Making overseas investments

Investing in US property has never been better. Many good opportunities are available if you know how and where to look, says Dr Paul Hanks.

Hanks: a good time to invest in US property?

Why would you invest in real estate in the US?

Not only have you probably read that the housing market is set for a bust, but it’s a long way from the UK. Many investors like the ‘ouch and feel’ approach to investing—buying houses where they can drive buy and see them. However, despite what headlines you have read, investing in US real estate has never been better and the exchange rate at over £1.68 to £1.53 seems buy dollars.

Though a few weeks ago you could find voices claiming that the worst was over for the US housing market, it is harder now what with tightening credit and a glut of unsold homes. Areas such as California and Florida, which had a disproportionate share of riskier loans, are at risk. House prices have already been falling in parts of both states, as they have in Midwestern states, such as Michigan, where manufacturing and agriculture has shed jobs in recent years.

Smart and informed investors understand that in certain parts of the nation there are great investment opportunities.

States showing greatest appreciation

- Economic fundamentals are in good shape. The GDP growth for 2007 is forecast in the three per cent range, inflation is in check and unemployment is on track to end the year at 4.5 to 4.8 per cent.

- Housing starts in 2005, 2006, and 2007 (forecast) are 1.7 million, 1.5 million and 1.3 million, respectively according to the National Association of Home Builders.

- According to the US Census Bureau, population growth is on track to increase by almost five million each year between 2007 and 2010, which will require 2.2 new housing units each year, for example, demand for housing is higher than supply.

- The age of the existing stock of housing has reached a record 75 years, suggesting that approximately 400,000 housing units per year will require replacement between 2007 and 2014.

- According to the US Census Bureau and the National Association of Realtors, sales of existing homes dropped 5.8 per cent nationwide in June 2007 compared to the same period in 2006, the slowest pace in four and one-half years. Interestingly though is the fact that over the same period the realtors group highlighted a 0.5 per cent increase in the medium home price.

Are falling prices good?

Economists are reporting slight increases in home price nationwide in 2007, though foreclosures and existing housing starts are expected to decline. According to the National Association of Realtors, sales of existing homes nationwide fell 3.8 per cent in June 2007 compared to the same period in 2006, the slowest pace in four and one-half years. Interestingly though is the fact that over the same period the realtors group highlighted a 0.5 per cent increase in the medium home price.

Charles Gallo at Arturias.com, a real estate advisory company exclusive to clinicians, reports that ‘homebuyers are certainly receiving mixed signals, especially with media pundits reporting on the dire consequences associated with sub-prime lending and expected tightening of lending standards’. In addition, many economists have stated publicly that housing is contracting at an accelerated pace as demonstrated by a larger than previously forecast increase in inventories of unsold homes.

Home prices will be negatively affected by a glut of unsold homes. Areas such as California and Florida, which had a disproportionate share of riskier loans, are at risk. House prices have already been falling in parts of both states, as they have in Midwestern states, such as Michigan, where manufacturing and agriculture has shed jobs in recent years.

So are Utah’s high home prices becoming out of reach for many local buyers? Chris Hall, broker and managing director at Arturias Real Estate Group (Arturias.com) based in Utah says that ‘investors from states such as California are taking an interest in Utah, Idaho and New Mexico—and this is keeping prices up.’

Real estate prices are local with seven states showing double-digit annual appreciation rates and seven with rates less than two per cent. Seven states, including Florida and California, also showed home price depreciation in the first quarter. In last place was Michigan, which saw home prices drop 0.66 per cent in the first quarter compared to the same period in 2006.

‘Low interest rates and unemployment rates continue to prop up house prices in most markets,’ said OFHEO Chief Economist Patrick Lawler. ‘Prices are rising slowly in most areas, however there are some exceptions.’

What about international investors?

Many UK investors tend to invest in Florida. The reason is simple—this was where most Brits invest if they invest in the US. Financing is relatively straightforward and Florida is accessible for holidays. However, as an investment, maybe Florida is not what it used to be. Certainly there is an over-supply of condominiums and single family homes. Very much like Spain, too much supply causes prices to drop and inventories to sell on the market for longer.

Savvy UK investors, and those looking for second homes in other