CONCRETE THOUGHTS

Dollars and Good Sense

Weighing the impact of a weak dollar on foreign investment in New York City

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Since the summer, we've seen the U.S. dollar gain significant strength relative to the euro and many other foreign currencies. One of the frequently asked questions I've been fielding is how the strengthening dollar will impact foreign investment in New York City. It's true that the dollar has strengthened. If we compare the dollar to the euro, we see that in August the euro was at 1.45 to the dollar and, last Friday, the euro dropped to 1.27 as the economic problems in Europe impact the currency balance. If we believe what many people in the industry claim, that the weak dollar is an incentive for foreign buyers to purchase properties here, this shift should exert negative pressure on the flow of overseas capital into our market.

Robert Knakal

I'm always left scratching my head when I hear people say the weak dollar stimulates foreign investment in the U.S. The fact is, when the dollar is weak, the incentive for offshore buyers to invest here is also correlatively weak. Think about the dynamic at work. If foreign investors buy a property here because the dollar is weak, they'll receive their income in the same weak dollar. And if they sell the property (even at a big profit), they'll receive the sale proceeds in that same weak dollar. Without fluctuations in the relative strength of each currency, investors are no better off from having invested in the land of the weak dollar.

In fact, foreign investors would benefit from an investment here only if their home currency failed to strengthen at the same pace as the dollar. Only if investors chose to play a currency arbitrage trade (while also investing in real estate) could they hope to receive a benefit specifically caused by the weak dollar. While some investors might take this into consideration, the vast majority of foreign commercial real estate investors do not.

This theory is also supported by the fact that we haven't seen a long-term correlation between the strength of the dollar and the appetite from cross-border investors for properties here. And if that correlation existed, it would be reflected in the New York City sales data, as the Big Apple is the most sought-after destination for this foreign capital.

Consistent demand from foreign investors has been apparent since the 1980s, particularly south of 96th Street. We estimate that, each year, about 10 to 15 percent of the properties here are purchased directly by investors outside of America. What's more difficult to determine is the extent to which foreign capital is serving as equity financing for local investors. Many foreign institutions have poured billions of dollars into New York City, particularly in the multifamily market through operators with established portfolios who get a tremendous boost from the capital provided by these foreign, indirect, capital sources.

Recently, we've seen foreign, high-net-worth individuals looking to purchase properties on a direct basis in New York. We believe this has been caused by the economic turmoil being experienced across the globe and the relative safety of investing here. As dysfunctional as we believe our political system is, and as sluggish as our economic recovery has been, the U.S. remains relatively stable, and that stability is viewed as a safe haven for foreign capital.

In the meantime, my company is working with real estate investors from 28 countries across the globe, and they're all interested in purchasing income-producing properties in Manhattan. And regardless of whether they're trading pesos, pounds, kronas, rands or yens, what each of them wants most is capital preservation—no matter how strong the dollar is.

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