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Chinese buyers fuel Brooklyn real estate boom

World property markets have become totally disconnected from national economies

By Rana Foroohar

Back in 2007, when I was relocating from London to New York, I bid against a Brazilian and a German for my Brooklyn brownstone. I thought that would be the high-water mark for international buyers interested in fixer-up properties a good 45 minutes from midtown Manhattan, but I was wrong.

These days, I regularly wake to leaflets from Chinese property developers dumped on my front stoop, offering to buy homes for cash. And this even after Beijing has put various restrictions on the outflow of capital, in an attempt to prop up its currency.

Foreign money has always played a huge role in luxury property markets like Manhattan and London.

While international buyers in New York tend to come and go depending on the strength of the dollar relative to their local currency, veteran appraiser Jonathan Miller, the president and chief executive of Miller Samuel, tells me that foreign buyers over the past few years have come to represent a baseline 15 per cent of the Manhattan luxury market. What is new is that they are expanding into border neighbourhoods such as Brooklyn, where town houses typically sell for about a third of what they might in prime NYC, and the foreign money — particularly the Chinese money — is staying, regardless of how strong or weak the dollar is.

"Even when the dollar began to rise in 2015, the Chinese didn't leave — they are just moving to Brooklyn, or Houston, or other second cities, and they are buying cheaper properties with more potential upside," says Mr Miller. Part of that shift may be related to the fact that early last year the US Treasury began investigating limited liability companies from abroad that were buying properties worth $3m or more in Manhattan and $1m or more in Miami, in an effort to stem money laundering by dicey billionaires.

Yet the money keeps flowing in, and 2016 was a record year for *Chinese foreign direct investment into the US — the two most popular sectors being technology* (witness Baidu's latest Silicon Valley expansion plans) and property.

Like the Japanese purchase of Rockefeller Center in the late 1980s, the Chinese purchase of the Waldorf Astoria in 2014 has become a cultural marker for the trend. It is worth noting that technology and commercial real estate (which has also seen big inflows of Chinese money) are two of the frothiest sectors in the US at the moment.

All this tells us several important things about the global economy. First, the extent to which world property markets have become totally disconnected from national economies. There has been a massive housing recovery in the US since 2008, but over half of all the gains have accrued to a handful of coastal and wealthy inland markets.

Most middle-class Americans keep the majority of their wealth in housing, yet few have seen the kinds of appreciation enjoyed by wealthy homeowners in New York or San Francisco. Just as multinational companies fly 35,000ft over the concerns of national populations, so do coastal elites — and both trends are fuelling political discontent. Second,

it reflects the extent to which China's wealthy are worried about the economic trajectory of their own country.

Whether the renminbi is strong or weak, Chinese money keeps pouring into New York or Miami (or London, or Vancouver). This hints at two things — first, there is still a tremendous amount of worry among rich Chinese about the political and economic future of the Middle Kingdom. Second, like everything in China, the amount of capital that might yet flow out of the country is massive. "We're not seeing just oligarchs and billionaires buying these days," says Mr Miller, "but your garden-variety millionaires who want a house in Brooklyn rather than a luxury condo in Manhattan."

As economists such as Joseph Stiglitz have been saying for years, and as the International Monetary Fund has recently begun to admit, a globalised financial system presents major risk for national economies, which have more and more trouble controlling conditions in their local markets.

Normal people (even professionals) in London, Vancouver — and increasingly Brooklyn — cannot afford to get on to the property ladder. The lights are out in Mayfair and areas of Manhattan at night, as apartments purchased as part of an asset portfolio by global elites stand empty.

This, of course, adds fuel to the fire of <u>nationalism and populism</u>, the results of which can be seen in Brexit and the rise of polarised politics in the US and Europe. It also underscores the bizarre nature of the backlash against globalisation.

If you consider all the pillars of neoliberalism (including the free flow of goods, people and capital) currently under scrutiny<u>, it's the movement of money globally that has taken the least heat.</u> Yet its effects are powerful. My Brooklyn neighbourhood, which 15 years ago was still populated by cops and firefighters, is now home to McKinsey consultants and famous English actors (and perhaps, soon, a millionaire or two from Wuhan or Chongqing). You can see the wealth effect, as boutiques selling $500 pairs of shoes and $30 slices of cheese open up.

But I wonder if the lights will stay on — and what it will mean for our politics if they do not.