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A Stronger Dollar Won't Mean Easier Real Estate Bargains

By Natalie Rodriguez

Law360, New York (March 18, 2015, 8:54 PM ET) -- While the gaining power of the U.S. dollar has made certain property deals pricier for foreign investors, experts say the currency shift isn't making a major difference at the negotiation table.

Slowly but steadily, the U.S. dollar has been gaining ground on a number of other currencies over the past few months. Even with this week's slide, the dollar has been trading at about $1.49 per British pound and $1.05 per euro. The general shift is making U.S. properties more expensive for foreign buyers and giving Americans more buying power abroad.

But experts say that thanks to a host of issues, including the pace of deal negotiations and the length of time U.S. investors like to hold property investments abroad, investors aren't changing deal tactics based on currency plays. Here are three reasons why you shouldn't expect easier negotiations just because U.S. dollars are involved.

The Dollar Is Inching, Not Swinging

In the U.S. and abroad, American investors are not making risky investment plays based on the ebb and flow of currency exchange rates because it just doesn't make good business sense, experts said.

“If we saw the dollar surge 30 percent ... that might influence some people to take advantage of that and deal with currency risk and hedging. Where we are today, it's just not on people's minds at the moment in impacting investment decisions,” said Rick Ross, the global chair of Dentons' hotels and leisure practice.

When the Swiss franc depegged, suddenly making property in Switzerland expensive, London-based Dentons partner Mark Daliere did see a buyer walk away from the early stages of a deal, since picking up the property no longer made financial sense. But the strengthening dollar isn't scaring foreign investors away from competing against a U.S. investor for a property.

In London's hot hotel market, for instance, little has changed in terms of who is competing for prized properties and developments.

“There has been a lot of money chasing too few deals in London for a long time. While I think there may be a few U.S. investors who might not have previously looked at Europe, maybe taking a look and dipping their toe in, the big players have all been here and have been here for quite some time. I don't think its changing their approach to Europe,” Daliere said.

And nobody is offering up provisions that would let the buyer off the hook if the euro or pound certainly rebounded.

“It's not a condition that the market would tolerate as a condition to close,” Ross said.

In the U.S., many property markets — particularly the office sector — are sizzling to the point that deals are often being made through quick bidding processes, attorneys say. And at this rapid-fire pace, there is no edge to be gleaned from a strong dollar.

Local and foreign investors alike “try to make their bids as attractive as possible, and part of being attractive is acting quickly. ... We see them acting very aggressively on time frames, so we don't see that much of a distinction between foreign investors and U.S. investors,” said Jim Shindell, chair of Bilzin Sumberg Baena Price & Axelrod LLP's real estate practice.

Shindell added that many trophy urban office assets are being purchased in cash by U.S. and foreign investors alike in these fast-paced deals.

U.S. Investor Holds Are Short

U.S. investors tend to have short hold periods for properties, often wanting to see a return within three to five years, attorneys say. And the unpredictable nature of currency exchange rates means that the dollar could be in a significantly different position when an investor wants to cash out — a risk that many are keeping in mind in the current days of the stronger dollar.

“Obviously, things for the moment are cheaper, and that makes it more interesting and more attractive, but you don't know how long things are going to be cheaper. Because you can certainly see things fluctuate very quickly,” Daliere said.

Unless the potential buyer is a generational investor that typically holds assets for 20 to 30 years, the risk of exiting on a weaker dollar is far too high to allow the buyer to pony up significantly more in order to gain a bidding edge, experts noted.

“I think this whole issue of playing the currency issue to change the dynamics of investments is not a sound one that most U.S. investors would play because they know what goes up, comes down,” Ross said, adding that investors are likely not going to upend fundamental underwriting metrics because of currency exchange shift. “Currency will help them going in, but I don't think it will change the investment analysis.”

Safety Trumps Sales Price Sometimes

In the U.S., the stronger dollar is making properties more expensive for foreign buyers across the board — from commercial real estate deals to residential condominium transactions. But it's not dampening the buyers' desire to bank their money in U.S. real estate. Indeed, it might be lighting a fire under such deals, according to some.

“Distress in other countries and the weakening of their currencies has caused there to be a continued great interest in American properties,” Shindell said. “Both high-net worth and ultrahigh-net worth investors [remain] very interested.”

While there has been buzz that some markets, like South Florida, are seeing a slowdown in preconstruction condo sales that have been highly targeted by foreign buyers, some contend that has less to do with a weaker dollar and more to do with an expanding supply.

“There's a lot more product out there, so you're seeing a similar level of demand spread across significantly more projects. So it feels like buildings aren't selling out as quickly as they were a year ago or two years ago, but I think in terms of overall demand, it's relatively consistent,” said Jacob Roffman, principal with real estate investment and management company 13th Floor Investments.

If the rapid strengthening of the dollar were the only factor at play, Roffman said, you would likely see a sharper slowdown in the foreign demand for condominiums. “There's something else at play there, and I tend to think it's that investors of foreign capital are still driven by the fact that if they have $1 million ... they'd much rather find a place to put it in the U.S. than in their respective countries, regardless of the currency exchange,” Roffman said.

And foreign investors in the Miami area are not just grabbing up residential condo units, but also major office and development sites, Roffman noted. For example, 777 Brickell recently traded to a foreign investor for about $140 million, and an Argentine investment family scooped up a 1.25-acre development parcel last year for a record $125 million.

And here again, deals are closing at a rapid clip — often within 40 to 70 days — which limits the risk of foreign exchange rates rapidly swinging to the point that it would make a deal undesirable, according to experts.

“These land sites or office buildings are relatively more expensive for an Argentinian than they were six months ago, but these guys would still much rather have serious amounts of capital based in hard assets in the U.S. than in their home country,” Roffman said. “If anything ... especially for a cash-flowing asset like an office building, the appetite is probably just as strong, if not stronger than it was before the dollar started appreciating rapidly about a year ago.”