



December 2011

GLOBAL PERSPECTIVES

to local, international & lifestyle real estate

▶ CANADIAN BUYERS

Northern Exposure

When the U.S. market is down, buyers from around the world go shopping. It's no secret that global buyers with strong currencies are snapping up bargains here, but did you know that Canadians lead the pack?

Canadians accounted for 23 percent of all international buyers in 2010, up from seven percent in 2007. Interest in U.S. property is predicted to stay strong. In fact, a recent survey by the Bank of Montreal finds that one in five Canadians would consider buying a house or property in the U.S.

This issue of *Global Perspectives* looks at what's driving Canadian buyers to look south. There's more at play than just the strong Canadian dollar and snowbirds' flight to warm weather. Canadian exposure to the U.S. market has spread beyond Florida to some places that may surprise you. Their interest isn't limited to vacation homes, but includes investment property and commercial real estate.

You'll learn how to get a slice of the pie by connecting with Canadian professionals who can help fill your pipeline. Building relationships with Canadian REALTORS® and related specialists is an important component of marketing to Canadian buyers. Look inside for specific tips on how to find them and what to look for.

We hope this issue provides solid guidance on developing your Northern exposure. Canadian buyers are hot, hot, hot. Tap into them to grow your global business. **GP**



LOOK NORTH TO CANADA!

When you think of international buyers, do you think of our neighbors to the north? You should—Canadians bought a whopping \$9.4 billion of U.S. real estate last year. They make up the largest group of foreign buyers in the U.S. residential market, and they're growing each year.

What's driving growth? A number of factors have coalesced to make U.S. homes very attractive to Canadians:

The Canadian dollar is strong. The "loonie" has appreciated tremendously in the last decade. Whereas ten years ago it traded at about \$.67USD to the Canadian dollar, recently it has been near parity and occasionally above the U.S. dollar.

Our homes are inexpensive compared to theirs. Currently, the national median price for a home in the U.S. is around \$171,000, about half of Canada's average price of \$365,000. "Canadian banks didn't loosen mortgage requirements as U.S. lenders did," says Ray Levin of eXp Realty in Scottsdale, Arizona. "The market there didn't experience a housing bubble. Instead, value increased incrementally, and hasn't fallen sharply as it has here." In fact, Canadian home prices are still appreciating, with the national average up 7.7 percent over last year.

ROI on property is higher here. It's very hard for investors to find Canadian properties yielding high returns. On the other hand, the U.S. market, especially in vacation and retirement areas, has excess inventory that is priced 40 to 50 percent lower than it was five years ago. Canadians expect home prices here to bounce back over the long term, and see the dip as a great investment opportunity.

Canadians have strong asset positions. On average, Canadian homeowners have a 66 percent equity stake in their homes versus 45 percent in the U.S. Banks in Canada were still requiring down payments of 20 to 25 percent as our lenders began offering zero-down mortgages. Now, many Canadians have substantial equity positions against which they can borrow at low rates and invest elsewhere.



Who's buying?

Not long ago, Canadian buyers tended to be retired snowbirds who stayed for the warm winters and rented out or closed up their houses the rest of the year. That's not the case anymore. "It's not just retirees who are interested in a home in the U.S.," says Harry DeLeeuw, CCIM, CIPS, FRI, NAR President's Liaison to Canada, and a Canadian REALTOR® with Shindico, a real estate investment brokerage in Winnipeg. He fields numerous inquiries about U.S. properties from Canadians with significant disposable income. "Many people in their 40s and even 30s with families are interested in investing in vacation homes that they can use part of the year and make available to friends and family at other times," says DeLeeuw.

Investors are another big part of the invasion from the north. Many Canadians looking to diversify their portfolios buy one or more condos and hire local property management firms to rent and care for them year round. Parents of university students also view condos as a way to put their money to work for four years while saving on college housing costs.

Transferees and expats who move here for professional reasons are another piece of the Canadian buyer market. Though scattered throughout the U.S., they tend to be a tight-knit group, using social networking to share experiences and news of Canada.

Financing issues

Nine out of 10 Canadians buy with cash. "Many refinance or take an equity loan against their Canadian property. It's the quickest way to raise funds," says Ray Levin, of eXp Realty in Scottsdale, Arizona. "Keep in mind that a Canadian bank will not issue a mortgage on a U.S. property. It has to go through one of their U.S. branches." Bank of Montreal, Toronto Dominion and HSBC now have branches in some major U.S. cities.

Levin says that some small local banks in the Sunbelt are lending to Canadian buyers. "For personal-use properties, they look for at least 30 percent down." He advises that, on investment properties, buyers should expect to put 40 to 50 percent down. In both cases, banks will want to know that buyers have considerable reserves—three to six months for a second home, six to 12 months for investment property. Interest rates will be somewhat higher than what an American would receive, and will be slightly more favorable on vacation than investment properties. Overall, transaction fees for U.S. mortgages will be higher than what Canadians are used to.

Florida—fun in the sun

Florida has been a top destination for Canadian snowbirds and vacationers for decades. In fact, over three million Canadians (almost 10 percent of the country's total population!) visited Florida last year. Many Boomers who vacationed in Florida as children have returned to buy property as adults. In 2010, Canadians bought about eight percent of the homes sold in the state.

According to research from the National Association of REALTORS® (NAR), 57 percent of Canadian buyers in Florida bought condos, and another 32 percent bought detached single-family homes. Only 16 percent purchased properties purely for investment purposes. Over three in four bought property as vacation homes, and about a third of those might rent their property when they're not using it.

Traditionally, Florida has drawn people from the East Canadian provinces, especially the cities of Toronto, Ottawa and Montreal. Top destinations are Tampa-St. Petersburg, Miami-Fort Lauderdale, and the Orlando region.

Arizona—up and coming

Arizona's share of Canadian buyers has been growing as the state actively markets itself in major western cities like Vancouver, Winnipeg, and Calgary. The Phoenix/Scottsdale area is so popular that there are now over 80 flights daily between Phoenix and major cities in Canada.

Arizona promotes itself over Florida on two key points: equitable property taxes and lower homeowners insurance premiums. In Florida, out-of-state buyers pay property tax at rates higher than residents, and are also subject to larger annual increases in assessment. Homeowners insurance is less expensive in Arizona because of the low risk of catastrophic storm damage. Though the state typically attracts buyers from the Western Provinces, the number of buyers from the East is growing given the significant rise in hurricane activity and insurance premiums in recent years.

(continued on page 4)

(continued from page 3)

LOOK NORTH TO CANADA!



FOR ALMOST EVERY WEEK
SINCE THE BEGINNING OF
2009, A CANADIAN
BUYER HAS PURCHASED
A HOME WORTH AT LEAST
**\$1 MILLION IN
MARICOPA COUNTY,
ARIZONA.**

Phoenix real estate is an especially good value to Western Canadian urban dwellers. In Vancouver, average home prices are roughly \$780,000, making the median price of around \$70,000 for a Phoenix condo look like a steal.

Investors are buying up Arizona condos, given that the market has dropped close to 50 percent since 2008. High-end luxury homes are in demand as well. In fact, Canadians in the last two years have accounted for about six percent of luxury home purchases there. For almost every week since the beginning of 2009, a Canadian buyer has purchased a home worth at least \$1 million in Maricopa County, Arizona.

Not just the Sunbelt

Some other areas are surprising magnets for Canadians. Close to the border, Seattle and the Puget Sound regions harbor strong Canadian pockets. Northwest Montana, especially Flathead Valley, is known as a playground for Albertans, and is only four and a half hours from Calgary by car. Stowe and several ski areas in Vermont are popular with Canadians from the Eastern Provinces.

A little further south, Canadian investors are jumping on commercial properties in New York City, where they have purchased \$2.02 billion of commercial property so far in 2011.

Warm weather destinations also include Palm Springs and Southern California, Las Vegas, and parts of Texas. Eastern states with close to one million Canadian visitors annually include Georgia, North Carolina, South Carolina and Virginia. Beyond the United States, Canadians are buying properties in Mexico and, in a recently growing trend, Costa Rica.

Expect more Canadians in the future

Though Canadians are already the largest foreign buyer of U.S. residential properties, their demand for warm-weather homes is expected to grow. With cash to spare and an eye toward bargains, they view the U.S. as a tremendous investment opportunity. Take advantage of this great niche market! **GP**

CANADIAN INVESTORS HAVE PURCHASED **\$2.02 BILLION**
OF COMMERCIAL PROPERTY IN NEW YORK CITY SO FAR IN 2011

How to Tap the Canadian Market

Canadians make up the biggest contingent of foreign buyers of U.S. residential real estate. Could they represent a niche opportunity in your market?

If you're in the Sunbelt, the answer is definitely yes. If you're not, you may be surprised to learn there are pockets of Canadian expats and snowbirds in many other areas of the U.S. A little research on your part will be required to crack this nut. Start with research resources in the Global section of NAR's site (realtor.org/research/research/reportsintl). But don't stop there. Talk to your local association's Global Business Council to see if they know of Canadians buying property in your area.

A great online resource is the Canadian Expat Network, at canadianexpatnetwork.com. Under Resources, click Canadian Groups for a list of Canadian expat organizations by state; also connect with their page on Facebook. Call the nearest Canadian Consulate and ask about Canadian presence in your vicinity. Inquire about communities with pockets of Canadian residents, Canadian-based companies with locations and transferees in your area, and about a local chapter of the Canadian Snowbird Association.

Target a part of Canada

Based upon where you are located (East or West) and where Canadians in your area hail from, choose several cities in Canada for prospecting. Most Canadians purchasing property in the U.S. come from major urban centers and their surrounding suburbs. If you are in the South Atlantic states, you will probably want to focus your effort on Eastern Canadian cities like Montreal, Toronto, Ottawa and Hamilton. In the West, look toward Winnipeg, Calgary, Edmonton, and Vancouver.

Educate yourself

Selling to foreign buyers requires mastery of a lot of information, as well as knowing when to consult other professional advisors in areas outside your expertise. Learn more about these topics:

Differences in real estate business practices between the U.S. and Canada—

Though Canadian and U.S. property transfers are similar, they differ on how transactions are completed. In Canada, the closing phase of a home purchase or sale is handled by the real estate brokerage's conveyance department and the client's lawyer. Explain to your Canadian buyers how escrow works (if they are commonly practiced in your market) in a U.S. transfer, and the role of a title insurance company.

Potential cross-border pitfalls—Tax and visa considerations are significant issues in cross-border transactions. You don't have to know the minutiae of the law or how to navigate it (refer clients to other professionals for that). But you should be acquainted with issues relevant to your client's situation.

Depending on length of stay and use of property, your buyer could be subject to U.S. income tax, withholding on rental income, capital gains and estate taxes. Make your buyers aware of these issues before they buy and encourage them to seek professional advice so they don't encounter unexpected consequences.



(continued on page 6)



Leverage Your Exposure through Trade Shows

Canadian real estate conventions tend to be regional instead of national, allowing you to focus your efforts on whatever part of Canada you are targeting. Major trade shows and expos include:

- REALTOR®QUEST, to be held in Toronto on May 2 and 3, 2012, is promoted as Canada's biggest real estate trade show, drawing about 8,000 real estate professionals. Learn more at realtorquest.ca.
- The Property Show, also in Toronto, had a one-day session at its November 2011 show on investing in the U.S. Go to thepropertyshow.ca for more on future events.
- The BC Real Estate Convention, the largest real estate expo in Western Canada, is scheduled for March 2012 in Vancouver. Details are available at bcrealestateconvention.com.



(Again, if you will be promoting U.S. or other property to Canadian buyers, you need to be licensed in Canada.)

How to Tap the Canadian Market

(continued from page 5)

Ancillary costs of ownership—Absentee ownership has many hidden costs. Make sure your clients are aware of them during the purchase process. Depending on the area and the nature of the property, the costs of homeowners insurance, hurricane insurance, property management, maintenance, upkeep and utilities can become substantial.

How your market compares to others—Chances are your clients won't just be considering properties in your market, but in other parts of the U.S. and even Canada too. Make sure you know how the prices, expected returns, property taxes and other metrics for your area measure up to other hotspots for Canadians. Is Palm Springs a better deal for your client than Scottsdale? The more you understand about your market in relation to others, the smarter you'll look to your clients.

Reach out locally

Begin by prospecting with people geographically closest to you. If there is a local chapter of the Canadian Snowbird Association, get to know the members and consider sponsoring an event. Contact state and local government agencies tasked with marketing your area to Canada, like local tourism and convention groups, and economic development organizations. If there are offices or facilities of Canadian-based companies in your area, contact their human resources departments to offer your services to transferees. Don't forget to reach out to local colleges and universities that draw Canadian students.

Visit the Great North

You should also plan trips to your target Canadian cities and introduce yourself to professionals who will help supply your Canadian pipeline. However, take caution in your approach on these trips. Licensing laws preclude agents who are not licensed in Canada from marketing directly to Canadian consumers.

Canadian real estate professionals—Buyers looking for property in the U.S. will probably ask their local agent for advice and information first. Their agent in turn will want to refer clients to someone in the States whom they know and trust. Check the online Certified International Property Specialist (CIPS) directory (at realtor.org/global/cips_network/overview) for qualified Canadian agents, and research brokerages in the cities you're targeting.

Plan a trip and call on their offices. Put together a presentation that talks about what your area offers Canadian vacationers and investors. Make sure it's full of information Canadian agents can use to spark client interest and answer questions about your market. Follow up once you return to your office and cultivate these relationships. They should become a major source of referrals.

Wealth advisors and financial consultants—Canadians with considerable assets will be looking for ways to diversify their portfolios, and U.S. real estate investments might offer better returns than are available in Canada. On a visit north, introduce yourself to financial advisors who serve this type of client. Look for professionals with the designations Chartered Strategic Wealth Professional (CSWP) and Certified Financial Planner (CFP). The Financial Planning Standards Council has a "find a planner" feature on their website at fpsc.ca. Also ask your contacts among Canadian agents for names of professionals they know and trust.



Crossing-the-border Dilemmas

Although the U.S. allows Canadians to visit for six months of the year without a visa, most provinces require residents to live within their boundaries at least six months and a day in order to qualify for health benefits.

When Canadians cross the border, their health benefits remain behind them. The Canadian government strongly recommends that its travelers buy supplemental health insurance to cover time spent outside its borders.

Cross-border legal and financial consultants—Canadians making purchases in other countries usually use the services of consultants to negotiate the maze of legal, tax and immigration issues that, if mishandled, can result in a money-losing transaction. Establishing relationships with these advisors will benefit you twofold. They'll make their clients aware of your services, and you will need theirs to meet the needs of your own Canadian buyers.

Canadian real estate expos and conferences—"Real estate conventions are a terrific way to meet Canadian agents and other related professionals," says John Seebree, VP of Public Policy with the Florida REALTORS®, who recently accompanied Florida Governor Rick Scott on trade missions to Montreal and Toronto. "Renting a booth at an expo like REALTOR®QUEST and stocking it with information about your area will draw a lot of interest from Canadian agents."

More networking considerations

If you haven't already, establish relationships with any other key professionals who can support your clients. For example, a tax consultant with experience in Canadian/U.S. cross-border transactions will be a good addition to your panel of experts. You may also want to research lending sources for Canadians who wish to finance their purchases. (See the October 2011 issue of *Global Perspectives* for details on building a network of related global professionals.)

For clients interested in investment properties, make sure you have relationships in place with cross-border tax and accounting specialists who can conduct due diligence on transactions, and with well-run property management firms. "Relationships, trust and expertise are very important to Canadians," says Ray Levin, of eXp Realty in Scottsdale, Arizona, for whom about 70 percent of Canadian sales involve investment properties. "Canadian investors want lots of financial information, and trust you and your team to advise them wisely."

Don't forget the Internet

Some clients will find you through an online search. The home page of your site should have a section tailored to Canadians looking for U.S. properties. From it, visitors should be able to click through to a main page dedicated to this part of your business. On the Canadian page, outline the selling points of your market to Canadians, and a message on why it's a great time to buy. Provide a link to a currency conversion engine. Remember that Canadian spelling is British as opposed to American, so spellcheck the document in Canadian English. If Quebec is in your targeted geography, provide the same page in Canadian French.

By casting a wide net north and south of the border, you'll begin receiving inquiries from Canadian prospects. With a good professional network in place and solid knowledge of your local market, you'll be turning them into buyers and referrals in no time at all. **GP**



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