

Waves of Considerations Reach S. Fla.'s Real Estate Market as a Result of Ukraine Crisis

Daily Business Review
3.4.22

This [article](#) appeared in the Daily Business Review on March 4, 2022.

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As the world reacts to the ongoing Ukraine-Russia war by implementing sanctions on various Russian parties, what kind of impacts can we expect on real estate markets, including in some of Florida's largest markets located in Tampa and Miami? Drawing on past experience on periods with political instability and economic volatility, here are some key effects we might see in the near future or are already seeing today.

The Expansive Reach of Sanctions

Sanctions are economic in nature, and can have an impact well beyond the obvious consequences. For example, the U.S., Canada, and European nations recently decided to require the Society for Worldwide Interbank Financial Telecommunication (SWIFT) to disconnect seven designated Russian entities (and their subsidiaries). SWIFT itself is a cooperative under Belgian law and is a leading international payment system. However, while SWIFT bills itself a neutral entity, it is incorporated under Belgian law and must comply with EU sanctions. The U.S. Treasury Department's Office of Foreign Assets Control (OFAC) has also designated a multitude of specific individuals and entities whose assets are, or will be, frozen, and who will not otherwise be able to proceed in real estate transactions such as the sale, mortgage, or lease of real estate.

There is also a knock-on effect of these sanctions that reaches beyond the seven banks disconnected from SWIFT, the hundreds of individuals and entities on the Specially Designated Nationals And Blocked Persons (SDN) List, and the U.S. government's sanctions against the Russian Central Bank. The effect we are all seeing now is the private withdrawal, and boycotting, of Russian companies and individuals from various business ventures and transactions.

The Domino Effect

Although the sanctions have been targeted, the world has reacted. Private companies like British Petroleum, Shell and ExxonMobil announced they plan to pull their business from Russia. Boeing and Airbus announced they are suspending major operations in Moscow. Disney, Warner Media and Sony Pictures will suspend the release of films in Russia. H&M, Nike, Dell and Ericsson have halted shipments and sales to Russia. Maersk is stopping shipments to Russia. And this is just the

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beginning. The message is clear that private businesses can, and will, take it upon themselves to implement further sanctions beyond those which are required. Out of solidarity for Ukraine, and potentially due to perceived sanctions risk, it is clear that doing business involving Russia will be that much harder.

Impact on Florida's Real Estate Shores

We can all see the impact abroad, but how will this affect real estate transactions here in communities with high Russian-American populations, including Tampa Bay (Clearwater) and South Florida (Sunny Isles)? According to the National Bureau of Economic Research, Russian offshore wealth, including real estate, consists of hundreds of billions of dollars. The recent sanctions and boycotts significantly complicate the logistics and viability of transactions involving Russian individuals and entities. How will the funds be wired? Will the buyer be able to secure financing from the bank? Will the accounting firm or law firm have any issue with the transaction – now that some firms are disclosing their position on the crisis?

From the transactional side, there will certainly be more eyes on the deal as a result of the sanctions, regardless of whether the deal involves sanctioned individuals or entities. From the social side, there may be individuals and entities who do not want to participate due to public relations concerns.

The Takeaways

When evaluating the ownership or control of real estate, consider the scope of applicable regulations, sanctions, the entities involved, their board of directors, officers, managers, shareholders and/or members. It is ever-critical to fully comprehend the source of funds. These added complexities may delay real estate closings, or potentially, exclude certain buyers and sellers from participating in deals.

Indeed, real estate is widely regarded as one of the safest investments, and particularly given the plummeting Russian ruble, the relatively-high inflation around the world, and the political and economic uncertainty of war abroad, there is certainly a possibility that more foreigners, including Russians, Ukrainians, and others, will want to move to South Florida and to secure their assets by purchasing real estate here. To the extent real estate assets are frozen by sanctions, that may only further decrease the shrinking supply in South Florida, and cause prices to continue to rise.

Targeted due diligence through comprehensive legal analysis is more important now than ever. Being proactive with the evaluation of the viability of a deal in consideration of sanctions regarding financing and transacting or engaging in certain real estate deals could save significant time and money, even though buyers and sellers may be facing an ever-heating real estate market on Florida's shores.

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Our thoughts are with the people in Ukraine and all those affected during this time.

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