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Answering Your Questions

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Real Estate - The Global View: Follow-Up

First of all, many thanks to everyone who sent in emails and comments regarding last week’s report *Real Estate - The Global View*. Given the number of responses it wasn’t possible to answer each email individually; this follow up will hopefully address your questions and comments.

Real estate as part of a portfolio

To avoid any misunderstanding, I do not (nor would I ever) recommend anyone’s assets to consist exclusively of real estate. Even if such holdings were well diversified globally, the illiquidity would hardly make for a sensible approach.

Therefore, it’s not an issue of real estate vs. equities or cash; rather, income producing property (ideally spread over various jurisdictions) forming a part of one’s portfolio. Dividend paying equities (acquired at an opportune moment) equally make sense, especially in today’s zero (or negative) rate environment. Cash, despite being eroded by inflation year after year, has its place as well - not only for possible emergencies but also to purchase assets on the cheap when opportunity arises.

Natural disasters and resulting risks for real estate investors

Thailand being one of the markets covered in the report, a reader raised the issue of natural disaster risks (such as the 2011 Thai floods).

Nearly every country is subject to some natural disaster risk, many parts of the US and Europe including. Floods, tornadoes, hurricanes, cyclones, tsunamis, earthquakes, volcanoes… If all regions somewhat susceptible to such threats were stricken off the list, there would barely be any place left to invest. There are ways to mitigate the risks, for instance by buying in specific areas less prone to be hit on a regular basis (rarely is an entire country equally impacted by natural disasters), as well as having appropriate insurance, etc.

Rental yields

The quoted (gross) yield range in certain markets may appear very wide; that is due to covering not only various property types but also different target tenants and lease types. For instance, many locations have strong demand for shorter term (holiday or executive) rentals where considerably higher yields are generally achievable - although increased costs and risks need to be taken into consideration, including local laws and restrictions, possible levies such as hotel occupancy taxes, increased maintenance costs, marketing costs, and higher volatility of the short term market.

Despite gross yields not being the most meaningful for comparison purposes (due to a large variance in expenses in different markets), it was beyond the scope of the short overview to cover costs, taxes, etc for every type of rental investment in each location.

East Coast US;
High yield vs. capital appreciation

We've received a few comments about the lack of East Coast coverage (Florida aside) and the wisdom of going for high yield over capital appreciation potential.

The objective from the outset was to focus on higher yielding properties as opposed to counting on capital appreciation that may or may not materialize to the extent one was hoping. As an investor I look for deep value and cash flow; hence the focus was on the states that currently present the bulk of such opportunities. Investors with a different set of criteria, or buyers looking for a home to live in, could certainly find attractive deals throughout the country.

The yield vs capital growth question is, in my experience, often misplaced. High yields - or low price to rent ratios - typically put upward pressure on prices over the longer term (when cost of renting is higher than cost of buying many tenants will eventually decide to become home owners; in addition to demand from investors looking for strong rental returns). A good quality, well located property purchased at significant discount to replacement cost may provide as close to a guarantee of future appreciation as one might get - prices will tend to at least reach replacement cost (unless the area deteriorates and demand dies off), although that can certainly take time. Among other advantages of the states we've covered are high affordability (low price/income ratios) and, in some, favorable taxation (Florida, Nevada and Texas have no state income taxes).

Lack of Africa coverage

A reader sent in a perfectly valid query as to why many relatively obscure Asian countries were mentioned as potential investment destinations yet no African country has made the list.

The wider coverage of Asian markets is partly due to my familiarity with that part of the world, having spent much time in the region over the last two decades, as well as having researched the local real estate markets. My boots on the ground knowledge of Africa is limited to certain regions (in particular the northern parts of the continent) that do not at present appear to be the best destinations to find high yielding property.

There will undoubtedly be appealing investment opportunities in some of the numerous African nations; alas someone knowledgeable about the region would need to tackle that.

As noted in the report, there are a number of countries throughout the world that, at least on paper, look potentially interesting to an investor. However, I prefer not to opine on markets I have no personal knowledge or experience of. That should be left to people who know what they are doing…

UK real estate

As noted in the Europe section, much of European real estate continues to be expensive and rental returns are generally low. That's not to say specific opportunities cannot be found in such markets. However, I would not consider the UK to be an overly attractive destination for investors looking for good values and high yields, which was the objective of the coverage.

The way I personally look at things, being able to invest in (almost) any country worldwide, I can choose those that offer the most attractive opportunities based on my objectives and risk tolerance. Why then would I limit myself to markets that, while possibly presenting some reasonable deals if one looks long and hard enough, fare considerably worse in comparison with many other destinations? Of course other investors may have (often self-imposed) limitations of how far from their home turf they are willing to go, in which case they need to do the legwork necessary to find that proverbial needle in a haystack, or simply sit tight and wait for a more opportune moment. There is no need to be invested at all times; when there are no attractive opportunities to be found it is far preferable to be in cash.

Further real estate reports?

A number of readers asked about more detailed reports on specific markets. That is something we might be able to do depending on demand. If you are interested in any particular market (regardless whether it was previously covered or not), do let us know.

I typically spend at least 50% of my time traveling, visiting (and revisiting) interesting destinations and markets. Colombia, Ecuador, Cambodia, Mongolia and Canada are on the list for the next three months.

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