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COMMERCE

Stock market volatility may be a boon for western real estate

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Property

By FORREST CARDAMENIS

As the stock market continues to ebb and flow, it will not be a surprise if Chinese and other foreign money pours into Western real estate.

The Shanghai Stock Exchange is currently lower than it has been all year and its relative strength index is as low as it has been for two years, while the Dow Jones, despite recent growth, is still only slightly better than it was last October. Nonetheless, the perceived safety of real estate and the nature of its long-term investment could provide a solace for high-net-worth consumers worldwide.

"International investors have long looked at the New York City real estate market as a solid investment," said Gabby Warshawer, director of research and communications at CityRealty, New York. "Its consistent growth over the years since the recession has made it an attractive opportunity for buyers from all over the world, including those from countries experiencing market volatility.

"There have been some notable purchases by Chinese buyers in the last year, including a $47.4 million purchase by HNA Group's Guoqing Chen at One57."

Location, location, location

China, along with Canada and the United Kingdom, is among the premier foreign investors in United States real estate, making up 16 percent of purchases of single-family homes and condominiums from abroad. In addition, the average purchase price of a property being purchased by Chinese consumers is nearly two-and-a-half times the national average, at a bit more than $830,000.

Chinese consumers outside of a Louis Vuitton store

Moreover, even as there are fewer investments in real estate from abroad, the value of the homes being purchased continues to increase, according to the National Association of Realtors' Economists' Outlook blog. This indicates that those who continue to invest in U.S. real estate from abroad are luxury consumers making larger investments.

The volatility of the stock market may not change that. With real estate prices trending up in New York City, long a haven for foreign investments, and the Shanghai Stock Exchange continuing to trend down, New York and other western markets may be better investments worried about losing money in the stock market.

A recent report by Sotheby's International Real Estate and Wealth-X, "Homes As Opportunity Gateways," found that foreign investors view Western real estate as a long-term, stable investment. If the rising prices of New York real estate scare some Chinese consumers away, it could benefit Canada and Australia, as Vancouver and Sydney real estate is a fraction of the price of New York's even with property values on the rise.

Image from a Christie's real estate listing

Investments in New York and other premium locations should not be expected to fall away altogether, though. If Chinese consumers see real estate as an investment rather than as a home, high-priced markets may remain the most attractive.

Emma Hao, a real estate broker for Douglas Elliman, told Business Insider, “The investor will buy in higher-tier neighborhoods, such as New York or Los Angeles.”

Wherever they choose buy, it seems unlikely that Chinese consumers, already so heavily engulfed in Western real estate, will be scared out of it by market volatility. More likely, it will do the opposite.

“Market volatility in a number of nations, and particularly in China, has led buyers to seek homes in economically and politically stable locations in the West as a hedge against market uncertainty at home,” said Lindsey Scharf, senior manager, brand content & communications, Sotheby’s International Realty, Morristown, New Jersey.

The long haul

Ultimately, the long-term nature of real estate investments suggests that short-term market volatility actually makes the real estate’s stability more attractive. While brands in other sectors may feel an impact more directly correlated with consumers’ finances and state of mind, the appeal of real estate to what Wealth-X terms “ultra-high-net-worth individuals,” those with at least $30 million in assets, is tied to its long-term value.

Real estate is a particularly unique industry, and the effect the stock market causes on it will not translate smoothly to other sectors. Moreover, the drops in the stock exchange are only one obstacle for many luxury brands that have sought to capitalize on China’s recent economic boom.

While many affluent Chinese may be in a stable financial position, luxury brands may continue to face challenges if the economic tide does not turn.

By 2022, China’s retail market is expected to be double that of the United States and grow to $8 trillion, according to a study by A.T. Kearney. But the brands that have already entered the market at a steady rate have been stunted by over-expansion and poorly performing storefronts (see story).

But while retail brands in China may face a number of obstacles, real estate brokers, at least for the moment, have little concern.

“New York City real estate has been a historically strong investment class, particularly in the long term, and we expect the values to continue to grow,” said CityRealty's Ms. Warshawer.

Final Take

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