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Texas Law (SBI7) Restricts Foreign Ownership of Real Estate — Legislation Applies to Hotels and Other Asset Classes

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Key Take: *This recently adopted legislation, as in the case of similar laws of several other states, is being challenged in the courts on its constitutionality as well as its preemption by federal laws.*

Effective September 1, 2025, Texas Senate Bill 17 was signed into law by Texas Governor Greg Abbott as Texas Property Code Subchapter H (the Act),^[i] which broadly restricts the acquisition and/or purchase of residential and commercial real estate in Texas by individuals, companies, and governmental entities from any country designated by the “*United States Director of National Intelligence as a country that poses a risk to the national security of the United States...*”^[ii] or from China, Russia, Iran or North Korea, as designated by the governor of Texas under Section 5.354 of the Act. ^[iii] Notably, the Act adds Texas among a growing list of states seeking to enact similar laws — Florida’s

Senate Bill 264 was enacted in May 2023, and similar bills have emerged in Louisiana, Arkansas, Alabama, and Utah, all of which are intended to restrict foreign real estate investment based upon national security concerns. We previously covered Florida's SB 264 in [Leisure Law Insider Vol. 3](#).

Overview of the Statute

The Act applies broadly to commercial real estate asset classes (specifically including agricultural land, commercial property, industrial property, groundwater, residential property, mines, quarries, minerals, timber, and water rights),^[iv] with limited exceptions covering individuals who are U.S. citizens (including entities owned or controlled by them), legal permanent residents of the United States (including entities owned or controlled by them), and individuals domiciled in and who are citizens of a country that is not banned under the Act, as well as a homestead exemption for the primary residence of individuals who are lawfully present in the United States. Specifically, Sec. 5.253 of the Act prohibits the designated parties from purchasing or acquiring “*an interest in*”^[v] such types of properties in Texas.

Of specific interest to our readers, the Act is applicable to hotels and retail properties, as well as commercial properties that may be developed for such purposes.

Pursuant to the Act, the Texas attorney general is given the authority to undertake investigations and prosecute enforcement actions by commencing *in rem* actions against properties that were acquired in violation of the Act, as well as obtaining the appointment of a receiver to oversee the property and effectuate its divestment.^[vi] In addition, the Act authorizes the attorney general to establish procedures to examine purchase and sale transactions and whether there is a basis to investigate whether transactions may be in violation of the Act.^[vii] Violations of the Act may result in civil penalties of the greater of either \$250,000 or

50% of the market value of the property in question, and companies and/or individuals that knowingly or intentionally violate the Act may be subject to state felony charges.^[viii]

In light of the drastic legal consequences for violating the Act, stakeholders seeking to acquire, develop, and/or otherwise invest in commercial real estate in Texas are cautioned to perform due diligence on their direct and indirect partners to ensure the transactions are not prohibited under the Act. They should also stay abreast of the countries designated by the U.S. Director of National Intelligence to be a threat to the security of the United States.

Legal Challenges to the Act

As one may expect, there have been legal challenges to the Act and Florida's SB 264, which interested parties are advised to follow, and additional legal challenges may continue to arise under both federal law and state laws. For example, the Chinese American Legal Defense Alliance has filed a lawsuit^[ix] alleging that the Act deprives Chinese citizens (who are in the U.S. on visas) of due process and equal protection of the laws under the 14th Amendment. Moreover, we anticipate legal challenges to the Act as being preempted by federal laws, such as the Foreign Investment Risk Review Modernization Act (FIRRMA)^[x] and the Committee on Foreign Investment in the United States (CFIUS), which oversees and restricts foreign investment in real estate in the United States based upon national security concerns.^[xi] There are also legal challenges that the Act violates the Fair Housing Act (42 U.S.C. Section 3601 *et seq.*) as it is alleged to be a discriminatory housing practice.

It is advisable to consult with counsel as part of a due diligence review and to keep abreast of the changing legal landscape in light of the status of the pending cases — as well as cases that may yet be filed — and the examination procedures established

by the attorney general. Understanding the evolving nature of the Act will help stakeholders avoid the severe consequences for any violations. We will continue to monitor these matters.

[i] Tex. Prop. Code Ann. §§ 4.251-5.259.

[ii] Tex. Prop. Code Ann. § 5.253(2).

[iii] The Bill authorizes the governor of Texas, after consultation with the public safety director of the Department of Public Safety and the Homeland Security Council, to determine whether a real property transaction poses a public safety or national security risk and to designate or remove a designation of a country or entity under Sec. 5.253. (Tex. Prop. Code Ann. § 5.254(a)).

[iv] Tex. Prop. Code Ann. § 5.251.

[v] The phrase “an interest in real property . . .” is used in the Act but not defined. A broad reading of the Act would interpret the phrase to apply not only to direct ownership, but also to direct and/or indirect ownership interests in an entity which owns or leases such types of real property (there is an exemption for leases having a term which is less than 1 year).

[vi] Tex. Prop. Code Ann. §§ 5.255 (a)-(c).

[vii] *Id.*

[viii] Tex. Prop. Code Ann. §§ 5.258 (a)-(b).

[ix] *Peng Wang v. Paxon*, No. 25-20354, slip op. (5th Cir. Dec. 11, 2025).

[x] 50 U.S.C. § 4564(d)(1).

[xi] The CFIUS regulations define covered real estate transactions and set out criteria for excepted

investors (31 C.F.R. §§ 802.101, 802.215, and 802.301).