**Praying on weakness?**

As the US dollar further loses its strength, now is the ideal time for UK investors to buy into the United States property market. Or is it? Dr Paul Hanks explains...

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**The US economy**

The USA Federal Reserve (FED) is under pressure to reduce US interest rates to help boost the struggling housing market, amid signs of weakness in the wider economy. Against a background of weak growth, sagging consumer confidence, low house prices and grim data on the housing industry, forecasters predict that the FED will reduce the key federal funds rate to 4.5 per cent. With UK house prices rising sharply in October, it is more likely the Bank of England will keep UK rates on hold at 5.75 per cent. This makes the pound more lucrative than the dollar for investors.

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**The US housing market**

The National Association of Realtors (NAR) reported that sales of new homes fell 8 per cent in September, the largest decline since 1999. This weakness in sales translated into further pressure on house prices. Not only is the housing slowdown dampening corporate profits, but the rate of slowdown is speeding up. The Commerce department recently reported that sales of newly built homes rose by 4.8 per cent, but this is still 25 per cent less than a year ago.

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**The sub prime story**

Many of you will have read about the "sub prime" mortgage problems in the US. Essentially, sub prime mortgages are those mortgages given to people of low income and low credit worthiness. A few years ago, lenders had loads of money and wanted to give it out as fast as they could. They introduced things such as stated income, stated assets loans, where someone could apply for a loan and 'state' how much money they earned and how much money they had in savings/stocks/assets they had – without having to prove it.

In addition, many lenders offered ‘teaser’ rates of one per cent and loans of 120 per cent of the value of the home. What the borrowers did not think about is that after two years, for example, 2007 – now, the teaser rate would end. Thus the mortgage payment would increase, and dramatically so in many cases. Many people struggling to pay a mortgage of US$800 per month, now faced a monthly payment of say US$1200. The result was defaults and foreclosures. It does not take someone experienced in US mortgages to have foreseen this.

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**The pound more lucrative than the dollar for investors.**

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**2. Exchange rate**

I said earlier that the pound has reached 2.6-year high against the US dollar. It seems that the dollar will eventually strengthen and the rate will reduce to, say, US$1.70. So let’s look at the example above. A UK investor buys a home in California for US$400,000. The pound is at 2000. The investor rents the house for two years and sells when the economy is strong and the exchange rate has dropped to US$1.70. The selling price is US$700,000 – which is a profit of US$350,000. At US$1.70, this translates to £203,000 profit after two years.

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**West-coast dream?**

Taking advantage of the housing slump can be a great opportunity if the investor knows what to look for. California presents some great opportunities. It is the powerhouse economy of the US and a keen investor will know that any house that has seen its price slump, will spring back. Look for those homes that are priced artificially low. Look for comparables. I am not suggesting that all areas of California, or indeed all homes that are low prices, are great investments. However, I do know those homes the represent bargains.

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Dr. Paul Hanks, President of Portfolio Development Services, began his professional career as an orthodontist. He became a real estate professional and California real estate broker, offering clients a trust- worthy and safe way to invest in real estate.

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**NASDA sees speak of good news in budget**

Bob Cummings, NASDA's tax specialist, discusses a speck of good news for the average UK dentist.

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