A Small Change Can Equate to a Big Impact

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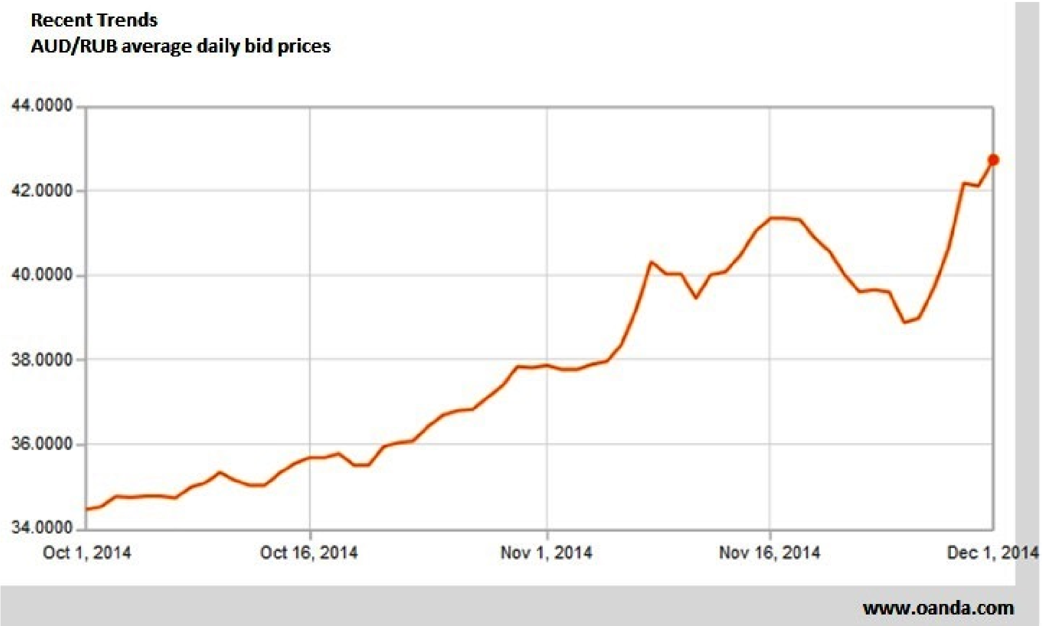
You don't have to be a news junkie to know that there is a lot going on in the world right now. Major stories are emerging from locations all around the globe… the Ebola crisis in West Africa, conflict in the Middle East, tension between Russia and the Ukraine, protests against the police in the United States, pro-democracy rallies in Hong Kong…just to name a few. Besides the obvious reasons of why these stories matter, as a global real estate practitioner, it is in your best interest to think about how world issues may affect your local business.

Currency fluctuations

Global real estate involves moving money between countries and converting currencies. Currency values fluctuate for a wide variety of reasons, such as investors' view of a nation's economic health, speculation, natural disasters, government actions, war, etc. Real estate professionals need to be aware of the impact of currency values because even a small change can make an impact.

Case in point, take a look at the below graph that illustrates the value of the Russian ruble against the Australian dollar. Beginning with the crisis in the Ukraine and compounded by the recent fall of oil prices, the ruble has hit a low. *Forbes* reports "And oil is only part of the problem. Russia faces a confluence of problems, some of its own making, others not. Most obviously, it is under sanctions from the US and EU because of its behaviour in Crimea and Eastern Ukraine. Additionally, it faces structural problems in the economy, is entering recession (or at the very least an expected period of zero growth), and has a debt burden that a falling ruble is going to make much worse."



So what does this mean for you?

Suppose you are working with a Russian investor who started looking at property back in October. On October1st your client was interested in a property listed AUD $500,000 which at the time equated to 17,228,600 rubles. However, on December 1st, the closing date, the value of ruble dropped and now your client has to spend 21,361,100 rubles to pay for the AUD $ 500,000 investment property. This is a $96.7k difference in only 8 weeks ago.

The sale price is not the only consideration a global agent should keep in mind regarding the impact of currency values. Even a tiny change can significantly increase or decrease the following:

- Sale proceeds
- Buying power
- Return on investment
- Gain or loss on sale
- Transaction costs
- HOA fees or assessments
- Payment of loans
- Closing expenses
- Operating costs and upkeep
- Rental income
- Commissions and referral fees

Helping your clients manage risk

In order to best assist your global clients, and help them manage the impact of exchange rate fluctuations, address the following topics during your initial counseling session.

- Ask where and in what currency the transaction funds are held.
- Stress the importance of transferring and converting the funds as soon as possible and describe the consequences of delay. If the buyer must wait for the money to be transferred and converted before making an offer, the opportunity to purchase a first-choice property could be lost. A seller may not accept an offer conditioned on transferring the money from another country.
- Explain the need to determine an appropriate price range and move quickly when the property is found.
- Caution that if the funds are not available to close a transaction on the contracted date, the buyer risks losing the down payment.
- Alert clients to currency, fund transfer, and financing issues, and guide them to seek expert advice.

Sophisticated, risk-tolerant investors may try to manage exchange risk by buying or selling currency futures as a hedge. Currency futures are traded on major exchanges for the Australian dollar, British pound, euro, Japanese yen, Mexican peso, New Zealand dollar, Swiss franc, and U.S. dollar. This aggressive strategy is best used by knowledgeable investors because it magnifies both the gains and losses if the currency market moves to the investor's advantage or disadvantage. On a large transaction, even a small fluctuation has a huge cost-impact, which is further magnified, positively or negatively, by leverage.

For more information on managing currency fluctuations, and how to best serve international clients, sign up for Certified International Property Specialist (CIPS) courses. The REIA has teamed up with the National Association of REALTORS® to offer institute members access to elite online education designed to help you grow your global business. For more information, visit http://reia.asn.au/agents/certified-international-property-specialist-cips-online-course/