

Analysis of Texas S.B. No. 17 Restricting Foreign Ownership of Real Property in Texas

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Overview of the New Texas Law Restricting Foreign Ownership of Real Property

Texas has enacted significant new legislation, effective September 1, 2025, that imposes sweeping restrictions on the purchase or acquisition of real property by certain foreign individuals, entities, and governments. This new act, passed in the Legislature as S.B. No. 17 and codified in Texas Property Code Chapter 5, is part of a broader trend among U.S. states to address perceived national security risks associated with foreign investment in land and critical infrastructure. Texas real estate attorneys advising foreign clients, or clients with foreign ownership, must now navigate a complex landscape that includes both federal regulations—such as those enforced by the Committee on Foreign Investment in the United States (CFIUS)—and these new state-level restrictions.

Key Provisions of the Texas Law

The Texas law targets individuals and entities from “designated countries,” defined as those identified by the U.S. Director of National Intelligence as posing a national security risk in recent Annual Threat Assessments, or as designated by the Texas governor. As of the law’s passage, this includes China, Russia, Iran, and North Korea, but the list may expand.

The law prohibits the following from purchasing or otherwise acquiring an interest in real property in Texas:

- Governmental entities of a designated country.
- Companies or organizations directly or indirectly held or controlled by the government of a designated country.

- Companies or organizations headquartered in or controlled by individuals from a designated country.
- Companies or organizations owned by, or the majority of stock or other ownership interest which is held or controlled by, individuals described below.
- Individuals domiciled in a designated country and individuals that are citizens of a designated country whether or not they are domiciled there.
- Members of the ruling political party of a designated country.

Issues to Consider

The definition of “real property” is broad, encompassing agricultural land, commercial and industrial property, residential property, mineral rights, water rights, and more.

The types of entities this applies to is also broad. The definition of “companies” includes a sole proprietorship, organization, association, corporation, partnership, joint venture, limited partnership, limited liability partnership, or limited liability company, including a wholly owned subsidiary, majority-owned subsidiary, parent company, or affiliate of those entities or business associations, that exists to make a profit. The definition of “organizations” expands the applicability of S.B. 17 further by adding business trust, real estate investment trust, joint stock company, cooperative, bank, insurance company, credit union, savings and loan association, or “other organization”, whether the organization is for-profit or nonprofit.

The law states that a prohibited person may not purchase “or otherwise acquire” an interest in real property in Texas. Trust and estates lawyers should take note. This could be interpreted to mean “inherit” or to “receive as a gift” an interest in real property in Texas.

The law prohibits the acquisition of “an interest in real property” in Texas. Because “interest” is not defined, this could be interpreted broadly to include easements, licenses, mineral interests, royalty interests, leases, and life estates, to name a few.

Implications for Different Types of Real Estate Transactions

1. Commercial and Industrial Property

The new law’s reach extends to commercial and industrial properties, such as office buildings, shopping centers, warehouses, factories, data centers and manufacturing plants. Foreign investors from designated countries cannot acquire these properties, whether for direct business operations, investment,

or development purposes. This could significantly affect foreign direct investment in Texas's commercial real estate market, including retail, logistics, and industrial sectors.

2. Agricultural Land and Related Interests

Foreign nationals and entities from designated countries are prohibited from acquiring agricultural land, which includes land used for growing crops, raising livestock, timber production, and related activities. This restriction also covers improvements on such land (e.g., barns, irrigation systems), as well as water rights and groundwater associated with agricultural use. Transactions involving ranches, farms, or even hunting leases could be impacted, especially if they involve long-term interests or convey rights to use water or minerals.

3. Residential Property

While the law generally prohibits individuals domiciled in designated countries from acquiring residential property, there is a narrow exception: individuals lawfully present and residing in the U.S. may acquire a residential property intended for use as their homestead. However, this exception does not apply to entities or to individuals not meeting the residency and lawful presence requirements. As a result, foreign buyers from designated countries face substantial barriers to purchasing homes, condominiums, or multi-family residential properties in Texas.

4. Mineral Rights, Mines, and Quarries

The inclusion of “minerals in place,” “mines or quarries,” and “standing timber” means that transactions involving subsurface rights—such as oil, gas, and mineral leases or outright purchases—are also covered. Foreign entities or individuals from designated countries cannot acquire these interests, even if the surface land is not part of the transaction. This has significant implications for Texas's energy and natural resources sectors, where foreign investment has historically played a role.

5. Water Rights and Groundwater

Texas law treats water rights and groundwater as real property interests. The new restrictions mean that foreign parties from designated countries cannot acquire rights to use, sell, or transfer water resources, which could impact agricultural, industrial, and municipal projects that depend on such rights.

6. Improvements and Leasehold Interests

The law covers not only land but also “improvements” (structures or fixtures attached to the land) and leasehold interests, with an exception for leases of less than one year. This means that long-term leases, most ground leases,

build-to-suit arrangements, and transactions involving significant improvements (such as infrastructure or utilities) are subject to the same restrictions as outright purchases.

7. Ancillary and Indirect Transactions

Because the law applies to any “interest” in real property, it could also affect transactions where foreign parties acquire partial interests, such as joint ventures, partnerships, or indirect ownership through holding companies. Even if a foreign party is not an owner, if the entity is headquartered in a designated country, the transaction may be prohibited.

Practical Impact on Real Estate Practice

- **Due Diligence:** Real estate attorneys must now conduct enhanced due diligence to determine whether any party to a transaction is subject to the law’s restrictions, including tracing beneficial ownership and control.
- **Transaction Structuring:** Creative structuring to avoid direct acquisition (e.g., through layered entities or trusts) will not circumvent the law if control or ownership ultimately traces back to a prohibited party.
- **Title and Closing:** Title companies and closing agents must be vigilant in identifying prohibited parties to avoid facilitating unlawful transactions.
- **Enforcement Risk:** Transactions that inadvertently violate the restrictions may be subject to forced divestiture, civil penalties, and even criminal liability, making compliance a critical concern.

Exceptions and Exemptions

The law does not apply to:

- U.S. citizens or lawful permanent residents.
- Companies owned or controlled exclusively by U.S. citizens or lawful permanent residents.
- Leasehold interests of less than one year.

Enforcement Mechanisms and Penalties

The Texas Attorney General is empowered to investigate suspected violations, bring in rem actions against unlawfully acquired property, and seek the appointment of a receiver to divest the interest. Civil penalties can reach the greater of \$250,000 or 50% of the market value of the property. Individuals who knowingly violate this new law may face state jail felony charges. The law also provides for forced divestiture, with sale proceeds (after satisfying liens and enforcement costs) remitted to the violator.

Interaction with Federal Law: CFIUS and Other Regulations

Texas real estate attorneys must be aware that this new state law operates alongside federal regulations, particularly those enforced by CFIUS. CFIUS reviews foreign investments in U.S. businesses and real estate for national security risks, with special attention to transactions involving critical infrastructure, technologies, or sensitive personal data. CFIUS also has authority over real estate transactions near military installations, ports, and other sensitive sites, and can require mitigation, divestment, or even unwind transactions.

Key points of intersection and divergence include:

- **Scope of Review:** CFIUS focuses on national security risks, especially regarding proximity to military installations and critical infrastructure. S.B. 17 is broader in some respects, applying to all real property and not just that near sensitive sites.
- **Designated Countries:** Both CFIUS and S.B. 17 target similar countries of concern, and the Texas governor has independent authority to expand the list of designated countries under the Texas law.
- **Penalties and Enforcement:** Both regimes provide for significant civil penalties and forced divestiture, but Texas adds potential criminal liability.
- **Reporting and Notification:** CFIUS has mandatory and voluntary filing requirements for certain transactions. S.B. 17 does not require pre-transaction notification, but empowers the Attorney General to investigate and act post-acquisition.

Practical Compliance Considerations for Foreign Investors and Their Advisors

- **Due Diligence:** It is now essential to conduct thorough due diligence on the ownership and control structure of any foreign party to a Texas real estate transaction. This includes tracing beneficial ownership and confirming country of domicile and citizenship.
- **Transaction Structuring:** Transactions involving foreign nationals or entities from designated countries must be carefully structured to avoid prohibited acquisitions. Even indirect ownership or control can trigger the law.
- **Representations and Warranties:** Consider including a representation and warranty by both parties requiring them to affirmatively state they are in compliance with S.B. 17.
- **Coordination with Federal Filings:** For transactions that may also fall under CFIUS jurisdiction, coordinate state and federal compliance efforts.

A transaction cleared by CFIUS may still be prohibited under this new Texas law, and vice-versa.

- **Disclosure and Recordkeeping:** Maintain robust records to demonstrate compliance, especially in the event of an Attorney General investigation.
- **Mitigation and Divestiture:** Be prepared for the possibility of forced divestiture and the appointment of a receiver if a transaction is found to violate the act. Consider voluntary divestiture and/or seeking acquisition by a company exempt from this new law.

Further Rules and Regulations are Expected from the Texas Attorney General's Office

The law requires the Texas Attorney General's Office to issue rules to implement the restrictions that will likely provide additional detail on how the law will be enforced and interpreted.

Conclusion

S.B. 17 represents a major development in the regulation of foreign investment in U.S. real estate, adding a layer of state-level scrutiny and restriction that is independent of, but complementary to, federal CFIUS review. Texas real estate attorneys advising foreign clients must now integrate these new requirements into their compliance protocols, ensuring that all transactions are vetted for both federal and state law risks. Failure to do so could result in severe civil, criminal, and financial consequences, including forced divestiture and loss of investment. As the legal landscape continues to evolve, ongoing monitoring of both state and federal developments is essential for effective risk management in cross-border real estate transactions.

The opinions expressed are those of the authors and do not necessarily reflect the views of the firm, its clients, or any of its or their respective affiliates. This article is for informational purposes only and does not constitute legal advice. For more information, please contact [Robert Soza](#) and [Jenny Roan Forgey](#).