

*Don't get fooled by spruikers that tell you how cheap it is to buy property in the USA. Cheap doesn't mean value.*

*You don't want to own a cheap property without rental income and there are very real other risks.*



## Buying property in the USA

There has probably never been a better time to buy property in the USA!

With the Australian dollar trading at better than parity with the US dollar, the US banks with tightened lending policies, the property bubble bursting in the USA, you may just have the perfect opportunity to purchase residential property in the USA.

It might be described as "the perfect storm".

But when things sound too good to be true there usually is a catch.

The catch is that it's not as easy to take advantage of this opportunity as many people think or are led to believe and there are risks.

People interested in taking advantage of the strong Aussie dollar often forget the complexities of doing business overseas.

At the very least you need a US Bank for those funds. You're not going to buy \$100,000 US dollars and have that cash delivered to your door. You need a US bank account to transfer any purchased US dollars and to handle the payment for the property you purchased. You also need a place to collect your monthly rental income.

If you are going to borrow in the US you will need a US credit rating. This is called a FICO score and is imperative when borrowing funds in the US to have a good score.

People forget that buying any property in the USA or anywhere for that matter is a business and has associated risk.

Firstly for overseas purchases there are currency risks.

Then assets in Australia need to be protected from the business activities in the US.

People also forget that buying cheap doesn't mean buying good value. There are properties in the USA that are selling for as cheap as \$15,000 for a three bedroom townhouse. However, is it a located that will have a steady tenant paying rent? What is the quality of the tenant? Tenants in the US can be very different to those in Australia. A \$15,000 purchase with no tenant is not as good of an investment as a \$50,000 purchase in a strong area where tenanting isn't an issue. Cheap rarely equals good value.

Then there is the chance you will get ripped off. Let's face it whenever there are great investment opportunities there are people that will take advantage of the average person's lack of experience and the urgency created by not wanting to miss out.

There is a saying: ***"When a person with money meets a person with experience, the person with the experience gets the money and the person with the money gets the experience."***

So you need to do your homework and even then only deal with people you can trust.

When we look back in history we have all seen some opportunities where... ***"if only we took advantage of that"***. This may well be one of those once in a lifetime investment opportunities but remember caution is needed.

## Why are properties so cheap in the USA?

Let's first realise that the USA is a big place with a big population and a big economy. When things move in the USA, they tend to move big. During the early 2000s Wall Street provided the liquidity for banks to generate more debt which led to consumers leveraging their properties to take advantage of all this liquidity. This then led to increased demand for properties, which caused these properties to increase in value. As a result, people started to leverage their properties more as the properties continued to increase in value because they seemed at the time to be a good investment. In turn, it perpetuated Wall Street's appetite for more debt, etc. As consumers had more liquidity to purchase, banks had the liquidity to offer the consumer, so the property market soared.

It did so until it reached a point where the debt instruments (bonds) that Wall Street was selling weren't supported by the property values any longer and the system broke down. Everything went in reverse and what came out of it was consumers now had debt of 50%-100% more than the value of their home. Sort of like musical chairs where the music stopped and most were left standing without a chair, or a house for that matter. These people are what we call "upside down" on their mortgage where their mortgage is greater than the value of the property.

We aren't suggesting that you buy these properties that soared and then collapsed. We are actually purchasing in markets that did grow in the boom but not as much as the markets that have been totally washed out in the bust. We are capitalising on the fact that nobody can get financing in the US and that creates a huge opportunity for Aussie investors with cash.

On average, looking at the past 40 years of USA property growth, prices are back to where they should be trading, not necessarily undervalued. We can now purchase with confidence knowing that we aren't overpaying. That's to say that we aren't buying in the bubble that began in 2000. Remember, we are not buying those \$15,000 "cheap" properties in areas that don't support solid yields. We buy where the market has pulled back to normal levels but where the costs of these properties are historically low.

### **Why are yields so high?**

Banks in the USA have severely reduced lending by slamming on the brakes! When the consumer can't get a mortgage to buy a home but needs a place to live because they have a steady job and can afford the monthly repayments, demand for rentals increases. As the demand increases but the supply sits with the banks from foreclosure, rental demand strengthens and rental prices increase. There is a need for investors to purchase these properties from the banks, in some cases scrub them up to "like new" condition and put them on the rental market for all those requiring a place to live.

## **So what do we offer you as part of our services?**

We facilitate your buying these properties so you can benefit from this opportunity.

1. We identify the investment funds in Australia to confirm that the investor has funds available for the specific purpose of purchasing property in the US. If the client isn't financially ready then we can assist in provide financing of existing property for their investment purchases overseas.
2. We will assist in structuring a Limited Liability Company (LLC) in the US which the investor(s) will own. It is this vehicle that will purchase the properties in the USA as well as provide the asset protection back home in Australia.
3. We will help set up a US bank account in the name of the LLC which will be controlled by the owner of the LLC. This will be the account where Australian dollars converted to US dollars will be deposited as well as where net monthly revenue will be deposited.
4. We will have someone physically visit the properties.
5. We will have someone liaise with the purchasing transaction between the vendor and the investor.
6. We will arrange for a US Property Manager who will manage the property portfolio for the client whilst determining whether there are better opportunities for selling and moving to properties in another location.