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...

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, downgrades of corporate ratings 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.

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 histories. A few years ago, lendars had loads of money and wanted to give it out as fast as they could. They introduced things such as stated income, stated loans, where someone could apply for a loan and ‘state’ how much money they earned and how much 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.

Some economists expect the housing slump to intensify in coming months as these teaser rates and defaults spiral and repossession will increase, more houses will hit the market and property prices will fall further.

A good position?

The UK investor is in a win-win situation. First, you can benefit by investing in property when prices are so reduced. Secondly you benefit from the exchange rate.

1. House prices

Careful analysis of the US housing market details that the slump is not generalised. Indeed, one has to look at the local markets before deciding if that market is in a slump, leveling off, or increasing. So, which type of market should you invest in? I believe there is a lot of profit to be made by investing in those areas where property prices show a mixed message – some homes are drastically reduced in price and yet comparables are holding strong. These areas represent the best investments for UK investors. For example, I know of four-bedroom single family homes in California that are on the same street where one is priced at US$650,000 and the other at US$400,000. So, for the savvy investor, a quick profit of US$250,000 can be made.

Why the difference? It is due to the need of the seller to sell. In one home, the seller knows the value of the home and is in no rush to sell. In the latter, the seller is on the verge of foreclosing and needs to sell. However, both have homes that many are in panic mode as they read the papers and fear the worse and want to get out now. Rather take a loss now than lose more later. What is one person’s irrational fear, is an investors dream.

Get in quick

Whether you are a property investor or not, the US represents an amazing opportunity to make a profit. Two situations are coinciding to present the UK investor with an unrepeatable opportunity – low US home prices and artificially low US dollar. We have seen UK investors invest in the US individually and in groups. Pooling resources saves cost and allows clinicians to acquire 1 or more properties, usually buying outright and saving loan costs and the problems with obtaining the loan in the first place. Property management is not an issue as this is something we can do. As is asset management – advising when to sell.

I am in the UK for two to three weeks a month. If you are an individual or a small practice, or me, or arrange for me to present a seminar to you and your colleagues talking about any aspect of my articles or US property market, please email me at phanks@us-pds.com. Please include your name and contact details (address, email, contact telephone) and a brief message.

Bob Cummings, tax specialist for National Association of Specialist Dental Accountants (NASDA) in your area, call 0870 6040 250 or go to the website at www.nasda.org.uk

NASDA sees speak of good news in budget

B ob Cummings tax specialist for National Association of Specialist Dental Accountants (NASDA) told Dental Tribune that there was some good news amid all the gloom of the budget. He said: ‘We are also pleased to give dentists a speck of good news too – that the budget will put a few additional hundreds of pounds into their pockets. However, some team members might end up paying more tax and employers might like to find ways to prevent them from being penalised.’

He explained that the basic rate of income tax was being reduced from 22 per cent to 20 per cent. The benefit of these changes is in the region of £790 for a higher-rate taxpayer. A high earner will also pay more in National Insurance Contributions as a result of the raising of the upper limits, which will cancel much of the income tax cut, but still leave the average wage dentist better off by about £400.

However, there is a loss of the 10 per cent basic tax rate on lower earnings and this means that someone with a salary of up to £15,000 could be worse off. Employers could consider introducing flexible benefit schemes which are a way of boosting pay without incurring a tax liability. Talk to your NASDA accountant if you want advice on implementing schemes to support and reward your staff.

Finally, said Bob, there is a reprieve for dentists who incor- porated. This is a aim of reducing the congrual tax liability. In the past it has been possible benefit from the corporate tax reform and the 2018 tax rules and the 2018 dividend tax with company dividends, which attract a lower rate of tax. Detailed pro- posals were published in December 2007 to reverse the benefit of ‘uncommercial income shifting’ for tax. The Govern- ment appears to have heeded the criticism that the proposals would have made self-assessment impossible and has de- cided to defer any changes until April 2009.

NASDA is a grouping of 56 accounts throughout the UK and between them they repre- sent one fifth of all dentists in practice. To speak to a member of the National Association of Specialist Dental Accountants (NASDA) in your area, call 0870 6010 250 or go to the website at www.nasda.org.uk

About the author

Dr. Paul Hanks, president of Portfolio Development Services, began his professional ca- reer as an orthodontist. He became a real estate profes- sional and California real estate broker, offering clinicians a trust- worthy and safe way to invest in real estate.

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