

REAL ESTATE

Currency fluctuation directly impacts sales numbers in addition to ROI

July 12, 2017



Christie's International Real Estate listing at 795 Fifth Avenue, New York. Image credit: Christie's International Real Estate

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United States real estate sales from overseas buyers have declined during 2014 and 2016 due to appreciation of the dollar, according to a new report from Knight Frank.

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Between June 2014 and January 2016, the U.S. dollar had an appreciation rate of 25 percent, says the [Global Currency Report](#). The appreciation caused a 25 percent drop in non-residential purchases between the same years.

"The report detailed several key findings, most notably the significant impact of currency market movements on both the return provided by an overseas asset and the flow of international capital into property markets," said Taimur Khan, senior analyst at Knight Frank. "The report showed that the appreciation of the U.S. dollar by 21 percent between June 2014 and January 2016 made it more expensive for international buyers to purchase in the U.S., contributing to a 25 percent fall in non-residential property purchases in the U.S. over this time period.

Impact of currency

Currency is proving to be a significant force in international properties sales. While currency effects on return on investment are to be expected, they also affect the flow of international capital into property markets.



The United Kingdom and Turkey saw property owners in the first quarter of this year in a more powerful position thanks to the weakness of these two currencies. Many owners who were able to sell saw strong returns.

Buyers from the U.S. saw a discount of 28 percent this March when purchasing in the U.K. due to the rise in strength of the dollar. Those who use the Ruble saw a 12 percent price decrease for the same reason.



Sotheby's International Realty listing in San Francisco

However, while currency is a major driver in terms of international sales, traditional market indicators are still just as important. For instance, price performance and yield are still extremely important, according to Knight Frank.

Additional insight

International home buying in the United States has had an effect on the top end of the country's residential market, but it is expected to stay the same or decrease in the next year, according to a new study from Zillow.

Zillow's 2017 Q2 Home Price Expectations Survey, which was conducted by Pulsenomics, spoke to many experts on the U.S. housing market about the effect of buyers from outside the country on homes in the U.S. While international buyers are often held up as the cause of rising home prices, Zillow found that this is only really true for the most expensive homes and that more modestly priced homes have their prices affected by other factors ([see more](#)).

Luxury properties are also seeing significant gains following a stagnant 2016, after United States President Trump's promises of tax relief give wealthy consumers expectations for positive economic growth.

Property prices are up 4.2 percent from last year, likely supported by the new White House administration, according to research from Redfin. The administration has also pushed price points in luxury home sales in Washington after President Trump's appointees purchased extravagant properties ([see more](#)).

"I would highlight the importance of keeping in mind the fundamentals which underpin the property market," Mr. Khan said. "Whilst currency shifts can be significant, it is important to keep in mind the fundamentals which underpin property markets. These can be the most significant drivers of performance.

"Taking Berlin's five year returns as an example, of the six currencies that have outperformed the local market over the last five years, all have experienced sudden political or economic upheaval," he said. "The imposition of sanctions on Russia and the recovery in the price of oil has influenced the Ruble. Uncertainty underpinned by political instability (Malaysia and Turkey) and referendums (Turkey and the UK) have led to depreciations in these countries' currencies.

"After these sharp depreciations, buyers denominated in these currencies have been subject to a material fall in their buying power. On the other hand, existing investors who are looking to repatriate their capital could use these depreciations as a method to enhance their returns."