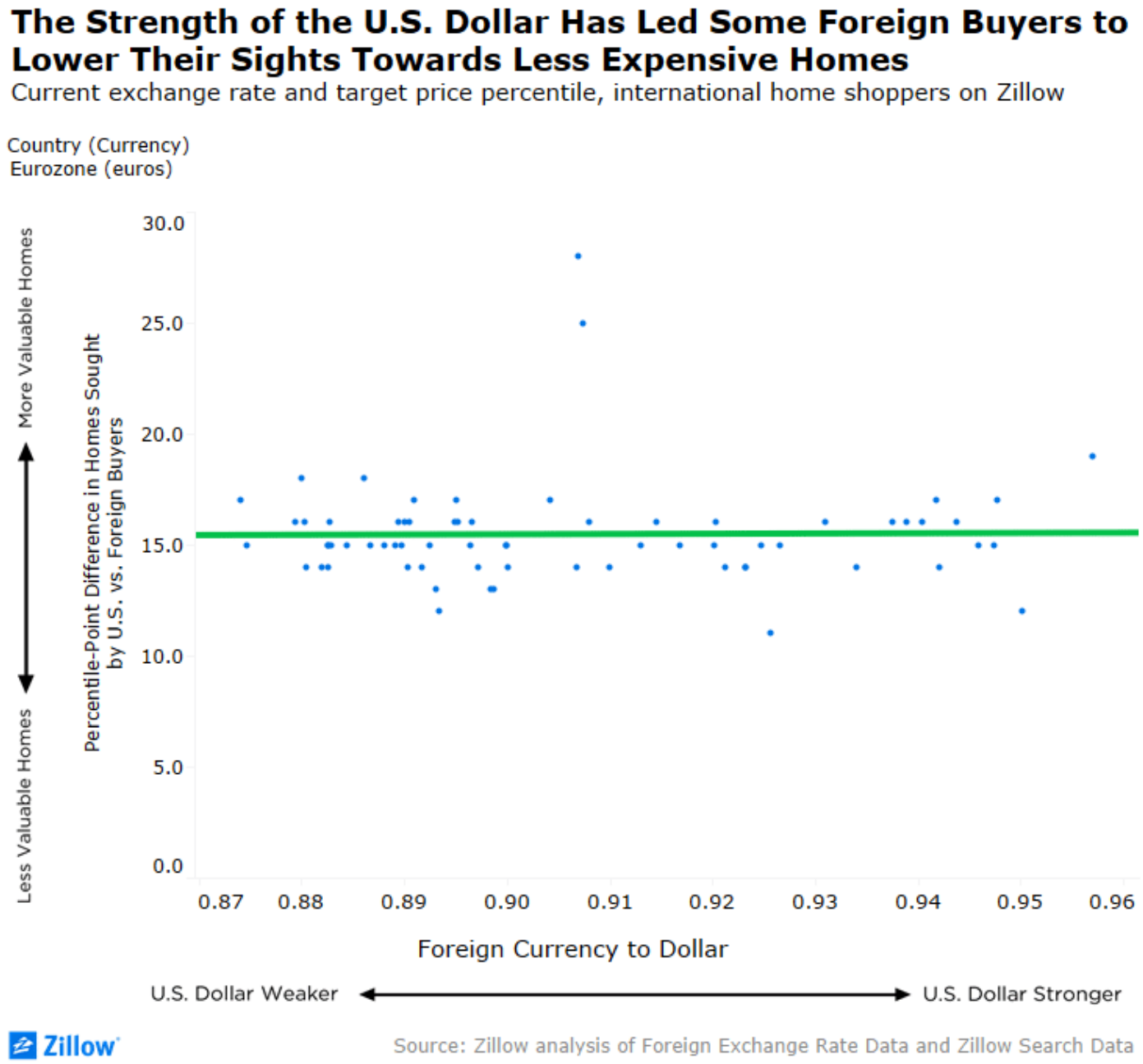
Strengthening U.S. dollar constricting foreign homebuyer affordability: Zillow

In July, Juwai released a study that predicted 2017 Chinese residential real estate investment would drop from its 2016 peak of $101.4 billion to $80 billion for a number of reasons, including Chinese restrictions on the transfer of capital overseas, foreign buyer restrictions and taxes in some key markets, and gloomy forecasts about the Chinese economy in the coming year.

But there's one more barrier the study didn't discuss: the strengthening U.S. dollar and how it impacts what properties foreign buyers can now afford.

According to Zillow's latest study, compared to 2015 the dollar currently buys 30 percent more Mexican pesos, 25 percent more British pounds, 15 percent more Brazilian reals, 10 percent more Chinese yuan and 7 percent more Euros or Canadian dollars.



How is the international community responding?

U.S. homes are now even more expensive for foreign buyers, who tend to purchase homes that are in the $300,000 and above bracket and pay all-cash. Today a Chinese buyer would spend $2,015,670 yuan for a $300,000 home versus $1,814,103 yuan for the same priced home in 2015.

For foreign buyers, the change in currency strength has three possible results:

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1. They will start shopping for less expensive homes.
2. They will drop out of the U.S. housing market altogether.
3. They will simply shell out more money for the homes they truly want.

With a little number crunching, Zillow data analysts found that foreign buyers are reacting differently to the changes in the currency exchange based on how strong or weak their home country’s currency is.

Europeans, whose Euro is closest in value to the dollar, didn’t change their buying habits — they simply kept looking for the same homes that were 15 to 20 percentage points more expensive than what the average U.S. buyer was looking for. Mexicans and Canadians also doubled down on homes at a higher price point, although there were fewer buyers overall from that demographic.

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although there were fewer buyers overall from that demographic. On average, Canadian buyers who stayed in the market increased their budgets by $100,000, and Mexican buyers increased their budgets by $50,000.

Meanwhile, Chinese buyers pulled back their purse strings, tightened their budget by about $22,000 and began looking for homes at lower price points. As Juwai pointed out in its July study, Chinese restrictions on the transfer of capital overseas also play a part in Chinese buyers spending less (and spending less frequently) in the United States.

“Stricter foreign government regulations and the current uncertainty on policy surrounding U.S. immigration and international trade policy could very well lead to a slowdown in foreign investment,” said the National Association of Realtors Chief Economist Lawrence Yun in response to a NAR study on international buyers.

Overall, currency changes, governmental regulations, strained political relationships and booming U.S. home prices aren’t expected to stop foreign buyers from investing in U.S. residential real estate.

“Some of the acceleration in foreign purchases over the past year appears to come from the combination of more affordable property choices in the U.S. and foreigners deciding to buy now knowing that any further weakening of their local currency against the dollar will make buying more expensive in the future,” Yun added.

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