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The American Dream

What to consider when buying a property in the US | Text : Patrick William O'Neill |

While the Hong Kong and mainland Chinese real-estate markets continue to set new record highs, the United States has become a favourite for Hong Kong investors looking for a bargain. In a recent Barclays report, Hong Kong investors overwhelmingly selected the US as the top country of interest for 2010, with the UK and mainland China tying for second place.

The US encourages foreign ownership of real estate and the transparency of its business practices makes the buying process simple for non-residents. The team at O'Neill Group compiled the following suggestions for buying US property.

Hire an exclusive buyer-side agent

The vast majority of US transactions involve an agent representing the seller and another representing the buyer. Typical residential real-estate commissions in the US are three percent for the seller's agent and three percent for the buyer's agent. Traditionally the real estate commissions for both agents are paid by the seller and no commissions are

paid by the buyer. The buyer-side agent has a fiduciary duty to protect the best interests of the buyer and will help in all areas including research, valuation, showings, contracts and negotiations. The top buyer-side agents will require an exclusive agreement and in some cases a small retainer for initial costs.

Plan the tax strategy

The US provides foreign purchasers nearly all the benefits that US citizens enjoy. With proper planning taxes can be substantially mitigated. The current federal long-term capital gains tax rate for real-estate is 15 percent. This is the federal tax rate applied to net profit if the real estate asset is sold after one year and applies to properties owned in all states. Some states such as California and New York add an additional state capital gains tax. Other states like Florida, Nevada and Texas have no state capital gains tax. For investors that will be buying and selling multiple properties, a properly planned and executed 1031 tax-deferred exchange will result in zero capital gains. There are several firms in Hong Kong that specialise in US tax

planning and preparation, including US Asia Tax (www.usasiatax.com).

Buy freehold property

The vast majority of residential real estate in the US is offered in freehold tenure. (All real estate in Hong Kong is leasehold with the exception of one parcel owned by the Catholic Church). For average US real estate investors, it is recommended to purchase only freehold, or fee simple, to avoid the potential pitfalls of leasehold ownership including limited financing, lease rent increases and decreased resale values.

Define the ownership goals

The US market is not homogeneous and provide diverse buying opportunities. The more time spent defining the ownership goals, the easier to evaluate the various markets and property types. Determine what is most important: cash flow, capital appreciation, use component, risk profile or other criteria. In many US markets, price discounts of 60 percent or more are available, providing great capital-appreciation opportunities





Kimridge Road Beverly Hills in Los Angeles at US\$10,995,000



Waterview in Washington DC, an I. M. Pei designed condo



Many of these same markets are also suffering from high rental vacancies so cash flow is constrained. Markets like Boston and Washington DC provide smaller price discounts but have low vacancy rates and strong cash flow.

Set realistic expectations

The US housing market peaked in 2006. Since the peak, national housing prices fell over 30 percent to the trough of April 2009, according to the Standard and Poors Case Shiller Home Price Index. National prices have increased a few percentage points through the first quarter of 2010. In harder-hit markets such as Las Vegas and Florida, price discounts of 60 percent or more are still available, but are becoming harder to find. However prime markets like Manhattan come with closer to 25 percent discounts. Set realistic expectations based on ownership goals and target markets.

Obtain a pre-approval or proof of funds letter

If the purchase will be financed, obtain a pre-approval letter to submit with the offer to purchase. Financing has increasingly become a problem in the US, with many purchasers

unable to complete transactions due to financing problems. With a pre-approval letter, the buyer's negotiating power improves dramatically. Financing rates currently available in Hong Kong and Singapore for US purchases range from four percent to 4.5 percent with loan to value ratios of 60 percent. US lending rates for foreign investors currently range from six percent to 6.5 percent with loan to value ratios of 70 percent. If purchasing with all cash, obtain a proof of funds letter from a financial institution to be submitted with the offer.

Research the target markets

The US real estate markets are among the most transparent in the world, allowing buyers to research and understand values with confidence. The buyer-side agent will provide comparable market analysis (CMA) for properties and locations of interest. The CMA evaluates the comparable properties that are being offered for sale and those that have recently sold. This is the same information used by appraisers and surveyors to establish values for the lending institutions. Many websites, including trulia.com, zillow.com and zilpy.com, offer additional information for buyers, including demographics and rental-income analysis. 

Contributor's Profile

Patrick William O'Neill has over 25 years of international real-estate experience. He is the CEO of the O'Neill Group, a US-based firm that specialises in international residential and commercial real estate. The firm is currently working with individual and institutional clients in Asia, Australia, the UK and the US. For more information, visit www.ogroupinternational.com.

