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Real estate sales sink as foreign buyers shy away from shaky political climate in U.S.

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Luxury real estate has seen a dramatic downturn this year, as punitive new tax laws and a retreat by foreign buyers sent prices spiraling to recession-era levels in some markets.

Foreign buyers — who have helped fuel the push in premium homes — are on the wane. According to the National Association of Realtors, the dollar volume of foreign purchases from April 2018 to March 2019 was down 36 percent from the same period a year before. The number of foreign buyers dropped by 31 percent.

The reasons include limits on taking cash out of foreign countries, anti-corruption laws taking effect, market saturation, rising property prices, and concern about the stability of the U.S.

The New York City real estate market has slowed significantly, said Pierre Debbas, managing partner of real estate law firm Romer Debbas. “Deal volume across the city is down at least 25 percent,” he said.

The average price for a Manhattan apartment fell by 14 percent last quarter, according to a report from real estate appraisers Douglas Elliman and Miller Samuel.

“If you look around Manhattan at all these 90-story glass towers and starting prices are $5,000 a foot , people around here for the most part aren’t buying them,” Debbas said. Real estate sales in South Florida have also felt an impact. “Has it dropped precipitously? No,” said Mike Pappas, CEO of real estate firm The Keyes Company. “Has it slowed? Yes, for multiple reasons.”

There are macroeconomic issues. “The residential part is mostly affected by

mortgage interest rates," said Thomas Dore, associate professor of the practice at Notre Dame Law School and concurrent professor of real estate at the Fitzgerald Institute for Real Estate. The 2017 cap on federal tax deduction of state and local taxes — so-called SALT — pushed many people with high incomes and expensive properties in high-tax states like New York and California to seek states with fewer such expenses.

But a big reason for the slowdown is "interest from abroad has dried up significantly," Debbas said.

"The driver of our business has mainly been Europe, the Northeast, and South and Central American," with 35 percent of real estate business in South Florida historically coming from foreign investment, Pappas told NBC News. One reason is the strong U.S. dollar. "When the dollar is strong, we become much more expensive for people," said Mark Meland, a partner in Florida law firm Meland Budwick, P.A. "If you look at the recession the last time around, we had a tremendous amount of buyers who came in because the dollar was weaker and prices were down." Now prices are much higher, both absolutely and due to exchange rates.

Then there is political instability. "We're seeing people here selling their property to send money back to Venezuela," Pappas said. "It's serious — people can't eat. That's probably been the biggest impact. Then you throw in Brazil with political unrest and economic issues." U.S. politics, like the monthslong trade war with China, also have an effect.

"These things have political repercussions," said Ken Weissenberg, co-chair in real estate services and partner in accounting firm EisnerAmper. "Also, from a political view, why would someone south of the border invest in the U.S. right now ?"

"In our current political climate, we're not viewed to be as stable as we once were," Debbas said. Multiple countries are also enforcing restrictions on the amount of money people can take across borders in a year. The fuel for cash deals is sparser than it once was.

One source of funding for some percentage of buyers was "questionable money," as Pappas puts it. "We may have gotten benefit from political unrest and people who had access to money that was not theirs," he said. Then came the growing popularity of legislation that forced identification of buyers in areas with many all-

cash transactions that raised questions about money laundering.

> “In real estate, you have the ability to protect the identity of the owner,” said Meland. “Most of the time it’s done for legitimate reasons.” For example, a celebrity might not want to attract crowds of gawkers. But, now, even in those cases the government insists on knowing the ultimate buyer.

For now, when it comes to upscale real estate, many properties that once would have attracted buyers sit empty.