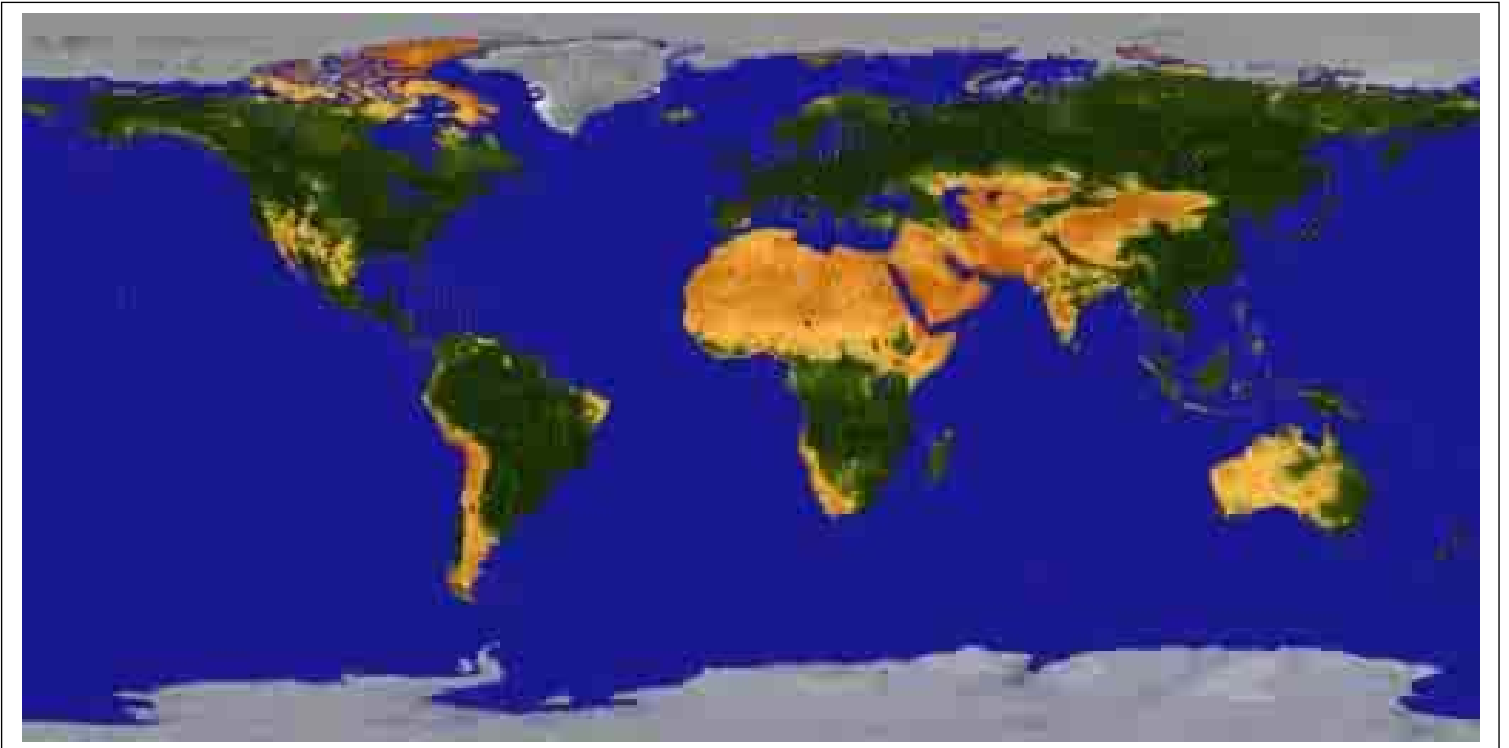




International Home Buying Activity in the U.S.: Focus on Pennsylvania



NATIONAL ASSOCIATION OF REALTORS®

The Voice for Real Estate®

International Home Buying Activity in the U.S.:

Focus on Pennsylvania

Prepared by the Research Division of the National Association of REALTORS®

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The world is a global marketplace. We hear reports every day about how trade barriers between countries are being lowered or eliminated completely. Many of us have investments in either foreign companies or multinational corporations. The U.S. economy is also heavily invested in foreign business. In 1970, international components accounted for 10 percent of U.S. economy; by mid-2007, they accounted for 29 percent. One effect of that upward international trend fact is an increasing number of U.S. workers based abroad to help U.S. exports. Another factor is the recent downturn in the value of the U.S. dollar compared to foreign currencies, particularly the Euro and the pound. As the dollar has dropped, foreign currencies purchase more U.S. goods and services. Many foreign visitors to the United States come here for vacation, to buy U.S. goods, or to see family members who are resident here. Consequently, the opportunities for selling a home to an international client are increasing every day.

In late 2006, NAR Research initiated a major effort to track the trends of home buying in the U.S. among international clients. That effort has resulted in several major reports on international home buying activity in the U.S. -- one focused on national trends, two based on surveys of Florida REALTORS®, and a study presenting preliminary results of a survey of REALTORS® in the state of Pennsylvania. That initial survey – conducted in June of 2007 – showed that while the level of international home buying activity in the Keystone state is less than that for the nation at large, it is still significant.

NAR Research conducted a follow-up survey of Pennsylvania REALTORS in the fall of 2007. Results of that survey are based on a broader sample of respondents, and while some of those results are similar to those of the earlier survey, there are some differences. Slightly less than a quarter of REALTORS® in Pennsylvania had at least one international client in the twelve-month period between June of 2006 and June of 2007. The broader survey also found that international clients who bought homes in Pennsylvania came from all regions of the world, with the top five counties of origin being the United Kingdom, India, China, Canada and Brazil. And while the majority of REALTORS® report that their international business has remained at about the same level for the past five years, 15 percent indicate that business with foreign clients has increased during the same period versus four percent who indicated a decrease.

We hope that the information contained in this follow-up report on international home buying activity in Pennsylvania will help inform REALTORS® in that state, as well as those in other areas of the country, about the home buying preferences of international clients.

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Notes on the Survey

The initial survey on international home buying in Pennsylvania was conducted in June of 2007 via an email link from the Pennsylvania Association of REALTORS® to its members. The second, broader survey was conducted September 13-25, 2007. Results were based on the 521 responses from the 656 REALTORS® who visited the site and who had at least one international client during the 12-month time period between June 2006 and June 2007.

For purposes of this survey of international home buying activity in Pennsylvania, the term "***International clients***" refers to clients who entered the United States legally but have a principal residence in another country. Examples include a British citizen buying a vacation home in the U.S. or a Japanese citizen buying a home while working at a U.S.-based multinational company. This does ***not*** refer to U.S. immigrants.

Comparisons are made between the Pennsylvania survey results as well as results from the survey of REALTORS nationwide conducted earlier in the year. Some existing home sales data cited in this report is for calendar year 2006 and so is not directly comparable to sales activity reported for the survey period. Percentage distribution data may not add to 100 due to rounding.

The survey asked REALTORS® for comments about conducting business with international clients, what factors attracted the buyer to U.S. real estate, if there were any major cultural barriers to overcome and what, if any, specific challenges there were in brokering home sales to foreign buyers. The comments provide some additional insight into this segment of home buying activity, although the comments were not any way analyzed statistically. Appendix I presents a summary of the most common responses.

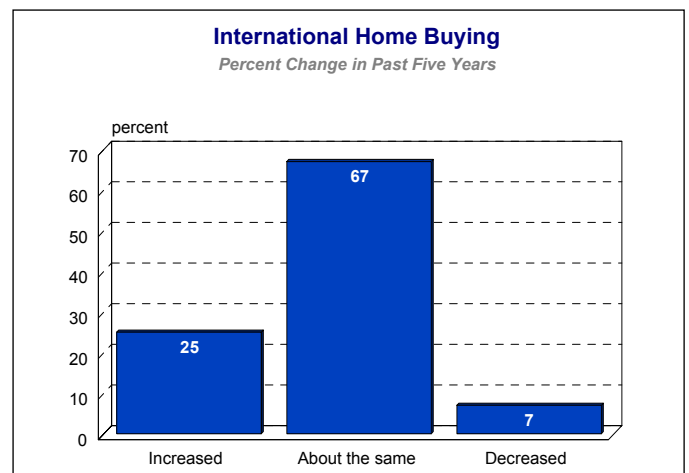
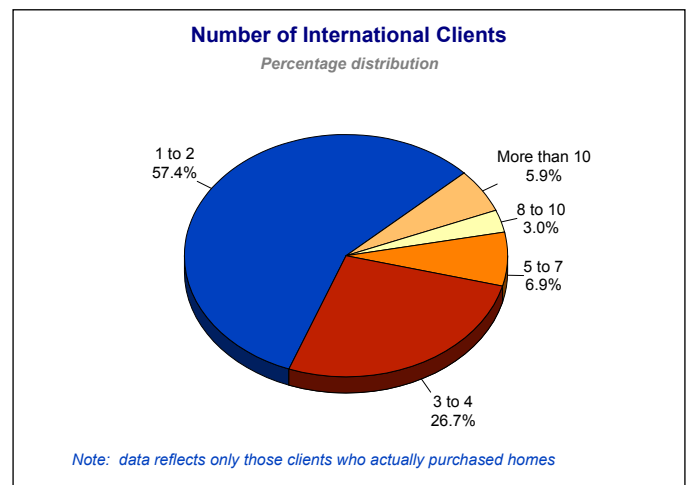
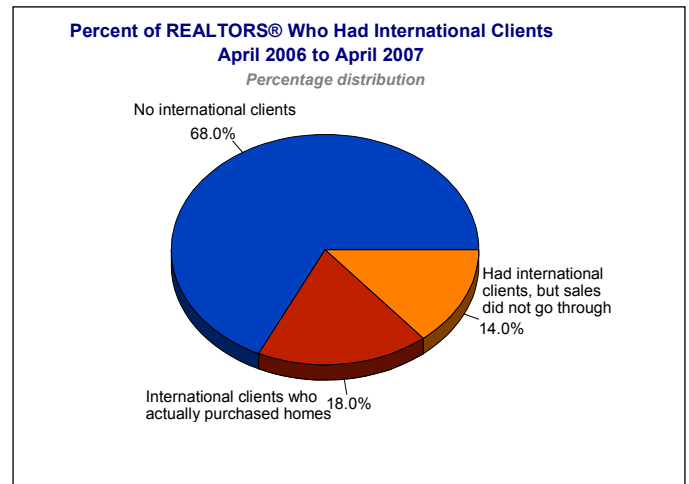
REALTORS® and International Business – A National Perspective

Real estate professionals live and do business in a global economy. And increasingly, REALTORS® are becoming a more diverse group of professionals. According to *The 2007 National Association of REALTORS® Member Profile*, ten percent of REALTORS® were born outside of the U.S. In addition, 15 percent of them report that they are fluent in a language other than English.

And while for the majority of REALTORS® their clients are U.S. citizens and foreign-born permanent residents, a significant share of their business is with foreign customers. The *2007 NAR Profile of International Home Buying Activity* reports that almost a third of REALTORS® had at least some business with international clients between April 2006 and April 2007. More than half of those international clients actually purchased a home – accounting for almost three percent of all home sales transactions in the U.S.

Eighty-six percent of REALTORS® who sold homes to international clients reported that those home sales accounted for 1-25 percent of their transactions. For seven percent of REALTORS®, over half of their transactions were with foreign buyers. Eighteen percent of all REALTORS® who had international clients had successful home sales transactions with those foreign buyers.

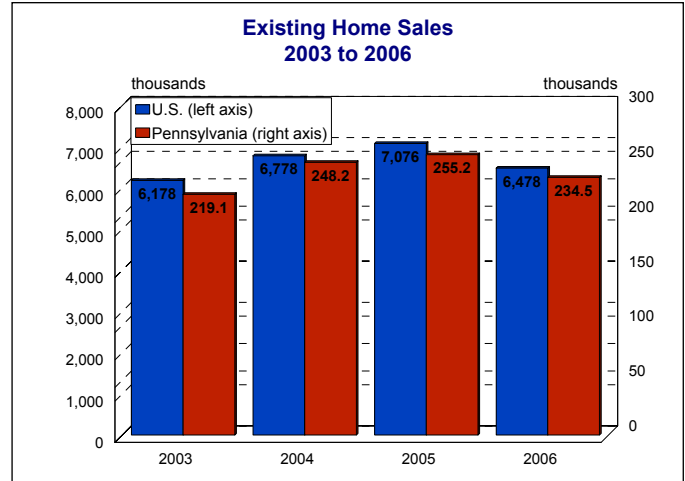
While international home buying activity is a significant segment for many REALTORS®, more than two thirds of them indicate that the level of foreign-home buying activity has been about the same for the past five years. Yet, a quarter of REALTORS® report that their business with international clients has increased during the same period.



Housing Activity in Pennsylvania

The housing market in Pennsylvania rode the crest of the real estate boom wave during the first half of this decade. Indeed, the trend in home sales in the state mirrored that of the nation as a whole.

But the housing boom came to a halt in 2006. Many areas of the country that had experienced record home sales and record home price appreciation saw a slowdown in housing activity. Existing home sales slid from their record-setting pace. As the nation went, so went Pennsylvania: state home sales declined along the same trendline as the national sales activity. As of the second quarter of 2007, resales in Pennsylvania posted a seasonally adjusted annualized rate of 210,000 units (single-family detached and condominiums).



Pennsylvania – International Home Buying Activity

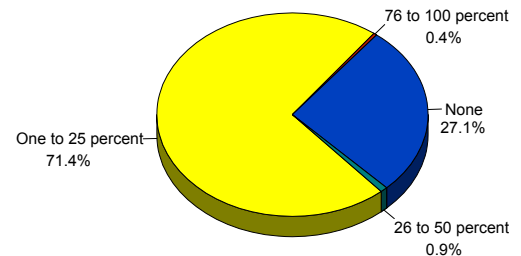
In spite of the housing slowdown in the nation as well as in Pennsylvania, international clients accounted for a significant share of REALTOR® business in the state between June 2006 and June 2007. Slightly less than one quarter of Pennsylvania REALTORS® (24.4 percent) had at least one international client during the time period surveyed, with the same percentage having actually closed on a home sales transaction with an international client. More than 70 percent of those REALTORS® who had at least one foreign client reported that 1-25 percent of their transactions were with foreign home buyers.

Number of Foreign Clients -- Pennsylvania Percentage distribution of REALTORS®

Number of foreign clients	Percent of REALTORS®
None	76.5%
1 to 2	19.6%
3 to 4	3.1%
Five or more	0.7%

Percent of Transactions Involving Foreign Clients

Percentage distribution of Pennsylvania REALTORS® who had at least one foreign client



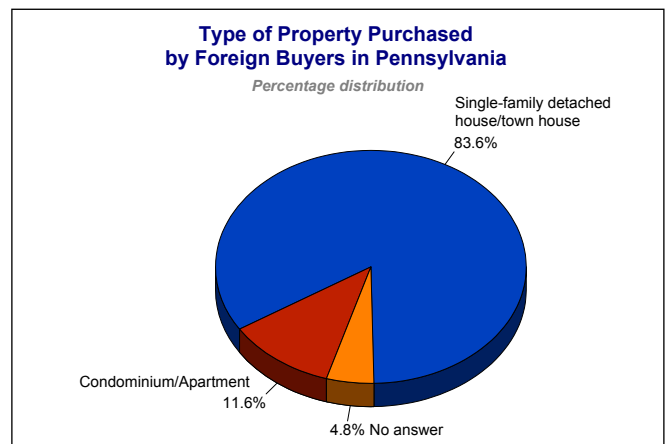
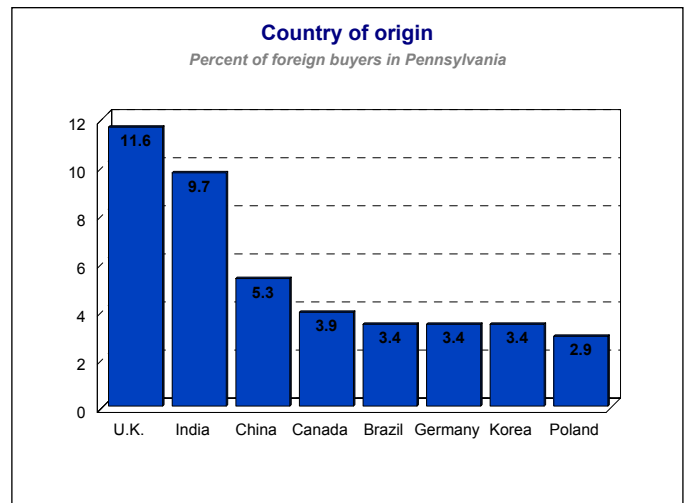
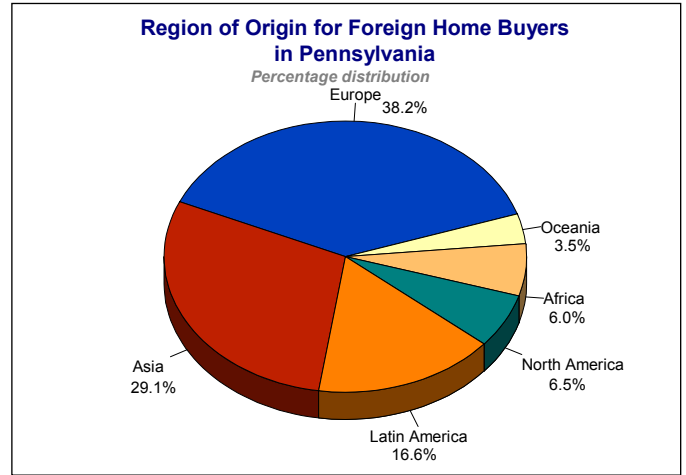
Home Buyers from Around the World

For the nation as a whole, the largest share of foreign home buyers came from Europe (33 percent), Asia (24.0 percent) and North America (23.0 percent). For foreign home buyers in Pennsylvania, the majority also came from Europe, with the share of European buyers accounting for more than 38 percent of all foreign buyers. Asia was the region of origin for the second largest share of foreign buyers in Pennsylvania (29.1 percent). Buyers from Latin America accounted for 16.6 percent of all international home buying activity in the state. Slightly more than six percent (6.5 percent) of foreign buyers were from North America, six percent were from Africa, and those from Oceania accounted for 3.5 percent of home buying activity.

The United Kingdom was the country of origin for the largest share of foreign home buyers in Pennsylvania. (The U.K. ranked second, behind Mexico, in the national sample.) Next was India, followed by China, Canada and Brazil. While the percentages are still relatively small, it is interesting to note China ranked third among all countries with 5.3 percent of foreign buyers in Pennsylvania. (Nationally, China accounted for a similar percentage [5 percent], and ranked fifth.) One reason for this is China's economy continues to be one of the fastest growing in the world, and its currency is gaining in value on world markets. In addition, Pennsylvania is one of the largest states in the country – both in size and in population – and consequently attracts foreigners from most of the countries in the world who can enter the state through two major gateways – the East Coast (Philadelphia) and the North (via Canada).

What They Bought

Foreign buyers in Pennsylvania followed the national trend (all international home buyers in the U.S.) in their preferences for the type of property they purchased. More than four fifths (83.6 percent) of them bought a single-family detached home or town house. They were more likely to have purchased this type of home than were international home buyers in general; the national survey reported 78 percent of foreign home purchases were single-family detached homes or townhouses.



**Price of Homes Purchased
by Foreign Buyers in Pennsylvania**

On a national basis, the median price for a single-family home was \$221,900 in the second quarter of 2007. In Pennsylvania, the median price during that same period ranged from \$76,700 in the Youngstown-Warren-Boardman metropolitan area (which includes part of Ohio) to \$478,800 in the New York-Northern New Jersey-Long Island MSA (which includes part of Pennsylvania). (See note below regarding metropolitan statistical areas.¹)

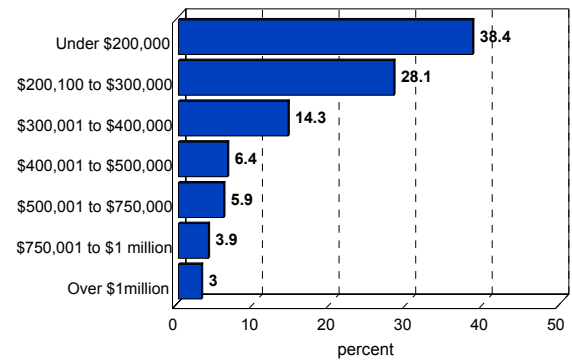
Foreign buyers nationwide paid a median of \$299,500 – significantly greater than the national median sales price of \$221,900. In Pennsylvania, the median sales price paid by foreign home buyers was \$241,200 -- significantly greater than the national median price or that paid by foreign buyers nationwide.

International buyers from Oceania paid the most for their Pennsylvania home – a median of \$475,000 – more than twice the national median home price. Purchasers from Asia and Europe also bought Pennsylvania homes priced higher than the national median as well as the median paid by all foreign home buyers in the state. Buyers from Latin America and Africa paid the least for their Pennsylvania properties -- \$204,200 and \$171,400, respectively.

**Median Sales Price of Existing
Single-family Detached Homes
Second Quarter 2007
(select Pennsylvania Metropolitan Areas)**

Allentown-Bethlehem-Easton, PA-NJ	\$270,200
New York-Northern NJ-Long Island, NY-NJ-PA	478,800
NY: Newark-Union, NJ-PA	451,100
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	243,000
Pittsburgh, PA	123,500
Reading, PA	157,800
Youngstown-Warren-Boardman, PA	76,700

**Price Distribution of Homes Purchased
by International Home Buyers in Pennsylvania**
Percentage distribution



**Median Sales Price Paid
By Region of Origin**

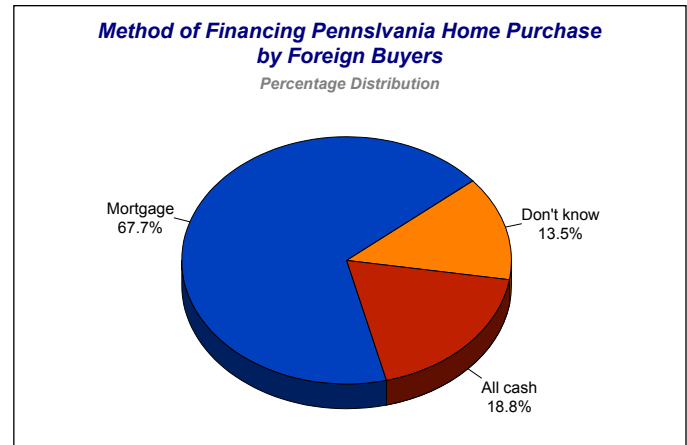
Region	Median Price
Oceania	\$475,000
Asia	268,800
Europe	257,900
North America	230,000
Latin America	204,200
Africa	171,400
Median price paid by all foreign buyers in Pennsylvania	\$241,200

¹ Metropolitan statistical areas (MSAs) are those as defined by the Office of Management and Budget. NAR tracks median sales prices of both single-family detached homes/town homes and condominiums/co-ops by MSA on a quarterly and annual basis. For the latest statistics visit www.realtor.org/research.nsf/ehspage.

Financing the Home Purchase

Between June 2006 and June 2007, 93 percent of *all* home buyers in the U.S. purchased their home using a mortgage loan. The majority of foreign buyers also used a mortgage to finance their U.S. home purchase, but to a lesser degree. Sixty-nine percent of international home buyers used mortgage financing, while 28 percent purchased their U.S. home with cash.

Foreign home buyers in Pennsylvania were less likely to finance their home purchase than were home buyers in general. But their use of mortgage financing was similar to that for international home buyers throughout the country. Just over two thirds of international buyers in the state took out a mortgage to purchase their Pennsylvania property. Slightly more than 18 percent paid for their home purchase with cash.



The proportion of foreign buyers in Pennsylvania who paid cash for their home was much greater than that for the general home buyer population – 18.8 percent vs. 7 percent. In fact, in all the surveys of international home buying activity that NAR Research has conducted in the past year, results were similar: foreign buyers are more likely to pay cash for their home purchase than are buyers in the general population. This could be due to the fact that those foreign home buyers would be expected to be wealthier households with ready cash on hand. The tax benefits of mortgage interest deductions may not apply, depending on the buyer's home country's tax code. That could lower the incentive to take out a mortgage. One positive consequence for U.S. housing markets – especially those that boast a significant share of foreign home buyers – is that such purchases lower the risk of mortgage defaults. As a result, cash purchases lessen the foreclosure risk against this group of buyers. Lower foreclosure risk, in turn, lessens the possibility of a price decline in a particular market. In the wake of the subprime mortgage fallout that began in the spring of 2007 and the subsequent increase in mortgage delinquencies and foreclosures, the healthy share of cash purchases by foreign buyers is a good sign for the future of those markets.²

² The survey did not ask what *type* of mortgage – fixed-rate, adjustable rate, interest-only – the foreign buyer may have taken out. Consequently, we cannot assess the true impact of the decline of the subprime mortgage market on foreign home buying activity.

Why They Buy

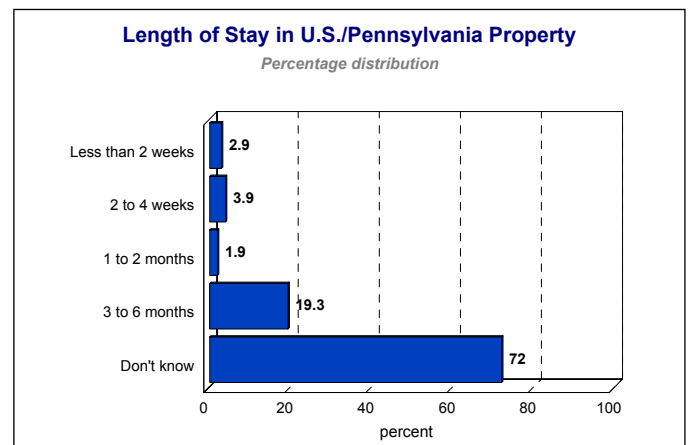
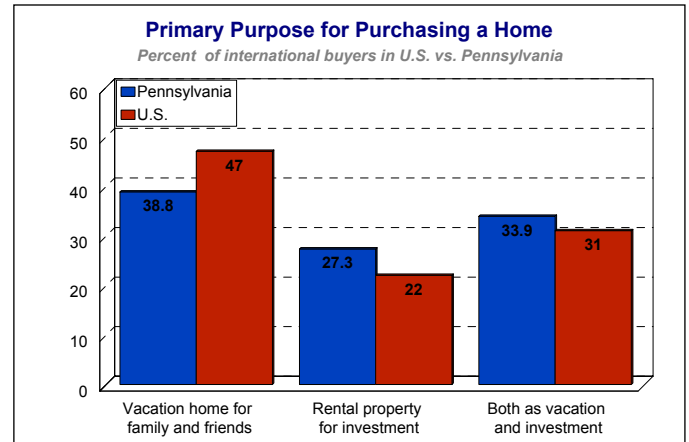
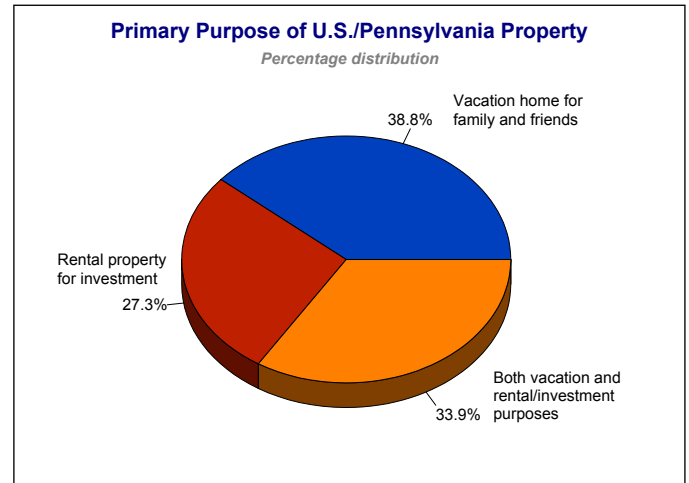
Most home buyers purchase a home as their primary residence. But the majority of foreign home buyers – because they are not permanent U.S. residents – purchase homes for others reasons. Almost half of all foreign buyers – 47 percent – buy a U.S. home to use as a vacation venue for family and friends, while 22 percent purchase a home as a rental property for investment. Nearly a third of foreign buyers purchase a U.S. home as both a vacation and rental/investment property.

Foreign buyers in Pennsylvania, however, are slightly more likely to purchase a U.S. home as *both* a vacation *and* investment property than were foreign buyers nationally. They were less likely to purchase a home as just a vacation home (38.8 percent) than were their national counterparts (47 percent) but more likely to purchase property *just* as an investment than were foreign buyers in general.

Length of Stay

U.S. visa rules only allow non-residents to remain in the country for six months (unless under a student or work visa). Because foreign buyers are non-residents of the U.S, most of them plan to spend less than six months in their U.S. home.

For foreign buyers who purchase a property in Pennsylvania, they typically plan on staying in their property 3.4 months on average. But the survey was unable to capture all of the significant information on this issue. The survey respondents were REALTORS® rather than the individual foreign buyers themselves. Consequently, the real estate professional who brokered the transaction did not necessarily know how long his or her foreign client was planning on using the property.



Where They Buy

Pennsylvania is a large state, and it should be no surprise that foreign home buyers purchased properties throughout the state. But it should also not be surprising that two of Pennsylvania's largest metropolitan areas – Philadelphia and Pittsburgh³ – were the most popular locations of homes purchased by foreign buyers in the state. Almost two fifths of international buyers purchased a home in the Philadelphia area. Pittsburgh captured over 14 percent of foreign home purchases.

There was not sufficient data to calculate the median home price paid by foreign buyers in all of these specific cities/areas. But since more than 45 percent of foreign purchases were in the metro areas of Philadelphia and Allentown-Bethlehem-Easton where the second quarter 2007 median sales price was \$243,000 and \$270,200, respectively, it should come as no surprise that the median price paid for those Pennsylvania homes reflected the higher median prices posted in those cities.

International Home Buying Activity in Major Pennsylvania Cities

Percentage distribution

City	Percent of Foreign Home Sales
Philadelphia	38.6%
Pittsburgh	14.5
Allentown-Bethlehem-Easton (NJ)	7.0
Lancaster	6.1
Harrisburg-Carlisle	5.7
Scranton/Wilkes-Barre	5.3
York-Hanover	4.8
Reading	4.4
Youngstown-Warren-Boardman	2.2
East Stroudsburg	1.8
Lebanon	1.8
OH-PA	1.3
Chambersburg	0.9
Johnstown	0.9
Meadville	0.9
New Castle	0.9
State College	0.9
Erie	0.4
Lewisburg	0.4
Sayre	0.4
Selinsgrove	0.4
Warren	0.4

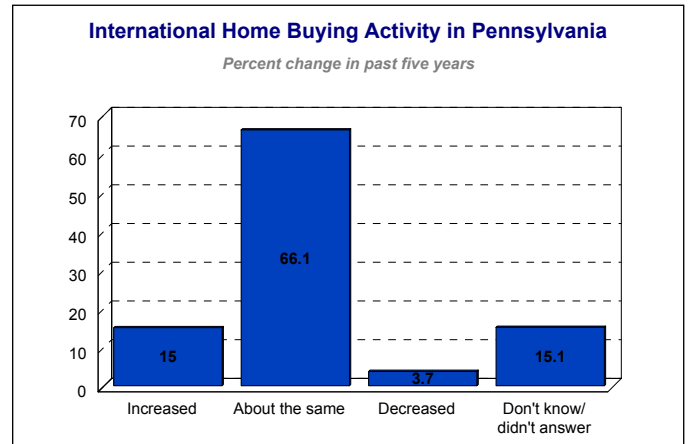
³ The Philadelphia MSA (metropolitan statistical area) includes Bucks, Chester, Delaware, Montgomery and Philadelphia counties. The Pittsburgh MSA covers Allegheny, Armstrong, Beaver, Butler, Fayette, Washington and Westmoreland counties.

The Future

Based on activity in the past five years, foreign buyers are likely to continue to be a source of business for REALTORS® both throughout the United States and in Pennsylvania. Fifteen percent reported that their international business had increased. Two thirds of Pennsylvania REALTORS® indicate that international home buying activity in the state has remained about the same. Only a small percentage of Pennsylvania REALTORS® -- less than 4 percent – indicated that their international clientele had decreased in the past five years.

But there are challenges. U.S. mortgage markets have undergone a number of shocks through 2007. The fall-out from the subprime mortgage meltdown has resulted in a tightening of lending standards. Because foreign buyers do not necessarily have the same credit history documents or FICO scores as do most American buyers, those foreign clients who do want to finance a home purchase in the U.S. may face obstacles that in a more liberal “lending” environment may not have existed.

In NAR’s survey of the foreign home buyer market in Florida, one common concern was restrictions on length of stay in the U.S. The six-month stay restriction under U.S. visa rules was felt to be insufficient for some potential foreign buyers – particularly among those who are no longer working. The nationwide survey results support this view as well, as 34 percent of REALTORS® across the country expect that foreign retirees could be potential buyers of U.S. real estate.



Conclusion

We live in a global economy where there are virtually no trade borders. The Internet is accessible from nearly all countries around the world. Web sites display information about U.S. real estate to any potential home buyers regardless of where they live. And as more and more people in different nations recognize the value of owning property, the opportunities and challenges for real estate professionals to broker U.S. property to foreign home buyers are numerous.

While U.S. and Pennsylvania housing markets are no longer performing at record-breaking levels, U.S. real estate is still considered a good buy for foreign buyers. Whether they use their U.S. home as rental/investment property, as a vacation home or both, non-U.S. residents account for a significant share of home buying activity in Pennsylvania. It is likely they will continue to do so, especially those buyers from countries where the currency out-values the U.S. dollar. With the weakened U.S. dollar against foreign currencies, those currencies buy a lot more than in previous years. For example, the British Pound Sterling was worth \$1.44 in 2001; by 2004 it was worth \$1.83. In November of 2007 the pound was worth more than \$2.00. The Euro has also increased in value against the U.S. dollar. More purchasing power for foreign buyers mean they can afford “more house” – particularly in a U.S. housing market where prices are soft or price increases are much less than they were during the heady years of the real estate boom.

Another factor drives international participation in U.S. residential real estate markets. The U.S. market contains a large supply of real estate. Pennsylvania, as one of the biggest states in the country, also boasts a great deal of real estate. It is also fairly easy to purchase a home in this country; the U.S. does not restrict or scrutinize most property purchases by foreigners, as happens in other countries. There are few barriers to owning a property. Except to the extent necessary to enforce U.S. laws and regulations (including immigration and homeland security), foreign participation in the U.S. housing market is largely free. Foreign investors have the same property rights in the U.S. as Americans do.

Finally, the National Association of REALTORS® contends that any legislation of regulatory barriers that would limit the open market, private property rights, or access of foreign investors to U.S. markets could curtail foreign investments – thus potentially jeopardizing the health of U.S. real estate markets and the U.S. economy as a whole. The idea of a retirement visa to citizens of countries with whom the U.S. has sound diplomatic relationships would surely expand the pool of potential international home buyers.

Appendix: Comments from Survey Respondents

The survey asked respondents for comments related to factors that attracted buyers to U.S. real estate, or barriers to overcome. Below is a summary of those responses.

Family and Work Connections. Many respondents commented that their international clients purchased a vacation or rental property in Pennsylvania because a member of their family was residing in the state -- either working here on a temporary work visa, on a student visa – or a relative had immigrated to the U.S. This property could then be “held” by the owner until and if the foreign buyer/owner decided to move to the United States permanently under an immigrant visa. In addition, as more and more companies go “global,” there is an increase in the number of foreign workers who are in the U.S. on temporary work visas. These people need places to live while they work in the U.S.

U.S. Real Estate – An Attractive (and safe) Investment. Another frequent comment referred to the exchange rate between the dollar and many other foreign (particularly European and U.K.) currencies. That exchange rate makes Pennsylvania real estate (and other U.S. property) very affordable for buyers from those countries. Also, prices for Pennsylvania real estate were perceived by foreign buyers as very affordable compared to comparable properties in their home countries. In addition, because home prices in Pennsylvania real estate markets did not decrease as much as those in California and Florida; consequently survey respondents felt that the Pennsylvania real estate was a good investment and that the state was in a good position to attract more foreign buyers.

Barriers to purchasing U.S. property. Some lenders are reluctant to finance non-resident aliens with common visitor visas. Another obstacle is that foreign nationals do not have enough U.S. credit. As noted in the survey analysis, even though a larger percentage of international clients purchase their homes with cash, the majority do finance their home purchase. With credit markets tightening in the wake of the subprime crisis, this could present a major challenge to foreigners who wish to take out a mortgage in order to purchase a U.S. property.

Challenges for REALTORS®. REALTORS® from Pennsylvania expressed concerns about the cultural barriers they face in brokering sales to foreign buyers. This result is similar to that found for the national sample where virtually all the respondents indicated that language and/or cultural differences often presented barriers to dealing with international clients. Pennsylvania REALTORS® suggested that they need more education in regard to working successfully with people of other cultures.