EnterpriseUK
The Financial Ecosystem

A GUIDE TO INVESTING IN US PROPERTY

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CONTENTS

I. OVERVIEW OF US RESIDENTIAL PROPERTY AS AN ASSET CLASS

American house prices: A reality check

What a difference a decade makes. In 2006 house prices in America hit an all-time high, after rising unabated for the previous ten years. The crash that followed brought the entire global financial system to its knees. Despite efforts to fix the plumbing of the American mortgage market, housing in the United States remains a dangerous menace to the economy. In the meantime, property prices in the country, underpinned by low interest rates, forge ahead. On average, American home prices have recovered nearly all their losses from the 2007 crash.

Could another correction be just across the street? To gauge the frothiness of America's housing market, we look at two measures of affordability: the ratio of price to income and price to rent. Across America prices appear to be at their maximum value when compared to their long-run averages. In some cities, affordability looks stretched when compared against income—prices in many markets are 40% above their long-run average when compared to income. Theory suggests that they should eventually fall back down to earth.

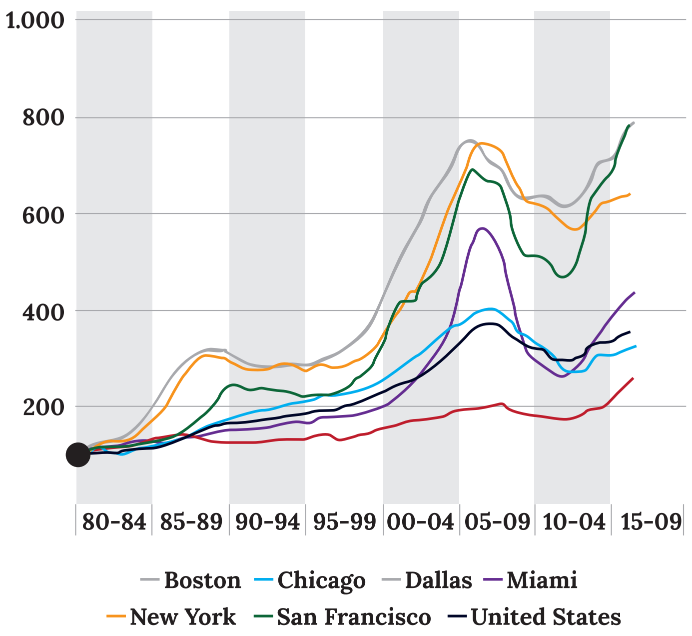

Chart 1. US house price index since 1980
Source: The Economist, Zillow

There's likely no sector as important to the U.S. economy as housing. In the first quarter of 2017, residential investment accounted for roughly half of the 1.1% increase in real GDP. Historically, this is on the high side, the home construction industry can account for as much as one fifth of overall output in the U.S. economy.

That's why housing has traditionally powered the American economy out of recessions, and that's why housing's role as the trigger of the Great Recession was so damning to the subsequent recovery. While housing prices have improved—with home values in some markets higher than before the crisis—there's evidence that the housing bust has inflicted long-term damage on the home building industry and therefore the American economy. Here is a chart from Torsten Slok, Deutsche Bank's Chief International Economist that shows the state of the housing market and how it's powering, and holding back, the rest of the economy.

Housing Market out of reach for the Middle Class

Of all the burdens weighing on the American middle class, one has grown immensely in recent years: debt. Absent reform, it presents one of the gravest threats to the prosperity of the typical family.

For much of the past century, easier access to credit benefited most Americans. More recently, though, borrowing has taken on a very different character. Because middle-class homebuyers are having financing problems, the homes being built are mostly for the high end of the market. Home builders have been turning its back on the American middle, for the simple reason that middle class incomes have been on the decline for years now. Furthermore, the mortgage finance industry is still leery of lending to all but the most creditworthy borrowers.

There are many metrics that one can use to show that homebuilders have decided that it makes sense for them to target wealthier buyers. During an otherwise sluggish economic recovery, the increase in the size of new homes for sale has actually accelerated. The graph below shows that the newly built single-family houses are bigger in 2005-2007.

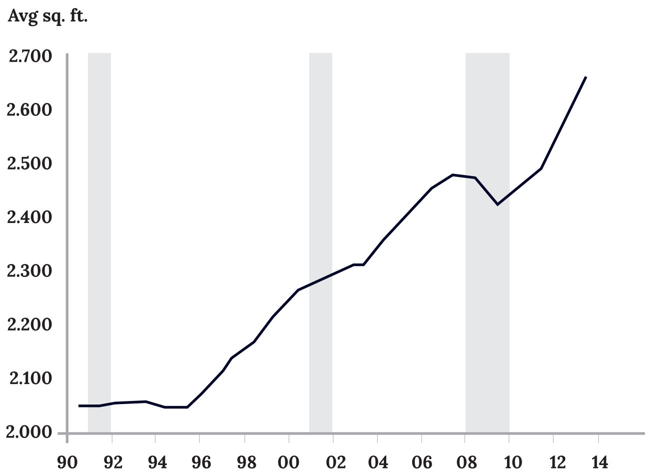

Chart 2. Avg Sq ft of floor area in new single-family houses
Source: The Economist, Zillow

U.S. Home Prices Set for a fall in 2017: Bank of America

Americans will face falling home prices in a matter of years as personal income gains fail to keep pace with the recovery from the financial crisis, according to a Bank of America Corp. analyst Chris Flanagan predicted in a report that starting in 2017 the U.S. housing market will experience three straight years of "modest" declines in property values.

The majority of market observers expect to see a slower pace than the surges of recent years. Housing prices have jumped 25 percent from their trough in 2012, which followed their worst slump since the Great Depression. They now sit just 7.6 percent below their 2007 peak, according to S&P/ Case-Shiller index data.

Providing fuel to Flanagan's call is the size of the recent gains in housing prices amid a job market in which unemployment has declined but worker pay has barely improved. "We do not see income growing fast enough to keep up with the past few years of rapid increases in home prices," he wrote. Flanagan, who in 2007 offered prescient warnings over the "very

bleak" conditions in the subprime mortgage market, said that the downward path of prices would depress housing activity, the economy, and interest rates.

In conclusion the US housing market seems "fat". Clearly even getting access to the market is becoming ever more difficult and US property is now largely a domain exclusively for the wealthier populous. Given that organizations such as Credit Suisse have suggested that a balanced investment portfolio should hold 5-30% "hard assets" such as property, should we be looking further afield for more affordable alternatives which offer better value for money and significantly higher capital growth potential?

II. OUTLOOK OF THE OVERSEAS PROPERTY MARKET

More than Just a Vacation Home?

If you've always dreamed of having your own piece of paradise, then Caribbean real estate could be for you. Whether you are considering making an idyllic island your home, or considering an investment property, or just want somewhere nice to vacation in the summer months, the Caribbean is a good place to consider.

Many American's have purchased properties in the Caribbean growth markets such as the Turks and Caicos, Cayman Islands and Bahamas and have experience massive equity increase over the past decade. Making their ownership not only a delightful experience but moreover a great investment. These small destination islands are very safe and appreciate quickly once they have regular visitors via international flights and cruise ship traffic.

There are only a few affordable destination islands left in the Caribbean - and certainly relative to US prices - seem amazingly cheap to purchase and are really a good medium to long term investment which you can enjoy. The demand speaks for itself as over 80,000,000 Americans, 200,000,000 Europeans, and Millions of Latin Americans are now of retirement age and are poised to target such markets – far outpacing the supply.

This silver tsunami will continue to drive values in the last affordable destination markets.

Top 3 Global Property Hotspots

Many Americans who have been made redundant over the past decade have used their redundancy payments to relocate overseas. They have reconciled themselves to the fact that unless they own the

roof over their heads and are largely mortgage free, the redundancy money would soon run out through paying ever increasing rent. They have relocated through necessity rather than choice and for many, buying an apartment for a few thousand pounds in an emerging area which is starting to attract mainstream tourism makes strong fiscal sense. Whereas a decade ago it was possible to buy an apartment somewhere like Goa for less than $30,000, the increase in tourism and high demand for cheap accommodation has led to prices soaring.

Many parts of Asia have also seen an explosive growth in real estate prices. They are now visited by a growing number of tourists attracted by the cheap cost of living and an improvement in hotels and facilities. It is now impossible to build or buy for the pennies of yester-year so many investors have sadly missed the boat. Those who had the foresight to predict the increase in development and visitor numbers have made a tidy profit. So where else in the world are we likely to see explosive growth in real estate, and what sort of opportunities are on offer?

The Caribbean Islands: Mention the Caribbean and we think of amazing coral reefs, crystal clear waters, calypso music, beautiful sunsets and the fabulous all year-round climate which has made the islands a Mecca for a rising number of tourists. The tourism industry is quickly gearing up for them. Many arrive on cruise ships but there are a number of high-end hotels being developed across the region. For those with a budget in excess of $1,000,000 it is still possible to buy a small beachfront villa on one of the developed islands, but prices are at a premium – especially considering that these types of properties were available for $100,000 a decade ago at the development stage. As visitor numbers increase, a growing number of smaller islands are now being developed, offering the savvy investor the opportunity to pick up turn-key properties as well as invest into off-plan opportunities. Water frontages are a must as are strong transport links and if possible choose a location which has a golf course nearby. If you are prepared to invest with a view to development this can often yield the highest returns and demand/rental yields are very attractive.

Hong Kong: Hong Kong's best-known luxury residential enclaves are all on Hong Kong Island, within easy reach of international schools, clubs and the city's main business districts. It is in these areas where prices have risen most rapidly over the past three years. In the eastern New Territories, however, in Sai Kung and Clearwater Bay, a lifestyle of sailing clubs, beaches and hiking offers a great quality of life at a fraction of the cost of the more traditional areas. Prices of luxury accommodation in these areas have risen by 65% since 2008, compared with a staggering 80% on the Island. Houses with gardens and views typically average around $1,100/sq.ft. compared with $2,500/sq.ft. in Southside district on the Island. The discount is sufficiently steep to allow more room for growth over the coming years, particularly as access improves, but you do need a tidy sum to get involved and it is tough to do so at the early development stage.

Latin America: Previously sound economic development has significantly moderated in countries such as Colombia, Chile, Mexico, and Peru, where there might be some recovery during the course of 2017, but it seems almost certain to be on only a slow upward trajectory. Nevertheless, Forbes magazine identifies Latin America as the next prime hotspot for property investors, particularly in Chile, Mexico and Brazil. Transport links are very good but other issues apart from the language barrier are local currency fluctuations and a potentially volatile political outlook. The lack of transparency in these areas is also an issue and many investors prefer to deal with more established development companies in the West and with lawyers who speak their language and can provide them with the assurances they need around title of ownership. It is often more difficult to use assets purchased in jurisdictions such as these as leverage, but if the currency works in your favor and they become more widely visited by mainstream tourists, the inevitable price rises would follow.

Different Ways to Buy

There are of course several companies offering investments into overseas projects which are all at different stages of development.

Stage 3 • These are “turn-key” properties which are fully developed and ready to move into and the most hassle-free but offer the weakest returns for investors. Often the property will have already have passed through several links of the chain. It would have first been sold as a freehold plot of land (stage 1) before infrastructure was built around it (stage 2), and then the land footprint developed to house the property (stage 3). Of course it is then ready to move into or can be rented out as a managed unit, but the main equity increases have already been realized and stage 3 investments typically offer a much lower yield than stage 1 or 2.

Stage 2 • Opportunities are generally those where the investor purchases a plot of land which has been sold earlier and may have been held passively for 2-3 years awaiting development of the main infrastructure around it. The investor will then generally work with a reputable company who will help him source funding to develop the plot. This can be generally done quite quickly and the finished property is then at Turn-key stage within 12-18 months. Whilst purchasing a plot for imminent development can still provide the owner with a relatively high equity gain on his investment, he will have the build financing costs to pay for 12-18 months before he is able to see income streams from his investments, although global interest rates are so low currently that the cost of this may not be too significant.

Stage 1 • Opportunities are those which involve buying plots of land at pre- development (off plan) stage. These transactions offer the investor the highest returns because generally the purchase must be funded in cash and there may be a 2-3 year wait before the surrounding infrastructure is developed and the plot is ready for stage 2 development. Often the plots are deeply discounted and many developers offer a buy-back option or offer other exit strategies to the owners who decide to dispose of the asset prior to development. As the infrastructure is developed, the plot of land often rises significantly in value and stage 1 developments generally offer investors the highest equity gains available.

III. CHOOSING THE RIGHT INVESTMENT PARTNER

- There are a wide range of companies offering property investments and great care needs to be taken before you part with your hard-earned cash. Always look for an investment partner who;
- Has an established and verifiable track record of successfully completing projects in the geographical area
- Has positive reviews from previous customers
- Works within a strong framework of trusted and reliable professional construction partners
- Is represented by a reputable network of lawyers, accountants and other professional partners who can assure valid title of ownership and safe stewardship of your funds
- Offers you notarized translations of all documentation in English
- Comprehensively explains all of the costs, benefits and risks associated with a transaction
- • Can meet the repayment of any capital obligations at an agreed time
- Is completely transparent
- You trust and are comfortable working with

DISCLAIMER

Many Investors are realising high growth through “Alternative Investments” that differ from traditional asset classes, such as developed market equities and sovereign bonds. Deemed to carry a higher risk, alternatives, also offer the potential of higher returns.
Through our Invest Safe Initiative, we identify exclusive opportunities that we introduce to our growing community of investors. Opportunities like these tend to appeal to investors who self-manage at least a part of their portfolio.
These investors often will use an IFA or professional wealth advisors, particularly for the design and implementation of their core investments and these core investments will typically be in the traditional asset classes, whether invested directly or through managed funds.
However, if they are savvy and can manage a part of their portfolio themselves, they may want access to innovative opportunities that are often in asset classes that are not systematically or even typically researched or offered by conventional routes.
These alternatives very often have zero correlation to publicly traded investments.
We conduct primary due diligence on the investment concepts we feature so investors can have access to key facts. This usually provides investors with enough information to make up their minds if the proposition is sufficiently interesting for them to carry out the additional research and due diligence they would need to know if the investment is appropriate for their portfolio and whether to make an investment.
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Alternative investments are only appropriate for investors who are able and willing to accept the higher risk associated with such investments. It is generally recommended that such investments are made part of a broadly diversified portfolio. Professional advice is recommended before making any investment decisions.

AmazonaGroup

Small things make a big difference.

We support NGO´s that focus on preserving the Amazon and supporting the local people who protect and nurture this beautiful land.

We commit 1% of our revenue to environmental causes close to our heart.

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