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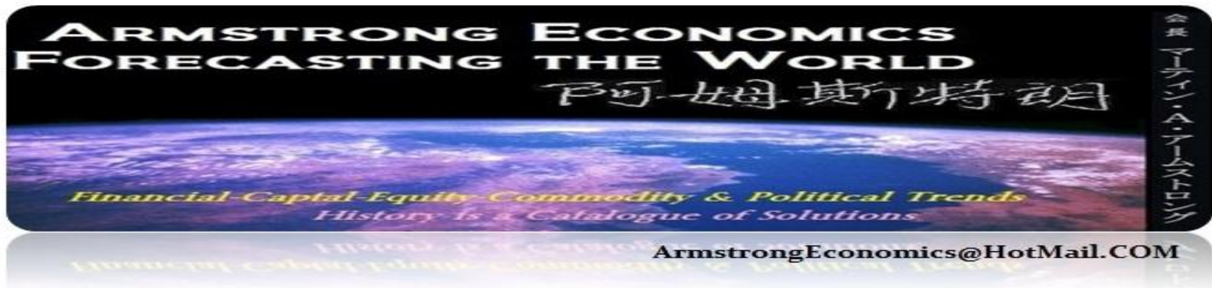
Real Estate - The Global View



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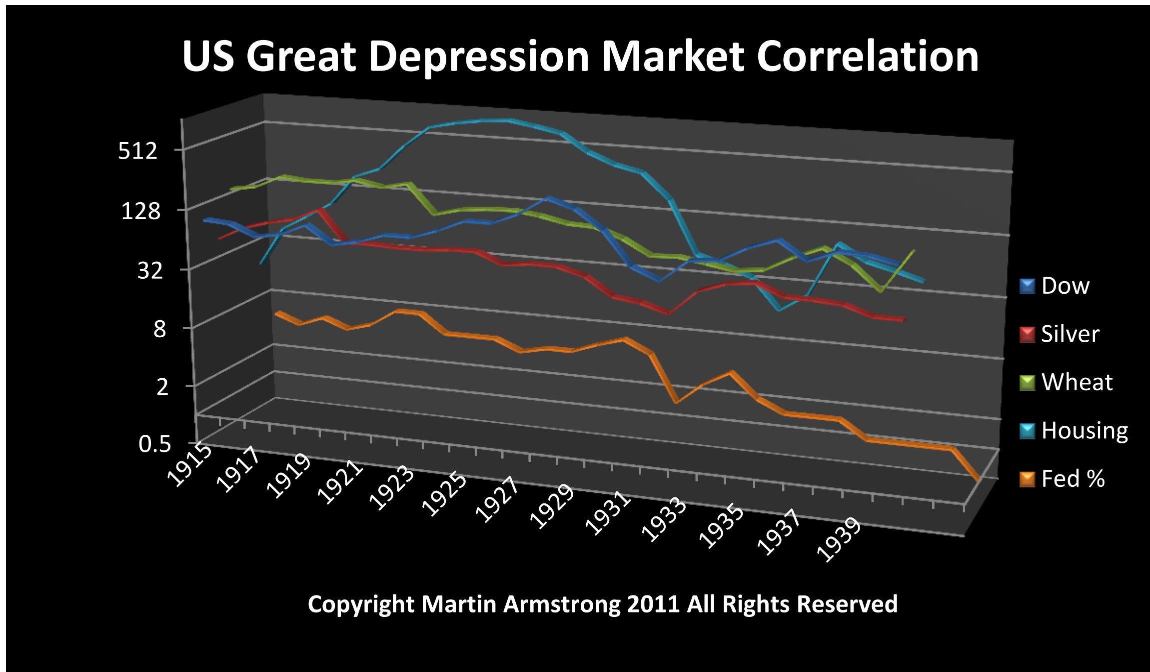
Real Estate - The Global View

Introduction By: Martin Armstrong

F all the people I have ever met, there is truly no one more experienced and keenly tuned into the world real estate market than Petra Gajdosikova . Petra travels the world actually checking out the markets firsthand instead of watching from some lofty ivory tower never venturing out into the real world beyond the window. I have never had much time for pretend analysts who have really done nothing, claiming they are wiser than most, yet sit in some office and have never done much of anything real telling people when to trade but have never traded. You might as well as ask a virgin for advice on sex.

It has been our clients that have forced me to be worldly in my ways. Actually traveling around the globe and really kicking the tires educates one far beyond what they can read. One of the most important aspects of **REAL** education is **doing it** – something we call **experience**. For 17 years Petra has worked around the world. She has dealt in actual properties on several continents as a strategic investor gaining a real knowledge base that includes so many things that are often just background noise. Having to deal with taxes, regulations, lawyers, and governments on a global scale provides a contextual knowledge one cannot obtain in any book or course. Petra's view of the role of real estate in a new global world in search of assets is very interesting, thought provoking, and in line with a monumental economic crisis we now face.

Petra has been a **doer** – not a pretender. I have used my persuasive "*charm*" to convince her that she should share her knowledge before what might be the largest global readership anywhere. So those who jump up and down screaming and yelling but have never bothered to actually experience what they preach, Petra is anything but. I told her it took Milton Friedman to drag me out of my shell. I am no Milton Friedman, but what the hell – I am the guy they said manipulated the world economy, forecasted things to the specific day nobody else could and that was all because I had too many clients around the world. So not being as famous as Milton, yet nonetheless a notorious legend in the twisted minds of bureaucrats, she has agreed to share her real world experience that has so impressed me – and that ain't easy!



Real Estate – A Vital Investment Sector

By: Martin Armstrong

HERE is no question that real estate has been one of the five (5) primary sectors within the economy. Real Estate speculation has been systemic. In effect, it was the inspiration behind both the **South Sea Bubble** and **Mississippi Bubble** of 1720. While I provided a forecast for real estate of the United States in the issue of November 15th, 2009, I have also written about the Athenian Real Estate Crisis and Speculative Bubble during the 4th Century BC in the October 2010 issue.

Real Estate Bubbles often precede serious economic declines. The US Great Depression of the 1930s Market Correlation shows the layout of the various sectors. The commodities peaked with the Great Bubble of 1919 and generally declined into 1932. The stock market bubble was brewing headed into 1929 shifting from the Railroad stocks that peaked in 1907 to the first Industrial stock boom led by the automobile industry. However, you will notice the biggest bubble was in Real Estate (TOP LINE). The most famous Real Estate Bubble going straight into 1925 was the Florida Land Bubble. People were building places, selling them to other investors, while there really was nobody actually living in a lot of the places. That was no different than the Real Estate Bubbles of the 1790s.

I have written about the **Copper Panic of 1789** which was a monetary crisis with the collapse in the confidence on tangible coinage. This was followed by the **Panic of 1792** and the **International Panic of 1796-1797,** which were real estate bubbles just as any emerging market

NY Stock Exchange 1882

goes through including China in recent years. It is always the same pattern. Keep in mind that the origin of the New York Stock Exchange can be traced to May 17th, 1792, when the ***Buttonwood Agreement*** was then signed by 24 stock brokers operating on the "curb" outside of 68 Wall Street in New York City just under a buttonwood tree on Wall Street. This group of stock brokers rented a room in 1792 for $200 a month, which was located at 40 Wall Street. It wasn't until March 8th, 1817 that this group formally became known as the "***New York Stock & Exchange Board***" electing Anthony Stockholm to be its first president. So these Panics of the 1790s can hardly be attributed to being caused by "Wall Street" and reflect the nature of **ALL** investment bubbles.

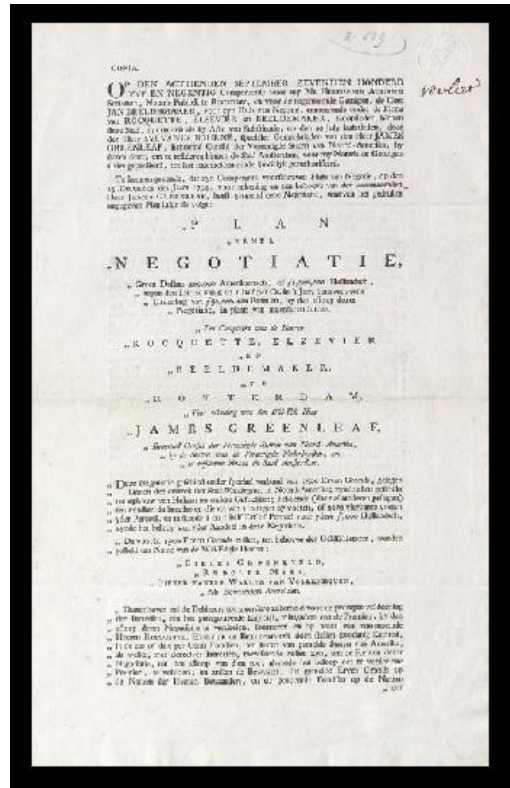
One of the great real estate speculations from the outset has rarely been even looked at. It was the Washington, DC land Bubble that ended in the **Panic of 1796-1797** that destroyed more famous men than any other and landed more people in prison than any other bubble in history. The speculator was James Greenleaf (1765-1843) who was a legend in his own time, yet whose name is generally lost to history. Greenleaf may be very obscure. Nonetheless, he established operations in real estate in the District of Columbia. George Washington expressed his disapproval of Greenleaf's methods in a personal letter to Daniel Carroll (1730-1796), who was one of the commissioners setting-up the District Columbia and whose family founded Georgetown University. George Washington believed that the price James Greenleaf was offering the commissioners for land was far too low in his opinion, and that Greenleaf he believed was obviously planning to obtain a monopoly of the land and make an "immense" profit on it to establish the new capital.

James Greenleaf (1765-1843)

James Greenleaf was appointed very early in life in 1793 Consul of the United States to Amsterdam. He was a cousin (by marriage) of John Adams and a merchant with operations

in both New York and Amsterdam. The key to riches in those days was always being an international merchant for they made good income on import & export, became natural bankers with trading in currency, and emerged as the real movers & shakers of the 18th Century. Amsterdam was also the center of stock trading where he became an avid speculator as well.

Greenleaf amassed a fortune in his international dealings and no doubt had a front row seat on the next emerging market boom – the United States. There is documentary evidence showing that Greenleaf understood the emerging market boom and relied upon his international contacts to develop that boom.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Alexander Hamilton and Thomas Jefferson were real adversaries. Nonetheless, they struck a deal to move the nation's capital away from what Jefferson viewed as the iniquitous New York City to the more virtuous Virginia where the economy was still rooted in agriculture. It then became the task of the newly elected President George Washington to oversee the construction of the new Federal City. Washington appointed Pierre L'Enfant to draw up the architectural plan, and named three trusted friends to serve as commissioners to supervise the sale and development of land in this new District of Columbia. He chose Daniel Carroll, Thomas Johnson and David Stuart.

Greenleaf entered into a Dutch loan agreement signed on December 15th, 1794 in Rotterdam in the amount of one million guilders. But a guilder was 10.32 grams (159.261938 grains) compared to a US silver dollar at 416 grains. This made the loan really valued at $382,000. Greenleaf purchased 3,000 lots and paid with a promise that he would give the commissioners $12,000 a year for seven years. He was able to back this commitment with this million-guilder line of credit from Holland.

NETHERLANDS HOLLAND 1795 Silver Guilder 10.32g

Greenleaf purchased 3,000 lots that included some of the prime real estate of present-day Washington such as Union Station Plaza, Columbus Circle, the land where the Hart Senate Office Building stands, and the Jefferson Building of the Library of Congress. Washington became concerned in September 1793 that Greenleaf "***has***

dipped deeply in the concerns of the Federal City...on very advantageous terms for himself". Yet, there was much hope that Greenleaf was bringing badly needed foreign capital.

Robert Morris (1734-1806)

In December 1793 Greenleaf bought another 3,000 lots but this time, he took in partners. Greenleaf joined with the famous financier Robert Morris (1734–1806) and John Nicholson (1765-1852) who was also a financier, businessman, comptroller general of Pennsylvania, anti-Federalist pamphleteer, and publisher. These three men became the founders of the celebrated "***North American Land Company,***" which became one of the first great real estate collapses in US history.

Robert Morris became a merchant-banker who made a fortune on providing supplies for the Revolution and emerged as one of the first American wealthy merchant-bankers. Morris became to be known as the ***Financier of the War of Independence*** (1775-1783). He was also a signer of the **Declaration of Independence**, but only after several weeks following its adoption. Morris was really in control of the finances of the Continental Congress. He provided the fund for the army and borrowed from the French as well from his own funds.

Morris established the ***Bank of North America*** in 1781. He was even a delegate to the Constitutional Convention in 1787. He later served in the Senate of the new government 1789-1795. He has disposed of his merchant-banking operations after the war and used his wealth to now speculate on land with the vision that many would now come to America to join in their new republic. Keep in mind that in Britain, land was on the system of "***long-lease***" meaning that it could not be purchased, just as Britain had leased Hong Kong from China rather than owning the property. With the prospect of land-ownership, the expectation of a land boom ran wild.

John Nicholson (1765-1852)

Morris had even served as chairman of the "***Secret Committee of Trade***" and as a member of the Committee of Correspondence. From 1781 to 1784, he served as the powerful Superintendent of Finance, managing the economy of the fledgling United States. As the central civilian in the government, Morris was, economically the most powerful man in America at that time. He was one of Pennsylvania's original pair of US senators, serving from 1789 to 1795.

In 1778 John Nicholson became clerk to the Board of Treasury of the Continental Congress. Congress accepted

his resignation on March 12, 1781, when he entered the service of Commonwealth as one of the auditors for settling the accounts of the Pennsylvania Line. A year later, on April 13, 1782, the legislature appointed him to the newly-created ***Office of Comptroller General***, which had broad powers to manage the financial affairs of the state. These powers were further increased as other duties and offices were conferred upon him; in 1785 he was authorized to collect and receive taxes, and in 1787 he was also made ***escheator general***, to liquidate the estates of those attainted (charged) of treason.

Under the reopened Federal Loan of 1792, Nicholson exchanged some $60,000 in "New Loan" certificates for federal securities. Not only had the comptroller general picked up these certificates for next to nothing, but they were not regarded as state debt to be redeemed. It was this state of affairs that caused the State House of Representatives to resolve on April 5, 1793, to impeach John Nicholson, to institute a suit against him for the recovery of funds which he had allegedly diverted, and to appoint a committee to examine his accounts and make a report. The committee, which was made up of Benjamin R. Morgan, Albert Gallatin, and Cadwallader Evans, reported him a public defaulter to a large amount. The trial in the State Senate was protracted and confusing. The House prosecutors were unable to muster a two-thirds vote against him on any of seven counts. In fact, a majority voted in his favor on all but two charges. Nicholson was acquitted but in 1794 resigned all his public offices.

It was this time period when he then became the partner of Robert Morris and James Greenleaf in land speculation and development of the District of Columbia. With Greenleaf and Morris, he entered the first real big real estate bubble and collapse in American history. This new venture named in 1795 the ***North American Land Company***, also purported to have as its capital six million acres of land in Pennsylvania, Virginia, North Carolina , South Carolina, Georgia, and Kentucky. Nicholson was also involved in the formation of the ***Pennsylvania Population Land Company***, the ***Pennsylvania Land Company***, the ***Territorial Land Company***, the ***North Carolina Land Company***, the ***South Carolina Land Company***, the ***"Kentucky" Land Company***, and the ***Georgia Land Company***.

The USA was the new emerging market brimming with land deals. Yet it was the new District of Columbia where they now owned six thousand lots in the city of dreams – Washington. The area became part of the District of Columbia in 1791. Congress passed the ***Residence Act of 1790*** to establish a federally-owned district in which would be built the new national capital. It had been George Washington who actually picked the current site for Washington, DC in 1791, which was ratified by Congress. In 1795, real estate speculator James Greenleaf purchased most of what is now the **Anacostia Historic District** in DC from federal government. It was this purchase that Washington believed was too low and was being turned into a land speculation by Greenleaf.

Sea Captain William Mayne Duncanson landed in the United States in August 1794 in New York at the Battery a very rich man. He was English and served in India with friends who all saw the new United States as an emerging market. Duncanson landed with his friend Thomas Law and

Captain William Mayne Duncanson

took up residence at 48 Broad Street and 47 Broadway respectively. They became friends with James Greenleaf living at 112 Liberty and James Ray at 134 Greenwich. Ray was also an adventurer in India. It was James Greenleaf, a native of Boston, who was perhaps the real driving force behind the land speculation in Washington. It was Greenleaf whose international merchant contacts opened the door of opportunity. He was said to have been a genius – keen trader of currency and stocks. Yet he was in the position to see the European desire to invest in the new land free of Britain.

James Ray, his partner in the commission business whose son **James Brown Ray** (1794-1848) became Governor of Indiana and promoted the land boom in that state, and Thomas Law were all Englishmen who had come to the United States in 1794 and invested heavily in Greenleaf 's grand design to "promote" the District of Columbia. Thomas Law was the only investor who was shrewd enough to obtain mortgages from the ***North American Land Company*** for the purchases which he made.

Captain William Mayne Duncanson's Friendship House(The Maples)
Photo taken in 1935. Photo: Library of Congress

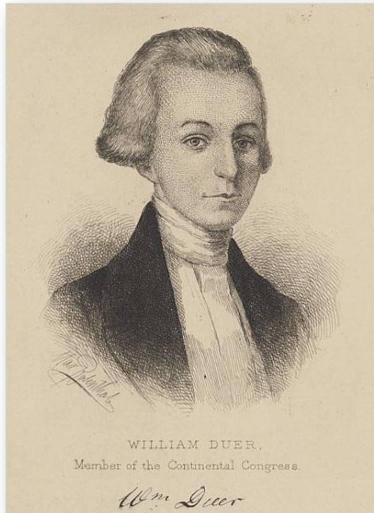
Captain Duncanson took up his residence in Washington living in fine style erecting a house in 1796 that became known as the Maples. It was completed just in time for the second phase of a real estate bubble that gripped the US economy.

Perhaps they should have seen the bubble coming. After all, in 1720, the **Mississippi Bubble** in Paris broke in late February and about 4.3 months later in June 1720 the **South Sea Bubble** reached its climax in London. Here we have speculation in land that created a real estate bubble everywhere outside of Washington, DC, peaking in 1792. This was clearly a leading indicator for the **Panic of 1796-1797** that blew up the Washington Real Estate Bubble.

Even today, if you pay close attention to real estate, you will notice that the bull market tends to begin in the main core cities. The financial district in NYC, for example, will begin to rise. That will gradually spread to other districts within the city and then to the suburbs. By the time the first area peaks, there will be a lag to the suburbs. This was the case in real estate in the 1790s.

Everywhere else peaked in 1792 warning what was to come in Washington. This is a very **IMPORTANT** observation to watch today since the Real Estate Bubble of 2007.

The **Panic of 1792** was the first financial bubble to take place in the United States market. It was a combination of land speculation and stock speculation that resulted in William Duer (1743-1799), a lawyer from New York City who helped to draft the New York State Constitution and served as a member of the Continental Congress in 1778 and 1779. Duer was sentenced to debtor's prison where he died after being held indefinitely. Alexander Macomb (1782-1841) was an American merchant who was one of the richest men in New York City whose home was rented to George Washington for his Presidency. He would write to a friend, William Constable (1752-1803) an international merchant trading between England and American ports. In his letter of April 1792, he lamented that he lost everything in "***less than three months***" and would be sent to debtor's prison and never regain his fortune.



William Duer (1743-1799)

These were just two prominent men that were wiped out by the **Panic of 1792**. There were many others. However, this **Panic of 1792** was important from many respects. It was involving real estate, stock speculation, and of course international capital flows. The United States was the emerging market. The French Revolution also helped to send cash to America after 1789. This helped to create the boom in America providing excess cash that fueled the feeling of good times.

Alexander Macomb (1782-1841)

It was the first **Panic of 1792** that caused Benjamin Franklin (1706-1790) to write: ***"Nothing is certain but death and taxes."*** That was the first quote regarding the first financial panic in the United States. The collapse in the stock price was by no means the only thing affected. It was a time of great excitement. As always, those at the center of a financial crisis were accused of intending to create the fraud as if they had some vision of the future. More often than not, the accused sees an opportunity and exaggerates within his mind the potential wealth that will flow his way resulting in the classic ***counting of chickens before they hatch***. There is never some clairvoyance with visions of a financial crisis, but a presumption there will be endless wealth.

The **Panic of 1792** was broadly felt and was in many respects not so different from the **DOT.COM Bubble of 2000** where people can see the future potential, but lack an understanding of how long it would be to reach that goal. This was a combination of wild speculation both in stocks and in land. It was also perhaps the **Panic of 1792** that created the first speculative option IPO market in American history.

First Bank of the United States 1792

Illustrating this excitement of the times as the USA appeared as the emerging market to the Europeans with endless opportunities to OWN land, produced dreams of wild potential for the acquisition of wealth. Adding to this potential bullishness, we also have the birth of a new central bank in the United States on the general scope as the Bank of England. This time, it would be an IPO offering for ***Bank of the United States*** where shares prices were sold at $400 each with 25,000 shares issued. Realizing that this was a fortune and typically several years' worth of income for the average man, shares were sold on a subscription basis and thus the "***script***" or ***option*** (in modern terms) to buy a share was sold for $25 payable in gold. The option holder was then required to pay $100 ($25 in gold; $75 in US Debt) by January 1st, 1792 and July 1st, 1792, with the next payment on January 1st, 1793 with the final $75 in debt swaps paid by July 1, 1793, according to David Jack Cowen (*The Origins and Economic Impact of the* ***First Bank of the United States,*** *1791-1797 (2000)*).

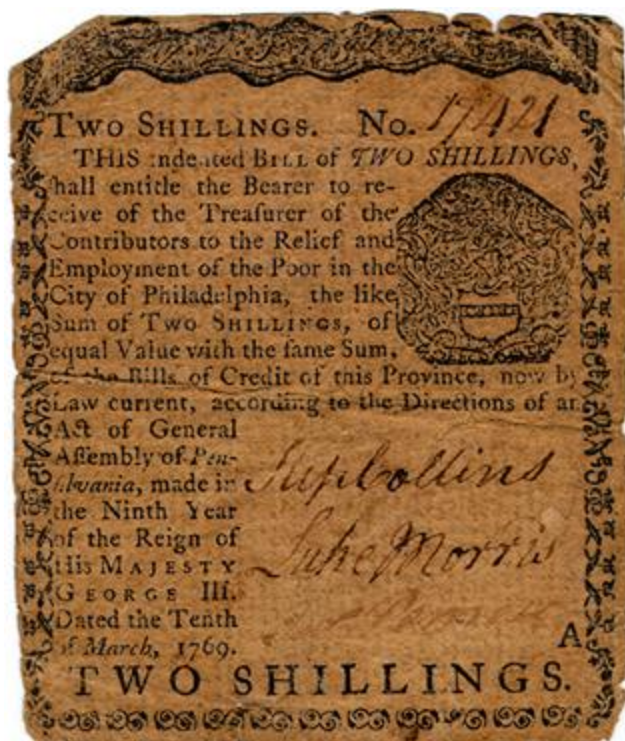
It was this script that began to trade - options if you will, from July 4th, 1791. Within just six weeks of trading was active, the price about doubled by the end of July. By August 1791, shares exploded reaching $264 bid - $280 ask in New York on August 11th, 1791. The main market was Philadelphia where shares soared in price to $300. This meant that the actual share price would have been about $700. A panic broke out and the price tumbled in Boston collapsing from $230 on August 12th dropping to $112 by the 14th, the script rallied reaching $154-159 on the New York market by August 16th, 1791. In Philadelphia, the price rose to $125-137 on the same day.

There was an overwhelming feeling of good times. The victory over England created visions of unlimited freedom. Property houses in Philadelphia rose sharply giving rise to real estate in Boston and New York as well. The speculation on this ***script*** (*options*) on ***Bank of the United States*** shares during this period was also similar to the emerging market boom that produced a rush to invest in Russia upon the fall of communism. That emerging market rush led to the collapse of the Russian shares, currency, bonds, and manifested into the ***Long-Term Capital Management Crisis*** of September 1998. This was the **<u>same</u>** spirit driving capital into America and causing a surge in stock prices as well as local land prices.

There were private banks in America. The Bank of New York was founded in 1784 after the Revolution and it was chartered in 1791. The Bank of North America had been the creation of Robert Morris. There had been a history pre-~evolution of various schemes to create credit and money. As far back as King William's War in 1690, Massachusetts Bay paid for its military expedition into Canada by creating paper currency script known as Bills of Credit and to encourage their acceptance and circulation, they were acceptable to pay taxes at a 5% discount. Much of the early military expenses with Indian wars were met by issuing these paper currency scripts known as "Bills of Credit" at this time.

Prices were volatile in America due to the lack of economic development. In 1642, the Spanish silver dollars (8 reales) were trading at 4 schillings. By 1645, Spanish dollars rose to 6 schillings and then crashed to 5 schillings that year. Eventually, British merchants complained of the fluctuations and in 1707 and **Act of Parliament** set the maximum value of Spanish dollars at 6 schillings. Much of the wild fluctuations were caused by war expenses with the lack of precious metals to cover the costs that led to the issue of paper **Bills of Credit.** The wars had continued for there was the **King George War** (1741-1748) followed by the **French and Indian War** (1754-1763).

Madrid, Spain, cob 8 reales, Philip IV, assayer backwards B (1642)



By 1733, paper money **Bills of Credit** began to be issued also for public civil expenditures to construct things such as jails, lighthouses, courthouses, forts, and harbors. In 1769, Philadelphia issued paper money simply to cover welfare payments to the poor (illustrated here).The note expressly states:

"Contributors to the Relief and Employment of the Poor in the City of Philadelphia…"

This form of circulating credit gave birth to ***Colonial Loan Offices*** that became an official type of pawn shop where individuals could pledge their **land** or silver as collateral. The first Loan Office was formed in 1712 in South Carolina and by 1737, every colony followed except Georgia. In many cases, the loan was repayable in ***script*** yet the interest was due exclusively in coin. In 1741, the English Parliament required the redemption of all such private script for now there were those opening loan banks printing their own money. In 1749, England sent sufficient coin to redeem state **Bills of Credit** at the ratio of 7.5 to 1. This Act became effective September 29th, 1751. This had the effect of creating deflation driving the price of gold & silver higher.

So the American colonists were accustomed to the wild fluctuations in the value of silver and gold due to war and quantities being discovered that would create temporary periods of excess money. Against this backdrop we must see the **Panic of 1792** was hardly taking place in a vacuum. There had even been **Shays' Rebellion** in 1785 in Massachusetts during August that year which was a uprising by land owners against further foreclosures due to the economic decline that lasted between August 1786 and February 1787. It was this rebellion that caused Jefferson to write his famous Tree of Liberty comment: ***"The tree of liberty must be refreshed from time to time with the blood of patriots and tyrants. It is its natural manure."*** This rebellion forced changes in bankruptcy laws for it was the climax of a series of events emerging from the 1780s that convinced furthered the idea of federalism. A strong federal government was argued to be benevolent imposing uniform economic policies and "***protect***" property owners from local majorities. These ideas sprung from a paradox that private liberty, property rights, could be threatened by public liberty - unrestrained power in the hands of the people. James Madison addressed this concept by stating that "***Liberty may be endangered by the abuses of liberty as well as the abuses of power.***"

The **Panic of 1792** was also an international capital flow event further demonstrating that domestic policy objectives are **NEVER** truly in full isolation. On July 14th, 1789, the ***French Revolution*** was born. The people stormed the Bastille which became an abusive symbol of political imprisonment. This world become Bastille Day. At first, the government of France fell to a Directory that proved to be excessively corrupt aimed first at protecting and increasing the profits of those who were then in political and economic power. It also stood against any redistribution of property. This led to a loose period of morality and good times. It was during this period following 1789 that marked the **French Revolution** and the formalized birth of the United States, that there was an initial outflow of capital-from France as a matter of security. Indeed; the **French Revolution** fell into the hands of Robespierre (1758-1794) who began a **Reign of Terror** (September 5, 1793-July 27, 1794) that would come to an end with his own death. The Smart money fled to America. This set the stage for the next Bubble – 1796-1797.

Maximilian-Francois-Marie-Isidore
de Robespierre (1758 - Guillotined July 28, 1794)

The **Panic of 1796–1797** was a series of downturns in Atlantic credit markets that led to broader commercial downturns in both Britain and the United States. In the U.S., problems first emerged when the Bubble of land speculation burst in 1796. The crisis deepened into a broader depression when the Bank of England suspended specie payments on February 25th, 1797 under the **Bank Restriction Act 1797**. The Bank's directors feared insolvency when English account holders, who were nervous about a possible French invasion, began withdrawing their deposits. In combination with the unfolding collapse of the U.S. real estate market, the Bank of England's action had developing disinflationary repercussions in the financial and commercial markets of the coastal United States and the Caribbean through the turn of the century.

William Cranch (1769-1855)

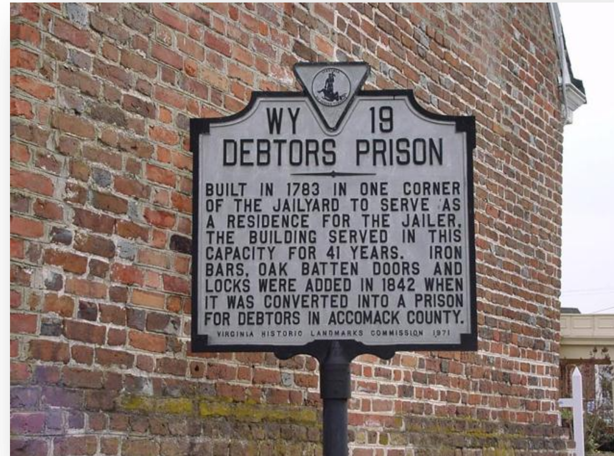
In September 1795, as the last of the Real Estate Bubbles began to collapse in Washington, D.C. The Dutch bankers backing Greenleaf began to trim their commitment for capital from about $382,000 to a mere $60,000 mortgage on 250 lots. The **Reign of Terror** in France was over and the incentive for capital to flee to America was subsiding to some extent. As international capital began to withdraw, the reversal in capital flows brought about a reversal in fortune to the land speculators in America.

Greenleaf was bankrupted during the **Panic of 1796–1797.** The **US Emerging Market Boom** was over in this new land known as the United States. William Cranch (1769-1855) was a famous judge who also published the written decisions of the Supreme Court. Cranch was James Greenleaf's lawyer and brother-in-law. When James Greenleaf was forced into bankruptcy, Cranch was appointed his trustee. Greenleaf's many creditors threw him into debtor's prison. The debacle convinced Washington and the commissioners that Congress, and not speculators, had to finance the city's construction. Greenleaf died in 1842, but the litigation over his holdings long outlived him. The last action concerning his tangled deals was not concluded until 1857.

Nonetheless, Greenleaf was not alone. By 1800, the crisis had resulted in the collapse of many prominent merchant firms in Boston, New York, Philadelphia, and Baltimore, and the imprisonment of many famous American debtors and some died in prison such as William Duer. Today, they are imprisoned under claims they knew the bubble would bust and it did so because that was their intended scheme. So while Debtor's Prison is a barbaric relic of the past, the labels are merely changed to achieve the same objective – retribution.

The man who financed the American Revolution, the famed financier who may have been the richest man in America at the time, Robert Morris, also went to Debtor's Prison as did his partner Nicholson. James Wilson (1742-1798), another signor of the **Declaration of Independence** and appointed as Supreme Court Justice in 1789 by President Washington, was forced to spend the rest of his life literally fleeing from creditors, To avoid arrest for debt, the distraught Wilson moved from Philadelphia to Burlington, New Jersey. The next year, apparently while on federal circuit court business, he arrived at Edenton, NC, in a state of acute mental stress and was taken into the home of Supreme Court Justice James Iredell. He died there within a few months overwhelmed by the stress.

George Meade, the grandfather of the American Civil War general George Gordon Meade was ruined by investments in Western land deals and died in bankruptcy due to the **Panic of 1796-1797.** The scandals associated with these and many other incidents resulted in the U.S. Congress passing the **Bankruptcy Act of 1800**. The **Bankruptcy Act of 1800** would later be repealed after its three-year duration expired in 1803. But its design was to eliminate throwing people in prison to die as debtors because of market forces they knew nothing about.



About 2,000 New Yorkers annually by 1816 were thrown into Debtor's Prison. Many simply died there. Henry Lee III, better known as Light-Horse Harry Lee, a Revolutionary War general, former governor of Virginia, and father of Robert E. Lee, was imprisoned for debt between 1808 and 1809. Sometimes, imprisonment would result from less than sixty cents' worth of debt. There was no set minimum amount that justified losing your life.

The celebrated historian Charles Hibbert, who wrote the ***Roots of Evil***, tells how plagues began in the jails (gails) for lack of cleanliness. When prisoners were taken to court, the judges would die and even the Lord Mayor of England dies of a "Gail Fever" as they were known. Today, the need to prosecute still outweighs public safety and the US will even kidnap people overseas and bring them in when they could not travel directly because of quarantines and disease. Many states are starting once again to imprison people for their inability to pay. One must ask if they cannot pay, what purpose does imprisonment serve other than retribution?

However, it was not until the **Panic of 1825** that finally in 1833 the United States abolished Federal imprisonment for unpaid debts, and most states outlawed the practice around the same time. Some states still allow that barbaric practice especially when such financial panics will take down often the mighty. In Ancient Greece, bankruptcy did not exist. If a man owed and he could not pay, he and his wife, children or servants were forced into "debt slavery", until the creditor recouped losses via their physical labor. At least that was better than the Anglo-Saxon practice of debtor's prison. Many city-states in ancient Greece limited debt slavery to a period of five years and debt slaves had protection of life and limb, which regular slaves did not enjoy and in Anglo-Saxon courts, life means very little.

In the Torah, or Old Testament, every seventh year is decreed by Mosaic Law as a Sabbatical year wherein the release of all debts that are owed by members of the community is mandated, but not of "foreigners" meaning non-Jews. The seventh Sabbatical year, or forty-ninth year, is then followed by another Sabbatical year known as the Year of Jubilee wherein the release of all

debts is mandated, for fellow community members and foreigners alike, and the release of all debt-slaves is also mandated. There was nothing in the Bible allowing death by imprisonment for being unable to pay a loan.

In Islamic teaching, according to the Qur'an, an insolvent person was deemed to be allowed time to be able to pay out his debt. This is recorded in the Qur'an's second chapter (Sura Al-Baqara), Verse 280, which notes: "***And if someone is in hardship, then let there be postponement until a time of ease. But if you give from your right as charity, then it is better for you, if you only knew.***"

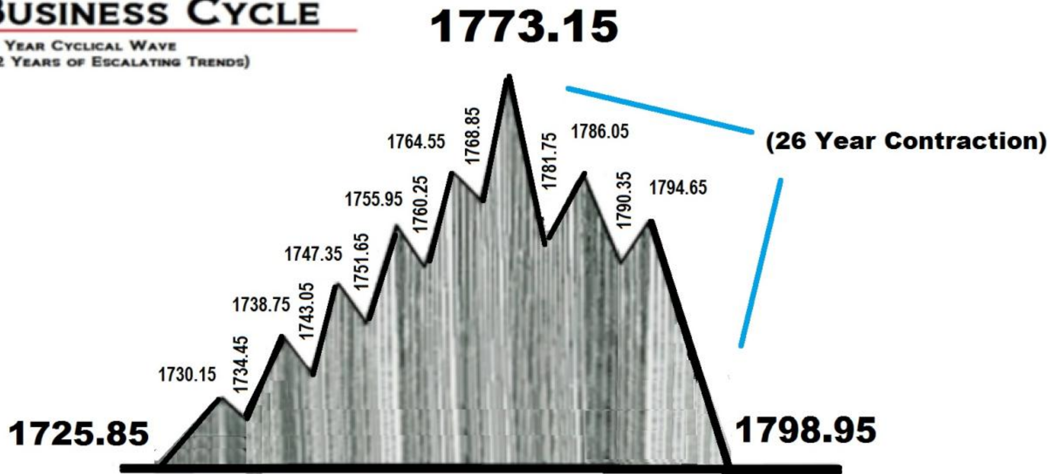
Bankruptcy is also documented in East Asia. According to al-Maqrizi, the Yassa of Genghis Khan contained a provision that mandated the death penalty for anyone who became bankrupt three times. There is nowhere in the world other than British/American practice where death was inflicted for market conditions that forced people into bankruptcy.

The **Statute of Bankrupts of 1542** was the first statute under English law dealing with bankruptcy or insolvency. It expressly stated: ***"Lord Chancellor ... shall have power and authority by virtue of this Act to take ... imprisonment of their bodies or otherwise, as also with their [real and personal property however held] and to make sale of said [real and personal property however held] for true satisfaction and payment of the said creditors, that is to say; to every of the said creditors a portion, rate and rate like, according to the quantity of their debt."*** This is why Supreme Court Justice James Wilson died of stress fleeing his creditors knowing they had the right to basically kill him slowly as a debtor.

Of course, there have been national defaults as well. The failure of a nation to meet bond repayments has been seen on many occasions. Philip II of Spain had to declare four state bankruptcies in 1557, 1560, 1575 and 1596. Naturally, governments do not die in prison nor do their politicians go to jail for their fiscal mismanagement of public funds.

Misfortune even overtook Captain William Mayne Duncanson, and his property became encumbered by creditors. Before his death in 1812 he had to move to a more humble abode, the mansion with other property becoming subject to the courts. When Greenleaf failed, all the other investors were in the hopeless position of "general unsecured creditors.' Lawsuits over Greenleaf's operations went on for fifteen years, including an appeal to the United States Supreme Court.

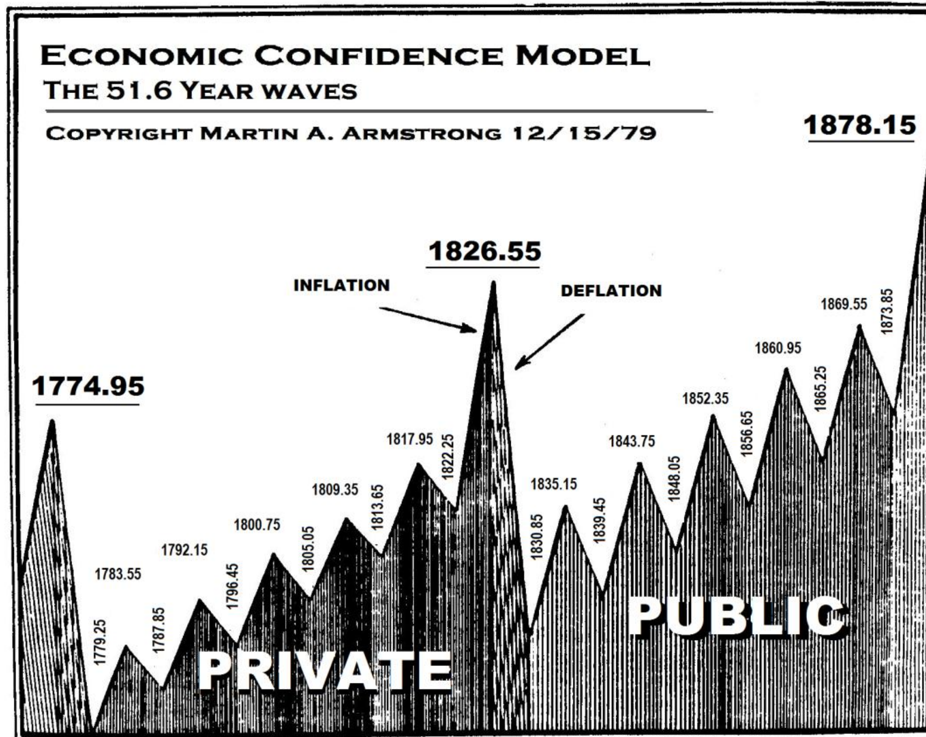
Early in the winter of 1799-1800, Nicholson was imprisoned for debt. He died on December 5th, 1800, leaving a wife, eight children, and more than four million dollars in debts. The attempt to settle his estate resulted in the creation of a series of special state commissions, the sequestering of his private and business papers, and the creation in 1843 of a special Nicholson Court of Pleas.



The **Panic of 1796-1797** bankrupted many. Morris too was sent to ***Debtor's Prison*** where he remained for 3 years until he was released in 1801. No role one plays for government will ever satisfy a court. Retribution is always inflicted. Thus, the man who funded the birth of a nation, faired with little grace under the law. Nevertheless, it marked the END of a 26 Year Real Estate Boom much as did 1725 mark the end of the first emerging market real estate boom into 1720 that was the collapse of the **Mississippi Bubble** in Paris and the **South Sea Bubble** in London.

The Real Estate Wave pictured above actually peaked in 1773. The American Revolution naturally ended a wave of investing into the New World. There were various attempts to revive the Real Estate market as was the case with the **Panic of 1792**. However, this euphoria was rather short lived predicated upon a new American government and a fresh start clean of Britain. Nonetheless, that wave of foreign capital inflows was tenuous at best for on the horizon came the French Revolution that was followed by a new wave of French Imperialism.

The **Panic of 1796-1797** bankrupted some of the most famous men among the first generation of Americans. As always, the market to the widest degree of economic damage is always real estate. It tends to be the longest economic decline of the group for it often requires lending and mortgages. Economic declines involving real estate tend to produce significant contractions for two reasons. Real Estate tends to be the number one sector that consumes capital, is not movable, and forms the majority of wealth among the population. Consequently, even the average person will tend to spend more immediate cash provided he "believes" his net worth is greater based upon unrealized profits in real estate. Consequently, a decline in real estate produces the longest economic contraction for the decline in the speculative value of property tends to suppress ALL real estate within that market putting a greater amount of supply on the market at the same time. This makes the recovery much longer also due to the great diversity in trends from one region to another not to mention commercial v housing.



The second most serious sector to create an economic correction is debt. A debt crisis outside of real estate tends to wipe out capital formation. This is where "cash" tends to park itself, most often in government bonds. Yet all governments have eventually defaulted on their debts. Nevertheless, investors confuse power with honesty. They buy the government debt because of power, yet the paradox is that government debt is the worst of all for it is not secured. You cannot run down to the government art museum and start to grab art work to recover your money as can be done in private lending. Real Estate was the first real American Bubble. Sovereign Debt is usually the second. Post 2007, we still face both.

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   Page: 101

World Economic Conferences

2012 Conferences

We will be holding three **World Economic Conferences** this year. These will be substantially different from the Philadelphia Conference. That was a combination of an **Analytical Training Seminar** and a **World Economic Conference**. Normally, each type of session is a two day event. Consequently, these two events had to be crammed into two days. Unfortunately, we could not accommodate everyone. We had to turn down 365 people. Traditionally, these events are limited to 100 attendees. Because of the overwhelming response, the room was full to capacity at 300+. That prohibited Mr. Armstrong from mingling with the crowd at the cocktail party and he was unable to see each and every person as he enjoys doing. These three upcoming conferences will be smaller, just forecasting, and will be two day events instead of the single day WEC which was provided in Philadelphia. Seating will be $1500 per seat. Those who are interested in attending please send your email to reserve a seat to:

2012WEC@Gmail.COM

Petra Gajdosikova

Real Estate – A global view

By: Petra Gajdosikova

With negative real interest rates as far as the eye can see savers are being heavily penalized, and this is likely to continue for the foreseeable future until the Sovereign Debt Crisis kicks in. It therefore makes sense to allocate funds to income producing investments, be it higher dividend paying equities or high yielding real estate.

Governments are becoming increasingly aggressive when it comes to their citizens' assets, and especially assets located overseas. Americans in particular (and increasingly also Europeans) have been subjected to more and more restrictions, regulations and reporting requirements. Overseas real estate is (aside of private vault safety deposit boxes) the last type of offshore asset that doesn't have to be reported - yet. That may not last for long, so buying real estate in certain well chosen markets makes sense at present. It's likely that further restrictions, and possibly also FX controls and capital controls, will be implemented in the next few years.

Diversification on a global scale has always been a good idea but is becoming rather essential in these turbulent times. You can't protect yourself if all or most of your assets are dependent on a single economy, government or currency. Political risks are now becoming greater than market risks, so the benefits of spreading one's assets across various jurisdictions should not be overlooked.

There are always profit-making opportunities somewhere in the world, as long as one is willing to look beyond the usual horizon. (Which doesn't mean that far-away markets are always, regardless of circumstances, the best bet. More on that later.)

So, what to look for?

In terms of real estate, investors should look for price anomalies; markets with low relative prices and/or low per-square-meter prices, properties priced at less than the replacement cost (i.e. less than what it would cost to build), etc. There aren't many

places today offering true bargain basement prices, though some good values can still be found, especially in countries that have suffered from political turmoil, civil unrest, financial crises, bad economic policies, and so on.

Most importantly, look for markets offering high rental yields (or low price/rent ratios). High yield means the cost of buying is low compared to the cost of renting. Of course such a situation could, under certain circumstances, persist for a long time. Eventually, however, low price/rent ratios tend to put upward pressure on property prices. Generally gross yields of 4% or less warn of overvaluation, while yields of 10%+ signal opportunity.

Potential capital appreciation may be considered a plus; a real estate investment should be evaluated based on the income it generates.

NOTES:

1. Prices quoted in this article refer to residential prices of good quality/Western style properties in higher-end locations (the sort that is typically of interest to foreign buyers and tenants and local higher-middle class). Average prices across the respective cities and countries can be considerably lower than quoted herein, especially in emerging markets with high poverty rates. A small number of properties at the very top-end of the market is also excluded due to lesser appeal to income oriented investors.

2. $ refers to the US dollar.

3. Yields throughout this text refer to gross rental yields (before expenses and taxes) unless otherwise stated.

4. Transaction costs in each of the markets are beyond the scope of this short text, but need to be taken into account when considering an investment; in some countries roundtrip transaction costs (total costs of buying and selling a property) can be as high as 20% or more.

SUBSCRIPTION SERVICES

We hope to have the subscription services up and running by June. These will be the computer generated reports written by the computer to further eliminate the personal prejudice and bias inherent in forecasting & trading.

Markets Worthy of Consideration

Europe and Middle East

Despite the ongoing economic turmoil in Europe and the hit most of the continent's real estate markets have taken in the last few years, European property is, for the most part, still too expensive and yields are relatively low.

Some opportunities are starting to appear in parts of Central-Eastern Europe. **Hungary**, after a few years of price declines and massive forint devaluation, offers the lowest prices and some of the highest yields in the region, but also the worst economic and fiscal situation. Centrally located late 19th/early 20th century Budapest apartments can be bought from as little as 1,000 euro/m2; yields are in the range of 6-7%. Should the forint decline further a purchase in Budapest is likely to be quite rewarding longer term.

Ireland has seen the worst real estate crash in Europe; Dublin housing is down some 65% since 2006 (and 20% in 2011 alone). Good values are starting to appear in central Dublin (for residential as well as commercial property), so this is a market to watch - although there's not much reason to rush in quite yet. Yields in central Dublin have increased to 5-6% and vacancy rates have dropped considerably.

Germany continues to offer some of the best value on the continent. One of the few markets to have escaped the property boom and subsequent bust, German real estate - and particularly the former East German cities (including the capital Berlin) - can still be purchased very inexpensively compared to other European countries. Berlin prices grew by 7% in 2010 and continued to climb last year, yet well located classic residential apartment blocks (which are of most interest to investors) still sell for as little as 1,500-2,000 euro/m2 and can yield 6-9% annually. Individual apartments tend to have higher prices than entire apartment buildings and yield 4-6%. Drawbacks are very pro-tenant legislation (which most tenants are well aware of and will use to their utmost advantage) and, typical for Western Europe, high taxes.

Turkey and in particular Istanbul appear to offer good longer term potential. The country is expected to be one of the fastest growing OECD members for the next five years. Real estate is not expensive; good quality properties in Istanbul start at around $2,000/m2. Yields are fair, at 5-7%.

Dubai's real estate declined more than most other markets, with property prices down as much as 60% since 2008. The emirate could start offering reasonable values in the near future, although the speculative building boom that burst so spectacularly has left a formidable oversupply of new residential and commercial developments, a good portion of which remain vacant. So this may be one to keep an eye on for later on.

Latin America

Most Latin American currencies have appreciated significantly in the last few years, which, coupled with strong property price increases, means that true bargains have largely disappeared. In fact, a number of markets appear to be highly overvalued, large Brazilian cities in particular.

Among other disadvantages are the high taxes in much of the region, further lowering returns. Political uncertainty and risks also need to be taken into account.

A caveat: Don't count on high standards of construction and finishing, even at the higher end of the market. In most developing countries things are not made, built and finished to the same standards as they are in the US or Europe. Latin American standards can be particularly low, so it is a good idea to actually inspect what one is buying. Another frequent problem is the poor upkeep and maintenance of even higher end developments in most emerging markets throughout Latin America and Asia.

Colombia for decades a synonym for narco-terrorism, kidnappings and the FARC, was long avoided by investors. Yet the country made astonishing progress under President Uribe (whose second term ended in 2010) - violence has declined sharply and drug traffickers and leftist guerillas were driven out of urban centers.

Increased security and pro-market policies have made Colombia a fledgling economic success story. Foreign investors and corporations have been returning en masse and the country's investment grade rating was restored in 2011. Foreign direct investment (FDI) was up 88.7% in the first 9 months of 2011 compared to the same period in 2010 (*Banco de la Republica*). Mining and oil sectors account for approx 60% of FDI.

Colombia is the oldest and most stable democracy in Latin America as well as the only Latin American country that has never defaulted on its sovereign debt (and never had a hyperinflation).

Medellin, once the murder capital of the world and home of the Medellin cartel led by late drug king Pablo Escobar, has undergone an extraordinary makeover; it's now a major commercial hub housing headquarters of countless national and multinational companies, and boasts one of the most modern infrastructures in Latin America.

Residential property prices have, after a sharp decline between 1996-2002, been rising for the last 7-8 years, thanks to economic growth, expanding middle class, growing home ownership rate and lower mortgage rates. The average real annual increase since 2003 came to 5.7% (according to *DANE - Departamento Administrativo Nacional de Estadística, and BBVA Research*).

However, Colombia's violent past continues to scare off many investors. Real estate in cities like Medellin still offers great value – in fact probably the best value of any comparable Latin American metropolis. Well located modern apartments in prime neighborhoods can be had from around $1,000/m2, yielding between 7-11% (lower yields on long term leases, higher on shorter term executive and foreigner rentals).
Vacancy rates across the main cities are near the lowest levels of the last decade (around 4% in Bogota, according to *La Galeria Inmobiliaria*.)

70-80% of new units in major cities are sold pre-construction, with less than 5% of completed units for sale (*La Galeria Inmobiliaria, BBVA*). Unlike in many other markets, pre-construction condos carry a substantial premium in Colombia, so investors will find better values in buildings that are 5-15 years old.

Colombia also offers some interesting coastal real estate. Although prices have risen quite sharply in recent years due to local demand for second homes, Santa Marta, for instance, continues to offer good values despite its strong tourism demand. (Cartagena, on the other hand, is now one of the most expensive coastal cities in South America.)

Colombia is a major producer and exporter of coffee, oil, coal, nickel, emeralds, textiles and flowers; and hence, as many emerging markets, highly sensitive to fluctuations of commodity prices. Continuous improvement of the security situation is also necessary; should it come to deterioration at some point, the hard won confidence would likely quickly evaporate.

Taxes are quite high, as in much of South America.

Ecuador offers some of the world's lowest priced real estate. Due to economic and political instability property in Ecuador has not seen as much appreciation as other markets. Modern apartments and houses in the larger cities can be had from about $400/m2. Old colonial buildings in the historic parts of Quito and Cuenca offer very good values and renovation costs are considerably lower than in other parts of Latin America. Coastal towns are also inexpensive; beachfront condos and houses in one of the popular seaside locations are priced from approx $800/m2 (prices are lower a few blocks away from the beach).

Reliable rental value statistics are hard to come by. Real estate in the short term rental market appears to return 5-11% p.a. depending on location, size and target market.

Ecuador has been largely undiscovered by foreign visitors; should that come to change rental rates are likely to climb higher (along with sales prices).

Some of the more interesting locations for investors are the coastal towns of Salinas, Manta, Playas and Montanita; the inland cities Quito and Guayaquil may be more suited for long term rental to the domestic market (typically lower yields); Cuenca has been increasingly popular with North American expats and retirees.

Farmland is also inexpensive in Ecuador, though large scale foreigner owned land could become a welcome target for the increasingly aggressive government.

As with several other countries on the continent, Ecuador's economy is dependent on the world's commodity markets (in particular oil, minerals and agriculture). FX risk doesn't apply as Ecuador uses the US dollar.

Given Ecuador's not inconsiderable political risks (it is part of the leftist alliance with Venezuela and Bolivia), the state's grip over private industry and its tumultuous relationship with large foreign investors, it may be more suitable for small scale speculative investments.

Uruguay is not as cheap as Ecuador (or even Colombia), Uruguay nevertheless offers good values, as well as safety and political stability hard to find elsewhere in Latin America. Often regarded as the "Switzerland of South America", it is the jurisdiction of choice for many Argentines and Brazilians looking for a banking safe haven, rule of law and strong property rights protection.

Uruguay, with its 3.3 million inhabitants (vast majority of European origin), is an outlier in Latin America - quaint, clean, and cultured, with good infrastructure, highly educated population, low corruption and the lowest crime rates on the continent.

The real estate market has recovered following the early 2000's crash and bank deleveraging and prices have been on the rise since 2003-04. Property prices - in US dollar terms - have appreciated significantly in the last couple of years on the back of the strong economic growth (GDP rose by 8.5% GDP in 2010 and 2.9% in 2009) and strength of the Uruguayan peso. Growth in real wages has kept up; the ratio of real estate values over incomes is at the lowest level of a decade.

Rental values have also risen; yields range between 6.5-9% depending on size, location, standards and target market (long vs. short term rental).

Well located real estate in the capital Montevideo (with its old world feel and European-influenced culture) can still be purchased at prices as low as $1,300/m2. High-end newly built apartments and properties with sea views cost around $2,000-2,500/m2 - about half of high-end apartments in best areas of Buenos Aires and about one third of similar

properties in Rio and Sao Paulo. Unrenovated colonial properties can be had from $1,000/m2. Apartments in the grand historic buildings in the center and Old Town offer some of the best values at the moment.

Uruguay's extensive coastline offers everything from inexpensive untouched beachfront land and low cost houses in the less developed areas (such as Rocha) all the way to the glitzy Punta del Este (PDE) - South America's premier seaside resort that has been attracting South American and European holiday makers for nearly a century. Prices in PDE range from around $100,000 for older condos a few blocks from the water to multi-million dollar houses snapped up by the world's rich and famous.

Uruguay has more cattle per capita than any other country in the world as well as one of the highest ratios of agricultural land per capita. However, farmland prices have appreciated strongly over the last decade and are now almost at par with Brazil or Argentina (prime crop land sells at between $4,000-10,000/hectare depending on quality, size and logistics).

Uruguay is also one of only a few South American countries with a favorable tax regime, including low tax rates on rental income and capital gains (at 12%).

Paraguay could be of some interest to investors looking for real estate bargains - in particular in the agricultural sector, featuring the lowest farmland prices on the continent.

However, property rights are, in practice, not as well protected as one might wish. (Land invasions by peasant groups a few years ago resulted in the government validating their ownership, in effect expropriating the actual owner's property.)

Cuba will see a huge real estate boom once the Castro brothers are gone and the country opens up and restructures, though it's difficult for private investors to capitalize on that at present.

Asia

Real estate returns in emerging Asia tend to, over the long run, be driven chiefly by economic growth and (in parts) favorable demographics. Due to easy credit, low interest rates, capital inflows and rampant speculation many markets currently appear to be overvalued and vulnerable to corrections in the short to medium term.

Several Asian countries make it extremely difficult to impossible for nonresidents to buy real estate. However, there are a number of countries with relatively low property

prices and attractive rental returns where foreigners are allowed to own property (or certain types of property).

Thailand has long been one of the world's most popular tourist destinations, yet real estate in most of the resort destinations (as well as in Bangkok and other cities) continues to be quite inexpensive. In fact property prices (adjusted for inflation) are still some 30% below their 1992 peak. The market has also taken a hit from the political turmoil in the last few years, scaring away a good portion of tourists and investors. After declining for most of the past five years house prices started rising again in 2011.

Despite significant baht appreciation over the last decade the Thai market continues to presents some interesting opportunities. The country will likely be one of the main beneficiaries of tourism and investment diversification from the increasingly prosperous Chinese. Growing demand from Chinese buyers, adding to the long-standing interest from European visitors and retirees, should boost prices in the medium to longer term. (Aside of a popular tourist destination Thailand is also a large regional manufacturing centre and business hub.)

Condominiums and villas on the islands of Phuket and Koh Samui tend to be the safest choice for those looking to do short-term rentals. Prices in these holiday hotspots range between $1,400-3,000+/m2 (depending on location, beach access, road access, amenities), with small condos a few blocks from the beach starting at as little as $40,000 and, at the other end of the market, luxury villas changing hands for several millions. Yields on condos in modern blocks with good facilities and easy access to beach can come to 8-13% (though this being largely a short-term holiday rental destination returns are dependent on the vagaries of the tourism market as well as on one's marketing efforts).

Hua Hin is favored by Bangkok buyers looking for a second home (due to its easy access from the capital). Prices vary greatly, from very inexpensive properties away from the coast to high-end villas by the sea. (Condos and small villas below $100,000 have been most popular with Thai buyers). Hua Hin has seen a lot of housing construction in recent years and many developments are yet to be completed, which will further increase an already high supply over the next few years.

Pattaya has traditionally been Thailand's cheapest beach destination, tending to attract a more down market type of visitor (though there are pockets of more exclusivity). Condos in (mostly high-rise) modern developments with all facilities start at around $1,300/m2.

The Bangkok market offers a large variety of residential units in all price ranges, with some signs of oversupply. Good quality apartments can be purchased at around $2,000-3,000/m2 and yield 5-7.50 %.

There are restrictions on foreign ownership of Thai real estate. Foreigners can own condominiums provided a maximum of 49% of the building (or development) is in foreign ownership. Alternatively they can acquire leasehold rights on real estate of up to 30 years, with the possibility of renewing the lease for an additional 30 years.

Malaysia in both the economy and real estate markets has been very stable over the years. Property prices rarely rise or fall by more than low single digit percentages, meaning inflation adjusted prices haven't moved much over the last decade.

Despite the strength of the ringgit, real estate prices in Malaysia remain quite low even in USD terms. Good quality properties in Kuala Lumpur can be had at $1,400-2,500/m2; rental yields are quite high at 7-9%. Penang and Langkawi are popular beach destinations with a variety of condominiums and villas for sale and rental at affordable prices.

Foreigners can directly acquire properties priced at no less than 500,000 ringgit each (approx $160,000).

Cambodia is a relatively new market for foreign investors has seen increasing interest from Asian as well as European buyers in recent years. Foreigners have been allowed to own apartments (except those on the ground floor of a building) – but not land - since 2010. As in Thailand, foreign ownership must represent no more than 49% of a building or development. Foreigners can also acquire up to 99-year leasehold rights on properties.

The country - and capital Phnom Penh in particular - went through a construction boom and saw property prices increase exponentially in 2004-2007, only to see them crash by some 50% in 2008-2011.

Western quality apartments in Phnom Penh (once known as the 'Paris of the East') can be had at $1,000-2,000/m2 and villas up to $3,500/m2. Rental yields on good apartments in sought-after locations are generally around 5-7% while returns on luxury villas are rarely higher than 3%.

Sihanoukville is fast emerging as the country's most popular vacation spot due to miles of white sands beaches. Modern apartments here start at as little as $500/m2; values should rise considerably as Sihanoukville becomes a more established destination.

Cambodia has seen very strong economic growth for more than a decade but continues to be one of the poorest countries in Southeast Asia.

Myanmar, perhaps the last Asian frontier, is one to watch. One of the wealthiest countries in Asia in the 1950s and perhaps the most fascinating one for a visitor (at par with Thailand in terms of historic heritage, and with 1,400 miles of coastline) it could experience exponential growth once the political situation and isolation improves. There are signs of the country opening up after initial reforms by the new government, and an easing of international sanctions appears possible.

Myanmar's real estate market is largely undeveloped, including in the main cities. Amidst crumbling colonial-era buildings pockets of newer construction date to the 1990s. When the time comes there will be a huge demand for everything, from hotels to offices and retail, from serviced apartments to lower-end housing. At present foreigners are only allowed to lease property for up to 30 years but a relaxation of the foreign ownership rules is expected as early as this year.

Price discovery is difficult in what is a very inefficient market, so local knowledge and presence on the ground is essential. The type of apartments (in crumbling blocks with no lifts) most locals live in sell for as little as $10,000, while the few better quality properties can cost several hundred thousands. Some exclusive residential properties have reportedly been changing hands at seven-digit US dollar figures. No housing loans are available in Myanmar.

Mongolia is expected to be one of the world's fastest growing economies over the next 5-10 years (*IMF, World Bank*), thanks to exploration of its newfound mineral resources. (The country's coal, copper, gold and uranium reserves surpass those of Kazakhstan, Russia and Australia; it also has significant oil, iron ore and rare earth reserves.) Foreign direct investment has grown exponentially - from $25 mil in 1997 to $840 mil in 2008; it is expected to reach $11 billion in the next five years.

Oyu Tolgoi is now the largest copper mine in the world; the country also has some of the world's largest coal mines (especially Tavan Tolgoi). Investment in Oyu Tolgoi alone is, at $6 bil, the size of Mongolia's annual GDP; the mine should produce approx $7 bil a year worth of minerals once complete. Conveniently, the country's main customer, China, sits right at its doorstep.

Mongolia has just 2.8 million inhabitants, 40% of whom live in the capital. The population of Ulaanbaatar has increased by 30% since 2007, to approx 1.1 million. Most of its residents still live either in the traditional gers or in low quality Soviet-era housing blocks. The economic boom is creating an increasingly wealthy middle and upper class, resulting in strong demand growth for consumer products as well as good quality modern housing, the supply of which is very limited.

Real estate prices in Ulaanbaatar were rising by over 20% a year after 2002 before dropping back to 2006/7 levels after the market was hit by the global financial crisis. New(ly) built housing in Ulaanbaatar has seen a significant price growth due to very low supply of modern properties, but prices are still relatively attractive (at $1,200-3,000/m2).

The world's largest miners are setting up in Mongolia and some 50,000 expats are expected to relocate to Ulaanbaatar within the next five years. These tenants typically require Western-style housing and amenities, which continue to be in short supply. The high rental yields (9-13%) currently seen in good quality, modern properties should therefore not experience too much downward pressure for another few years.

Demand for quality commercial property, including office, warehouse and retail, is also fast increasing.

Of advantage to investors are low taxes (10% individual and corporate income tax on earnings up to approx $2.5 mil) and a pro-business environment - the World Bank ranks Mongolia in the top third on ease of doing business (much above the BRICS and above several European countries).

Among the risks are Mongolian economy's high sensitivity to commodity price fluctuations and dependency on its neighbors China and Russia. 85% of Mongolian exports go to China while 95% of petroleum product imports and a large proportion of Mongolia's electricity come from Russia.

United States

The US now presents some of the best real estate opportunities not only of all developed countries but also compared to most developing markets. Prices in a number of states have declined so much that there is deep value to be found. In fact, there are many locations around the country where properties now sell below replacement cost.

As is always the case, nobody wants to even think about buying real estate now that prices in many areas have dropped by 50-60% and yields are higher than seen for decades. Yet just a few years ago at the top of the bubble everyone *had to* be a home owner and/or investor. So much for buying low and selling high.

In such a vast country, real estate is very geographically dependent. While some areas and cities came through the housing crash relatively intact with quite modest falls, declines for the 10-City and 20-City Composite from the summer 2006 peak through October 2011 came to 32% (*S&P/Case-Shiller Home Price Indices*). Then there were the

true disaster zones like Arizona, Las Vegas, Florida and parts of Southern California that saw prices crash by up to 60%.

The conditions are very favorable for an investment in inexpensive US real estate - in particular well located income producing properties in Arizona, Florida, Nevada and (parts of) California. Prices in many locations are now back to the levels of the early 2000's (and in fact below early 2000 prices in the case of Las Vegas). Most homes are priced well below replacement cost, in many cases as much as 40-50% lower than the cost of rebuilding the property. Sales prices in these locations average $750-1,100/m2, but prices as low as $500/m2 are not so rare. Another state with abundant opportunities is Texas. Although it has not suffered as badly as many other regions, real estate is very affordable and rental returns quite high.

It appears the market is close to bottoming (depending on area) and things are slowly turning around. Both new and existing home sales are up and housing starts also saw a modest increase in 2011. Mortgage rates are still at extremely low levels. Rental demand has been strong and vacancy rates have fallen quite sharply in many cities.

The US economy is also looking considerably healthier than many care to admit. The unemployment rate has been coming down, consumer confidence has been rising for several months, holiday retail sales were much stronger than a year ago. Agricultural production is booming, and a manufacturing revival is well underway (the US has added more manufacturing jobs than any other developed economy since the start of 2010; in fact more than the rest of the G7 countries put together). Importantly from a longer term perspective, the US sits on vast energy resources (in particular natural gas, oil and coal) that could provide enough power to supply the country for generations.

Of course, given elevated foreclosure rates and negative equity real estate prices could stay flat for quite a while before eventually lifting off. But when investors are getting 7-12% net rental returns (as they are in a number of cities), it pays to wait - especially in the current negative rates environment. The deal is to buy well located, good quality properties at low valuations for the income they throw off (condos or single-family homes depending on location and demand).

One thing buyers need to take into account is the high likelihood of increasing taxes – but this is a worldwide trend, not just a US one. It is a near certainty that people with assets will be taxed more heavily in the coming years. US real estate taxes - with annual rates at around 1-2% of market value already some of the world's highest - are also likely to rise further to fill the coffers of heavily indebted and deficit running local governments.

Markets to avoid

Hong Kong, Singapore, Taiwan, large Chinese cities

Hong Kong (HK), Singapore, Taiwan and mainland Chinese cities have seen the world's highest price appreciation in the last couple of years. Despite measures to cool off the housing markets Singapore and HK prices continued climbing for much of 2011, although the rate of appreciation was slower than in 2010 and sales volumes decreased sharply.

High economic growth and negative real interest rates, as well as demand from wealthy Chinese buyers (who purchase as much as 40% of higher-end units according to *Colliers Intl HK*) have been fueling a speculative buying frenzy. Investors have driven real estate up to nosebleed prices, hoping to find that proverbial greater fool to sell to. Well, there may not be any such fools left. The market started to turn in mainland China (prices across Chinese cities have been dropping since October) and prices in HK equally started correcting in late 2011.

Average prices of higher-end apartments in Singapore were, in 2011, above $20,000/m2 and average prices of top-end homes came to more than $30,000/m2 (according to *Savills*); the record sales price of a condo was $58,000/m2. HK prices reached similarly outlandish levels after a near 70% rise since 2009; according to Savills' *Global Cities Survey* HK is the most expensive residential property market worldwide, with prices 55% higher than in London.

Unsurprisingly, HK and Singapore properties have the lowest rental yields in the world (Monaco aside) at 2-3.5%. Only Taiwan is even worse with yields under 2%. (Note that these are gross yields!)

Australia - Commodity exporters such as Australia and Canada are, along with much of the emerging world, proxy China plays. They will inevitably suffer when China slows down and its insatiable demand for commodities falls off. Investors have been very enthusiastic for all things emerging markets & commodity producers - including real estate and the respective currencies. Most of these markets now carry significant premiums over many developed world assets, and are vulnerable to corrections. For real estate investors the time to buy in such markets is at the low of the commodities cycle, not near a high.

Both Australia and Canada have seen a massive housing boom fueled by a sea of debt. It wasn't just US and UK home buyers and speculators who had gorged on debt - Australians and Canadians also levered up to the hilt. While other markets have since experienced sharp corrections, Australian and Canadian prices are at an all time high.

Australia sits near the top of the list of most overvalued housing markets worldwide. Sydney and other main cities have, after HK and Vancouver, the most severely unaffordable housing, according to the latest *Demographia International Housing Affordability Survey*. House prices in Australia have reached levels that are double to triple their historic ratio to household incomes. And Australian households have the world's highest debt to disposable income ratio.

Canada - Vancouver - The Canadian housing boom shared some aspects of the US boom, including low (5-10%) deposit- and, for a short period, no money down mortgages. The household debt to income ratio has continued climbing steadily for the last decade and is now at US and UK levels. The value of housing related debt in Canada has nearly tripled in the last decade, to C$1.3 trillion (*Bank of Canada*). A large percentage of Canadian mortgages are insured by the Canada Mortgage and Housing Corporation, i.e. the taxpayer (CMHC insurance is required for all mortgages with less than 20% down payment).

While some Canadian cities offer reasonable affordability compared to household incomes, Vancouver's housing is, by any measure, highly overvalued and vulnerable to a sharp correction. Prices have risen 55% from their 2009 trough to a level 29% above their prior peak. The average home price reached nearly C$800,000 (according to *CMHC*).

Strong Asian demand has provided a boost to already high prices. Thousands of mainland Chinese have moved to Vancouver (following the earlier waves of immigration from Taiwan and HK); thousands more invested in (mid range to high end) real estate in order to park their cash in a stable Western country and/or to set their children up at Canadian colleges and with eventual Canadian citizenship, all driving prices to what are now clearly unsustainable levels.

BRAZIL- There is at present few markets worse for real estate investment than Brazil. The time to buy was a decade or more ago, not today when the country has the highest prices in the Americas along with the most overvalued currency in the world.

Investors are always prone to extrapolate and the Brazil euphoria is no exception. The ridiculously high real estate prices and cost of living as well as the strength of the real are not sustainable and cannot last in the long term. Cost of living is, in most respects, higher in Sao Paulo and Rio de Janeiro than in New York City. Office space in Sao Paulo is more expensive than in Manhattan.

Property prices in Rio have doubled in the last three years and those in Sao Paulo have increased by more than 80%. Apartments in the best Rio neighborhoods such as Ipanema and Leblon now cost as much as $6,000-10,000/m2. Apartments in Sao Paulo's

high-end Jardins area come to $5,000-8,000/m2. These are by far the highest prices in Latin America as well as higher than those of nearly all US cities. It is important to remember that Brazil is still quite a poor country; approximately a third of the population of Rio lives in crime and drug infested favelas (slums) and even more do in Sao Paulo.

Consumer and real estate lending has grown exponentially in recent years (housing loans nearly quadrupled between 2007 and 2010), sparking fears of a credit bubble. Brazilian consumers' debt service burden already stands at 24% of disposable income (US consumers had a debt service burden of 14% before the start of the mortgage crisis). The average Brazilian mortgage-holder's residential loan debt is estimated to be around 40% of income (*Barclays Capital SP*).

There are many countries not listed herein that would also make a poor choice for a real estate investment at present. They may not be grossly overvalued but may have unfavorable supply-demand dynamics that will continue to depress prices (and yields) - Panama City comes to mind as an example. On the other hand, pockets of good opportunities can be found within countries that are on the whole currently not attractive real estate investment destinations. A number of countries were not considered at all due to a lack of reliable data. So just because a market didn't make it onto the list, it doesn't mean you shouldn't take a look at it for yourself. The world is large and those who open their eyes will always find an opportunity.

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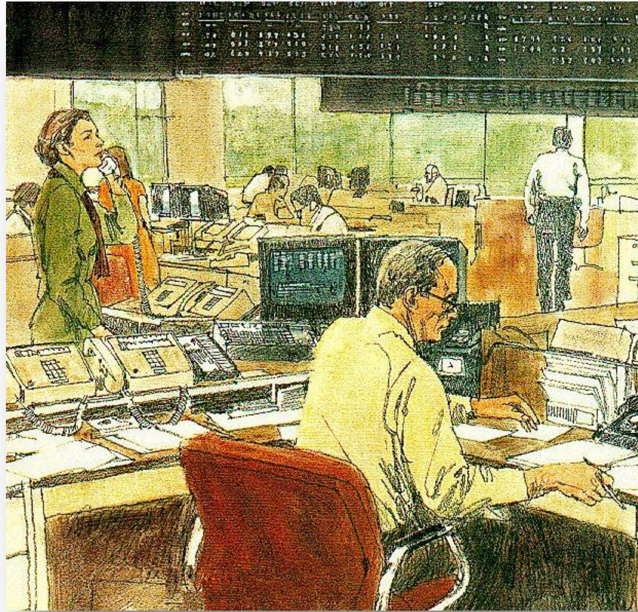

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