buyers, it's tough to gauge how much they might be driving up California prices.

Most economists agree that locales attracting lots of foreign investment—Irvine and the San Gabriel Valley, for example—are seeing prices rise because of an influx of foreign capital. It's difficult to extrapolate that effect statewide.

Those who argue the effect of foreign buyers on California home prices is overstated often cite the type of homes offshore investors are often interested in: newly constructed houses and higher-priced houses at the top of the market. They also point to ever-rising prices in California neighborhoods that have little appeal to foreign buyers.

"It's a very limited number of homes," says He, the Orange County real estate investor. "They may sell faster, but I don't think it has much impact on price."

But while the most intense competition from abroad might be for more expensive properties, that demand can still have an impact down-market. Blunt that demand, says Wei, the Realtors' economist, and "you'd probably see some softening in the higher-priced properties. And that would lead of course to some softening in home prices not just in those areas, but it would trigger down to the statewide median price." But he stresses that average home prices wouldn't see a major dip.

Despite the focus on foreign buyers demand for listed houses, their effect on the inventory of current houses for sale could be just as important. If foreign buyers are more inclined to buy property as a long-term investment vehicle, they may be less inclined to sell.

"The typical homeowner now stays in their house seven to 10 years," says Rosanna Garcia, a Sacramento-area agent who specializes in investment properties for foreign buyers. "If you're looking at a foreign investor, they've got the money to wait. The longer you can hold on to it, the more money you can make in the end."

That means fewer properties on the market, and more to rent.

Garcia stresses that it's easy to blame foreign buyers for California's housing market woes, rather than focusing on the lack of new construction or other distortions to the state's dysfunctional housing market.

And it's not only foreign buyers who are making all-cash offers like the one that beat out the Rothenbergs. Next we'll examine the role of private investment firms in our continuing coverage of California's housing crisis.

