

HK investors see rich pickings in US bargains

■ CONCRETE ANALYSIS

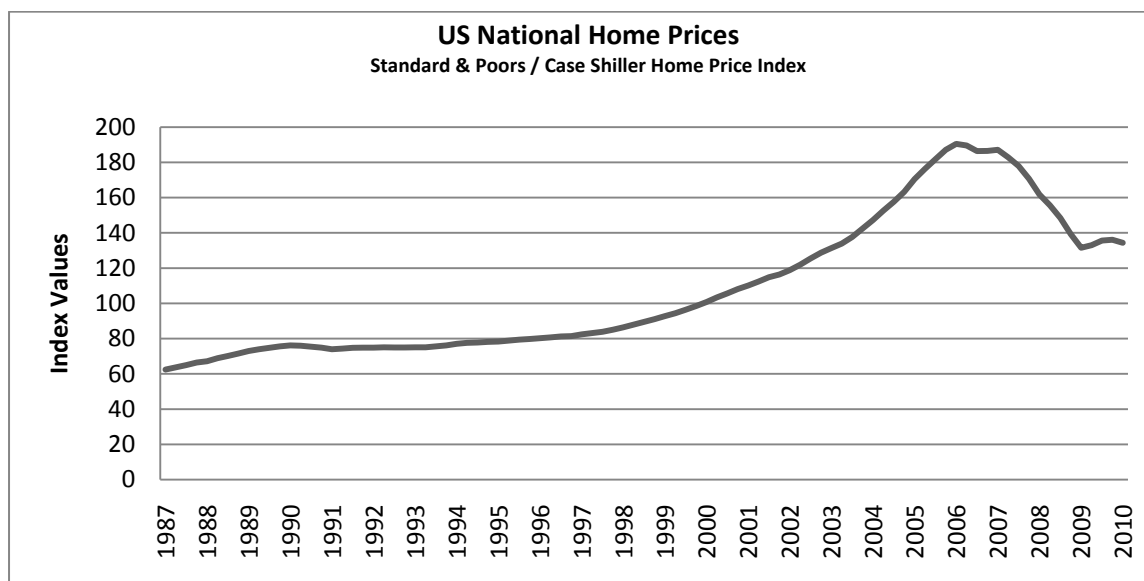
Patrick William O'Neill

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In a recent interview in the United States, property magnate Donald Trump is quoted as saying: "This is the best time I've ever seen to buy real estate". It appears that Hong Kong investors agree.

In a Barclays Wealth survey, Hong Kong investors overwhelmingly selected the US as the top destination of interest for this year, with Britain and the mainland tied for second place.

The surge in interest is fuelled by a combination of low prices and historically low interest rates. Average US home prices fell by more than 30 per cent since they peaked in 2006, with experts agreeing that the market hit bottom in mid-2009. In some hard-hit cities, including Las Vegas, Phoenix, and Miami, prices fell by more than 50 per cent. Since then prices have stabilized and modest gains were reported in major markets in the first quarter of this year. During this same period interest rates dropped to levels not seen since the 1950s.



The following are compiled tips for individual investors looking to purchase residential properties in the US.

Engage a buyer-side agent

Most property transactions in the US involve separate agents representing the buyer and seller. The good news for buyers is that the sellers typically pay all commissions including the buyer's agent. Commonly, the seller pays a total commission of 5%-6% which is shared equally between the two agents. When representing a buyer, real estate agents have a strict legal fiduciary responsibility to protect the best interest of the buyer. The agent will help in all areas including research, finance,

legal, valuations, negotiations and contracts. Most agents will require an exclusive agreement and some charge small refundable retainers for the services.

Identify the goals of ownership

The US markets are not homogeneous and provide diverse buying opportunities. Some markets provide better capital appreciation opportunities while others provide better rental yields. While some markets have dropped substantially, prime markets such as New York, Washington DC and Boston have experienced smaller price corrections but have the advantages of low rental vacancies and strong cash flow.

Research the market

The US real estate markets are among the most transparent in the world allowing buyers to research and understand values with confidence. The comparable market analysis (CMA) provided by buyer agents will outline the comparable properties that are for sale and those that have recently sold. This is the same information used by appraisers and surveyors to establish values for lending institutions. Investors can also access numerous public websites to obtain information of property values, demographic and rental income. The most popular sites include zillow.com, zply.com and realtor.com.

Plan the ownership and tax structure

The US encourages property ownership with numerous tax advantages for property owners that are available to both US citizens and foreign purchasers. With properly planned ownership and tax structure, taxes will be minimized and in some cases completely deferred.

The current US federal long term capital gains tax rate for real estate is 15% which is applied to the net profit of property sold after one year. This rate applies to properties in all states of the US. In some states an additional state capital gains tax is applied. Other states including Florida, Nevada and Texas have no state capital gains tax. For investors buying and selling multiple properties a properly executed 1031 tax deferred exchange, will defer all federal and state capital gains tax.

There are several firms in Hong Kong that specialize in US tax planning and preparation including US Asia Tax usasiatax.com.

Obtain pre-approved financing

Interest rates are at the lowest levels in the past 50 years. Lenders in Hong Kong are offering financing for US properties ranging from 4.0%-4.5% with loan to value ratios up to 60%. US lenders are offering similar rates with loan to value ratios of 70%. "Most of our Asia clients have been obtaining financing in Hong Kong for their US purchases" says Consulina Wong Director of Asia for the ONEILL Group a property firm specializing in United States properties. "The Hong Kong lenders are easier to work with and can also provide refinancing loans under 2% for the right borrowers". Financing has been a problem for the US domestic market with many transactions cancelling due to the buyer's inability to qualify for loans. "It really helps the buyer's negotiation power if they have a pre-approval letter from a bank before submitting an offer. If financing is not needed then we highly recommend a proof of funds letter from a financial institution" says Wong.

Buy freehold property

The vast majority of residential real estate in the US is offered in freehold tenure. Most leasehold transactions are found in the commercial sector. Although there are exceptions average US real estate investors are encouraged to purchase in freehold to avoid the potential burdens of limited financing, lease rent increases and decreased re-sale values.

Set realistic expectations

In some of the hard hit housing markets like Las Vegas and Miami discounts of 50% from the 2006 peak are still available for investors. In prime markets such as Manhattan the number of sales has increased dramatically compared to last year leading to price stabilization and increases. "Sales volume doubled in the first quarter of 2010 compared to last year and the average sales price is up 10% compared to last quarter" says Kathryn Higgins of DJK Residential in Manhattan. "Last week we

closed a sale for a Hong Kong investor with a discount over 30% but finding the deep discounts is becoming more difficult”.

In Beverly Hills, another prime market, agents are reporting that the discounts seen last year are becoming harder to find as the market continues to improve. “Last year discounts of 35%-40% from the peak were the norm even in our top areas. We are currently working with a Hong Kong buyer and it is very difficult to find discounts of even 30% in the prime West LA areas” says Chris Jones of Keller Williams Real Estate in Los Angeles.

Most experts project mixed signals from the US housing market through 2011. The expiration of the stimulus housing tax credit and expected rising interest rates will have negative impacts on the national housing statistics. At the same time, regional job growth and continued foreign investment will continue to boost prime market areas. Despite the mixed signals it appears that Hong Kong investors will continue to take advantage of what is possibly the best time to buy US real estate in the last 50 years.

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