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U.S. Tax Reform Sparks Renewed Interest from Latin American Investors

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Immigration-based investment programs are drawing investors and high-net-worth individuals from South and Central America to countries such as Portugal, Spain, and Cyprus, experts said during a panel discussion at the ULI Latin America Conference, held in Miami during September. U.S. tax reforms are also leading potential investors to take another look at markets in Nevada and Florida, they said.

The panel, moderated by Nelson Stabile, a principal at Integra Investments, included Carina Bendeck, the international business director at Quintessentially Estates USA; Christian Lega, a partner at Deloitte in Mexico; and Don Pingaro, a partner at ISG.

Oversupply of real estate product remains a concern for lenders, who often want some guarantee that the product will be absorbed by the market. That is precisely why the real estate market will continue to move toward a more global model, said Bendeck, who works mostly with residential and hospitality properties. In many instances, foreign investment is driving most of the growth in specific real estate markets.

“Immigration-based real estate purchases, especially in Portugal, Spain, and the Caribbean, remain popular,” said Bendeck. “Investors are looking for a safe way to get money out of countries and still perceive real estate as safe as far as financing.”

Likewise, certain immigrant visas programs—such as the EB-5 Immigrant Investor Program in the United States—have dramatically slowed their approval process. The EB-5 program provides a method for eligible immigrants to receive a green card if they invest at least $1 million to finance a business in the United States employing at least 10 American workers; the figure is $500,000 for investments in areas that are rural or have a high unemployment level.

“Immigration-based companies were hovering around 85–90 percent [of visa applications], and right now it is down to 5 percent, with a 10- to 12-year wait,” said Pingaro. Interest has also waned because of a lack of worthy products that offer security for investors, he said. “Latin American investors don’t typically go for an EB-5 program because it has become too difficult to get capital out of their countries,” he said.

Still, certain immigrant visa programs directly correlated with real estate investment are making big strides in Portugal and Spain, where investors from Brazil and other Latin American countries feel more comfortable putting their money because of cultural similarities.

“Portugal’s golden visa program is so popular we’re launching a new office in Portugal,” said Bendeck. “Their immigration-based real estate visa is, to my understanding, the most sophisticated: it’s the easiest to get, with a low threshold ranging from €280,000 to €500,000 [US$317,000 to $566,000], depending on whether the investment is residential or commercial, in a city center or unpopulated area. Within five years, you can have permanent residency in the [European Union] and you don’t have to live there for the span of those five years.”

Cyprus and Spain also have interesting programs, Bendeck noted, though the residency requirements are harder to comply with in order to attain citizenship. Still, investors are eager to tap into these opportunities. “We’ve seen high demand from Latin America—particularly Brazil—and China,” she said.

Illustrating just how global the real estate market is becoming, Bendeck highlighted several instances of interesting capital flow. For example, Swedish investors are flocking to Indonesia for its high returns on luxury real estate developments; German and British investors continue to flood Hong Kong; and Argentine investors make continuous investments in Dubai. “Investment-source countries are doing wholesale and consumer deals, with many investors wanting to be on the other side of the table as end consumers,” she said.

Though a vast majority of consumers remain skeptical about cryptocurrency, panelists said this increasingly prevalent technology will certainly affect the global real estate market—and that the effect will be positive.

“I think the real estate industry is one of the industries with the largest potential to use this technology for greater efficiency,” said Lega. “We’re already seeing in Honduras how they’re trying to convert their real estate register into blockchain technology. The costs associated will be cheaper and more efficient.”

Pingaro, whose firm works closely with luxury real estate owners on Fisher Island, located off the coast of Miami, noted that even end consumers are responsive to this evolving currency model. “Cryptocurrency sales transactions are increasingly being used to mitigate foreign currency flows,” he said. “Sixty-five percent of our buyers are international, so when currency exchange flows up and down, it’s a big problem.”

The vast majority of foreign investors are, in fact, seeking to escape this instability. Political motivations continue to be a main driver for investing in foreign real estate, with recent election results in Mexico and Colombia driving more buyers to the United States. Newly updated U.S. tax regulations are also swaying these investors, said Pingaro.

“We’ve seen a lot of spark in 2018 because of the new tax codes,” he said. “People are domiciling in Nevada and Florida because of lax tax laws. I don’t think its incredibly activated, but it’s an opportunity.”

With continued instability in Latin American markets, investors there will continue to look abroad in an effort to protect their investments, and will continue to do so as long as the region’s largest markets remain in flux, Lega said. “For them, it’s more a strategy to protect their wealth than one to invest,” he said.

Meanwhile, Pingaro said innovations in blockchain might offer an opportunity for emerging markets to enter the global real estate game. “We’re seeing a trend of random country pairings in capital flow expanding quickly because of blockchain,” he said. “As it becomes dominant with title, it will be much more secure, traceable, and reputable. The globe is going to shrink a lot quicker.”

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