The perfect storm?

Although the US property market is quiet, Paul Hanks insists that lower property prices are opening up opportunities for UK investors

You might have read some dispiriting comments about the US real estate market and mortgage markets lately. Yes, America’s property boom is over and the worldwide credit crisis has been fuelled by the US sub-prime crisis. Forecasts suggest the UK is in for a period of unsettled real estate prices similar to that in the US.

In previous articles, I’ve spoken of the need to develop a real estate aspect to your investment portfolio. Diversification is key to success and I do not intend to talk here about the pros and cons to real estate investing. What I want to focus on is why now is the time for you to invest in the US.

US boom over

While the downturn in the US real estate market is bad news for domestic buyers, tumbling prices are opening up opportunities for UK investors. For British buyers interested in a second home in the US, however, conditions are highly favourable; the dollar is weak and it’s a buyer’s market.

Across the US, annual property prices dropped this year for the first time in decades. Initially, sales of new homes rose against the trend by 16.2 per cent, but this was achieved only because developers lured buyers with huge discounts and incentives. In a growing number of areas, owners can’t shift their properties, even at steep price cuts. Meanwhile, more and more homes are coming on to the market and reducing prices further.

But before you think you can throw a dart at a map and hit a profitable real estate investment, think again. Some markets are down 50 per cent, but some are up 50 per cent. The most problematic are those that had lots of speculators. But there is great disparity across the country.

You need to study the markets to know which areas have fallen to the lowest point and will show the best medium to long-term growth. For example, Miami has a surplus of condos and many buyers of off-plan condos are walking away. Others are selling at rock-bottom prices. But while prices are falling, Miami is no basket case and investors will be buying into a city with stable prospects in the long term.

The weak dollar

The euro has also enjoyed considerable gains against the dollar, and Irish investors in particular have been active in New York City, keeping prices buoyant. Twelve months ago, 1 EURO = US$1.194. Today 1 EURO = US$1.47.

Even the pound is at a 26-year high. Looking at the 26-year average, £1 = US$1.65. Now the pound is US$2.08. At US$2, the pound is about 20 per cent above its average. Remember that the last time the pound traded consistently above US$2 was in 1975. At two dollars to the pound, a house selling for US$500,000 costs £250,000. The same house at US$1.65 is £305,000 – an additional £55,000. At parity – one dollar to the pound – it would be £500,000.

Can the pound drop that much? Sterling traded at nearly parity in January 1985 when it reached a low of US$1.0520.

With UK house prices heading for a period of instability, wise investment in US real estate can reap rewards. Properties can be bought that cash flow and the UK investor can benefit from a double whammy... appreciation and profit from the dollar gaining strength. Though prices generally will continue to fall, you don’t want to wait forever. British buyers also have to consider the rate of exchange and the fact that movements in one can cancel out gains – or losses – in the other. If sterling falls against the dollar during the time you have been trying to push prices to drop, you may end up with no net gain – and lose your gift horse of a house in the process.

About the author

Dr Paul Hanks, president of Portfolio Development Services (PDS), began his professional career as an orthodontic specialist in the UK. He became a property market specialist and has relocated to California where he continues to have an active role in the local orthodontic and dental community. Paul strengthened his knowledge and experience in property by becoming a California and Washington estate agent and developed PDS, a company tailored for clinicians. PDS offers clinicians both in the US and UK a trustworthy and safe way to invest in US real estate. He is available in the UK two weeks a month. Email: paul.hanks@uspds.com or visit www.portfoliodevelopmentservices.com