PROPERTY GOING GLOBAL

HOW TO *CREATE GLOBAL WEALTH* AND *INVEST WITH CONFIDENCE!*

SCOTT PICKEN

FOREWORD BY CLEM SUNTER

I hope this book will convert readers into foxy property investors. Enjoy it.

Clem Sunter, *The Mind of a Fox*

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How to ***Create Global Wealth*** and ***Invest with Confidence***

SCOTT PICKEN

Founder and Chairman of
International Property Solutions (IPS)

Senior Managing Partner of Wealth Migrate

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*"Money won't create success;
the freedom to make it will."*

Nelson Mandela

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ACKNOWLEDGEMENTS

To my wonderful wife and son, thank you so much for your support, and your belief in me. I know there have been some really trying times on this entrepreneurial journey, and that, on many occasions, you wish I would just be "normal". To invest internationally requires sacrifices because of the frequent travelling and time away from the family. I want to thank you for your understanding and for allowing me to follow my dream; for understanding my ambition, the long work hours, and allowing me to go forth and turn the vision into a reality.

Kelly, you are such a wonderful inspiration, a rock of support, and my greatest ally whenever anyone tries to take us on. I love you more than you know, and I look forward to building a life beyond our greatest expectations in Knysna.

Jonty, although you are too young at the moment, I only hope that I can give you the same self-confidence that my parents gave me, that I can be a role model to inspire you and give you the belief that you can go forth and create your own destiny – whatever that may be.

I would like to thank my Mom and Dad, who gave my brother and me the self-belief to know that we could do anything we wanted to in life, if we put our minds to it. My Mom is a fourth-generation descendant from Kwa-Zulu Natal and my Dad was a third-generation Zimbabwean. They met at the University of Durban in Pietermaritzburg, before moving to Zimbabwe. In 1976, they were forced to emigrate from Zimbabwe, leaving everything behind, farms and more, and arrived in South Africa with literally nothing. At the age of 27, my father knew nothing but farming, but he retrained as an accountant, so he could get the best corporate job available. My parents went on to make many sacrifices to provide my *boet* and me with the best education possible.

My father always used to say "They can take anything away from you, but they can't take your knowledge or your education." He also instilled in me an entrepreneurial spirit at an early age. His favourite song was "My Way" by Frank Sinatra, and he thus taught me not to conform, not to listen to the rules, but to create my own destiny.

Mom, thank you for your unconditional loving support and Dad, you might have left us, but your spirit certainly lives on, within all of us.

I would like to thank my Uncle Bill Picken, who has been an inspiration in a business sense. He taught me from an early age: "Work out what the worst-case scenario is, and – if you can manage it – then everything else is upside." This has been my underlying philosophy in business and in property, and is a very sound principle, along with focusing on income. He was also my first seed investor in International Property Solutions, and gave me the confidence to negotiate and get the business off the ground. It has been a tough ride, and I can ensure you, it has not been his best investment.

Bill, I would like to thank you for your unwavering support and guidance. The way you had the foresight at the age of 30, while living in Zimbabwe in 1980, to plan for your future, and have the ability at the age of 53 to have the freedom to live in any country you wished to, and to educate your son in any school you would like to, and most importantly, not to have to work for anyone else, is an inspiration to us all. It is this principle that guides me in accumulating global assets, and building global businesses so that I, too, can have this freedom. It has also inspired me to write this book, so that anyone who reads it might be afforded the same privilege.

I would like to thank my Brother *(Boet)*. Wow, we have been through thick and thin together and you are one of the most amazing friends and supporters I could have had. I don't know from where we received our competitive spirit, but you have certainly been a major catalyst in driving me to strive continually for greatness. I am so proud of you, of everything you have achieved and the balanced man you have become. I know you are baffled often by the chances I take in life, but I also keep a gift you gave me many years ago in my wallet, in which you wrote: "*Boet, your ambition is an inspiration to me. You mean so much to me. I am your biggest admirer.*"

To all our loving family, particularly Moira and Gran, thanks for all the loving support.

To the wonderful team who has been involved in building IPS over the last ten years, it certainly has been an interesting ride. When you are trying to stay in touch with international market trends, new markets, new opportunities and all the complexities of property, it certainly requires an exceptional effort. We certainly have had our ups and downs but most importantly we have persisted and stuck to our vision of being a "Global Property Investment Solution Provider, who will revolutionize and set the industry benchmark by 2015, through cutting-edge technology and driven, dynamic personnel."

Special mention must go to Sean Walsh, my best friend, who helped me build the company from the start and was the first one to ask me to write a book in 2005. Sean, I truly regret and apologize how things

turned out and do wish you were here to enjoy the ride.

Brad Allen, thanks for your loyalty and for helping me to take on challenges head on. To Jaco Maritz and Brendon Brown, who are helping turn the vision into a reality. To Kristen Miller, for your phenomenal client service and your unerring belief in the vision of what we can deliver to clients and achieve.

Hennie Bezuidenhout, we have worked on Wealth Migrate for over five years. Although everyone continues to tell us it is impossible, you have understood the vision, and I want to thank you for your support in helping me to turn it into a reality. Thank you for all the international trips and sorry for the "torture camps/buying trips", but we are building something that will, one day, revolutionize the property industry and create global wealth for many individuals.

To all my friends, you know how important you are to me. We have had some wonderful experiences all over the world and I look forward to creating many more fun and "wild" experiences, and watching our families grow up together. Thank you for the self-belief you nurtured in me, and also the support you have given me through all the years.

Particular mention has to go to Warren Pearce: thank you for working with me to create our property empire, and believing in me when I had crazy investment and development ideas.

Tom, I have wanted to write this book for years. Thank you for finally mentoring me, coaching me and most importantly slave-driving me to make sure we hit the deadlines. You are a legend!

Last but not least, I would also like to thank all the clients who have trusted IPS and Wealth Migrate and invested with us. We have walked a long journey together and, even though we know that property is not perfect, I hope you know that you are part of our family and that we truly care about you. We will therefore continually strive to help you invest with confidence and create global wealth.

I have to say an inspiration for me is Sir Richard Branson, who says, "Do it and apologise afterwards." This has been my motto and will continue to be so, as we go forth and discover new markets, new opportunities, and persevere constantly in attempting to change the norm.

TESTIMONIALS

TESTIMONIAL OVERVIEW

1. **Alastair Constance** – Founder and CEO, *Mercury FX and Ethical Currency*
2. **Andrea Valenzuela** – COO*, Bridge Capital Thrift and Loan, LLC*
3. **Andrew Rissik** – Sable Group Managing Director, *Forex Division*
4. **Barry Peterson** – CEO, *Peterson Project Management Trust*
5. **Bill Henderson** – *International Property Investor and Developer*
6. **Bill Picken** – *Founder of Imara Asset Management*
7. **Bill Rawson** – Chairman*, Rawson Property Group*
8. **Billy Selekane** CSP, SaHof, AYE, AMM – *International Speaker and Entrepreneur*
9. **Chuck Bretz** – *Attorney at Law*, USA
10. **Clem Sunter** – *Top 3 most respected businessmen in South Africa and Top 5 Global leaders in scenario planning*
11. **Denise Mhlanga** – Journalist and Property Professional, *Property24*
12. **Dr Dolf de Roos**, Author of the New York Times bestseller, *Real Estate Riches and International Property Investor*
13. **Earl Gabriel** – *Gabriel Projects & Just Property Group*
14. **Elwyn Schenk** – *Pam Golding Properties*, Umhlanga
15. **Erwin Rode** – *Rode & Associates*, South Africa's Leading Property Expert and Researcher
16. **Gary Sacks** – *UK Investor and Developer*
17. **Gordon Mackay** – Investor, Author, Speaker and Entrepreneur
18. **Hennie Bezuidenhout** – Director & CEO, *Benchmark Group*
19. **Hulet T. Gregory** – President, *Memphis CashFlow*, *GP*
20. **Ian Scott** – Senior Managing Partner, *Grant Thornton*
21. **Jannie Kirsten** – *International Investor*

22. **James Paynter** – Head Market Analyst, *Dynamic Outcomes (Rand Forecasting Expert)*
23. **Jason Gilbert** – *Business Coach & Top 3 USA commercial advisors in USA*
24. **Jose Delgado** – Director, *Delgado Velosa Kenworthy & Associates*
25. **JT Foxx** – Business Coach, *World's Leading Wealth and Property Coach*
26. **Justin Clarke** – CEO and Founder, *Private Property*
27. **Kent Gush** – Managing Director, *Kent Gush Properties*
28. **Mark Sowerby** – Founder, *Blue Sky Alternative Investments Ltd, Australia*
29. **Mark Taylor** – *Elan Property Group*
30. **Mike Greeff** - *Greeff Properties, Exclusive Affiliate of Christie's International Real Estate*
31. **Mike Vietri** – CEO, *Faircape Group Cape Town*
32. **Neale Petersen** – CEO & Publisher, *Real Estate Investor* Magazine
33. **Pieter Feenstra**, Property Developer – *Chairman Feenstra Group*
34. **Peter Jäck** – Chairman, *Indawo Group*
35. **Peter Jacobsen** – *Principal Status Properties*, Brisbane, Australia
36. **Richard Dunn** – *National Acquisitions Manager*, Brisbane, Australia
37. **Richard J Nefdt** – Chief Executive, *Reality Check (Pty) Ltd*
38. **Richard Tunmer** – *International Investor*
39. **Roger Hamilton** – *Entrepreneur & Bestselling Author*
40. **Wouter van Wyk** – Joint Managing Director, *Just Invest*

"Scott is one of the most knowledgeable people I've ever met in the international property sector. I have invested with him in the past and would gladly do so again in the future. Condensing all of his knowledge into one book must have been a serious task but for the international property investor, that makes *Property Going Global* a must read."

Alastair Constance
Founder and CEO
Mercury FX and Ethical Currency , London, UK

"The secret to success in real estate investment, regardless of whether it is within your own country or across the globe, is having the right members on your team. What impressed me most about Scott Picken is not just his extensive knowledge about global real estate investment, but more importantly his ability to build a team of the best in the business. With Scott Picken and the staff at IPS, an investor can benefit from years of experience and a dedication to training and sharing that knowledge with a group of sophisticated investors."

Andrea Valenzuela
COO
B*ridge Capital Thrift and Loan, LLC , USA*

"For many years I have done business with Scott Picken, or should I say Scott's clients. Along the journey with him, I have got to know a very direct and passionate man who does not mince his words. He challenges everyone and rips them out of their comfort zones, something we all need in our lives where indecision and procrastination are very prevalent and often cost us dearly.

The advice he gives is resonant with many of us however we often fail to act. His approach is act or pay! He thoroughly researches all the markets he deals in and will back all his statements up with information that is hard to fault. Even if you never invest offshore, reading his book will be valuable!"

Andrew Rissik
Sable Group Managing Director
Forex Division, London and South Africa

"Scott's property principles, perception of trends, and thorough relevant research have made him the leader in this industry segment. His investors continue to reap the rewards, staying ahead of the curve in both knowledge and bottom-line returns. Congratulations, Scott."

Barry Peterson
CEO
Peterson Project Management Trust, South Africa

"As a Scotsman who came to South Africa in 1988 and then immigrated to Australia in 1999, I have a large amount of experience in property development, international property, and commercial office-park development. I was introduced to Scott and flew out to South Africa to meet with his clients. I really enjoyed his thorough knowledge of the market and how to take advantage of it. I look forward to working with Scott to help more South Africans take advantage of the Australian commercial market. Read this book to understand how."

Bill Henderson
International Property Investor and developer, Australia

"Scott Picken is an expert in his chosen field of mainly overseas property investment. Many challenges, including wildly fluctuating value, litter the different markets be it South Africa, Australia, the United Kingdom or USA. In all countries, with their different legal systems, ownership rules and financial regulations, Scott has mastered the industry of property. He has done it the one and only way and that is by sheer hard work and determination. The famous Italian industrialist Giovanni Agnelli once said 'Miracles can be made, but only by sweating.'

This applies to Scott in his quest to bring to his readers a book of tremendous value in this modern day of rapidly changing asset markets across the world."

Bill Picken
Founder of Imara Asset Management, Australia

"Scott's many years of focusing on residential property investor's needs and his exposure to the foreign off-shore markets in the past few years since the financial collapse makes him well-suited to share his and his investor's knowledge and experience in the residential property market around the world.

Exchange-rate fluctuations, interest-rate differences from country to country, make Scott's achievements incredible in that he has been the channel and mentor for many to relocate their wealth-generating opportunities across several markets and continents."
"Well done, Scott."

Bill Rawson
Chairman
Rawson Property Group, South Africa

"I have read your book twice and I believe it's going to be read over and over again. This book shared amazing insights into wealth creation and a clear understanding in how you can build generational wealth by spreading your wings internationally in the property space. Not only is this well researched but also well thought through and not from a theoretical but practical experience. It is refreshing to read and learn from a *Road Warrior* and not someone with a theory of "maybe" this is how to do it.

I am truly challenged, because I was only looking at South African opportunities while the world awaits us with our boldness and genius in creating generational wealth. I am truly humbled that I had a chance to read this book and learn from it, I can tell you without a doubt that I am really re-engineering my way to getting into this game on a global scale.

If you read this book, apply the methodologies and strategies, and never ever create wealth … well then something major is wrong with you. This is a book which will inspire generations, as trends go … I always believe that the fundamentals do not change drastically and I believe my son's son can still learn from this wealth of knowledge to also create an empire that will outlive him.

You are a genius and to be amoungst those who will drink from your well of wisdom is indeed an honour and a privilege … I am thankful that you are in this generation and within an exceptionally small group of people globally I call Friends and Wise Counsels … the greatest honour in Africa would be to say to you … BAYEDE! reserved only for Royalty and you are now indeed among those in this industry who are Royalty."

Billy Selekane
CSP, SaHof, AYE, AMM
International Speaker and Entrepreneur, South Africa

"Scott Picken and his team have been making money investing in foreign real estate for years. This book provides a step-by-step analysis of why it is prudent to consider such an investment and, how you can achieve the best results. If you have been frustrated with your lack of knowledge as to the global real-estate market and the opportunities that are currently present, this book is a must read for you."

Chuck Bretz
Attorney-at-Law, USA

"The book explores a model linking the global economic and South African political scenarios to the implications for the property market and considers how the probabilities attached to the scenarios could affect investment decisions on property. This is a very interesting development as I have always said that playing scenarios by themselves is daydreaming.

Converting them into sensible and relevant options for action is where their true value lies."

Clem Sunter
One of the top three, most respected businessmen in South Africa and among the top five global leaders in scenario planning, South Africa

"I had the privilege of dealing with Scott Picken while working as a financial property journalist in 2008 and 2009 for Moneyweb.

Picken's knowledge of property investments, particularly investing internationally, inspired me to write compelling stories, at the same time, I acquired valuable knowledge that I shared with my readers.

At the time while Picken was investing and helping investors buy property in London, I was lucky to meet and speak to some of the investors who, through Picken's guidance, had become successful in buying performing portfolios in the UK.

In my time as a writer for a luxury lifestyle magazine, *LIVEOUTLOUD*, Picken was always willing to share information and trends on global property markets.

What makes his story and insights so interesting also is that he buys in these markets too and so he knows what works and what doesn't. Add to that, he partners with reputable professionals who know international markets, in which they operate, from property developers and property managers to financiers.

Anyone wishing to invest in offshore property should read this book, very insightful and a useful buyer's guide."

Denise Mhlanga
Journalist and Property Professional
Property24, South Africa

"After more than a decade of travelling to South Africa on business, it becomes apparent who the serious players are. Scott Picken is undoubtedly one of the most consistent and astute proponents of property investment, and certainly its most enthusiastic voice in South Africa. In addition, he has a global outlook, which is all too rare. His bringing to the property world the data and insights of Clem Sunter, of whom I am a big fan, is also very welcome."

Dr Dolf de Roos
Author of the New York Times bestseller, *Real Estate Riches and International Property Investor, USA*

"Because Scott Picken truly understands international property investment, this book is an essential reference for any savvy property investor."

Earl Gabriel
Gabriel Projects & Just Property Group, South Africa

"Whenever I have interaction with you I am literally blown away by your positive energy; as Hosea Ballou said, "Energy … like the biblical grain of mustard seed, will move mountains."

In a few short years you have coupled this energy with a fast–acquired knowledge of global-investment dynamics and in particular how to make sound property investments work for you, a subject close to my heart.

Your book is destined to change many lives for the better and has the capacity to enrich greatly those who grasp and apply its precepts."

Elwyn Schenk, South Africa
Principal of Pam Golding Properties, Umhlanga Franchise

"With South Africa standing at a crossroads and houses still over-valued, Scott Picken has some intriguing advice for the man in the street who just loves the investment attributes of property: look beyond your country's

borders. This is so because the Great Recession has opened up fabulous value propositions where previously none existed."

Erwin Rode
Rode & Associates
South Africa's Leading Property Expert and Researcher, South Africa

"Scott has been an invaluable source of help, making the entire process of selling property in to the South African market a simple and mutually beneficial experience. His depth of knowledge surrounding both the international and UK property markets, coupled with his commitment to detail, make him an ideal strategic business partner."

Gary Sacks
UK Investor and Developer

"Brilliant, factual, informative, inspirational, and one of the only books of it is kind I have come across to help anyone become a successful international property investor. Scott has written this book from the heart and his caring attitude comes through. This book will help anyone from the very inexperienced investor to the master investor. This book is priceless. Thank you, Scott."

Gordon Mackay
Investor, Author, Speaker & Entrepreneur, South Africa

"Globalisation requires a reality and becoming a global investor is not only a huge mind shift, but also poses a real challenge. The opportunities are mind-boggling, diverse and sometimes confusing. How do I select the right opportunity to fit my investment criteria and how do I decide which country, which city or suburb would provide the sustainable solution that I am looking for?

Further complicating factors arise from the interdependence of countries. The GFC has shown us how volatile the world can be and how circumstances in one country can have an economic effect far beyond the borders of that particular country.

I have taken a conscious decision, like many other South Africans ten years ago, to start to diversify my property investment. After many years and many overseas visits, it is still difficult and sometimes confusing in an ever changing world.

In my quest to develop my own international investment strategy, I met Scott about six years ago, a man who devoted almost his whole life to help thousands to invest successfully in international properties. His commitment to this course, his honesty and dedication were an inspiration.

His insight and thorough understanding of the different markets and factors that influence the capital appreciation and yield of the investment properties is based on his experience and formal education in construction and IT.

Scott is a loyal South African, who loves and enjoys Africa, but also understand the very important economic fundamentals of risk diversification, capital preservation and global wealth. Over a period of more than fifteen years he has listened and guided many people to take very important and life changing decisions.

Scott was deeply conscious about the growing need, but also the responsibility to give guidance on long-term investment strategies in a fast and ever changing world. He realized that the only way to continue was to follow a structured approach through this sometimes confusing and complicated process to compare and evaluate different investment options in different countries. A balanced approach was needed where all the information and influencing factors are taken into account, but you also get to an objective, measurable, comparable and understandable solution, through which one can derive an answer and decisions.

Scott, we salute you for the guidance through this book. Your understanding of the critical success factors of international property investment and how it can be affected by different political and economic scenarios is valuable to all. We are also grateful for that we can share in the wisdom that Clem Sunter brings to the table and that jointly we have a comprehensive guide that is very valuable to every investor that is serious and needs clear-cut answers to a challenge that only a few get right.

Scott we know you as a modest man, who is always prepared to listen, to learn and to grow in wisdom and knowledge. Thank you for the valuable contribution, that's definitely going to change the way we are comparing global investment opportunities in the future."

Hennie Bezuidenhout
Director & CEO
Benchmark Group, South Africa

Hennie Bezuidenhoudt is our business partner in Wealth Migrate, has listed two companies, one in South Africa and one in Australia. In

Australia we started 4 ½ years ago with $4 million and turned it into $40 million through residential and commercial development and then listed the company and now it is worth $200 million.

Scott Picken has done the research. He has spent the time, money and travel to validate his theories in real estate. His hands-on evaluation of markets all over the world and his keen understanding of the macro-economic picture has elevated him to one of the leading experts on global real estate investing for the individual investor."

Hulet T. Gregory
President
Memphis CashFlow, GP, USA

"I have known Scott for around eight years and have known him to be very astute in identifying undervalued properties in the United Kingdom, Australia, and more lately, the United States. With appropriate financial advice and structuring, many of these have turned into successful business deals."

Ian Scott
Senior Managing Partner
Grant Thornton, South Africa

"Scott has an impressive track record in assisting clients to invest in property offshore. This is not by chance, but is the result of his first-hand experience over many years, scientific analysis, and thorough on-the-ground research.

With the Rand being a fundamental factor when investing offshore, Scott has worked closely with us over the years in order to further help clients to make educated, informed, and better decisions. I have increasingly been impressed with his knowledge, strategic approach, and commitment to excellence and client satisfaction.

The integration of Clem's scenario-planning technology into his global-property analysis model now provides you with the ultimate tool to make the best decision available, based on your criteria and the relevant facts and fundamentals.

Scott knows what he's about. And this book gives you all you need to also succeed in property offshore."

James Paynter
Head Market Analyst
Dynamic Outcomes (Rand Forecasting Expert), South Africa

I hope you remember who I am. I have been watching what you do from the side line, and am very impressed with what I see.

I have bought two properties in Atlanta just before we went on tour last year through your competitors. I mentioned that while on tour.

It is going OK with the investment, but I am not part of a vibrant forward looking group as you guys have built up at IPS. I have been watching how you are helping your client base with quite a bit of envy. I can go on and on about this, but basically I want to make an appointment with you when you get back from America.

If you will have me, I would like to come over to IPS with what I have, build up a credit record and buy some more properties with your help and advice.

I hear you live in Knysna. I live in Plett and would love to drive over to discuss things when you are back, if possible.

Have a great trip. Don't stay out too late! We are still laughing at ourselves when we think how we even went to a Club."

Jannie Kirsten
International Investor, South Africa

"As one of top commercial property trainers in the USA, I read countless 'How to...' books, but Scott Picken has teamed up with the legendary Clem Sunter, and this book gives you so much more than just the how – Scott gives you precisely the where, when and why . . . As in 'WHY invest in particular countries, and WHY you must do so NOW.' And if anybody knows how to help investors locate exceptional opportunities and minimize risk, it's Scott, having helped over 2000 investors acquire close to R2 Billion in assets for close to 15 years. You ignore him at your own peril."

Jason Gilbert
Business Coach and among the top three commercial advisors in the USA

"Buying real estate in a foreign country is a daunting process, but if I were to invest in property internationally, Scott would be the one person I would rely on for a real and unbiased view. Don't touch offshore property unless you have trusted partners, and I would follow advice from Scott as to where, how, and who to trust.

I have known and dealt with Scott over the last 10 years and I admire his passion and integrity. He has done more research on the international real estate markets than any other party in South Africa and would not

advise anyone to put money into a product he did not believe in, and that he had done due diligence on. I look forward to reading the book."

Justin Clarke
CEO and Founder
Private Property, South Africa

"As the world's leading wealth and property coach and having travelled the world, investing globally, I as JT Foxx believe Scott Picken is one of the leaders globally on property investment.

Most people in life try and complicate things, but with a system like the GPS™ (Global Property System™) you can ensure that you are using the raw facts and not emotion which will help you make educated and informed decisions.

I am passionate about helping people to become better and I gauge myself on their results. This is why I use the best coaches in the world with the likes of George Ross, Donald Trump's right-hand man to assist me understand property globally.

When I came to South Africa in March 2013, I was intrigued by Scott's global understanding and even called him the American South African.

And having been to South Africa many times and started a business here, I now understand the importance of diversifying and investing globally for South Africans. I believe it is critically important to have the right information and the right partners and therefore I implore you to read this book, *Property Going Global.*

As the World's number one Property Coach I have always said this... You are only as good as your team, people who try to invest themselves without the right team or training are bound to catch a wave of failure as experienced in the early 1990's and 2006. History always repeats itself in property and Scott Picken's book is a great guide "on how to" but more importantly how you can invest internationally worry free. Scott doesn't think outside the box in properties, he throws it out the window."

JT Foxx
Business Coach – among the World's Leading Wealth and Property Coach

"I have known Scott Picken for a long while now and he is 'Mr Offshore Property in South Africa'. He has been a pioneer and is a leader in helping South Africans when it comes to offshore property. In this book Scott covers the fundamentals of offshore property investment, the pro's the

con's, structures and very helpful processes and systems to guide and assist aspiring or seasoned property investors in assessing different countries, areas within countries, income versus capital gains and a new innovative take on scenario planning when investing in property. Scott walks the talk and that is why I highly recommend this book and his advice in the offshore property space.

All in all a massive effort, I know how time consuming putting out a few articles can be so well done on getting the book done!! All the best see you soon."

Jose Delgado
Director
Delgado Velosa Kenworthy & Associates, South Africa

"I met Scott in 2007 when he was running his very successful International Property Solutions business in London. I was immediately impressed with his incredible energy, dignity and deep passion for the residential property industry.

Scott's enthusiasm, knowledge and integrity will ensure that this book will benefit all who choose to enjoy it."

Kent Gush
Managing Director
Kent Gush Properties, South Africa

"Scott's integrity, enthusiasm, and passion for property has been his trademark for the last 10 years or so that I have had the pleasure of knowing him. We have crossed paths with Scott on many occasions on our overseas trips, and he has always demonstrated a thorough knowledge of the various overseas markets that he has been involved in. With this comprehensive background knowledge of International property I believe that he has set the foundation for a successful future.

We at the Elan Property Group salute his commitment and wish him well in his venture into the USA."

Mark Taylor
Elan Property Group, South Africa

"As the Founder of Blue Sky Alternative Investments Ltd, a listed Australian Company, I was impressed by Scott's international property knowledge and how he was assisting high net worth South African clients invest in Australian Property. Along with Hennie Bezuidenhout, Scott's business partner, we have worked together and had great success in the Australian property market. Read this book if you would like a sound analysis on how to invest internationally."

Mark Sowerby
Founder
Blue Sky Alternative Investments Ltd, Australia

"Comprehensive, thorough and downright exciting, Scott Picken's new book is a must-read for anyone considering off-shore real estate investment, and with the added clout of Clem Sunter's take on global scenarios, this body of work is nothing short of empowering!"

Mike Greeff
Greeff Properties, South Africa
an Exclusive Affiliate of Christie's International Real Estate

"Congratulations, Scott, on producing a book which summarises in layman's terms the intricacies of investing in real estate in foreign markets. You have managed to harvest your knowledge of the UK, US and Australian markets and combine this with a unique intuitiveness to guide the would-be investor in the right direction.

This book should first be read by every would-be investor before taking the often expensive leap into foreign investment in real estate."

Mike Vietri
CEO
Faircape Group, South Africa

"Scott is passionate about making a difference in the off-shore property investment arena. Not only is he innovative, but he is also an energetic leader, paving the way in new territory long before his competitors do. He always seems to be one step ahead of the game. Scott makes it his business to know his market better than anybody else so that he can deliver the best possible inside property knowledge, information and education for his clients.

Some years back, I convinced Scott to put down everything he knows and the results in this book show that he has followed through. Scott has so much knowledge, skills and experience in property investment to share with investors locked up in his head. A book was an obvious extension to the solid brand name that he has built for himself. If you want to invest in off-shore real estate, particularly in the US, UK, and Australian markets, then Scott will give you solid, sincere, honest, and practical advice that has been well researched. The result is happy investors sitting with above-average returns. Enjoy the read as you learn from Scott's unique approach to investing."

Neale Petersen
CEO & Publisher
Real Estate Investor Magazine, South Africa

"Countless times in bookstores we page through business publications hoping to find one that stands out, one that promises solutions to our dilemma-filled life. And we have read them all…well many of them. Some come from well-known authors, some less well known, but most singing from a hymn sheet, you are sure, they all received from the same business school.

But, when an author has dug deep in his life to reach his goals, when he has been on his knees, gritted his teeth and toiled on the ground, you know that what he is about to say comes from the depths of personal experience, and you take note.

This is Scott. His life is property, his job is property, but above all, it is his passion. People with dirty hands and scuffed knees from hard labour, coupled with qualifications and scars from personal experiences are the ones I listen to. This is why, when it comes to property, I listen to Scott!"

Peter Jäck
Chairman
Indawo Group, South Africa

"I am the principal of Status Properties in Brisbane. I have been working with IPS Invest now for the past 4 years sourcing apartments from Brisbane's premier developers for IPS Invest clients.

I sincerely endorse Scott's comments on the Australian market, and in particular Brisbane as being very accurate. I must also recognize the professionalism of IPS Invest's Australian MD Kristen Miller, who has been instrumental in the successful investment choices for IPS clients."

Peter Jacobsen
Principal Status Properties
Brisbane, Australia

"As National Acquisitions Manager for a large and well-respected Australian Property Company, I've dealt with all the so called 'property experts' or 'guru's' over the years both in Australia and overseas. In my experience, these guys will promote and sell "ice to the Eskimos" without recourse. But in the six years I've dealt with Scott Picken, I can promise you this "he is the best of the best". What separates him from the others is his desire to find out the real story, the details and the drivers of the property market of a country. He is the only one that will thoroughly research, question, argue and back up his beliefs with all the facts and not just take the 'written word' as gospel.

Scott does what the others won't: travel as many times as it takes to see things for himself before offering opportunities to his clients. I've had the pleasure of escorting Scott, his staff and his many clients around Australia over the years and I like to say that the proof of his knowledge and the wealth he has created for people is written in his clients testimonials -

Scott I wish you all the best with your book…"

Richard Dunn
National Acquisitions Manager
Brisbane, Australia

"From the trenches of hard earned experience, Picken delivers an engaging and refreshingly well informed Road Map to making effective Global Property Investment decisions."

Richard J Nefdt
Chief Executive
Reality Check (Pty) Ltd, Global

"I was involved in a small way when Scott formed IPS almost 10 years ago. What started as a young man's dream soon developed into a real international property business. Sheer determination and an in-depth knowledge of the product have driven Scott's business opportunities into the lives of so many investors. Perhaps Scott's greatest attribute is his ability to network and sustain valuable partnerships in at least 4 continents, selecting the best in his chosen fields and passing them on unselfishly to his massive client base. The completion of this global property book bears testimony to the magnitude of his strength and understanding of this complex subject on an international level."

Richard Tumner
International Investor

"If you don't want to be restricted to your local property market, you MUST invest globally. Scott is the ONE person in global property I recommend you listen to and learn from. He has had the experience of helping investors to profit in multiple markets. In this fast changing world, he knows what it takes to ensure your success."

Roger Hamilton
Entrepreneur & Bestselling Author, Global

"Scott Picken is an industry leader and this book is packed with his trusted expert advice, knowledge and guidelines. A must-read for anyone with a foot in the investing industry and his book will definitely own a prime-spot on our company's bookshelf."
Congratulations...

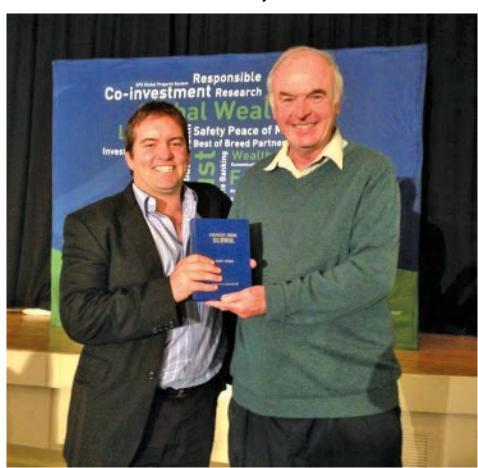
Wouter van Wyk
Joint Managing Director
JustInvest, South Africa

FOREWORD BY CLEM SUNTER

Chantell Ilbury and I have evolved a way of looking at the future like a fox since we published *The Mind of a Fox* in 2001. It involves sketching different possible futures, which we call scenarios, attaching flags to each scenario, and based on whether the flags are rising or falling, giving a subjective probability to each scenario. Then we ask individuals or companies to gauge the impact of the scenario on them and, depending on the probability, decide what should be done to chase the opportunities and counter the threats. It is a simple technique which takes into account that much about the future is unpredictable and beyond the control of the player in the game.

Scott Picken has taken our foxy methodology and applied it in the field of property investment in a very readable and interesting way. The book explores a model linking the global economic and South African political scenarios to the implications for the property market and considers how the probabilities attached to the scenarios could affect investment decisions on property. This is a very interesting development as I have always said that playing scenarios by themselves is daydreaming. Converting them into sensible and relevant options for action is where their true value lies.

This model makes total sense, I haven't got the knowledge in the property sector, I can do the probability, I can do the scenarios, I can do the flags and based on those scenarios I can see this is the impact on various countries, this is the impact on properties in most countries. I think your model has done exactly that and I have heard from a lot of people that what they take away from your model is that USA is the best place to invest. But I come back to my point that you need to be diversified; don't invest everything into property.



I hope that the content of this book will therefore convert its readers into foxy property investors. Enjoy it.

INTRODUCTION

The right information at the right time is nine-tenths of any battle.

– Napoleon

Glocalisation – what does it mean? How does it impact you? What effect is it having on the global village and the country you live in? How will it shape your future? What do you need to know to ensure your future success?

The bottom-line is, if you don't have the answers to these questions, you will be forced to react to the often whimsical and unpredictable global economy, rather than creating your own future.

According to Wikipedia, glocalisation is "Thinking globally, acting locally" and, as I sit 30,000 feet above the USA, taking a flight to invest in more property, I am contemplating these questions and determining how I can share with you my experience, so that you too, can benefit.

THE STORY OF MY DAD – WHY I LOVE BUSINESS AND PROPERTY

I chose a picture of my dad as a young man, one when he had so much promise. People always ask me why business and why property? Well, I have explained how my parents instilled in me a feeling of self-belief and an insatiable drive for success. What I haven't told you is why I was so determined to master business and property. I told you how my father always wanted to be a farmer and work for himself, but was denied the opportunity by the politics in Zimbabwe. Having retrained as a chartered accountant at the age of 27, he rose through the ranks to become the Financial Director of Rainbow Chickens. He always yearned to run his own business, and was always trying things (quite unsuccessfully) on the side.

When I was in my matric year he decided he was ready to take the plunge. He took early retirement and was paid out a pension of R500,000, something for which he had worked for over 22 years. As most people did at the time, he put this into the stock market on the advice of some "clever" pension broker. Unfortunately, it was not a happy tale because within three months of having left Rainbow Chicken to start the new

business, he contracted cancer which led to his business failing, our being bankrupted, and the onset of clinical depression. The last ten years of his life were really too tough for him as he fought the cancer, the depression, and a deterioration in his overall health.

The question is: why do I tell you this?

Well, I learnt many lessons from this but the two major ones were:

1. When my father and his Rainbow Chicken colleagues started their business he was 49. They had no idea how to be entrepreneurs. They started a small business, but they had that corporate mentality. They bought a fleet of cars and branded them, they even had coffee mugs branded, because this is what you do in the corporate world. But when you are an entrepreneur, you have to be much more nimble (as Clem would say – Foxy) and you do things on a shoe-string budget until they work. I decided then and there that I was not going to go and work in a corporate job and then risk everything later in life. I truly believe, as I mention in Chapter 3, that being an entrepreneur is a learnt skill and the only way to learn is to get on with it, because you are going to learn the same lessons whether you are 20 or 50, no matter what your corporate experience or education. I decided I was going to start as soon as possible, long before I had any real commitments and, if I failed, I could sleep on a friend's couch. I was going to master business from as young as possible and control my destiny, just as my dad had dreamed of doing.

2. On the 1st of August 2005, while I was in London, I got a call from my mother to say my father had passed away at the age of 59. I couldn't get home as there were no flights and my incredible friends pulled out all the stops and got me home (I still don't know what I would do without them). When I got home, as the oldest son I had to look after all the affairs. I had no idea what to do, and luckily my uncle was kind enough to help us through everything. When we got his affairs in order, we found out the pension payout to my mother was R480,000. Remember, in 1995 he was paid out R500,000, and so in ten years the wonderful experts on the stock market, with all their fees, had managed to not only NOT grow the wealth, but actually reduce the capital amount.

I wrote an article a month after my dad died to try and explain to people why I believed so much in property. I already loved property and had been successful in it and it made a lot more sense to me than giving

money to people on the stock market where I had no control. I had been successful in property, as I had thought out of the box and had used my skills to create value, something I don't believe is possible on the stock market unless you have mastered it in the way my uncle has done. I showed people in my article that, based on long-term trends over the last 30 years, where property in South Africa had grown by 12% a year and earned a net yield of 8% each year, what would have happened if my parents had bought property as opposed to putting R500,000 into the stock market.

According to the ABSA Housing Index on 31 December 1994, the average house price in that year in South Africa was R166,889. If, therefore, they had just bought five houses and put down a deposit of R100,000 on each their LTV would have been 40% at a very low risk and the mortgage payments and other costs would have been covered by the rents. Let's for argument sake say that it would have been cash-flow neutral in 1995 (actually, it would have been R2,935 in the black for the year, but let's be conservative). After ten years, each property would have been earning a NET, after all expenses and interest, of R107,115 per year.

Now, if you have five properties that amounts to R535,573.75 in passive income per year, more than the initial capital invested in early 1995. Add to this that, according to the ABSA Housing Index, on 31 July 2005, the day before my dad died, the average house price was R708,542. Each house, therefore would have had equity over and above the initial R500,000 of R541,653 per house, or R2,708,265 in total. Rather than a pawltry R480,000 in capital returned, with no passive income, my mother might have earned over R500,000 a year by doing nothing (management fees are included before the net return) and have achieved R2,7 million in equity, as well as the original R500,000 that had been invested. A NO BRAINER!

My final thought on this is that it is now eight years since my father passed away. My mother is really concerned about money, what is going to happen in the stock market, and making sure she has enough for her future. If she had still owned those properties, however rather than investing in a pension fund and the stock market, she would have been earning passively R2,091,408,765 a year after all expenses and in two years all the loans would have been fully repaid. She would also have had R5,346,055.00 in equity in the five properties.

I suppose you now know why I am passionate about business and property and why I have dedicated my life to mastering both skills for myself, my family, and anyone who is important to me.

At the age of 21, I left South Africa for the UK and also to travel and see the world. I had done well at the University of Cape Town (B.Sc. Construction Management *cum laude)*, and had expected to be a CEO of a top development firm in London within a few months. The reality, however, was that I found myself sweeping a construction site for my first job. I was lucky though, and worked my way up quickly, including doing a full-time Master's programme at Greenwich University in London (M.Sc. Construction IT, *cum laude)*, on top of a full time job. At the age of 22, after reading *Real Estate Riches* by Dr Dolf de Roos, my friend Warren Pearce and I bought our first property back in South Africa. It was in Cape Town, a five-bedroom house near UCT with great zoning. It was my first true experience of buying an international property: a property in South Africa, from London and it was a real nightmare. Ultimately, we developed the property into six town-houses, and it was the first time we learned that we had to work with local partners.

At age 24, Warren and I bought our first property in London, and by the age of 26, I realized that international property was my passion, and so I resigned from my job and created International Property Solutions (IPS), to help others invest as well.

In 2003 I attended the leading Property Development Programme (PDP), run by the UCT Graduate School of Business. Usually attended by the top personalities in South African property, I was the youngest to qualify from the course by nearly 20 years. In 2007, IPS was the first South African company to be invited onto the Association of International Property (AIPP) Panel and also won the award for best property company in Africa in 2008. The AIPP is run out of London and is the governing body for International Property, and IPS is proud to say that they continue to be members and abide by the code of conduct. On top of this, in 2012 I qualified as a Certified Residential Specialist (CRS), which is awarded in the USA, and is the highest residential property qualification worldwide.

We built the company on one maxim from a US author, salesman, and motivational speaker, Zig Ziglar: "***You can have anything you want in life if you help enough other people get what they want.***"

Over the years we have made a lot of mistakes, learned from them, and have helped over 2,000 people invest internationally to a value of over R1.7 billion. Over that learning curve, moreover, we acquired the gift of some tremendous experience in international property: learning all about global trends, how to take advantage of glocalisation, and how to avoid mistakes.

In his book, *Conspiracy of the Rich,* Robert Kiyosaki (author of *Rich Dad Poor Dad)*, said that the easiest way to get wealthy is to follow long-term trends. When you put together the impact of glocalisation and information technology (IT, or computers, the various social media, and the internet) you get a revolution not only in the property industry, but in the entire global economy.

Fifteen years ago, most people only invested close to home, and the Afrikaans saying, "*vêr van jou goed, na aan jou skade*" (which means that you need to keep your assets close to you, or you will lose them), best sums it up. But the world is changing too quickly, and it is not only unwise, but irresponsible to have all your wealth tied up in one asset class, one country, or one currency.

You only have to ask any US citizen who had all their wealth tied up in US property in 2007, to understand the consequences of making the wrong decisions, as their net worth would have been decimated by 30% to 70% in less than 12 months, and there was nothing they could do about it.

Saying this, though, how do you do it? It is hard enough buying property when it is close to you, let alone a long way away, and in a foreign country. The answer is; through the use of IT. You see, 15 years ago the only person who had all the information about an area was the local estate agent: Who was buying? Which properties? Where? Which were the best properties for investment? For renting? What were the expected yields? And many more questions. Nowadays, with IT, one has access to all the required information, and now it's simply a matter of searching the globe for the best returns. Now it's about *Property Going Global***.**

Although fraught with risk, if this investing is done correctly, one can create global wealth, preserve one's current wealth, have a Plan B, and most importantly, have peace of mind for you and your family.

Would you like to know where to invest your money securely, while getting the best returns? With so many investments options – including property, gold, stocks, the bank, not to mention which market to invest in from the UK, Australia, USA, South Africa, or somewhere else – it can be easy to make a mistake if you aren't an experienced international investor.

A recent survey by Real Estate Web reported that 92% of local South African investors are highly dissatisfied with the private developers in South Africa, while over 80% of those who invest offshore, without any support, as in the type of help we offer, lose money. The key reasons for these failures are that most investors make emotional decisions. They

don't know how to evaluate investments based on their personal needs, get advice from people who aren't experienced investors and don't have a world-class team to advise them on such important things as purchasing, legal issues, taxes, on-going management, and maintenance.

We do all of that and more. No one can predict the future, but it is possible to make educated and informed decisions if you have a model or a framework upon which to make intelligent decisions. How do we decide where to invest? Our serious and ongoing hands-on research, and years of investment experience will help you decide on investing locally or off-shore, which country to invest in and what to invest in, whether it is such things as stocks, bonds, property, or some other instrument.

We are pleased to present this book, *Property Going Global,* the research from years of work by Clem Sunter and myself, Scott Picken. Clem Sunter is one of the greatest business minds locally and internationally, and I have been attending his scenario presentations for many years. Clem has been voted as one of the top 3 businessmen to have had the most change on South African business in the last 20 years and according to Google is one of the top 5 most respected scenario planners globally. He is now a leader in global research on scenarios and in the use of certain indicators, which we will explain in detail later. Using these systems, we will help you to determine where the future is going and how you can make sure you have a solution for every outcome.

Clem and his team have mapped out possible scenarios for the global economy, as well as South Africa's future, and these scenarios have been designed to change as the indicators or flags change. Although this made sense to me at a theoretical level, in 2012 I decided I needed to build a tool to take what Clem was teaching us and use it to help me make the right future decisions. The tool we created – the **Global Property System™** tool, or **GPS™** – can help potential investors to make the required changes to any investment strategies.

GPS™ is a practical tool, based on a four-dimensional model that takes our research and simplifies it to help you make the best investment decisions for you and your family's future. It is no different from a GPS in a car: once you know where you are and where you want to go, the system (or GPS) can simply take you there. You just need to trust its guidance and direction.

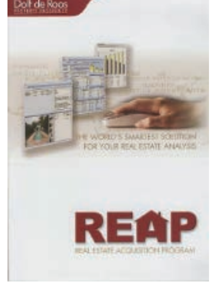
Since 2005, many people have suggested that I write a book. I have always believed that it is a waste of time, as, by the time a book is complete on "How to buy in London," "How to buy in Australia," "How to buy in South Africa" or "How to buy in the USA", the market has changed. It

happens so quickly that the information is out of date. In 2012, however, I was working with my business coach, Roger Hamilton, and he said, "Why not write a book and teach people about the systems you use to invest internationally, as these remain evergreen, no matter what happens in the markets?"

As I will discuss later in the book, two authors who have had a massive influence on my life, decisions and investing are Robert Kiyosaki and Dr. Dolf de Roos. Anyone who has analysed the way they operate, invest, and wrote their books, will know they were based on a system.

Robert Kiyosaki had the cash flow quadrant to explain the different types of investors and this doesn't change, no matter what happens with the economy.

Here is an illustration drawn from the book, *Rich Dad, Poor Dad*, which shows four kinds of income earners.



Then Dr Dolf de Roos, one of the most sophisticated International Property Investors uses REAP (Real Estate Acquisition Program), an analytical tool to work out which were the best property investments internationally, based on returns, risk and opportunity.

The purpose of this book is to provide you with a system or framework to make the right decisions, no matter what happens in the markets. Yes, the markets will change. Yes, different economies or drivers will change. But the fundamentals will always remain the same. With the array of global experts we work with, the knowledge of where to find the right research and the GPS system, we will provide you with an evergreen system to be able to make sophisticated decisions about where to invest internationally for many years to come.

WHO ARE WE AND WHY USE US? – TWO SOLUTIONS

1. International Property Solutions (IPS)

It is important for investors to understand exactly who International Property Solutions (IPS) is and how we have the ability to find the absolute best partners in each international property market.

IPS provides an all-inclusive private banking solution to off-shore investors, essentially doing only two things: we educate sophisticated and intelligent investors about their future; and then we provide them with the solutions.

Over 80% of people who invest overseas actually lose money. But with our experience in assisting over 2,000 people invest internationally – to a value of R1.7 billion – we can ensure that you ***Invest with Confidence*** and ultimately create wealth preservation, a Plan B and peace of mind. IPS offers far more than just international property investment.

We understand your needs and will help you design a solution to achieve your long-term investment goals. We then help you implement that plan by choosing an investment destination, the right property, arranging the finance, and fulfilling all legal obligations. We will help you manage the sometimes confusing process of buying an international property until you are ready to hand it over to a local management agent. We take pride in our strategic affiliations with what we call our "Best-of-Breed Partners," who specialise in international property investments in each country, and we take great pride in our own highly professional, dynamic, and knowledgeable team. Using this strategy, we help you create global wealth through property – and preserve wealth through international property – and build a better life for you and your family in perpetuity.

for more information go to www.ipsinvest.com.

2. Wealth Migrate

In 2008, when Lehman Brothers went bankrupt and the Global Financial Crisis (or GFC) began, there was an opportunity to buy a fully occupied building in Wimbledon, London, at less than 50% of the market value. (We were buying them for £160 000 when 86 South Africans had just bought through another company for more than £320 000 each.) These properties had extraordinary yields at this value, and, more importantly, they were in an already established area and community. I had lived in Wimbledon for nine years, invested in a lot of property there and knew the rental market implicitly. I was nervous about the impact of the GFC, but my logic was that Wimbledon was always one of the most desirable areas, and no matter what happened to the values, people would always want to live there, which would sustain the income on the building.

I only had one problem. I needed to find £10 million to buy the property outright from the developer, who had basically panicked due to the global economic conditions. I approached everyone I knew who had money, but I just didn't seem to be able to find a solution quick enough. I tried to buy one unit on my own, but the developer and bank laughed at me. The market recovered in London in less than eight months and the opportunity was gone.

This setback, however, inspired me to create a solution to take advantage of any situation which presented itself in the future. It is based on nature's laws, which suggests that, as an individual I am powerless in comparison with the power that comes from working together as a team. This means taking advantage of collective buying power. I met up with Hennie Bezuidenhout in the middle of 2009 and explained how we could create a solution to blend nature's laws of working together with the

use of IT to provide a situation which would revolutionize the property industry and allow people to "***Create Global Wealth***".

Basically, the analogy is the same as motor cars. Before Henry Ford, cars were only for the really wealthy and the cars were built individually. Henry Ford came along, created mass production and said, "You can have any colour you like as long it's black."

The Model-T Ford revolutionized the transportation industry and made transportation available to the middle class. Wealth Migrate is doing exactly the same to international, commercial and local property, allowing everyone to create global wealth through property and it will revolutionize property forever.

Our technique was further enhanced by crowd funding, but more about that later.

Wealth Migrate was created to provide a global, self-service, crowd-funding property solution, which takes advantage of local property markets, through Best of Breed Partners and collective buying power. This will be optimised by a Global IT Platform, providing transparency and efficiency for investing in property markets.

It is a blend of nature's laws and technology, a simple solution to buying global property aggressively, with like-minded, sophisticated investors, and so create global wealth.

For more information go to www.wealthmigrate.com.

Summary

As explained above, we provide two solutions: IPS, which helps people invest directly in property; and Wealth Migrate, which helps investors take advantage of collective buying power and diversification across different assets, markets and countries.

We would like to welcome you into our world of glocalisation, international property, and crowd funding, and teach you how to take advantage of some of the greatest current trends that are changing our Global Village in one simple book, called Property Going Global.

SOME QUOTES THAT DRIVE AND GUIDE US

"Whatever you do, or dream, you can begin it. Boldness has genius, power and magic in it. Begin it now!"

Johann Wolfgang von Goethe

"Dream big, people become what they dream!"

Tony Robbins

"To become financially independent, you must turn part of your income into capital; turn capital into enterprise; turn enterprise into profit; turn profit into investment; and turn investment into financial independence."

Jim Rohn

"Nothing in the world can take the place of persistence. Talent will not; nothing is more common than unsuccessful men with talent. Genius will not; unrewarded genius is almost a proverb. Education will not; the world is full of educated derelicts. Persistence and determination alone are omnipotent. The slogan 'press on' has solved and always will solve the problems of the human race."

Calvin Coolidge

"Whatever you put your mind to, you can achieve."

John Scott Picken (Scott's Dad)

"Your destiny is determined by the decisions you make, and the actions you take."

Scott Picken

Here's to helping you ***"Create Global Wealth"*** and ***"Invest with Confidence".***

CHAPTER 1

GLOCALISATION

The definition of insanity is to do the same thing over and over again and expect different results.

Albert Einstein

... Success in life is not how well we execute Plan A; it's how smoothly we cope with Plan B. And for most of us, that's 99 percent of the time.

Sarah Ban Breathnach

The only thing we can rely on is that change is constant. Let's just consider this below:

- All information ever obtained is doubled every two years.
- More than $2 billion is spent every day in a quest to improve technology.
- 1.3 billion email users send 200 billion messages per day.
- A single computer chip is close to having the power of the human brain.
- 5 billion people in the world are on mobile.
- 4 billion text messages are sent every day.
- 2/3 of the global internet population visit social networks.
- 2.6 billion minutes are spent on Facebook every day.
- 13 hours of YouTube are uploaded every minute.
- 100,000,000 YouTube videos are viewed every day.
- Some of the researchers are saying the PC-era is over. This is the age of the touch screen and the tablet.
- More people sign up each month (more than 10 million) to China Mobile than Vodacom has as subscribers.
- Crowd Funding is expected to raise $500 billion in 2013.

I believe it is naïve to think that this will not impact you, the country you live in and property. 49% of the worlds wealth is held in property, but things are changing and they are changing fast. This creates information overload, multiple choices and leads many people to Analysis Paralysis or better known as doing nothing.

As I mentioned in the Introduction, "glocalisation" is thinking globally, and acting locally. What exactly does that mean for South Africans today? The only thing we can rely on is that change is constant. And with an uncertain future, how can you have wealth preservation, growth, a Plan B, and peace of mind about your family's future?

As Sarah Ban Breathnach, the author of the best-selling book, *Simple Abundance*, says, it means being able to cope with uncertainty, and having a Plan B if our original intentions go awry. Do you know how to cope with uncertainty? Do you have a guaranteed, scientific model to ensure you make the right decisions for you and your family's future?

Because of political and economic instability, not just in South Africa but worldwide, three out of four South Africans are concerned about the future, but the fact is that 96% of South Africans will not have enough money when they retire, and only one percent will retire with financial freedom.

If you're planning on investing in overseas property, and we highly recommend doing so for a variety of reasons, you need to make educated and informed decisions about your future based on fact, not presumptions.

It comes down to this: no matter what happens to South Africa in the future, to the global economy, and to the whole banking system, do you have a plan?

Scenarios do change, and once you understand this simple concept, and the technology that helps you to do so, you can make educated decisions for you and your family's future, and for their general financial well-being.There are too many people out there making mistakes, and if you don't have the right information and the analytics to understand that information, you tend to make emotional decisions, and emotional decisions can often get you into trouble.

Some Questions to Consider

Do you have a plan for the future? And if you do, does that plan include options when mistakes occur? To paraphrase Sarah Ban Breathnach, "Success in life is not how well you execute plan A; it's how smoothly you

cope with plan B." And for most of us, that's 99% of the time.

My own experience and surveys I've taken over the years, show that over 80% of people don't have an actual plan and don't know how to cope with uncertainty.

One of my favourite books is Richard Kiyosaki's *Rich Dad, Poor Dad: What The Rich Teach Their Kids About Money That the Poor and Middle Class Do Not!* The title, I think, is pretty much self-explanatory.

Kiyosaki, a well-known personal finance author and lecturer, developed his economic perspective by looking at two quite different influences: his own highly educated, but fiscally unstable father; and the multi-millionaire eighth-grade, dropout father of his closest friend.

The lifelong monetary problems experienced by his "poor dad" (whose weekly pay cheques, while respectable, were never quite sufficient to meet family needs), pounded home the counterpoint communicated by his "rich dad": that "The poor and the middle class work for money ... [but] ... the rich have money work for them." Taking that message to heart, Kiyosaki was able to retire at 47. He has become an advocate for the type of "financial literacy" that is never taught in schools. Based on the principle that income-generating assets always provide healthier bottom-line results than even the best of traditional jobs, it explains how those assets might be acquired so that the jobs can eventually be shed. Really, the essence is this: make your money work for you. Most people don't, and this simple fact shows it: 95% of the world's wealth is controlled by 5% of the people. If it were viewed another way, 95% of the world's population controls only 5% of its wealth. Which group would you rather be in?

With the way the world is moving towards one Global Village, this also needs to be taken to another level. You now not only have to make sure your money is working for you, you need to ensure it is maintaining value. In South Africa, from 1 January 2013 to 1 June 2013, the Rand lost 21% against the US Dollar and so, no matter how good your investments were in South Africa, or how hard your money was working for you, this was creating a massive headwind in the path of your success and wealth accumulation. So nowadays we, as investors, need to "act locally, think globally". We will explore this in much more detail later.

Another author I have found to be useful is Dr Dolf de Roos, whose book *Real Estate Riches* I would recommend most highly. He realised at a young age that most of the rich made (and kept) their wealth through real estate. Armed with that knowledge, he worked hard and earned money without ever receiving a payslip, or a salary, from an employer. What

allowed him to do it was real estate. In his book, De Roos showed why investing in property is so astoundingly simple and lucrative. His book covers negotiations and submitting offers; increasing the value of your property; and dealing with laws, rules and regulations. Most importantly, he was also the first truly international property investor, over 20 years ago, taking advantage of different markets, and different opportunities around the globe. He was the first person to talk about "***Property Going Global***."

The Master of Scenarios

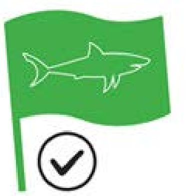
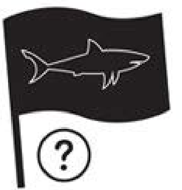
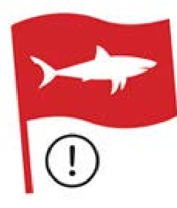
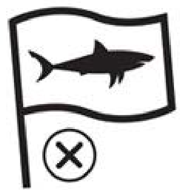
Clem Sunter, a man I consider the master planner, and a man who has developed a model to reasonably and unemotionally predict likely outcomes for business and global investors, as well as the technology to use that information, is the person I turn to when making decisions about my companies and my own family's futures, and when I go on to think about where I want to invest.

For the vast majority of South Africans who do not have a plan for the future, Clem Sunter's advice can be priceless. He has proved very useful, whether the global economy goes up, or whether the global economy goes down; whether we have a double-dip scenario, or if economic recovery in South Africa goes badly.

Most South Africans have heard of Clem, the former chairman of Anglo American's Gold Division. He's been offered an honorary Ph.D., and he has worked with Nelson Mandela and previous governments to move forward effectively, and create our new democracy. Perhaps most importantly, he has been rated by South African businessmen as the leading person whom they would like to have help them take their business forward; a man who is most likely to have the greatest impact on South Africa's present and its future.

Clem Sunter has developed a system of "flags": warnings and points of observation that will allow a tuned-in investor to make reasonable and educated decisions about what the future holds in various regions and countries.

In its simplest terms, let's say, you go surfing in Durban or Cape Town and a white-shark warning flag is up. You know enough to get out of the water. If the safe green flag is up, you know that you can get back in, and swim. Flags can help you make the right decision.

Of course it's not exactly that black and white. Here's a more complicated scenario, but one that illustrates the fragile layers involved in making a decision, and how the global economy can be affected. These are the types of complicated scenarios Clem Sunter studies. The situation is much more nuanced than this simplification, but it illustrates Clem Sunters' excellence.

In the States right now, where I travel frequently looking at different areas of the country to invest in, the controversial practice of "fracking" is under scrutiny. Fracking allows for easier drilling of oil, but its critics say that it is extremely harmful to the environment.

Comprising about 3% of the world's population, the US uses 60% of the world's oil. By some estimates, if fracking is allowed to continue and expand, the US will be self-sufficient in three years (2017) which, of course, will have an enormously positive effect on its economy. If, however, fracking is deemed too harmful to continue, the US dependency on world oil reserves could lead to, for example, smaller engines in their cars for more efficient fuel usage, and severe reductions in driving, which in turn leads to fewer car trips to large shopping malls, which then leads to a faltering local and national economy.

How would this affect your investment in US property?

On the other side of the equation, though, you see positive eco-

nomic growth in the East, with China, Australia and India having future economies equivalent to the US, and you will have a much better balance to the global economy. What would happen, however, if China were to falter? What would be the impact of a falling resource demand on countries which are heavily dependent on these resources, such as Australia? How would this affect your Australian investment?

Finally, the UK Gross Domestic Product (or GDP) is 70% dependent on banking and insurance. The government continues to talk about higher taxes on companies and employees to try and reduce government debt, but what would be the consequences? Since these businesses are extremely transient, what would be the impact of your UK or London investment, if they were to relocate their educated workforce to a more government- or tax-friendly environment?

This ability to consider the direct results of different scenarios in different countries or regions, is why I use Clem Sunter as part of the team. He has been a great help to me, as I travel the world to find the best real estate investments.

And he can be a great help to you as well.

Clem Sunter: In His Own Words

In the year 2000, Chantel Ilbury and I developed a thesis on scenarios and techniques that involves looking into different possibilities, not betting on a simple future. This process involved signalling, or what we like to call "flagging" various specific countries and possibilities. These flags will suggest what the future will look like, and when these flags are going up and down, people will want to know what the probabilities are.

We have taken the scenarios-based process that is used in universities in the UK and the US, and we have added the concept of flags and probabilities. But remember, it is no good just planning scenarios. You have to connect the dots and look at the options of each scenario in advance. So, as the flags go up, the probabilities of something happening increases, and you will have a plan of action to counter each scenario.

In my book, *The Mind of a Fox,* which I wrote with Chantel, I said that one needs to make decisions with fox-like qualities. But you can only do that if you play out different scenarios, watch the flags going up, and consider the probabilities. You need to have your options ready to chase the opportunity, and then, of course, take action. That's our approach. The hedgehog is completely different to the fox. The fox is nimble, and adapts as the scenarios change, but the hedgehog decides on a strategy,

a direction or a vision, and then continues on that path no matter what. That is 20th Century thinking, and the world is changing; we all need to be foxes, not only to survive, but thrive, in these changing times!

Here is one example: In a 2001 letter to US President George W. Bush, we suggested that the biggest threat to his imminent presidency was a massive terrorist strike on one of the biggest American cities. Our scenario posed that threat was a nuclear strike, or nuclear device. So we were obviously wrong, because it was the planes that flew into the buildings, but we were totally correct in that we had flagged the great confrontation between the major religions and movements, dedicated to the downfall of America, and the attacks on Afghanistan, in the mid 1990s. For us, the clinching flags were the two attacks on American embassies in Africa; one in Kenya, one in Tanzania.

Had the US paid attention to those flags, the tragic events of 9/11 might not have happened. We travel around the world testing company strategies, by looking at alternatives, looking at scenarios, looking at the flags, looking at the probabilities, and then deciding how they have to adapt their strategy for each scenario.

Here is another example: In 1988, a report indicated that many Japanese golfers were resigning, due to loss of income, and that report, combined with the astronomical increase in property prices in Japan at the time, when the emperor's palace in Tokyo was worth more than the state of California, raised flags that indicated the economy was about to crash, which it did in 1990.

Twenty-three years later, despite throwing more money at the problem than anybody else, Japan has a national debt or GDP share that is 230%, which is almost twice that of any other country.

The types of flags that investors can use to study an economy, for example, are dynamics such as aging populations in Europe and Japan, Japan's decline in innovation, or Italy's decline in population.

But, while we think that the Japanese experience will continue, Europe will not recover from its economic slump quickly, due to their aging population. Germany has a world-class economy, and Europe will remain intact for another ten to fifteen years, which will obviously have an impact on property values, but there are some massive flags to watch. I mean, if you put a roof over the top of the UK, you basically have an "old age home".

So we have flags, and we have probabilities – and through them we can make reasonable predictions for investors.

Here is an example that might make this clearer: When the US went

after Bin Laden, it had flags, and needed to connect those flags in order to develop a likely probability. Looking at photographs of the village and compound in which the CIA felt Bin Laden might live, and when they deciphered the houses he occupied, the head of the CIA called for a meeting of all the people involved in hunting Bin Laden down. Analysts had determined the most probable house Bin Laden was in, because photos showed three women in the courtyard and only two men (flags). But, because there were three women, there was a good chance there were three men (probability). Analysts pointed out, there were no incoming cell-phone or telephone calls to the house (flag), which, by experience indicated there was a senior leader living there (probability).

Based on those two points, which I called flags, the probability that Bin Laden was in that particular house was 60% to 80%, and they went in and killed him.

Our scenario-based model tries to give investors that type of range when investing in equities, buying bonds, or buying properties, let alone choosing which market or country to invest in.

That's how this model works, and here are four scenarios we've developed for the global economy. By studying these scenarios and estimating their chances of occurring, we have been able to take much of the uncertainty out of investment in foreign markets, business or property, or to, at least, give our investors a good sense of where to go and where to invest.

Clem Sunter's Global Scenarios

Scenario 1: Hard Times

In the 25 years from 1982 to 2007, we've had a strong economy, but the second part of that economic boom was artificial, because it was essentially propelled by credit. Now it's payback time, and we have a mortgage disaster which led to the financial crash. Now the scenario is all about sovereign debts and governments being hopelessly ill-adapted, and trying to get rid of that deficit, and pay off the debt. This will continue to have a negative impact on the global economy.

So, the hard-time scenario looks at a flat growth curve, as it is in Japan and, say, 0-1% for the next 10 to 20 years. It is also based on the aging of the European population and that of Japan. The US is in better shape, as it has younger demographics. The Latino and the African-American populations in US are still growing quite quickly. When we talk about

hard times in America, we're looking at probably a 2% economic growth rate, as opposed to Europe, which is less than 1%. It will be characterised by corrugated ups and downs in the global economy.

In early 2013 Clem Sunter rated the hard-times scenario at about 40%. Go to www.mindofafox.com, to get the undated probabilities.

Scenario 2: Emerging Economies Grow Strong

Ultra-Violet

The second scenario sees the advanced economies like America and Europe continuing along at an economic growth rate of 1% to 2%, but the emerging economies – China, India, Africa and South America – growing three times faster.

Obviously, the strategy in this scenario is to chase the wheels in emerging economies. Africa, for example, has a completely different image now, as opposed to the European view of the continent in 2000, when economists were calling it "the hopeless continent". Now, because of its younger demographics, many American and European companies are all over Africa. But Clem Sunter rates the probabilities at 30%. If China is propelled to grow quickly, then obviously all the countries selling to China are about to grow at a rapid rate. But if China stumbles, then everyone is going to be in hard times.

So, it is important to watch China. The critical flags are its GDP growth and its banks.

Scenario 3: US Cheap Money Policy Pays Off

New Balls, Please

This scenario is where many analysts will be proved wrong, and the head of the US Reserve Bank is right, as the US "cheap money" policy pays off. The US goes into full recovery mode, and this drives the whole world upward. There will be a multi-polar global economy, with more balance between West and East. But, of course, the biggest factor is that, with the economy in full recovery and an extra billion people added to the population of the world, resources will be scarce.

In the 17th century, Thomas Malthus spoke about the planet running out of resources, and this is a real threat. He spoke of uncontrolled population growth leading to the point of starvation.

In such a fast-growth scenario, resource prices will rise dramatically. In fact, most of the easy-to-find, easy-to-treat and easy-to-recover resources in the mining industry will have already been found, mined, and treated. In this scenario, only the difficult material would be left, and the world's population will have increased to seven billion. Prices of oil, energy, food and water would then have a major impact on the global economy: such price determinations will be the major constraint and will result in major wars, economic growth, risks and opportunities. Higher prices will force some kinds of socio-economic change, and the next round of technology will be found in the application of resource efficiency.

At this point, Clem Sunter would rate the probability of Scenario 3 at 10%, but that could change, according to two flags.

The first is very precise: The unemployment rate currently in the US is 7.9%, and economists say that, if this were to drop further, it would create a new momentum in US economy. We need to watch the US unemployment rate.

The second is less precise: We need to watch the drop in the debt ratios in the US.

Scenario 4: Double Dip

Forked Lightning

This is the final scenario, and this is where global economy takes a double dip, and we emulate the crash of 1929. Many people don't realise, but the real crash was actually in 1932. After 1929 there was a slight recovery, but in 1932 the US Stock Exchange plunged to 11% of the values in existence before the crash in 1929.

There are two flags to watch:

The first is the US Bond rate. While it remains very low, this is not a flag to watch, but the moment it begins to rise, then it symbolises that investors have lost faith in the US economy, and that this scenario could be materialising.

The second flag is a default by Italy or Spain. Greece, Ireland and Cyprus are one thing, and the European Union has been able to bail them out, but with economies the size of Italy and Spain, this would cause havoc in the European Union, and pull down one of the three biggest economies in the world.

If this scenario pans out, then you need to sell stocks and buy property and gold. It is going to be a tough world, and basically you need to go indoors and try and survive.

Clem Sunter poses the probability of this scenario transpiring at 20%.

In conclusion, each scenario represents a different set of variables, and one needs to watch the flags to determine where to invest and what to invest in. The most important understanding is that your plan or strategy needs to ensure that you are successful, no matter which scenario transpires.

Where and What to Invest in?

Along with all this global uncertainty, and where to invest, the question arrives: what should one invest in?

A recent survey from Barclay's Capital, from its high net-worth investors, over the last decade, revealed the following:

Of their investments, gold was the top returner (323%); followed by oil (214%); then fine wine (178%); and then property (109%). But consider this: 49% of the world's wealth is held in property, and the reason is that sophisticated investors understand gearing. For a more detailed understanding of this, please read Rich Dad, Poor Dad by Robert Kiyosaki. In principle, this 109% return is only found in property, held in cash. If you were to gear this at 50% or even 75% LTV (loan-to-value), then property has outperformed any other asset class by a long way over the last decade, which decade included both a property-market and a stock-market boom- and-bust. As a matter of interest, in the same report, the returns from the stock market were minus 14% over the same decade.

So, if you choose a country to invest in, what do you actually want to invest in: banks, bonds, gold, or property?

Clem Sunter suggests balancing your portfolio: say, one-third into equity funds, one-third into property, and one-third into stocks. Every two years, he says, look at your portfolio, and make adjustments. When you look at your portfolio, moreover, he points to a comment from Warren Buffet:

*"Be fearful when others are greedy,
and greedy when others are fearful."*

Yet it is worth considering that 49% of the world's wealth is held in property.

Consider this example: Clem Sunter's experience with one property, his mother's family's house in Kensington, in the UK. In the mid 1930s, her family sold the property for approximately £35,000. In November 2011, the house next door was put on the market for £70 million, and it needed another £10 million in renovations, which works out at over R1-billion in 2013. There is no single property in South Africa now, worth a billion rand.

What is more important, however, is to look at the compound growth rate between 1934 and today, which works out at 10% per annum. Ten percent means that the money doubles every seven years and therefore can be expressed as a figure of 2 to the power of 11. So, it's an incredible figure and if you lived in that property, you wouldn't be getting rid of it.

This is why I focus on property as my investment vehicle, and why I decided, at a young age, to learn with a passion everything I could about the market. In later chapters, I will also show you how I use my "Probability Calculator" to make use of Clem's scenarios, and decide where the best area to invest is, and in what.

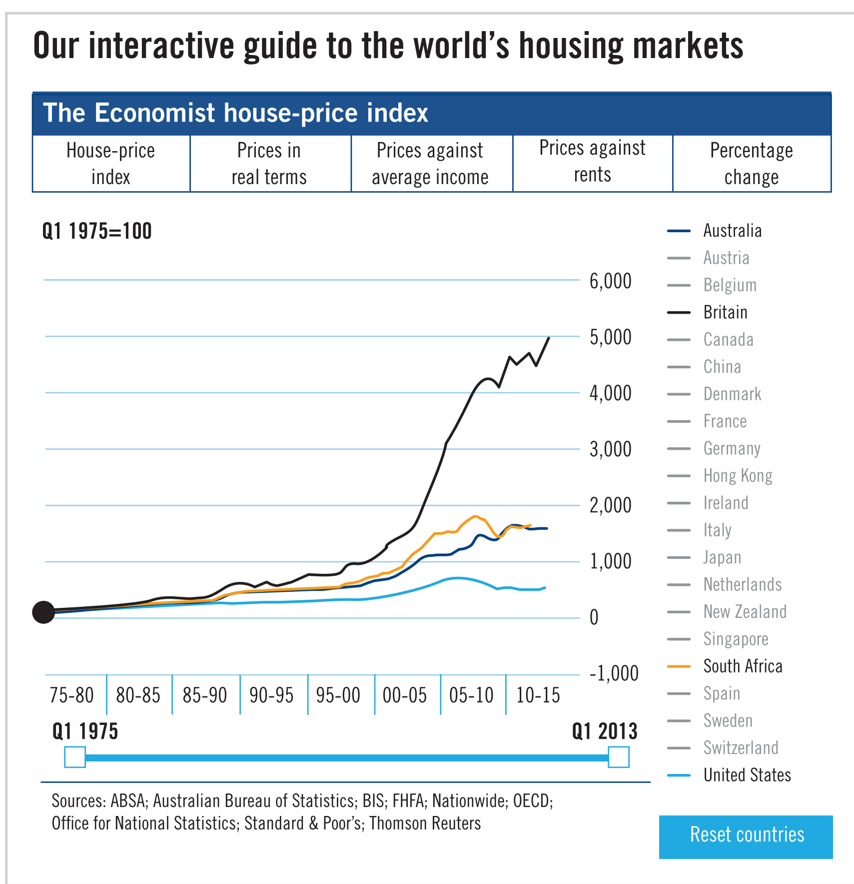
For South Africans, many of us are concerned about losing assets, for various reasons, including economic and political instability. South Africans also understand the risks in placing money overseas, as opposed to investing at home.

The one item today, the one catalyst that makes a difference in overseas investment, now, is the internet. There should no longer be any surprises or concerns about being too far away to make the kind of educated and informed decisions that we have been talking about in this chapter. The internet is also improving in the amount of information available worldwide, doubling every two years. It has levelled the playing fields, and allowed us to understand and research every market globally, ensuring we are getting the best returns, based on fundamentals, and not limiting ourselves to the area of our residency.

An example of this, and the best research globally, which we work with for international property, is from The Economist, which has been publishing data on global house prices since 2002. The interactive tool below, updated in August 2013 enables you to compare nominal and real

house prices across 20 markets, over time. And to get a sense of whether buying a property is becoming more, or less affordable; you can also look at the changing relationships between house prices and rentals, and between house prices and incomes.

http://www.economist.com/blogs/dailychart/2011/11/global-house-prices?fsrc=scn/tw/te/dc/locatiolocationlocation



Here is the latest comment from The Economist on international property prices.

GLOBAL HOUSE PRICES

MIXED MESSAGES

America surges, much of Europe sinks
August 31st, 2013 from the print edition

HOUSING markets are prone to boom-and-bust cycles, with prices overshooting then undershooting sustainable levels. To work out whether they are over- or undervalued, The Economist uses two gauges. One assesses affordability by comparing prices with disposable income. The other considers the case for investing in housing by comparing prices with rents. If these ratios are higher than their historical averages (since the mid-1970s) property is overvalued, if they are lower it is undervalued. On this basis, Canada's house prices are bubbly whereas Japan's prices are undeservedly flat (see table).

America's formerly stricken market has rebounded: house prices have risen by 12.1% over the past year. But the recovery still appears to be sound, since prices remain undervalued against income. A sharp rise in mortgage rates since May, on signs that the Federal Reserve will slow the pace of asset purchases, may in any case temper the boom.

Britain's recovery is built on shakier foundations. House-price growth has picked up in recent months to 3.9% and is likely to accelerate further, even though valuations are still overstretched. The market is being buoyed through a subsidy scheme that lowers funding costs for mortgage lenders and through special help for low-deposit borrowers.

Despite favourable valuations, Japanese house prices continue to fall, though at a modest 2.2%. The worst-performing markets are in the euro area, notably in southern Europe (Spanish prices are down by 8.2% in the past year) but also in some northern countries (Dutch prices have fallen by 8.5%). The French market is also depressed. Valuations remain stretched in Spain even though house prices have fallen by 30% since early 2008. But the recent pick-up in the Irish market looks sustainable following a 49% price crash. Brighter signs gleam elsewhere, especially in Germany, which avoided the pre-crisis frenzy. Prices there have risen in the past year by 5.1%, which should bolster domestic demand and help support the economic recovery in the euro zone.

THE ECONOMIST HOUSE-PRICE INDICATORS

	Latest, % change		Under(-)/over (+) valued*, %, against	
	On a year earlier	SinceQ1 2008	Income†	Rents
Hong Kong	18.4	90.9	84	*na*
United States	12.1	-8.2	2	-12
India	11.9	*na*	*na*	*na*
Brazil	11.8	*na*	*na*	*na*
South Africa	9.8	19.4	*na*	3
New Zealand	7.2	6.0	68	24
China	6.5	20.9	8	-36
Germany	5.1	20.5	-15	-18
Australia	5.1	14.1	46	24
Britain	3.9	-6.7	20	14
Sweden	3.0	10.6	32	19
Ireland	2.3	-49.0	-6	-8
Canada	1.9	20.0	74	30
France	-1.5	0.7	36	31
Japan	-2.2	-14.9	-37	-37
Italy	-5.7	-10.9	-2	11
Spain	-8.2	-30.3	12	12
Netherlands	-8.5	-19.0	6	21

*Relative to long-run average †Disposable income per person

Sources: Bank for International Settlements; Haver Analytics; Hong Kong RV; Nationwide; OECD; Teranet and National Bank; Thomson Reuters; *The Economist*;

The beauty of showing you where to get the research is that as the variables change, you can find the updated research. There are 17 other countries which are included in this research and which we use in our GPS to determine where to invest. Just like the animals 'migrate' to find the best environment for their health at any time, we as investors want our 'wealth' to migrate to where we can get the safest, sustainable and best returns. This is why we Wealth Migrate.

The following chapters will explain why and how.

CHAPTER 2

WHY WEALTH MIGRATE?

Understanding Currency Rates and Values

The years 2014 and beyond promise to be exciting years, with plenty of challenges for investors. As I have said previously, if investors have the right knowledge, they can make informed decisions.

One expert we turn to frequently is James Paynter, whose Dynamic Outcomes company out of Port Elizabeth provides forecasts on how well the Rand is doing against the Dollar, and other currencies, which is an essential piece of information for South African investors.

Dynamic Outcomes, which International Property Solutions and Wealth Migrate use for all its foreign currency decisions, provides a road map for clients in foreign exchange, allowing them to have an overview of where markets are likely to be heading, and thereby increases the likely profitability of their investments and their productivity, while reducing overall stress.

Dynamic Outcomes specialize in providing forecasts on the markets, using Elliott Wave technology that makes use of historical patterns to forecast existing markets, thereby providing a likely target in price and time. This has given those clients who have exposure to foreign exchange movements the advantage of knowing how far a market is likely to move within a period, as well as a heads-up when a major change in the direction of a trend is about to happen.

In terms of investing in international property, I believe that one of the most important issues for investors to think about is the direction of the Rand in the short, the medium and the long term. In my opinion, whether you invest in South Africa or internationally, anyone investing in property needs to know the relative strength of currencies because currency fluctuations play an integral part in the process, having a direct impact on your wealth.

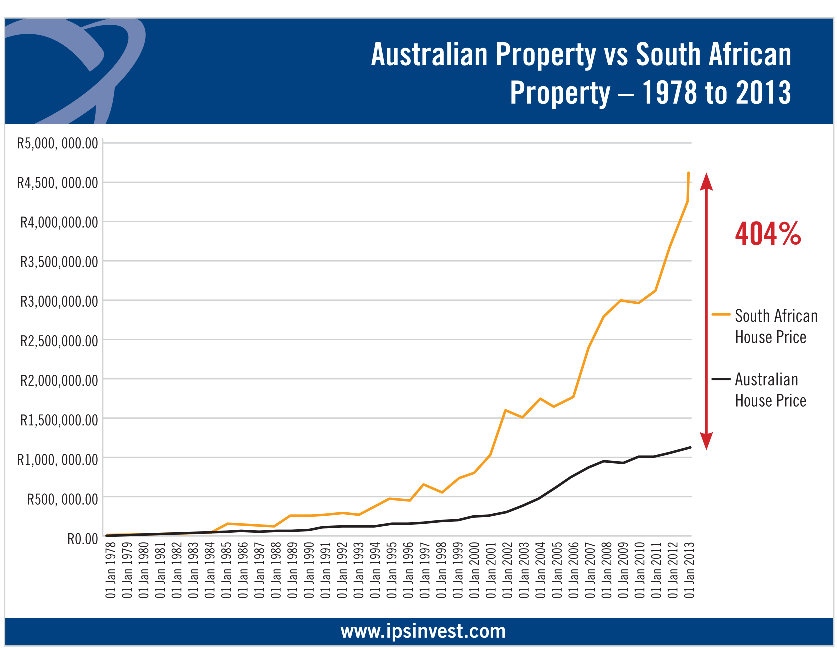
It is equally important for any investor to know that no one has a crystal ball, but if you look to James Paynter's framework, his scientific formulas and track record, you will have a better sense of what's going on.

More than 80% of South Africans who invest overseas lose money. In 2001 my mother panicked when the exchange rate went to 20 Rand

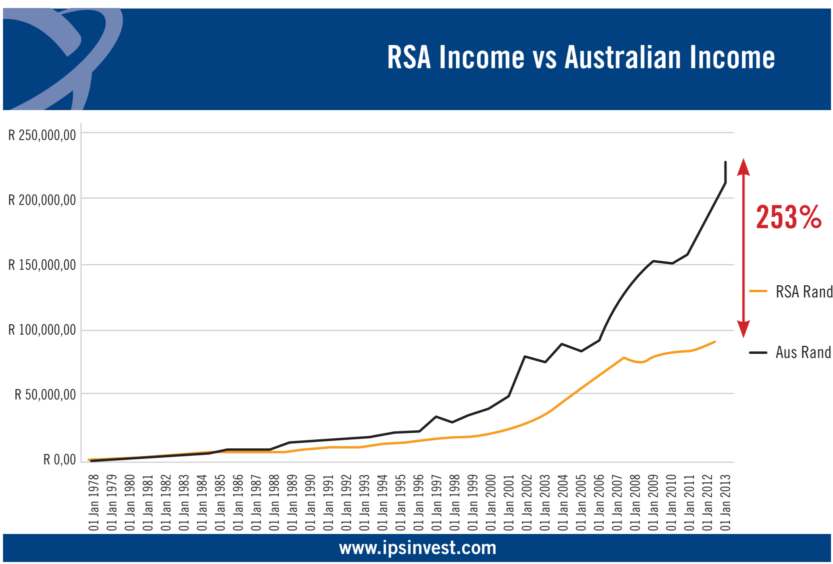
to the Pound, and took all of her money out of South Africa. It was not a huge amount of money, but the point is, she took what she had in South Africa at R20 to £1, and, as you probably know unfortunately (or fortunately?) it's never gone back R20 to £1.

Here is just one example of understanding and using foreign currency exchange rates to your advantage. I have done a lot of research on Australia, one of the three major countries we will discuss at a later stage. Using property growth inflation allied to the exchange rates, my review found that, if you had invested in Australian real estate, rather than in South Africa in 1978, you would have been four times wealthier, or 404% wealthier in 2013. This figure includes property booms and busts, inflation, and fluctuations in currency.

Wealth in RSA vs Australia



Since some people don't like to focus only on capital growth, but prefer to focus on income, we can add that you would be earning 2.53 times more passive income in Australia or 253% more than in South Africa.



These trends have not changed in 30 years, so where will your wealth be in 30 years from now?

Another, even more recent example was a client we had, who bought in Australia in 2009. She had to sell her property in a hurry and was very disappointed to be told by a local agent that she would probably get up to 20% less than she paid, as is the case in any forced sale. She was really disappointed, until I pointed out that the Rand had devalued by 48% against the Australian Dollar, over that period, and so she was much better off than if she had invested in South Africa. This is why it is so important to understand the investment frameworks at multiple levels.

Please understand that we are passionate South Africans, and we love living here, but the point is that, just by being a savvy investor who understands long-term trends and the impacts on your wallet, you will be much better off.

A recent survey of our investors in 2013 showed that 51% of investors were nervous when they see what is happening to the Rand; 16% were not; 29% were not sure how this impacts them, and 4% were making great money in South Africa.

I have been following James Paynter's research closely since 2005, and he has always been incredibly accurate in his forecasts; more than 80% correct, which is very accurate indeed, considering how volatile the Rand has been.

James Paynter is not an economist, but rather, has an automotive mechanical engineering background, perhaps that is why he is so interested in understanding how investments work. He has managed offshore investments (particularly stainless-steel tank containers) since 1993 and has handled tens of millions in foreign exchange for investor clients.

In 2005 he was the top analyst for an international Elliott Wave forecasting company, and since then he has been forecasting the Rand and other markets with a consistent 80% accuracy, for hundreds of clients in 33 countries, including leading industrialists, automotive and aviation companies, and has been featured in numerous leading business magazines, and other periodicals.

The Rand is Critical to Investing Offshore

Here is James Paynter's latest thinking on the Rand. Remember, once again, statistics are changing constantly, and this is why we want to show you where to get the latest research. This is what he has to say, and his story.

Probably the most critical factor to investing offshore, after the investment, is the exchange rate. And why is that?

Firstly, because the Rand is one of the most volatile financial markets.

And secondly, because the average person – in fact more than 80% of us – get it wrong, time and time again.

We tend to sell when we should be buying, through fear and panic; and we tend to buy when we should be selling, through hope and greed.

I know this from personal, and painful, experience. Back in 2001, the Rand lost more than 40% of its value in just ten months, weakening from around R8.00 to the Dollar in February, to that heart-stopping blow-off of R13.85 to the Dollar on 21 December 2001.

And, while we were in an export environment (tank container investment managers), we did have some potential import exposure, (initial shipping cost of tank containers).

So what did we do?

We kept our export exposure open, expecting the Rand to continue falling (looking at R20.00 to the Dollar). And we took forward cover on our expected import costs.

That was a big mistake, as the Rand strengthened to 11.40 by end of

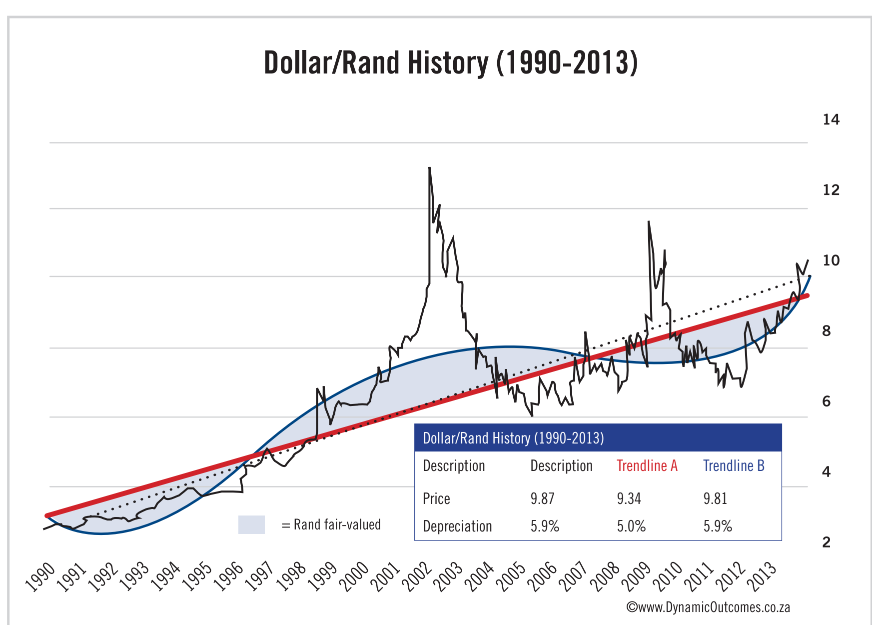
February 2002, and to 9.65 just three months later – and continued to strengthen over the next one-and-a-half, to two years.

Instead of substantially increased profits, we suffered huge losses.

But, just as we were doing this at the wrong time, so our investor clients were doing just the same; all rushing to invest, and take their money offshore, when the Rand had already weakened.

And if you ask any offshore investment advisor/manager, this is characteristic. When the Rand is relatively strong, as investors, we are complacent, and don't want to invest offshore (when we should be), but when it has weakened substantially, then we suddenly panic and rush to protect our wealth by investing offshore, (when we should be looking to capitalize on the move, by converting some hard currency back to Rand). This is what we tend to do, and we will cover it a little later in this chapter.

The fact is that our emotions play havoc with our rational thinking, and it is therefore imperative that we not only understand the market in which we are trading, but that we also understand ourselves, and then have some strategy to counteract these natural tendencies, so that we make rational, informed decisions, instead of irrational emotional ones.



How Has the Rand Moved Historically – and Why?

Let's start with how the Rand has moved historically.

The graph at the bottom of page 20 shows a history of the Rand versus the US Dollar since 1990. As can be seen, there has been a gradual weakening on an actual (6% p.a.) and trendline basis (5% p.a.) over the past 30 years. But more than that, the Rand has fluctuated wildly around this fair value trendline for long periods.

The big questions are as follows: Firstly, why has the Rand gradually depreciated over time? And more so, why it has gyrated around this line – drastically at times?

In essence, there are two driving forces that are behind the Rand's movements: Fundamentals and Sentiment.

Economic fundamentals determine the long-term trend of the market, but sentiment is the major driver of the markets, as we will show you later in this chapter.

Fundamentals: The Long-Term Trend

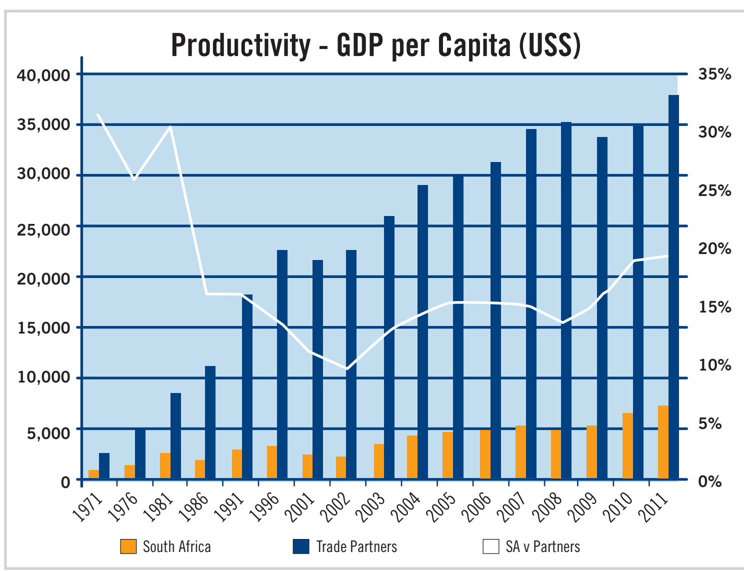
The Rand needs to adjust (or weaken) in order for South Africa to remain competitive in terms of its manufacturing exports. This is the reason that an exchange rate exists: to adjust to changes in the cost of goods or services between trading partners, over time.

And while there are other factors, these primarily can be filtered down to two main factors:

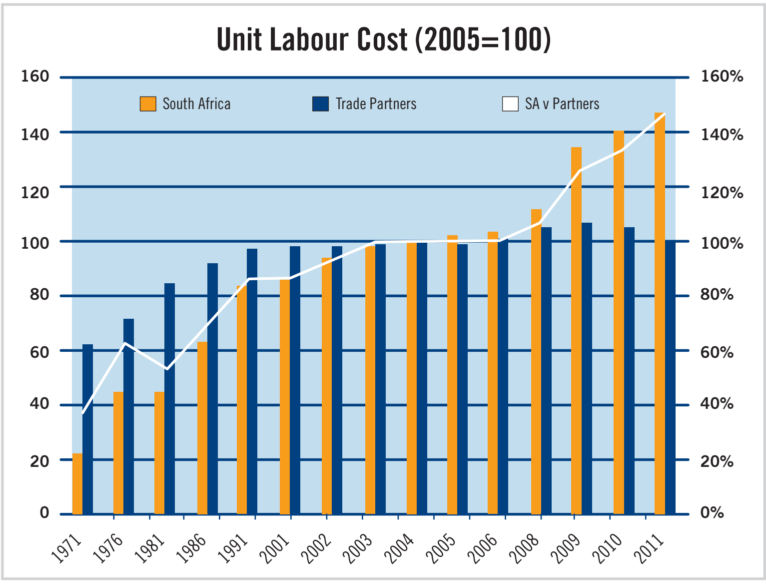
- A change in productivity
- A change in labour cost

If there is a difference in the change in productivity and/or labour cost between two trading partners over time, the exchange rate is the adjusting mechanism to ensure continued and competitive trade between countries.

If we look at how South Africa has fared, especially in recent decades, the picture is not pretty!



As illustrated by the graph above, South Africa's productivity deteriorated from 32% of our trading partners in 1971 down to just 10% in 2002. Since then it has recovered, but still remains at under 20% of the productivity of our trading partners, based on output (GDP) per capita.



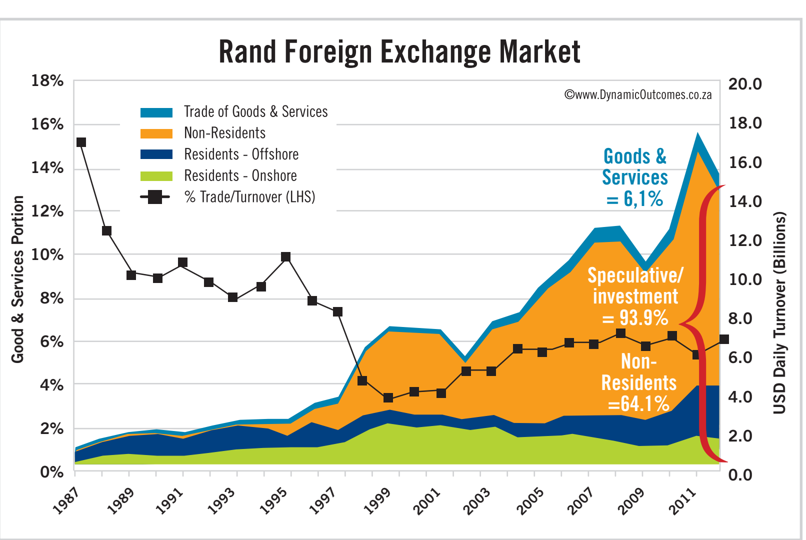
And then this second graph above shows that Unit Labour Cost has increased in South Africa from 37% of our trading partners in 1971 to 147% in 2011. Note the stark contrast since 2009, where on average, our trading partners' labour cost has decreased, while South Africa's has increased substantially.

The result is that, in order for South Africa to remain competitive, the Rand has needed to adjust on average by 5% per annum since 1990 on a trendline basis (actual depreciation to date is 6% per annum).

Sentiment: The Real Driver of the Rand

While the above is applicable, it does not explain the major swings in trend seen in the first graph on page 20.

But, when you understand who the major players in the market are, and what drives them, the pieces of the puzzle start to fit together.



The graph above gives us the breakdown of the participation in the Rand currency market, which averaged $15 billion per day, in 2012.

As you can see from the graph above, trade in goods and services make up a miniscule portion of the total trade against the Rand, a mere 6.1%.

Whereas speculative and investment transactions account for 93.9% of the total Rand forex turnover with a whopping 64.1% (see the orange

area) by non-residents (foreigners) – and just see how this sector has grown since the late 1990s.

Also notice how the peaks in foreign activity have coincided with the collapses in the Rand in 2001 and 2008.

While the exchange rate is primarily there to facilitate competitive global trade in an economic setting, where price matters, and rational thinking pervades, what actually drives this market (93.9% of it), is something entirely different: a financial setting, where uncertainty prevails and the return on investment, not price, is considered critical.

Being all too human, we tend to look around in times of uncertainty at what others are doing and follow them, almost like a human herd instinct, taking shelter in the crowd. When uncertainty of the future increases (as the market becomes more volatile), there is an even greater tendency to seek safety in numbers.

This is not rational-based thinking, but emotionally-charged action-taking. And this is precisely what leads to the massive swings in the market; as sentiment moves from one extreme to the other, from hope and greed, to despair and fear, and back again.

Because we tend to act the same way, in similar situations, these moves from one extreme to the other create patterns of mass human emotion, which tend to repeat themselves, over and over again, in smaller and larger degrees.

Financial markets (like the Rand) Move in Patterns of Human Emotion

Understanding this will change how you see markets forever, no longer as mere random price fluctuations, but as a real-time reflection of the underlying mass human sentiment, as they trace out patterns of emotion in the market at that time. And, because these repeat themselves, and move within certain laws of nature, they are predictable.

Using pattern-matching technology, similar to weather-forecasting software, we can analyze historical market-price patterns, and the laws that govern them. Then we can use pattern-matching techniques to determine how a current market is likely to play out, based on how similar shaped patterns of similar degree have played out historically.

Putting it more accurately, we can detect how the masses of people have reacted to similar price movements, historically.

Just as weather forecasters have been able to use technology to

significantly improve weather pattern predictions, so this technology gives us the edge, through providing the most likely outcome for a current market, from the short term, through to the long term.

One can compare it to Hurricane Sandy in the US in 2012, a super storm of huge proportions. Because of Hurricane Central's weather-pattern matching technology, US citizens were adequately warned days before Sandy hit landfall, giving them time to take the necessary actions to protect themselves. As a result, many thousands of precious lives were saved out of the 60 million people affected. (In fact, only 160 lives were lost in the US.)

In a similar way, a forecast on expected movements, based on how similar market patterns have played out historically, gives us a level of certainty, instead of uncertainty, and allows us to make informed and educated decisions while we still have time, instead of following the rest of the herd over the precipice, (once again).

Having a Forecast Enables You to Protect Yourself – in Time

Understanding this is critical, because when we are uncertain, our natural inclination is to revert back to herding. As we said earlier in this chapter, it is one thing to understand what moves the Rand, but it is more important to understand ourselves, and how we tend to react in conditions of uncertainty.

We therefore need an objective viewpoint that gives us an acceptable level of comfort or security, based on a previous track record, which then enables us to make rationally-based decisions.

And this is what we provide to clients through our foreign exchange forecasting service; a comprehensive outlook from short to long term, with an 81% historical average accuracy.

So, Where Can We Expect the Rand to Move, in the Medium to Long Term?

From an offshore property perspective, the most important factor is obviously the long-term outlook.

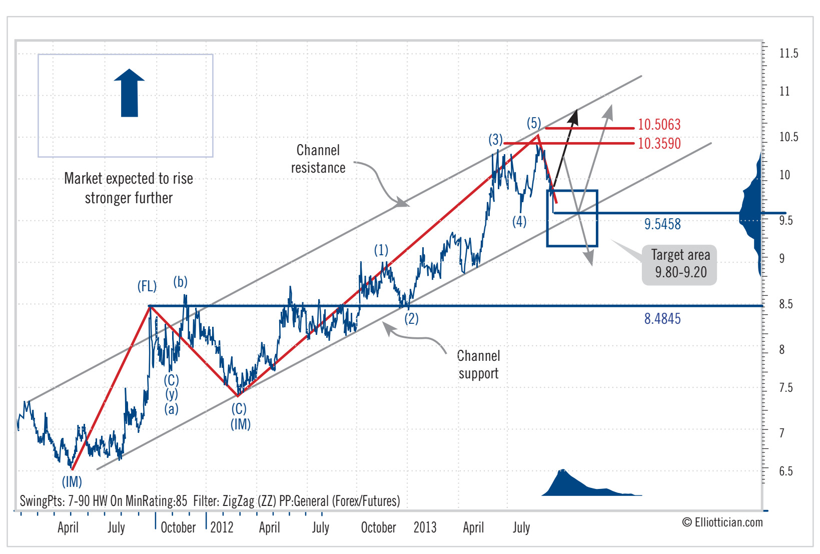
Based on the current patterns, the forecast is showing a move back up above R14.00 to the Dollar over the next 5 to 10 years, with a possibility of an interim pullback towards R7.5 to R8.00, if the Rand fails to break above R10.60.

As you can see, with the Rand around R10.30 in late 2013, whilst there might be an opportunity in the interim to improve on this by perhaps a Rand or two, the risk is significantly towards the upside.

USD/ZAR LONG TERM OUTLOOK (Next Few Years)

Looking over the next few months to 2014, the correction of the recent 10.51 high has likely completed in the target area at 9.55 and we can expect a move back up towards the 10.36 area, with a breakout of this (9.55-10.36) range confirming direction in the months following.

USD/ZAR MEDIUM TERM OUTLOOK



Having this scientific-based information therefore gives us the framework and the parameters to make informed, educated, and rational decisions in terms of investing globally.

For more information, or an update on the current outlook for the Rand, you can visit this link:

http://www.forexforecasts.co.za/go/property-going-global

Please remember that these conditions are extremely dynamic and so, for the purposes of this book, James has given us his insight at the time of writing only (in late 2013). If you are reading this in 2014 or later and would like to know the up-to-date trends, then you will need to go to the above website and find out what the future of the Rand holds for you at that time.

Scott Picken and James Paynter

Global Wealth Index™

Most South Africans don't know how to understand their wealth in terms of Global Wealth. Therefore we have created the **Global Wealth Index** ™ to understand the impact of cost escalation and the Rand Devaluation on our Global Wealth. Like the CPI index and the basket of goods, we have our own Global Wealth Index™. As our Global Wealth determines our freedom to make decisions for our futures, we have worked on the five most important components which will determine our freedom in the future, no matter what we want to do for our children or ourselves.

Here is the **Global Wealth Index** ™ basket of goods and in the three major currencies (US Dollar, Pounds, Aus Dollar):

No	Index	1983	Rand	Rand Value	1993			2003			2013			GPI Index
1	A family holiday to Disney World	$715.92	R1.07	R762.60	$1,332.48	R3.07	R4,088.58	$1,550.88	R8.68	R13,464.12	R2,772.00	R10,277.00	R28, 487.84	**125%**
2	A family holiday to Val de Saire (French Ski resort)	£356.00	R0.82	R290.52	£658.00	R3.03	R1,994.28	£1,121.00	R13.81	15 478. 77	£1,996.00	R15.93	R31,788.89	**365%**
3	A Private School (Churchie in Brisbane which is the same comparison as St Stithians in JHB Churchie	$12,500.00	R1.05	R13,077.50	R16,500.00	R2.07	R34,211.10	$26,000.00	R5.06	131,549.60	$39,356.00	R9.15	R359,989.33	**92%**
4	Harvard yearly tuition in comparison with UCT for a year Harvard	$8,752.00	R1.07	R9,322.63	R16,856.00	R3.07	R51,720.95	$26,046.00	R8.68	R226,294.59	$38,891.00	R10.28	R399,682.81	**143%**
5	Immigration to Australia or USA by buying your way into the country													
	Australia	$503,197.00	R1.05	R526,444.70	$781,656.00	R2.07	R1,620,685.55	$1,028,176.00	R5.06	R5,202,159.29	$1,000,000.00	R9.15	R13,720,500.00	
	USA	$505,658.00	R1.07	R538,626.70	$625,824.00	R3.07	R1,920,278.36	$783,525.00	R8.68	R6,802,250.64	$1,000,000.00	R10.28	R10,277,000.00	
	Average			R532,535.80			R1,770,481.96			R6,002,204.96			R11,988,750.00	**75%**
	Total =			**R555,989.05**			**R1,862,496.87**			**R6,388,992.04**			**R12,818,698.88**	**77%**

1. A family holiday to Disney World
2. A family holiday to Val de Saire (French Ski resort)
3. A Private School (Churchie in Brisbane which is the same comparison as St Stithians in JHB)
4. Harvard yearly tuition in comparison with UCT for a year
5. Immigration to Australia or USA by buying your way into the country (average of the two)

Simply put, in 1983 you would have needed R555,989,05 of wealth to be able to have the freedom to make whatever decisions you wanted for you and your children. It didn't matter where you wanted to live; your **Global Wealth Index** ™ determines the wealth you require to allow you the freedom of choice. On the 1st of September 2013 this amount of wealth was R12,818,698,88. Therefore, if you take the last 30 years, the annual decline in wealth is 77% per year. Unless your wealth is growing by 77% a year in South Africa and in Rand, then you are losing against the **Global Wealth Index** ™. For those people who want to get more technical, it is 29,5% compounded every single year for the last 30 years! We believe the only way to be able to counter this massive reduction each year is to invest in First-World Assets and First-World Incomes with First-World Currencies to ensure you can sustain your Global Wealth. Our book, ***Property Going Global*** shows you how you can actually **Create Global Wealth** and not just sustain it.

As you can see our **Global Wealth Index** ™ shows us what has happened in the last 30 years, but more importantly where we will be in 30 years if we continue with the long-term trends. This is what we as South Africans have to plan for.

The Rand, Wealth Migrate and What It Means for Property

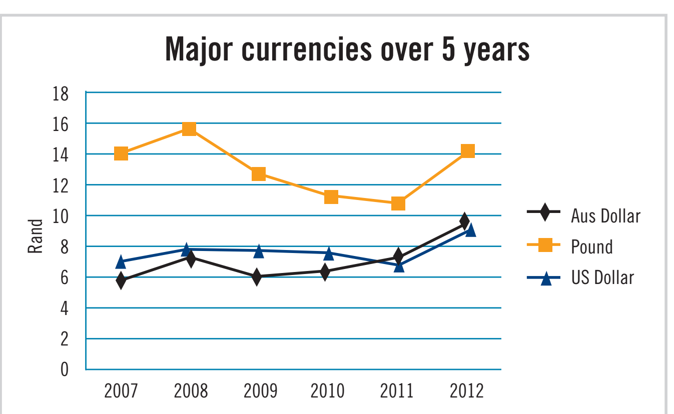
I often have debates with people as to whether it is better to invest locally, or offshore. I maintain that, as a positive and passionate South African, there are great opportunities in South Africa and it is far easier to make R10 than $1, as we know the market and can manage the risks and exploit the opportunities. Once we have made some money, however, it is both prudent and imperative to invest in First World assets, currencies and income.

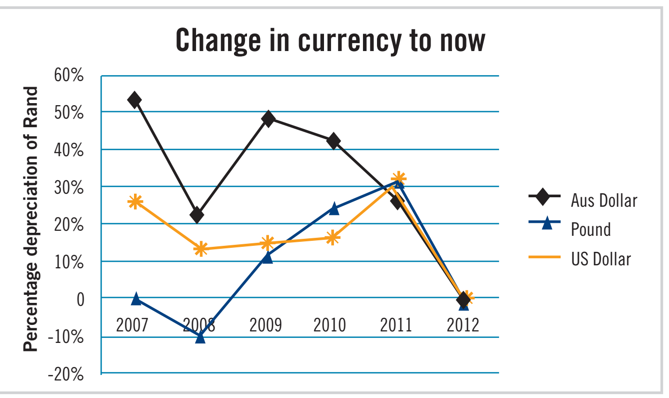
One of the overriding factors which we South Africans have to take into account is the devaluation of the Rand, as discussed on the page above, and the impact this has on our Global Wealth. Our IPS and Wealth Migrate Investors understood these trends, and took action. At the end of 2012, even though the world markets had been very unpredictable, we showed them the impact of the action they took on protecting their global wealth.

This shows you how the Rand has changed against the major currencies and the returns our clients have made in Rand terms, based on the timing of investment. For example, if you bought a property in June 2009 in Australia, you have made a 48% return on currency, independent of what has happened to the property market.

The graphs below illustrate these changes.

Year	Aus Dollar	Change to now	Pound	Change to now	US Dollar	Change to now
2007	5.98	54%	14.14	0%	7.04	26%
2008	7.47	23%	15.54	-9%	7.81	14%
2009	6.23	48%	12.73	11%	7.74	15%
2010	6.47	42%	11.41	24%	7.63	17%
2011	7.25	27%	10.85	30%	6.77	31%
2012	9.2	0%	14.13	0%	8.89	0%





The Risk of the Rand versus Property Risk

Many South Africans ask me about whether the property market in places like the USA could lose another 10% or 20%. My answer is that it could, but I believe there is much more volatility in the Rand, and that there is more chance of the Rand losing 10%. In fact, as we said earlier in 2013, the Rand lost 21% against the Dollar in a matter of months.

The scary thing is that, since 2000, the Dollar has gone down 78% against most major currencies, and yet the Rand is still losing value against it.

We are not currency experts and this is why we use James Paynter, but in almost any report you read, the long-term prediction for the Rand is that it will continue to devalue, effectively eroding your Global Wealth.

Local versus Offshore Formula

In simple terms, to make it visual, this is what I believe is the difference between local and offshore investment.

1. **Local return** = (*vêr van jou goed, na aan jou skade*) – 21%
2. **Offshore return** = (*first world asset growth + first world income)* = *(wealth preservation*) + peace of mind + Plan B

Bottom line is that, as I have mentioned, South African's have a saying which is "vêr van jou goed, na aan jou skade" which basically means if you invest a long way from your heart you will lose your assets. However, in the first 6 months of 2013, the Rand lost 21% against the US Dollar.

Therefore unless you own first world assets or first world income, your wealth declined by 21%. This explains your Local Return or Net Asset Value. However, if you invest offshore you get the first world asset growth and income and this provides you with wealth preservation. Added to this is peace of mind and also a plan B for you and your family.

Simple, but this is the way we view the difference.

How Can You Use This to Your Advantage?

My partner, Brendon Brown, bought his first property in Orlando, USA in September 2011. He remortgaged his property in South Africa, and released R400 000 out of his bond. He bought Dollars at R7.04, and bought his house for $42,000. He now has a monthly rental income of $800. Doing absolutely nothing, and with no capital growth in the USA, or rental increases, his growth on his investment increased by 18% in six months, and the yield went up by 18%. Considering his mortgage has not changed in South Africa, I think we can agree that this is an awesome situation for a South African investor.

Although my intention is to live in South Africa for many generations, my strategy remains to own as many properties as the one above, having in mind the "wealth preservation" of buying assets in First-World currencies and economies. I thereby also gain the peace of mind in knowing that I am earning First-World currency for my family, while still having a Plan B, should I ever need it one day.

Yet the question remains: once you decide to Wealth Migrate, where do you go?

Once You Decide to Wealth Migrate, Where to Next?

My family farm in Zimbabwe – used to be one of the best dairy farms in Zim

The current owners ??? (although we never sold the farm)

Once our beautiful home

The tobacco barns

I wanted to briefly mention my research on why I believe it is fundamental to your investment strategy to diversify, and have some of your money and investments overseas. I must add that what I say is my opinion, and must be taken in context, as I am originally from Zimbabwe and so I understand the pain of an economy unravelling, arising from what happened to my family's assets and, subsequently, their well-being. Having said that, it is not only an African problem. If you ask an American (as previously mentioned), who had all their assets tied up in a USA property, I am sure they would also tell you that diversification across international markets is a far more wise choice than having "all your eggs in one basket".

Glocalisation, as we have shown, is a significant trend and it provides us with the opportunities to invest in different markets, and get the best spread for our investments. I believe that, should one want to make money and have maximum growth, there is no better place than South Africa. It is an emerging market, with great fundamentals and most importantly, a place where people understand the market and the risks.

I don't understand why some people take their money out of South Africa and invest in other emerging markets, which also constitute a risk. I think that it is like jumping out of the frying pan into the fire. With over 15 years of experience in International Property, I have watched markets like Bulgaria, Croatia, Cyprus, Thailand, Mauritius, Malta, and many others, receiving hearty investments from British, Irish and South African investors, and some of these investors have indeed made great, quick returns.

But the market fundamentals are not in place in many emerging markets and significant risk remains. Just like in South Africa itself, there

are many opportunities to make good, quick returns, but not without significant risk in countries where I believe the risk is higher, because people don't understand the markets. In 2013, the only emerging country I would consider investing in would be Brazil, but this would still involve in-depth research. I have spent extensive time researching India and China, and personally believe that the risks are too high. Russia, according to investment banker, Jim Rodgers, (first person to speak about global investment), is also too risky. Having said all of this, however, we built the GPS™ to take all the guesswork out of the system, and help us analyse all the property markets and their fundamentals.

Through my deduction, both from experience, research and the GPS™ system, I believe we should invest locally first, to achieve the high returns, and then invest overseas, in First-World economies, where the fundamentals are sound, and so ensure long-term wealth preservation, with systematic and strategic wealth accumulation in First-World countries' assets and income.

We are going to discuss Clem Sunter's scenarios on South Africa later in the book, but he did say something that is so incredibly simple that I believe it can guide many people as to how much they invest locally in South Africa, or offshore. He says that one's negative outlook of the future should determine the amount of investment you should have offshore. I am personally 70% to 80% positive about the future of South Africa and therefore I have 30% of my assets offshore.

Summary: What Does This Mean for Investors?

In his latest book, *Conspiracy of the Rich,* Robert Kiyosaki said that the easiest way to get wealthy is to follow long-term trends. So more important than finding the next fad, or anything like that, is to understand long-term trends, and make sure you are acting in accordance with that knowledge.

This entire book is written to give investors systems and tools, so that they can use the research, the experts and the GPS™ system to decide what works best for them, and where to invest. This is what IPS and Wealth Migrate use, and we are going to go into these systems in thorough detail, later in the book. We first need to understand the biggest global trends and fundamental lessons in property, which guide our decisions in our investments. These systems help our investors in IPS and Wealth Migrate.

The Rand devaluation is a long-term trend, and a fundamental reason for us to Wealth Migrate, but what are the other significant trends?

CHAPTER 3

THE TEN BIGGEST PROPERTY TRENDS AND LESSONS

"The man who trades freedom for security does not deserve it nor will he receive it, either."
—Benjamin Franklin

In his book *Outliers,* Malcolm Gladwell talks about how to achieve mastery of a skill and the "10,000-hour rule", which posits that it takes about 10,000 hours of dedicated practice, to truly master a skill, be it playing the violin, computer programming, skateboarding, property or investing.

Gladwell covers several tantalizing examples, from the Beatles to Bill Gates, and argues that the biggest factor in their success is not innate talent, or blind luck, but rather dedication to their chosen craft. It's an empowering message, and one that suggests that almost anyone can succeed, if they put in the time.

Of course, privilege and luck can greatly ease the way, but there's little substitution for 10,000 hours of work.

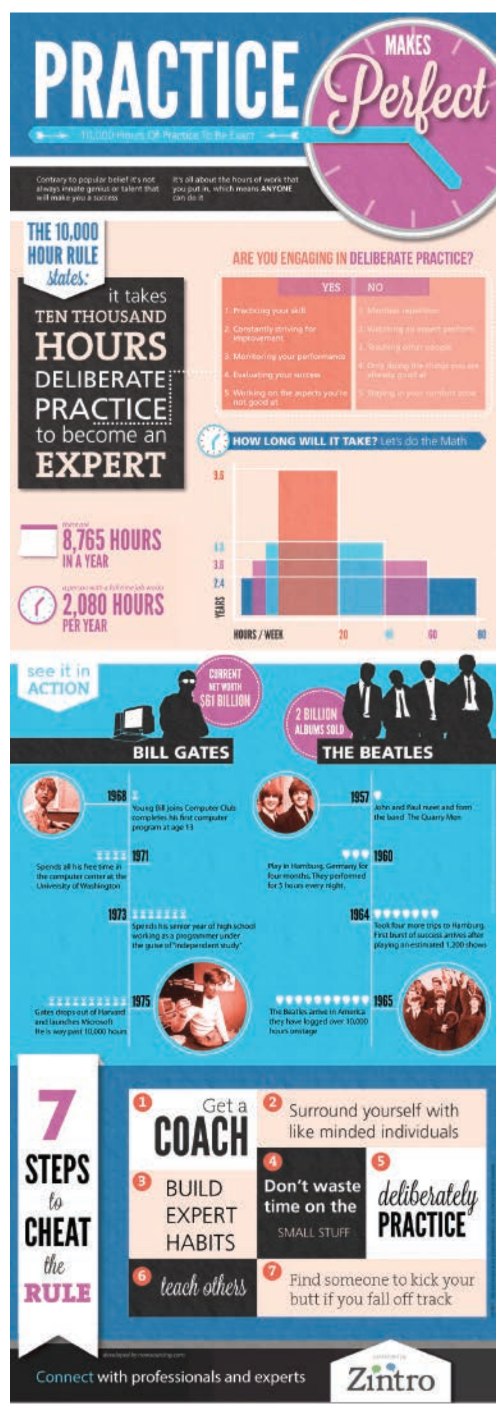
This infographic (see page 37), created for the blog Zintro by Nowsourcing, takes a closer look at practice and the 10,000-hour rule.

Probably the most fascinating part of the info graphic is at the bottom, where it offers solutions to speed up the process. This is what this chapter is about.

In the Introduction, I spoke briefly about my experience but really didn't go into detail. Please now allow me to share my memories with you.

I have been passionate about property and building things, since I was as young as I can remember. While everyone else was fishing as kids, I was building dams across rivers. While most kids were playing video games at age 13, I was project managing my first construction site. I drew up the plans; did the costing; and managed the builder, who extended the house, and built on an extra bedroom and bathroom, so I didn't have to share with my brother anymore.

While most kids were out partying, or even studying in fourth year at university, I persuaded my landlord to let me and my friend Quinton Caryer convert his double garage into two bedrooms, and two bathrooms. We would pay for the renovations, and then live rent-free for the year.



That experience taught me the importance of proper planning. When the building inspector arrived and asked to see the planning permission that we hadn't obtained, he informed us that we had to take it all down, so we lived behind a garage door for a year!

Property is my passion. International property is my skill, and having started at such a young age, I have way surpassed the rule of 10,000 hours, which equates to about 10 years of full time dedication.

However, this book is not about me. It is about how I can add value to your investments, and speed up the process. If you look at the seven steps to cheat the rule, this book has been written to help you speed up the process so you can master international property investment as quickly as possible. Although I have had the privilege of working in only one chosen field my whole life, I have managed to surround myself with other masters, business coaches, and high net-worth investors, who have shared their experience with me.

In this chapter, I have tried to condense the ten most important lessons and trends that I have learnt, so I can share it with you in *Property Going Global.*

LESSON ONE

People versus Property

Most investors in property want to use their gut feelings, their emotions, to invest in property. At home, in South Africa, they focus on their knowledge and experience, to make these decisions and over time they build up a successful track record in purchasing great investment properties.

Then they want to invest overseas and fly over to a place like London, Sydney, or Atlanta, and try to use the same "tried-and-trusted" techniques to acquire investment property in a week. I always ask, "How successful would an American be if they arrived in Johannesburg for one week, and tried to buy an investment property?" If they are honest with themselves, they would agree that there is no chance for any success.

So, when you are investing overseas, you need to change your strategy, and if you don't, you will be part of the 80% of South Africans who lose money when they invest overseas. The focus has to change from the property to the people. You invest in people, and if you have the right partners, they will ensure that you are investing in the right areas and buying the right type of properties for your investment criteria. More

importantly, they will ensure that they can manage and maintain your assets. This will ensure the long-term sustainability of your investment.

On the other hand, the wrong partners will sell you properties in dodgy areas, and then add a nice marketing angle like 50% LTV (loan-to-value) and 8.2% financing, and you will be none the wiser, until you discover your mistake at a later date.

Recently, I went with two of our clients, and saw an example of this marketing angle being offered in the USA. Everyone was shocked by the area, the fact that the value of the properties was $30K and yet they were being sold to South Africans at $66K. The worst part is that this county has one of the four worst education systems in the USA and no one wants to live there, not even the tenants! What does this mean for your investment in the long term?

This is the house which was sold for $66k in Atlanta and it was worth less than $30k, but they used some unethical financing.

Another example was my recent trip to North Dakota, USA. We spoke earlier about the advent of fracking, and how it is going to assist the USA in being self-sufficient in oil. Well, Watford is this little town in the middle of nowhere that is at the centre of this source of oil. As fracking has exploded since 2008, so have the need for jobs and thus, the need for housing.

Two promoters, one in the UK and one in South Africa, told me about a great investment in Watford, with a net yield of 46%. I flew to Watford, and what I found on the ground was completely different. You see, we found an investor through one of our partners who has invested $60 million in Watford in the last 19 months. He knows everyone there, and so we went to meet all the influential people, including the chief of planning.

This investment is what is called a “man-camp”. The chief of planning said they had to put up with the “man-camps” until there is adequate housing, but all the “man-camps” had “conditional-use planning permission”, which they had to reapply for each year. He basically said that, in the next two years, they hope to eradicate all “man-camps”.

On top of this, the project which was being sold was on leased land. They were selling these cabins for $49,900 or $280,000 for six units. Yet we found out from the supplier that they were being delivered for $70,000 for all six. Finally, we also met a developer who has been doing short-term accommodation in Watford and Williston (the airport), for seven years. He has over 250 units, right in the centre of both towns, and very high quality townhouses. His average rent per night, is between $90 and $110. The prospectus for the investors on these vastly inferior, five-mile-away buildings was $130 a night. It is never going to happen! Although investors are wowed by the 46% net return, it is not achievable. Not only is there no asset but also more importantly, the income machine itself is going to shut down soon, because they will have access to better, traditional housing.

The point is that, when we went to North Dakota, we didn’t try and find, or even understand the property opportunity, we focused on finding the most experienced and influential people in the market to learn from and work with. So, it’s not about the property; it’s about the people.

At IPS, we invest in people, and we pride ourselves on having the Best- of-Breed partners on the ground. While we were conducting our due diligence, one of our representatives (who reviews over 5,000 investment properties a month in Atlanta), gave us his views on these properties, which a competitor is selling at twice the price to unsuspecting South Africans. He said to us, “***You can put lipstick on a pig, but it will still be a pig.***”

As a matter of interest, after learning from the really sophisticated investors in the market in North Dakota, we found out that everyone was trying to do housing. On the other hand, over 1,300 businesses had moved to Watford in the previous two years, and there was not one square

metre of office space available. We spoke to realtors there who said that people were asking for office space every week, while the leading realtor in the area said he had been asking developers to build office space for over two years, and couldn’t understand why everyone was so stuck on housing.

Nevertheless, we found the biggest master-plan developer, (a land developer who builds master-plan communities) and did a joint venture with him. He will contribute the land, and we will build the building, but only once we have pre-let 60% of it, with five-year leases. With only friends and family of the people we are working with there, we expect to achieve these pre-leases in the next month or two, and thus we will be able to construct the building as soon as the winter is over.

In international property, the people or partners you work with will determine your success in the long term.

LESSON TWO FROM CLEM SUNTER:

Make Educated Decisions Based on Facts

As discussed previously, I often have debates with people whether it is better to invest locally, or offshore. I always answer that there are great opportunities in South Africa, and that it is far easier to make R10 than $1, because we know the market and can manage the risks and exploit the opportunities.

As also stated previously, however, once you have made some money, it is both prudent and imperative to invest in First-World assets, currencies and income. Once again, most people tend to use their gut feeling, but as you now know, I have built a modelling technique along with Clem Sunter’s skill in scenario planning to help us understand where to invest, both locally and offshore; which countries to invest in; and what to invest in. Nothing is perfect, but it provides a framework for you to make educated and informed decisions based on facts. In conjunction with the modelling technique with Clem, this book will help you understand how you can use our methodology make successful international property investments. There is so much detail in this, that I have dedicated an entire chapter in this book to this methodology, the Global Property System, or GPS™.

LESSON THREE

Long-term Investment

The simple truth is that, when investing overseas, you need to take – at the very least – a five-year view on your investment.

As we discussed in Chapter Two on Wealth Migration, currency fluctuations play a major part, and one needs to follow the long-term trends. I remind you of the research I did for myself on my investments, and also for our clients, on the long-term trends of the Rand against the major currencies over the last five years.

Year	Aus Dollar	Change to now	Pound	Change to now	US Dollar	Change to now
2007	5.98	54%	14.14	0%	7.04	26%
2008	7.47	23%	15.54	-9%	7.81	14%
2009	6.23	48%	12.73	11%	7.74	15%
2010	6.47	42%	11.41	24%	7.63	17%
2011	7.25	27%	10.85	30%	6.77	31%
2012	9.2	0%	14.13	0%	8.89	0%

The bottom line is that the Rand has devalued by an average of 5.6% against the US Dollar, every single year, since 1990. As you know, this is not a straight-line graph, and as James Paynter pointed out, it actually does fluctuate, but the long-term trend remains the same, because it is based on fundamentals, which do not change.

If you try and get in and flip a property, there is too much risk. The barriers to entry are too high, the costs are too prohibitive, and more importantly, you are then vulnerable to short-term fluctuations, and not long-term trends. I truly believe that, if you are looking to invest for less than five years, you are actually gambling. I do see a lot of companies launch "new countries", as investments, quite quickly. It took us, at IPS, over a year to launch, and invest in Australia, making four trips there, and again, over two years, to launch and invest in USA (six trips). With this kind of due diligence, we have to ensure we are in it for the long term, but it also limits the chance of us making mistakes.

LESSON FOUR FROM CLEM SUNTER

Price versus Probability

In analysing the markets globally, there are many factors to take into account. But scenario master, Clem Sunter, says the most important component is the ratio of price (discount in the property) and the probability of which scenario is going to take place. Let me give you an example of two markets.

The United Kingdom

Although I own a number of properties in London at the time of writing in 2013, I am concerned about the current UK market for buying new property. If you own already, it is a great rental market with really a low cost of financing, but buying now is a problem. In 2008, when we experienced the Global Financial Crisis and the London market lost 15% on the whole, there were great discounts. Because of the fundamentals of supply and demand, however, this limited supply was snapped up quickly.

Because there has been very limited inventory coming back into the market since then, prices recovered by 17% in less than 12 months. House prices have steadily grown in the period to July 2013 to the point where property is now the most expensive it has ever been in the UK. What concerns me now is that many of the same risks of 2008/09 still exist: sovereign debt; European Union issues; the fact that 70% of the UK's Gross Domestic Product is based on banking and insurance; and that they have gone in and out of recession.

With rates also being so low, there are very few motivated sellers who are being forced to sell. Therefore, with prices at full value, no allowance for the risk, and a limitation in motivated sellers, I find this a very tough market to invest in at the moment and very risky. You will see how this is explained using the GPS™ scientifically.

The United States

In the USA by comparison, where I found great discounts when I was ready to invest, it was really tough to find partners whom I trusted. I went to the USA in 2010 and found lots of opportunities with huge discounts,

but I was extremely concerned because I could not find partners on the ground that I could trust, and I felt there was still a lot of pain in the market.

In 2012 I went back with a different strategy and partnered with a company I have worked with since 2005 in the UK. They have helped more than 1,100 British and Irish clients invest in the USA in the last six years and the numbers are great. The average yields are between 15% and 20% and vacancies of less than three weeks. For this reason I travelled to the USA in April 2012 and we travelled to eight cities in eleven days. What I found amazed me for two reasons:

1. We can buy at 40% to 60% of replacement value.

We don't care what the highs of 2007 were, but we are interested in the fact that we can buy property for more than 50% of what it costs to replace that building. This is a significant indication of value.

2. Partners are available on the ground to manage the property and collect the rent.

You can buy a property at any discount, but – unless you get the income – this becomes irrelevant. Because of the untrustworthy partners I had in 2010 and a weak rental demand, I did not believe it was possible to receive this income. In 2012 we found fantastic partners and have full confidence in their ability to collect the rent, along with the fact that there is a significant rental demand.

For this reason we have been investing heavily in the USA for the past 15 months, because as Clem Sunter says,

"The prices incorporate huge discounts and thus when one takes into account the probabilities of the four scenarios for the global economy which we spoke of earlier, the price allows a large margin for correction, no matter which of the four scenarios pans out, making it much safer as an investment (100% safe)." In comparison with the UK, only if scenario three materializes will you be okay. If Scenario One, Two or Four materialize (90% probability) there is a very good chance that with the economic downturn the property market will correct and as it is coming off a new high, there is a lot more risk of losing equity through a correction – a 90% probability of this happening at the moment.

LESSON FIVE

Information and Partners

I can't repeat this enough: More than 80% of South Africans who invest offshore lose money because they don't have the right information. As we always say, there are only two components that are necessary to be successful in international property – you have to have the ***right* information and the *right* partners**. As I noted, the option of financing in the USA is a classic example. I have had a number of clients excited about getting 50% LTV (loan to value) and 8.2% financing in the USA. However, with proper due diligence we found the clients were buying properties for less than half the value they were being sold for – and then were being asked to put down a 50% deposit and finance the rest. Not only was this very dodgy, but these properties were in the worst suburbs and so no real prospect for the future. Through our partners, who have eighty-two offices around the USA and specialise in financing property from the banks, I can show you how I am getting financing from **4.5% to 6%, fixed for 10 to 30 years at a 70% LTV** with complete transparency on the purchase price and no balloon payments. This is a no-brainer when you consider the net yields on most of the properties are 8% to 15%.
It is all about the quality of the information you have and the partners you use who will determine your long term success.

LESSON SIX

Tax and Structures versus Property

Here's an interesting fact: In 2012 we worked with Grant Thornton (a world top-five accounting firm) to make sure that we had all the right answers for the tax, structures and compliance of owning property in the USA. We invested more than R200,000 and eight months to get this right.

But, while we were doing this work and research with Grant Thornton, the market in places like Atlanta increased by 40% during those eight months. As a mentor of mine, Hannes Dreyer, teaches, it is far better to buy the right property in the wrong structure, than to buy the wrong property in the right structure.

In the USA, although I am chuffed we now have the right answers

for the structure, in hindsight we would have been better off just buying the properties right away. What we might have lost in tax, we would have certainly gained in the movement of the market. This is especially true in the USA, where there are no transfer fees to move property from your own name to a structure or from different structures. For this reason, we made the executive decision to stop waiting for the structure and to get involved in buying as many properties as we could.

In countries like Australia, South Africa and the UK, however, one has to make sure you have the right structure in place first as it is very costly to transfer property between different entities.

Most investors don't take tax, structuring and compliance into account and so they are not comparing an apple with an apple. Our GPS™ system is very sophisticated and these components are critical to determining your long term net returns and effectiveness of investing.

LESSON SEVEN

Currency versus Property Growth

I learned an extremely important lesson in Australia at the end of 2012. Australia is always Steady Eddie, and with a very strong government and economy. (You can see that by how the Australian Dollar continues to increase. Remember, currency is like a country's share price – it provides an indication of its stability.) The fundamentals of supply and demand for property are in kilter, with demand outstripping supply, although the increase in interest rates (eight times) had caused the market to go stagnant, even losing some ground in some areas.

In 2008, Australia dropped its interest rates from 8.75% to 3% in four months (a drop of more than 65%) and this shored up the property market as the Global Financial Crisis was happening. Other initiatives, such as the First-Time Home-Owners allowance and the fact that Australia was the only G20 economy to not go into recession, allowed the Australian housing market to grow by 8.6% in 2009. Then the Australian Government became worried about inflation and increased the interest rates eight times. This, as it would anywhere else in the world, caused the market to slow significantly. If you are forced to sell when the market is stagnant (as is the situation in South Africa in 2013) then the estate agents will give you really low values to create the sale and investors might even find they are below what they invested for.

This needs to be taken in context, however, because people who

invested in June 2009 have made 48% on their Rand return. Therefore, even if they have lost percentage points on the property, this is more than supported by a significant weakening of the Rand over this period. Forget the property: a 48% return over three years is a substantial gain and will be very hard to match in investments in South Africa.

That is why we always take a five-year view. As long as the property is earning income and we have made great returns on our Rand investment, there is good reason to ride the wave and wait for the market to turn again, as it is based on long-term trends and fundamentals.

LESSON EIGHT

It's Not Personal – What You Want Versus Investment and Income

We get this all the time. If it's not the lady telling me they want to redesign the house in Australia because they don't like the main bedroom at the front of the house, then it's the gentleman who tells me that he didn't want to buy in Orlando because he didn't like the window on the side of the house. Investors need to realize that it is not about their own taste, but about what the locals in that country want.

They will never actually live in their investments, so it is far more about the investment itself – the numbers, the fundamentals, and the returns – than it is about these personal components. This is what our criteria are for investment and we rely on our partners on the ground to guide us with the right information to make the right decisions.

That client who did not buy the property in Orlando because he didn't like the window has lost out on 10% growth in a period of less than six months and a 26% decrease in the value of the Rand and a property which has been rented since then.

I bought my first house in London in 2002, just after September 11, 2001 – and all the doomsayers (many of my friends) told me that it was a bad time to invest. At first Warren and I looked at properties we would like to live in (a snazzy 2-bedroom apartment with a view that the girls would love), but eventually we settled for a property that ticked our investment criteria (a three-bedroom house we could convert into five bedrooms by adding a conservatory and then renting out each bedroom).

Our first house in London

This was the conservatory we added which increased the income to £1000.

Since then, through a rise in interest rates, global meltdown, property crashes, and more, this property has stood the test of time and produced a positive cash flow rental of £1,000 a month for us since day one. My point is: don't focus on all the macro issues: what you want in a house, or any of the other reasons you give yourself to not make a decision. Focus on the fundamentals; it will pay you handsomely in the future.

The primary lesson I learned from the Global Financial Crisis (GFC) was the difference between focusing on income and growth. People who focus on growth will fail at some point because it is like betting against winter. Those who focus on income not only survive, but actually thrive in

all economic conditions. This is one of the most important fundamentals that we focus on and it is one of the greatest lessons I have learnt from this original London property and also watching who failed and who thrived during the Global Financial Crisis.

If you buy the right investment property, have confidence in the income, then you can ride any scenario which plays out in the economy. If you go after growth and try and buy what you want (emotional) then you are very susceptible to market movements.

In conclusion, remember you only lose money in property when you sell. If you have a great income because you focused on the investment fundamentals, then this income will ensure you only sell when you want to and so you can ride the ups and downs of the market. This is my most important rule and lesson if you want to be safe.

LESSON NINE

Collective Buying Power, or Crowd Funding

Most of you have heard of funds, REIT's or syndications. But have you heard of Crowd Funding – one of the biggest trends of 2012 and 2013? According to Deloitte's, it is one of ten of the most important industry-changing trends globally in 2013 and is growing by more than 50% a year. Donald Trump joined the industry in 2013 when he funded a crowd-sourced portal called Fund Anything. This shows the maturity of the market and how quickly the industry has adapted.

This is the way of the future that will destroy the banks and give control to people through the use of technology. In the past, if you needed a lot of money you went to a Venture Capitalist or a bank and raised money from one source. But websites like, www.kickstarter.com, www.pozible.com and www.indegogo.com have changed the business landscape forever. Now rather than raising $10 million from one source, you can raise $100 from 100,000 people. This has been extremely successful for creative projects, entrepreneurship and other ventures – but not property. YET! The reason for this is that the legislation around equity in crowd funding has taken a while to catch up. In late 2013, the SEC in USA and the FSP in London succeeded in finalising and approving the system. Now it is all ready to explode.

This is why, in 2012, we launched Wealth Migrate with the mission to provide a global, self-service, crowd-funding property solution that will take advantage of local property markets through best-of-breed

partners and collective buying power. This will be optimised by a Global IT Platform, providing transparency and efficiency of property markets. Wealth Migrate is a blend of nature's laws and technology.

The simple solution is to buy global property (residential and commercial) aggressively with like-minded sophisticated investors and create global wealth.

The biggest differentiator is that there are no fees (upfront, on-going or exit) and there is complete transparency. The Wealth Migrate team (who are co-investors) will only benefit after the investors have made their returns and so all the interests are aligned. This is the way ethical business should be done and will revolutionise the property landscape like Google did to the internet. I did explain in the introduction how Henry Ford revolutionised the transportation industry with the advent of the car and how we see crowd funding and specifically Wealth Migrate doing this to the property industry.

LESSON TEN

Having a Baby, International Property Being Tough, Passports, and Thirty Years of Time

With my son being born on the 28th of February, 2012, it was a really tough year doing our international investment trips, but I believe it is imperative for his future.

Some recent research says that 33% of boys and 40% of girls born now will actually live to 100. Since my son is nearly 18 months old, I think this is fascinating because there is no way a pension granted at age 65 will last 35 years. I truly believe the only way forward for my son is to specialise in either global investments, entrepreneurship, or both. By the time he is 30 the world will be completely global and people will not worry about where they live, but far rather where they can get the best returns. With access to all the right information, they will be completely diversified across countries, sectors, currencies, and more. It will be about being a global citizen – with focus on building up global assets and income.

This is in complete contrast with what many South African's are doing at the moment. Let's consider a market overview and where I am investing. I don't believe in buying property for passports, as we will

explain later. Spain announced in 2013 that you can possibly spend $200 000 and buy a property in Spain and then get residency. You must understand that this is to try to take up the slack of more than 700 000 properties that are oversupplied. Spain is in the midst of a double-dip recession with 25% unemployment. Prime Minister Mariano Rajoy stressed that the plan has not yet been finalized, but added that Spain "needs to sell these homes" and that getting them off the market could help revive the nation's devastated construction industry. This is, once again, simply a ploy by a country to stimulate foreign investment by giving away passports in property markets that are in serious trouble. This is no different in Mauritius, Cyprus, the USA through the EB5 scheme, Malta, Portugal, and others. (Please refer to Chapter 10 on this.)

As I always say, it is like buying a boat: "Nice to have, but not an investment." I believe that if you focus on buying the right investments, accumulating first-world assets and income, then you become a global citizen and you can move to any country you like by buying your way in. This is why I personally focus on the UK, Australia and USA. So as tough as it has been travelling with my son so young, I know that what I am doing is essential for my son's future.

In conclusion, I spoke of my uncle in the Acknowledgements who remains a real inspiration to me. In 1980, at the age of 30, he began to plan for his future. He was living in Zimbabwe, but he didn't want all his eggs in one basket and so he started creating plans for different scenarios. In 2003, when Zimbabwe had basically fallen apart, he made a decision to move to Australia. His pre-planning 23 years earlier allowed him the freedom to choose which country he wanted to live in, buy his way in at 53, buy a house for cash, put his kid through whichever private school he wanted and most importantly for me, retire and not have to work for an Australian. It is this story which inspires me to do what I do so that I can not only help my family, but help other families to have the freedom of their own decisions in the future – whatever they are – be it where they want to live, where they want their children to go to school or university or even as simple as if they want to go on a skiing holiday with the family. This is certainly what I want for my family, my son and myself.

As Nelson Mandela said, "Money won't create success, the freedom to make it will." We believe that this newly won freedom needs to be taken to another level by creating global wealth.

It is this economic freedom which most people truly desire and I hope these ten lessons and trends can help you accelerate your mastery of international property investment and help you to understand this book's principles of *Property Going Global.*

Now it is time to get into the mechanics of how to make it happen.

CHAPTER 4

CLEM SUNTER'S SCENARIOS FOR SOUTH AFRICA – WHAT DO THEY MEAN FOR YOU?

As I have explained before, the purpose of this book is to provide you with a system or framework to make the right decisions no matter what happens in the markets, economy or politics. I have also said, and will stress again that markets will change, but the fundamentals will always remain the same. With the array of global experts we work with, the knowledge of where to find the right research, and our proven system, we want to provide you with an evergreen way to be able to make sophisticated decisions about where to invest internationally for many years to come.

In Chapter 1 we discussed in some detail the value of Clem Sunter's scenario planning in various parts of the world and how certain events could affect the global economy – and in turn, you, the investor.

The purpose of scenario planning is to flag certain possible events – fracking in the US, for example; the aging of England, Europe or Japan; or the one-child policy in China – and establish a set of probabilities on the likelihood of these flags causing an upward or downward movement in the relevant country's economy.

Scenario planning is an extremely valuable tool that allows any investor the ability to establish their options, chase opportunities, and counter threats.

As a South African, it is now time to explore the South African scenarios, their probabilities, and the decisions we need to make, based on the chance of their outcomes becoming a reality. What follows is drawn from Clem Sunter when I interviewed him personally.

SOUTH AFRICAN SCENARIOS

The world is a competitive place and becoming more so every day. You need to sell other countries something other countries want. You need to grow. Our national development plans calls for tripling the South African economy by 2030 and to bring unemployment down to under 6% which

we can only do if we are competitive. But South Africa is facing uncertain times, with political uncertainty and how the rest of the world views us becoming increasingly important.

South Africa needs to be seen as the gateway to Africa, the first place to go for investors as the continent becomes part of the emerging Third-World.

Here are three scenarios for South Africa's future:

SCENARIO ONE

Premier League

In this scenario, South Africa remains competitive through changes in economic policy. Right now, in 2013, we rank 50th in the listing of the world's top 59 economies and are the only African country in the Premier League. We should be 32 as we are the 32nd biggest economy in the world. To remain in the Premier League of the leading economies, South Africa must eliminate uncertainty, lower unemployment, encourage entrepreneurship and ease the world view that we are becoming unstable. If those things can be accomplished, then South Africa will stay in the Premier League of nations and the country will continue as has been for the last decade or better. If not, it is in the relegation zone and the country will be dropped into the Second Division.

The probability for this scenario is 50 percent.

SCENARIO TWO

South Africa Drops to the Second Division

We call the second scenario the Second Division. We cannot get our ducks in a row. We are poor but peaceful, but our economic policies are disastrous for the government. Many of the middle class will leave, owing to a lack of quality education and medical facilities, and this will result in a dramatic reduction in the tax base, which will reduce in turn the money which the government is able to raise.

Under this scenario, Nigeria will overtake South Africa by 2022

as a premier African economy and we get kicked out of BRICS and, ultimately, the G20. In 2013 these countries were growing at 7% a year and we are only growing at less than three percent.

This is a hideous scenario for the government, but it leaves South Africa still able to raise some money and thus not in the worst possible situation, which is Scenario Three, below.

Scenario Two has a probability of 25 percent.

SCENARIO THREE

South Africa as a Failed State

In this scenario, the violence goes up and the country becomes unmanageable, like Afghanistan or Libya. The bottom line is the country is so unpredictable that people turn their back on the country.

- *The critical flag in the absolutely worst-case scenario is violence. Violence today in South Africa is not like that in other countries, such as Iraq, Syria, or perhaps even Egypt, but it needs to be monitored, especially with ten million unemployed and under-educated young people.*

- *Subsidiary flags which will define whether we move into a Failed State are issues such as nationalization; our clumsy implementation of a national health insurance (NHI) programme at a time when decent health care is crucial; the punitive powers of the proposed media tribunal; and the possibility of land grabs, which could lead to a civil war.*

- *The first flag of nationalization is down at the moment as it has gone off the agenda for the ruling African National Congress, according to their last conference at Mangaung.*

- *The second flag is the clumsy implementation of a NHI programme. If it leads to the disintegration of private hospitals, then people will just leave the country as access to good health is a primary need. This flag is also down as the Minister of Health is aware of this and is in active consultation with the private sector.*

- *The third flag is the implementation of a proposed media tribunal and*

provides a major reason for lifting the probability to 10%, as the proposed Secrecy Bill has some very nasty clauses. The tribunal has now been reconstituted on paper as a "commission" and they have taken out some of the worst clauses, but there are still things like the penalty for a journalist going to jail for 25 years, if he is in possession of secret information, and we still don't know what the definition is of a "secret". We are going to have to wait for this bill to be converted into law and we are sure it will be challenged in the Constitutional Court of South Africa, but for now we keep this at 10%.

The last flag is the most lethal flag – land grabs. Zimbabwe's land grab has simply stopped the country growing and led to hyper-inflation, and the same thing could happen here. We need to keep this flag down by having genuine negotiations between the major farmers, emerging farmers, and the private sector. At the moment, this flag is down as we don't have land grabs.

A new flag is why we have lifted the probability to 25% for a Failed State. It is a continuous red flag and therefore it is a tendency. I did some sessions with foreign embassies in Pretoria at the end of 2012 and I asked them if they had foreseen the advent of the Arab Spring and they said "no". I then asked them what flags they had missed? They gave me three flags:

1. *an abnormally high youth unemployment rate in all the countries affected by the Arab Spring;*
2. *Secondly, social networks which allow younger people to communicate more rapidly; and*
3. *Thirdly a growing sense of alienation from authority by young people.*

We have all three in South Africa and, with retrospect, we believe that the incident at Marikana, where striking miners were shot dead by police, was a major flag as it signifies the beginnings of anarchy and unrest like never before in South Africa. We have seen it in the mining industry and in the farms in the Western Cape. Our biggest public works projects, very much our flagship in such endeavours, is the Medupi power station – where, because of labour unrest, there have been periods when not one worker has been found on site, since they have been intimidated by the those striking workers who feel that they have grievances. Although it is a critical project because we need the

power it will provide, nobody seems able to do anything about it. This is a very dangerous and unstable situation.

Taken together, these various factors would indicate a probability of Scenario Three happening at 25 percent. At a 10% probability, however, it is a wild-card scenario, which you still need on your radar screen, but you don't need to do too much about it, but at 25% you need to start to look at your options.

Essentially, we say to South Africans we have two options.

The first option for people is to look after yourself and keep your passport up to date and, if you are a business, look at how you can diversify your business overseas. The second option is to keep the red flags down and we encourage businesses to hire young people so that we can keep the red flags down.

It shows that things can change quite quickly and this is why our flags are quite dynamic. Our probabilities at the beginning of 2012 were 70% for the Premier League; 30% for the Second Division; and 0% for the Failed State, but in late 2013 we are putting the probabilities at 50%, 25%, and 25% respectively.

Speaking personally, however, I believe that with over 10 million people who are under-educated and unemployable in South Africa and with would-be politicians like Julius Malema telling them what they want to hear, we truly believe this is a very important flag to watch.

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REASONS FOR HOPE

How to stay in the Premier Division

- *The first one is inclusive leadership. Nelson Mandela was a shining light of how this is to be achieved and was highly inclusive. Sadly, his last two successors have not come close. The very positive flag is the election of Cyril Ramaphosa as the deputy leader of the ANC. I have known him since the early 90's when he was a young union leader and I negotiated with him as senior member of Anglo's Gold Division. He never reneged on any agreement and was a really nice person to deal with, so I feel he could make a huge difference.*
- *The second flag is whether we will use our pocket of excellence to raise our performance or whether we succeed in "dumbing down" our population by perpetuating inferior education. We have 28,000 schools in South Africa, of which 5,000 are reasonable to excellent in their quality but of which 23,000 are dysfunctional to shocking. Are we going to dumb down the good schools because they are too elite or are we going to raise the performance of bad schools to the performance of the good schools. That's the second flag.*
- *The third flag is to run a balanced economy: enough exports to earn us enough foreign currency to pay for our imports and an inward economy that creates jobs.*

With the outward economy, we must play into spaces where we can dominate and there are three such spaces:

1. resources, if we can get our act together in the mining industry;
2. tourism, which is now quite cheap and that is why China is sending tourists to South Africa; and
3. acting as the gateway into Africa.

In the Ultra-Violet Scenario, where everybody is chasing business in Africa, we should ensure that South Africa is where they start that process first.

With the inward economy, we have one flag but it is such a critical flag and it is our attitude to entrepreneurs.

A great example is the Chinese economy, which was ranked 100th in 1978 and they are now Number Two. I actually did a session in 2006 with the Chinese Communist party at the central party school and it was interesting. I was shown around the school afterwards because very few foreigners actually visit the school.

China opened up the economy and as one of the professors said, "As the Communist Party retreated, the entrepreneurs moved in and now we, China, are number two".

America has always had this passion for entrepreneurs and the thing about America is that if you take the top 100 companies today, 50 of those companies were not in the top 50 100 years ago and there are now some entrepreneur burrowing away to the create world' s biggest company in 30 years' time.

In SA we still have the negative attitude towards entrepreneurs. There is lots of reds tape, the culture of non-payment of small business by large business or government is just terrible and it's difficult to get money as a small business. So Jacob Zuma has to change his attitude, because to create five million jobs by 2020 he has to create one million businesses.

We feel we are still in Premier League – the reason we give it 50% probability, but now we have to consider how we are going to keep the red flags down. And that is why, in the two years before he takes over the leadership of the country, Cyril Ramaphosa needs to call for an Economic CODESA (the Conference for a Democratic South Africa in the early 1990s, when South Africa's Constitution was hammered out). This is where we might discuss the economy and create a new economic model where we include entrepreneurs. He has a foot in business, a foot in government, and also a previous foot in the unions – and he has had all the experience of the political CODESA, so he can easily put a proper economic CODESA together to examine how we implement the National Development Plan, how we spend the R3-trillion that the South African Government wants to spend, and how we create a new generation of entrepreneurs.

We really are at the tipping point between positive and negative and we really do need an Economic CODESA.

I can't stress enough, though, and Clem Sunter agrees wholeheartedly, that one must connect the dots. One must go beyond simply looking at flags. One must establish the more-than-likely odds of certain events

happening in a subjective and reasoned manner. There is no room for emotional decisions in the process.

As Clem Sunter says, *"Scenario planning is just daydreaming, unless you connect the dots."*

On a final note, we are so passionate about how we are all responsible for the future of South Africa that we have created a charity with Clem Sunter called Business Foxes, which is helping children and adults, learn to create wealth and become entrepreneurs. This will have the greatest impact on the future of our country! This charity is endorsed by Clem Sunter and funded and supported by IPS and Wealth Migrate.

CHAPTER 5

THE SUCCESSFUL FOUR-DIMENSIONAL INVESTMENT MODEL – THE PROBABILITY CALCULATOR AND GLOBAL PROPERTY SYSTEM (GPS)

What distinguishes our company's success from those of our competitors is the following. We eliminate as much as possible the uncertainty of any investment through Clem Sunter's scenario system, my own probability calculations (which further refine the chances of success for any investment), and our four-dimensional investment model: the Global Property System (GPS™). This is a proven, scientific method of helping you make the right decision for you and your family.

This is what defines us, and points the way to our, and your, success. This is one of the mottos I live by: "*Your destiny is determined by the decisions you make, and the actions you take.*" Having attended Clem Sunter's presentations for many years, I will have to be honest. I actually had to watch them many times before I properly understood the different scenarios, globally and locally, and which flags I should watch. Then, once I understood them, I applied my above motto and realized that I had better build a model which took his research and turned it into something tangible, something which could help me make the right decisions and take the correct actions.

You see, most people listen and understand at some level what Clem is teaching, and then continue with their lives as normal. This achieves nothing, and is certainly not allowing them to create options, regardless of what happens out there in the future.

I had to build a four-dimensional model, because there are four variables, which are all changing, and which influence each other directly.

The four variables are:

1. The four scenarios for the global economy:
   - Where to invest, based on the scenarios and the probabilities
2. What asset class to invest in globally:
   - What to invest in, based on Clem Sunter
3. The three scenarios for South Africa from Clem Sunter:

- Whether to invest locally, or offshore, based on the South African scenarios and the probabilities; and

4. Based on the fundamentals of property, where to invest?

I built two models to make the right decisions:

1. **Probability Calculator**
   This gives the answers to the first three variables.

2. **Global Property System (GPS)™**
   This takes the information from the Probability Calculator and integrates it with the property fundamentals and shows us where the best places are to invest globally.

PROBABILITLY CALCULATOR

Where is the Best Place to Invest?

We have explained why we only like to look at First-World countries to invest, if we are investing outside of South Africa. I personally am investing, or have invested in South Africa, the UK, Australia and the USA. For this reason, we built the calculator around these countries.

Let's examine how the four scenarios and probabilities, based on Clem Sunter's research, for the Global Economy play out in these countries. It gives you an easy method of comparing the different countries, based on their GDP growth, the average property growth, what happened in 2009 in terms of the Global Financial Crisis, what happened in the economy, and what their futures hold, based on the probabilities. We can analyze the risk and the opportunity, then calculate everything, and so discover the best places to invest in, based on all the probabilities.

Hard Times

World Economy	Hard Times Position	Notes
Probability	40%	This is the probability of Hard Times occurring
South Africa	2	Managed the GFC well, banks in strong position, got growing populations, and got resources, although politics is not making us as popular at the moment. Weak rights of property owner.
USA	1	100% Debt to GDP ratio, more growth potential, growing population, buying at 40% to 60% of replacement value and strong yields.
UK	4	Huge debt - 80% debt to GDP, but also aligned to Europe, which has structural problems, ageing population. Prices are also above the peak of 2008, which doesn't factor in any risk. Good tenant demand when buying the right property.
Australia	3	Australia has no debt, and navigated the GFC best, so far. Well governed. Banks strong. Growing population. Close to China and have resources. Supply and demand fundamentals are in place for property demand. Average yields, but prices are fully priced, as no decline in prices. Biggest risk is a slow-down in China, which will affect resources, thus the economy, then employment and then demand and prices. A particular problem in Hard Times.

Ultra-Violet

World Economy	Ultra-Violet Position	Notes
Probability	30%	This is the probability of Ultra Violet occurring.
South Africa	1	Emerging economies will be the future, and SA, (gateway to Africa). 80% chance more of being successful. All depends on China.
USA	2	Same as Hard times, although it is still a positive investment in property, as USA will grow, unemployment will reduce and therefore will fuel the property market demand. Prices coming off a low base and strong yields.
UK	4	Same as Hard Times
Australia	3	Australia is the only First-World country which is included among the emerging economies, but it won't have as much growth, as emerging economies, as it has a higher base. Has resources, and well located to China. Property is still fully priced though, with average yields.

New Balls Please

World Economy	New Balls Position	Notes
Probability	10%	This is the probability of 'New Balls Please', occurring
South Africa	2	Has resources, and is also on Africa's doorstep, the next focus point. Golden Age of Africa; 2020 to 2035, huge potential for food.

USA	1	Has resources. In this scenario, USA goes into full-scale recovery, and drags world with it. The flag is unemployment; as this recovers, the demand for property, along with sentiment, will quickly improve. Finally, resources will be expensive, resulting in the replacement value being vital. As USA property is 40% to 60% below replacement value, the market will recover
UK	4	Don't have any resources, the UK is an old-age home, and 70% of the GDP is based on finance and insurance (which can move up and down). They don't manufacture anything.
Australia	3	Resources heavy, and also a sophisticated economy, close to the East, in number 3, due to problems with water and the fact that property prices are already at full value.

Forked Lightning

World Economy	Forked Lightening Position	Notes
Probability	20%	This is the probability of "Forked Lightning" occurring.
South Africa	3	Have resources and Africa on the doorstep. Population growth will be very important, for demand for property, and the fact that income is paid. Concern of an 'Arab Spring', based on service delivery.

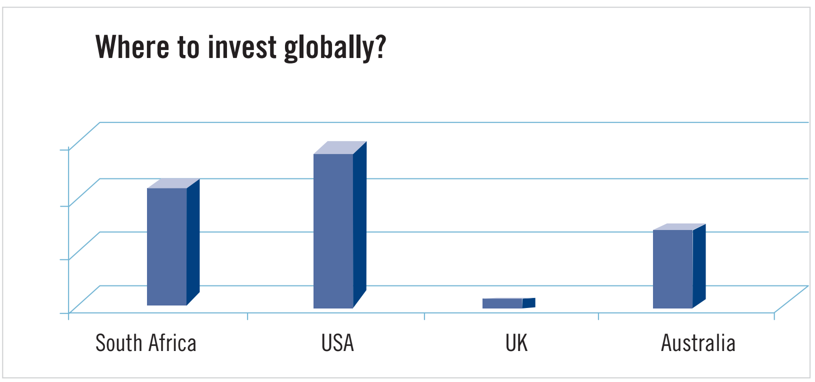
USA	1	Huge debt, however, property is being bought at such a significant discount to replacement value that it allows for further shocks in the economy. Strong rental demand in USA, due to population growth and lack of supply; allow you to hold on, and ride the economic wave, while you survive. As you can buy cash, you are also not exposed to debt.
UK	4	Not as heavily indebted as USA, but is aligned with Europe. Euro could collapse, which will directly affect their two major industries; banking and insurance. Also, you need to borrow money to purchase, and are therefore exposed to debt. Still good demand if you own the right properties, in the right areas; due to fundamentals of supply and demand being right.
Australia	2	Strongest G20 country through GFC, good regulatory environment, educated population who pay tax. Only problem is that property is at full value, and does not allow shocks to global economy. A slow down would affect China (38% of import to Europe), which would impact Australias' resources demand. This leads to unemployment, and a decrease in demand for property.

Therefore, taking the countries position, based on each scenario, and the probability of each scenario, the calculation for 2013, based on the latest scenario, is as follows:

Overall averages (out of 4)	
1,9	South Africa
1,3	USA
4	UK
2,8	Australia

From this we understand that the LOWEST figure is the best.

Or expressed in graphic language:



PROBABILITY CALCULATOR

What is the Best Asset to Invest In?

Using the same philosophy above, we need to see what asset classes will fare best in each of the global scenarios. Obviously, this could be gone into in a lot more detail, but for now we would like to compare four asset classes: the stock market, property, money in the bank, and gold.

Hard Times

Asset Class	Hard Times Position	Notes
Probability	40%	This is the probability of Hard Times occurring
Stock Market	2	The stock market will perform well, but you have to be very experienced as it is going to be very volatile.
Property	1	A lot of volatility and so stick to a long-term investment. You have to make sure you buy it at the right price and also in markets where the fundamentals of supply and demand are in kilter. You need to focus on replacement value and income.
Money in the bank	4	Safe, but will be eroded by inflation and no incomes. Also very low interest rates being paid at the moment. Always worth keeping some money in the bank to take up opportunities.
Gold	3	Gold always does well in uncertain times, but it doesn't earn an income.

Ultra-Violet

Asset Class	Ultra-Violet Position	Notes
Probability	30%	This is the probability of Ultra-Violet occurring
Stock Market	1	If you can choose the right companies, in the right markets then you will see great growth as they grow quickly in these emerging markets.
Property	2	You need a balance of getting great growth in the emerging markets but to balance this risk in the market, you also need investments in first world assets and income to offset currency devaluation.
Money in the bank	4	Not a good investment, with low returns. Always worth keeping some money in the bank to take up opportunities.
Gold	3	Same as hard times, although less attractive in a growing economy

New Balls, Please

Asset Class	New Balls Position	Notes
Probability	10%	This is the probability of New Balls, Please occurring
Stock Market	2	If you can choose the right companies in the right markets, then there will be great returns; but you have to be very experienced in resources, efficiency, and technology to make good returns

Property	1	Resources, even for housing, will drive up prices in a high inflationary environment. It is why replacement value is so important when determining the purchase price.
Money in the bank	4	As with the last review, but always worth keeping some money in the bank to take up opportunities.
Gold	3	This will be the Steady Eddy investment, but without income.

Forked Lightning

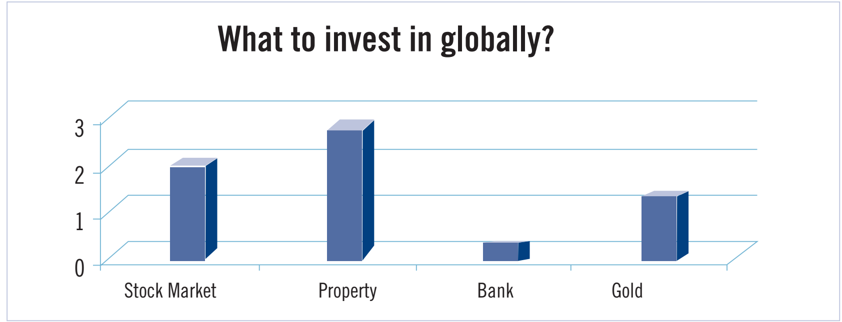
Asset Class	Forked-Lightning Position	Notes
Probability	20%	This is the probability of Forked Lightning occurring
Stock Market	4	Stock Market will crash, high inflation environment, global depression.
Property	1	Property will be the only safe haven as it is inflation proof. Look at Zimbabwe with property, where it maintained value through everything. Need to focus on income and demand for rental property.
Money in the bank	3	Problem is that it will devalue with inflation as high inflationary environment due to currency devaluation. Always worth keeping some money in the bank to take up opportunities.
Gold	2	This is a constant recession proof investment, but it doesn't earn an income. With the lack of confidence in the financial system people will want to go back to the gold standard.

Therefore taking the assets position based on each scenario and the probability of each scenario, the calculation for 2013, based on the latest scenario is:

2,1	Stock Market
1,3	Property
3,8	Bank
2,8	Gold

Again, from this we understand that the LOWEST figure is the best.

Expressed graphically, once again:



PROBABILITY CALCULATOR

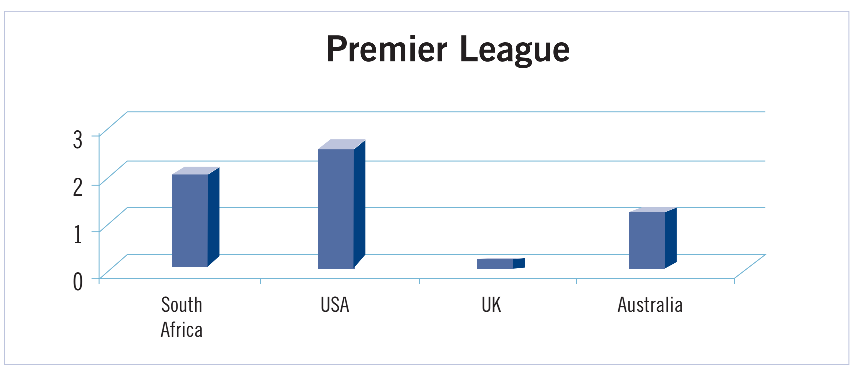
Is Local Lekker or Should We Invest Offshore?

Now there are three scenarios for South Africa:

South African Economy	Premier League	Second Division	Failed state
Probability	50%	25%	25%

Premier League

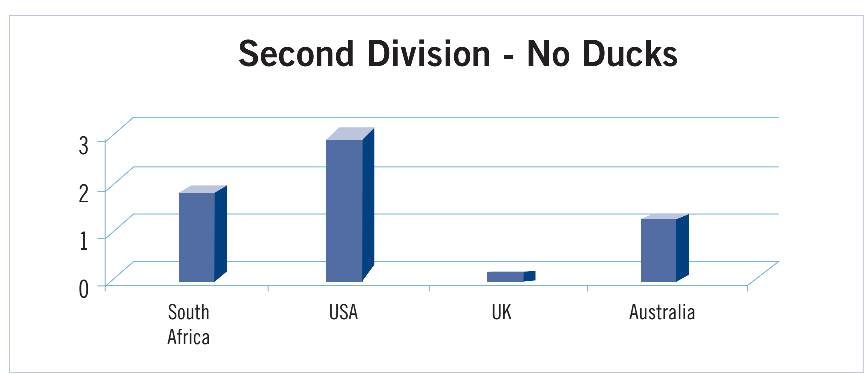
As a positive South African, when we calculated South Africa's scenarios above, we worked on the assumption that South Africa would remain in the Premier League for its positioning.



Based on the results, Clem's rough guideline for how much investment to make overseas, and the probabilities, it is believed that a split of 70% local, and 30% offshore, would be sufficient.

Second Division

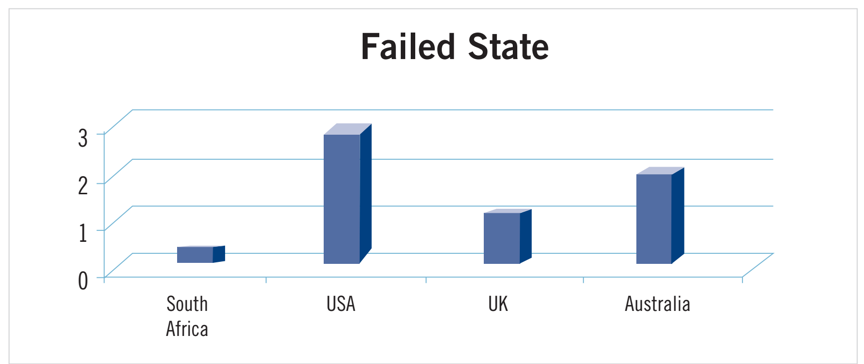
These results are very similar to the Premier Division, although South Africa would fall to second place under the Ultra-Violet scenario. Even though they are well placed as an emerging economy, the fact that they have fallen into the Second Division will not allow them to maximize the opportunity properly.

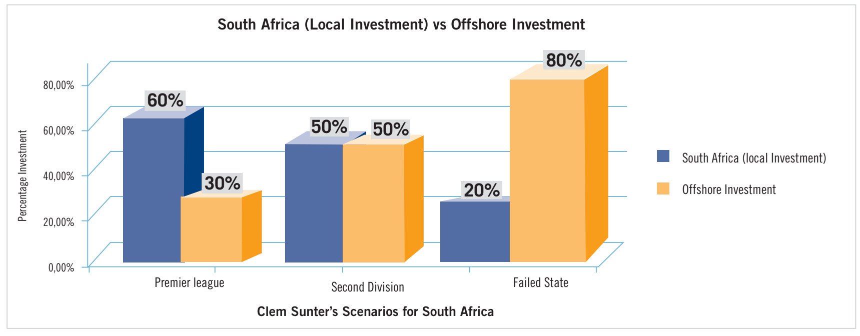


In this scenario we believe that, based on all the facts, there should be a balance of at least 50% local and 50% offshore, but this will depend greatly on the individual's belief of whether the country will go into a "Failed State" scenario.

Failed State

Unfortunately, in the Failed State scenario, South Africa would fall to fourth position for all four scenarios, due to a complete collapse of everything, as was the case in Zimbabwe. In this scenario, if as an investor you have not already left South Africa and taken all of your wealth with you, then we would suggest a 20% investment in South Africa and a 80% investment offshore. As I said, I originally came from Zimbabwe and even in the worst of times, some people were making really good money in Zimbabwe, as in chaos, there is also opportunity. This will obviously pose a much higher risk though.





The Global Property System (GPS)™

In Chapter One, we pointed to data published by The Economist on international property, and its useful, interactive tool that allows you to compare housing prices across 20 markets, over time. It also allows you to get a sense of whether buying a property in a particular place is becoming more or less affordable. It further allows you to take a look at the changing relationships between house prices and rentals, and between house prices and incomes.

Analysing these kinds of studies, though, is just one aspect of our GPS System, to reduce investment risk. In Chapter One we learned that property, based on long-term trends and incomes, is undervalued by 12% in the USA, but overvalued by 14% in the UK, and South Africa is 3% overvalued or about even. There are 17 other countries included in this research and which we use our GPS™ to determine where to invest. Just as wild animals in their flocks and herds "migrate" to find the best environment for their health at any time, we, as investors want our wealth to migrate to where we can get the safest, sustainable and best returns. This is why we talk of Wealth Migrate.

We take this research and blend it with the Probability Calculator and the fundamentals of property to give us a system on which we can make the right decisions.

Clem Sunter and Dr Dolf de Roos, two of my most valuable advisors on international property investment have frequently spoken about the four fundamentals of property.

Dr. de Roos, you'll recall, realised at a young age that most of the very wealthy made their fortunes through real estate, or property. Clem Sunter, of course, needs no introduction.

Since 2000 I have been attending the Property Investor Show in London. There are generally over 400 exhibitors, 100 presentations and over 20,000 delegates. At this event, and at similar functions all over the world, I have made presentations on where I was investing in various countries. But at the same time, I was able to hear loads of presentations from other countries. Therefore, over the last 13 years, I have managed to gain a unique understanding of global property and both the pros and cons of many of the markets.

But that still leaves the question: Which one is best, and why? As I have said before, and will keep emphasizing, making an investment decision, based on gut feeling is fraught with disaster.

Any successful investor should have a model, a framework, a system

or a scientific calculator to ensure that they are comparing apples with apples, and this ensures that they are able to make educated and informed decisions.

Based on my work with Clem Sunter, Dr Dolf de Roos and my collective international property experience, I decided to build a model to allow people a practical method to make the right decisions and compare the different investment destinations.

The bottom line in property is that, if you follow the fundamentals, then you will be successful in the long term. Compare it to a table. To have a stable table, you need all four legs to be firm and in place. Property is no different, and there are four fundamental pillars, which will ultimately determine the success of the investment.

THE FOUR PILLARS OR FUNDAMENTALS OF PROPERTY-RISK

Number One: Economics of a Country

The **first pillar** is the economy, the risks in the economy, and the impact of the scenarios that will take place in the Global Economy. Much of this analysis is based on Clem Sunter, and his world-leading technology on scenario planning, and how it is calculated in the Probability Calculator. (Please see the section on his scenario planning in Chapter 1, for the Global Economy and the Probability Calculator in this chapter).

Based on Clem Sunter's scenarios and the countries susceptibility to the Global Scenarios, this gives the country a risk rating. The worse shape the economy is in, the higher the risk rating which has been given to that country.

For South Africa there is also the factor of the Rand devaluation, and the impact that this has on the economy, economic growth, and wealth devaluation. Please refer to Chapter 2, where we went into detail of this impact on South Africa, and on South African investors.

Country	Economic Risk
Rating	%
South Africa	60%

Australia	40%
UK	65%
USA	50%
France	75%
Cyprus	80%
India	20%
China	40%
Japan	60%

Number Two: Price, or the Value of the Property Discount

So, the **second pillar** is the relationship between the property discount, and the value over the last five years against the property market. Like any investment, if you can buy it at a discount, relative to value, then you can limit and reduce the risk.

Buying property in a country with more discounts, like in USA, reduces the risk, increases the yield (Price to Earnings ratio) and, reduces the susceptibility to shocks in the global or local economy. This is a critical component of the GPS™, and so, the higher the discount, the lower the risk. For a country like Australia or the UK, where the property is at full value, the value of the discount is 0%. Whereas, for somewhere like USA, it is 50%, as property is 50% below market value, or replacement value.

This is based on all our research, and *The Economist* research of the top 20 markets.

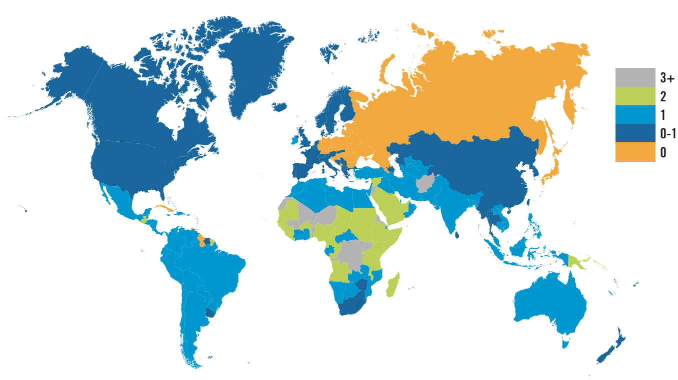
Country	Value of property discount
Rating	%
South Africa	10%
Australia	0%
UK	5%
USA	50%
France	0%
Cyprus	30%
India	0%
China	0%
Japan	20%

Number Three: Fundamentals of Population Growth, and Supply and Demand

The third fundamental is the relationship among the population growth, and supply and demand. As the third fundamentals go together, we have given this a weighting of 60% to population growth, and 40% to the balance between supply and demand in property.

POPULATION GROWTH

It's about the balance between the two. If a country has a growing population, based on the International Monetary Fund's Population Growth Figures, there is a lower risk. They do their research annually, and show which countries are growing. Here is the research from 2012, which shows the percentage by which each country's population is growing.



An example may be taken from Japan, where the population dropped from 120 million to 100 million and then stagnated along with its economy, or from the ageing population of Europe. Something else to take into account, which is intangible, is the quality of the people who are coming into a country, or how the population is growing.

As an example, the people coming from the north of Africa into South Africa are not adding any value to the population. In another scenario however, Australia's population is growing, and there are now only two ways to get into the country: by money or by skills.

Another country is the UK. I lived there for nine years and even

managed to get my passport because of my lengthy stay. During this time I saw how they let anyone into the country, and to be honest, when I got my passport of the 30 people who were getting them that day, only 15 could speak English. For this reason I would give Australia a higher ranking than South Africa or the UK, based on the quality of their population growth.

The higher the percentage, the better the population growth.

Country	Population Growth
Rating	**60%**
South Africa	70%
Australia	100%
UK	100%
USA	90%
France	0%
Cyprus	0%
India	100%
China	70%
Japan	0%

Supply and Demand

The second part to this equation is supply and demand. It is one of the most important elements in property: whether there is equilibrium between supply and demand. To understand how important this is, one only has to look at different countries and how they reacted to the GFC. As an example, the USA had 10 million homes oversupplied, and it has taken over six years for the demand to take up the supply, and is the reason for the market having gone sideways for more than five years. Ireland has one in four homes empty, and has been in serious trouble. Spain has 700,000 homes oversupplied, and this is the cause of all the Spanish economic problems. Cyprus is also on a precipice, with sales down 92%, with there being far more supply than demand.

In comparison, you have the UK. Here there is more demand than

there is supply. We will go through this in more detail, in the chapter on the UK. Bottom line is; the market lost 15% over the GFC, but, within 12 months it recovered by 17%, as there was more demand than there was supply. South Africa was equally sheltered and Australia was the proof that, when demand outstrips supply, the market is robust and resilient to economic developments.

When there is more demand than there is supply, then the risk is lower. The more the demand is over the supply from equilibrium, the higher the percentage.

Country	Supply and demand
Rating	40%
South Africa	100%
Australia	90%
UK	90%
USA	60%
France	10%
Cyprus	0%
India	100%
China	0%
Japan	0%

Therefore, the total for Population and Supply and Demand.

	Property Fundamentals	
Country	Population Growth	Supply and demand
Rating	60%	40%
South Africa	70%	100%
Australia	100%	90%
UK	100%	90%
USA	90%	60%
France	0%	10%
Cyprus	0%	0%
India	100%	100%
China	70%	0%
Japan	0%	0%

Number Four: The Rule of Law

I learned from India that the Rule of Law is a vital component to take into account. I wanted to invest in India, and then found out that one can only invest in India if you have proof of previous, resident, family members. I thought that, with the biggest Indian community outside of India living in Durban, we could supply a real solution. After much research, however, we found out that, although all the other fundamentals were great, there was no Rule of Law in India and you can't rent out the property as there is no protection for property ownership rights. I met many Indians of past descent who lived in the UK, and they all bought property and owned them outright without renting. For this reason India has 0%, as there is no Rule of Law. This makes no sense as there is no income on the property. South Africa is another example with all the rights that tenants have, and how difficult it is to get rid of tenants who are not paying. South Africa is only at 30%, when a place like Australia is at 100%, as all the systems and laws are in place to look after the property owner.
Remember too, that the USA varies greatly from state to state and whether they protect the landlord or the tenant. In the states we invest in, it takes three to six weeks to legally evict a tenant.

Country	Rule of Law
Rating	%
South Africa	30%
Australia	100%
UK	80%
USA	90%
France	50%
Cyprus	30%
India	0%
China	0%
Japan	100%

These four fundamentals, when working in combination, determine the risk of the investment. We have a patented and sophisticated formula to take the fundamentals and balance the GPS™ Risk Index. The higher the Index, the higher the risk.

Country	GPS™ Risk Index
Rating	
South Africa	55,00
Australia	35,00
UK	45,00
USA	27,50
France	56,25
Cyprus	55,00
India	55,00
China	60,00
Japan	35,00

The Return

In any investment there is a balance between risk and return. We have determined the GPS™ Risk Index, but now we need to determine the GPS™ Return Index.

As you have learned from one of the ten lessons and trends, income is far more important and sustainable than growth with regard to long-term returns. For this reason we have a balance of 70% towards the yield or income, and only 30% towards capital growth. For both factors we have taken the long-term average for each country and, by calculating them against the weighting, it gives us the GPS™ Return Index.

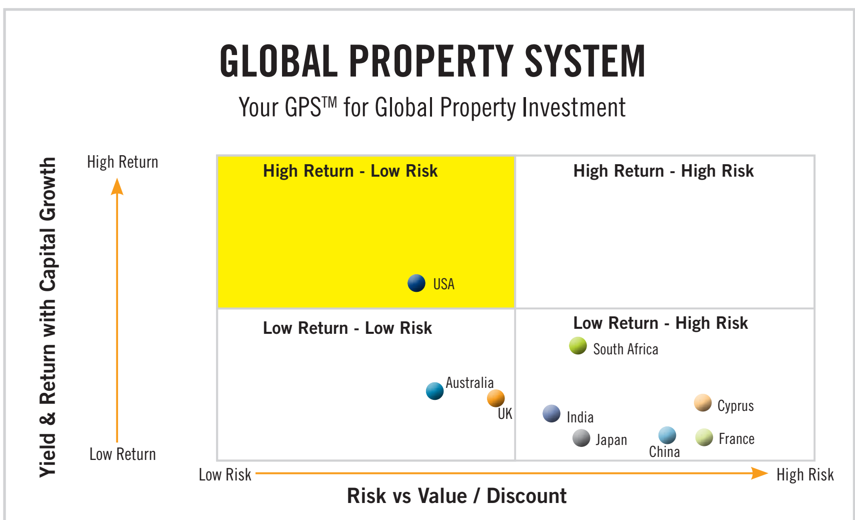
Country	Return		
	Yield	Capital Growth	GPS Return Index
Rating	70%	30%	
South Africa	8%	6%	7,40%
Australia	5%	3%	4,40%
UK	5%	2%	4,10%
USA	12%	10%	11,40%
France	2%	0%	1,40%
Cyprus	5%	0%	3,50%
India	0%	10%	3,00%
China	2%	0%	1,40%
Japan	2%	0%	1,40%

GLOBAL PROPERTY SYSTEM RESULTS

Taking everything into account, one has the ability to adapt the variables and ultimately get the answers as to what the safest investments are, with the best returns. Here are the results for 2013, based on the facts as they are today:

Risk vs Value / Discount							Return		
Country	Economic Risk	Value of property discount	Population Growth	Supply and demand	Rule of Law	GPS Risk Index	Yield	Economic Risk	Value of property discount
Rating	%	%	**60%**	**40%**	%		70%	30%	
South Africa	60%	10%	70%	100%	30%	35,00	8%	6%	7,40%
Australia	40%	0%	100%	90%	100%	35,00	5%	3%	4,40%
UK	65%	5%	100%	90%	80%	45,00	5%	2%	4,10%
USA	50%	50%	90%	60%	90%	27,50	12%	10%	11,40%
France	75%	0%	0%	10%	50%	56,25	2%	0%	1,40%
Cyprus	80%	30%	0%	0%	30%	55,00	5%	0%	3,50%
India	20%	0%	100%	100%	0%	55,00	0%	10%	3,00%
China	40%	0%	70%	0%	0%	60,00	2%	0%	1,40%
Japan	60%	20%	0%	0%	100%	35,00	2%	0%	1,40%

This allows us to plot the figures onto a graph so that it makes logical sense.



It leaves us with four quadrants, of which High Return/Low Risk is obviously the best investment quadrant. The only country which falls into this quadrant at the moment is the USA. Australia is sitting at Low Risk/Low Return, along with the UK, which is on the border of risk. South Africa is showing higher return (still in the bottom quadrant), but also higher risk. The worst quadrant is Low Return/High Risk, and many countries currently fall into this quadrant including India, China, France, Japan and Cyprus.

Here is another question many people have asked about different countries, such as Germany and Austria. I mean, you can see that the whole model behind this graph is built on simply plugging numbers and then comparing. I can't say much about Austria, but Germany is a world-class economy. I think they are the largest exporters to China in the world. They make machine tools that everybody wants; they build cars everybody wants; and this is why Germany is a world-class economy.

They have a dual-education model where you have an academic stream and a technical stream. South Africa has closed our technical colleges, which is ridiculous as they train people to be apprentices. Germany has stuck to this model, whereas Britain is another example of a country which has turned its trade schools into academic schools, and thereby lost their manufacturing base completely. Manufacturing is the only reason that Germany is the only world-class economy in Europe. So I do think Germany has much better growth prospects than other countries, but there is a question in terms of fundamentals. It is largely

a social democratic economy, where there are strict controls over rentals, and more than 70% of the population rent accommodation. That is why our model is so important, as the GPS™ allows all factors to be taken into account.

One of the other factors which Clem Sunter mentioned was very important, particularly if the "New Balls, Please" scenario transpires: the effect of energy costs on property. Property which is in close proximity to the workplace will be a lot more desirable than property in the suburbs. Most people already spend a lot of their monthly salary on transportation, and as this increases dramatically, it will have a big effect on the location and demand for property.

When we were hosting a live webinar with Clem Sunter in February 2013, one of the participants asked if the GPS™ model made sense, and whether he agreed with it.

See https://www.youtube.com/watch?v=TeP41kPzxy8

Clem replied, "It makes total sense. I haven't got the knowledge in the property sector, but I can do the probability, I can do the scenarios, I can do the flags and, based on those scenarios, I can see this is the impact on various countries and this is the impact on properties in most countries. I think your model has done exactly that, and I have heard from a lot of people that, take away from your model, the USA is the best place to invest. But I come back to my point that you need to be diversified; don't invest everything into property."

Obviously, as the scenarios, probabilities, research and numbers change, then the results will also change.

If you go to http://www.propertygoingglobal.com you will find the updated research and indexes, of every quarter. However, at the moment the GPS™ system is categorically pointing to Australia, the UK and USA as being the best places globally to invest.

Let's explore this further.

CHAPTER 6

SYNOPSES OF THE USA, AUSTRALIA, AND THE UK – THE THREE LEADING FIRST-WORLD COUNTRIES WE INVEST IN, AND OUR STRATEGIES TO INVEST

Up to this point we have been setting the stage, so to speak, to help you understand the tools we use to reduce your risk in property investments: Clem Sunter's scenarios, the Global Property System and its four-dimensional model, my Probability Calculator, and independent research from *The Economist*, all indicate that property in the USA is undervalued by 12% the UK is overvalued by 14% and South Africa is about right.

In Chapters 7, 8 and 9, we'll get into the specifics of what you will need to consider: what city, what country, and why. Here we will confine ourselves to a general discussion on what you will be facing. A reminder first: we want to "Wealth Migrate," to head where we can get the safest, sustainable and best returns. This is why we *Wealth Migrate*.

We are often asked, by our investors, to compare the three First-World markets we invest in with South Africa. Below you will find a chart that provides a great overview by comparing each country and their property markets. When all is said and done, this gives us an introduction to what the GPS™ shows us in detail.

ITEM	AUSTRALIA	UK	USA	SOUTH AFRICA
Economy	Economic shift to China & growth economy	In and out of recession Europe trouble	Growth phase, but structural problems	Growth phase, but structural problems
Debt	None	£910 million	$16 trillion	1% of GDP
GDP-2012	3.3%	1.6%	1.8%	2.8%
AVG Property	9%	9%	9.75%	12%
2009 Property	8.6%	-15%	-40%	12%
2012 Property	-2.6%	-0.5%	7.4%	1.1%
Risk	Low	High	Low	Average
Opportunity	Average	Average	Great	Great

In short, my view on these markets is as follows:

The United Kingdom

Although I own a number of properties in London, I am concerned about the UK market at the moment with regards to buying new property. If you already own a property, it is a great rental market, with a really low cost of financing. Yet to buy now is a problem.

In the aftermath of the Global Financial Crisis (GFC), the London market lost 15% on the whole, and there were great discounts. As we mentioned before, owing to the fundamentals of supply and demand, this limited supply was snapped up. Since very limited inventory has come back into the market, prices recovered by 17% in less than 12 months. Since then, they have steadily grown, and in June 2013 the UK property market hit an all-time high, but it still concerns me that many of the same risks of 2008/09 still exist with the sovereign debt, Europe's issues, the fact that 70% of the UK's GDP is based on banking and insurance, and they seem to go in and out of recession. With rates also so low there are very few motivated sellers who are being forced to sell. Therefore, with prices at full value, with no allowance for the risk and limited motivated sellers, I find this a very tough market to invest in at the moment. On top of this, they also have an ageing population problem.

Australia

As we said in Chapter 3, Lesson 7, this country is always Steady Eddie: with a very strong government and economy, it provides a stable investment. You can see that by how the Australian Dollar continues to increase, because a nation's currency is like its share price. In 2008 Australia dropped its interest rates from 8.75% to 3% in four months (more than 65%), and this shored up the property market. Along with other initiatives like the First-Time Home-Owner's allowance, and the fact that it was the only economy in the G20 to not go into recession, the Australian housing market grew by 8.6% in 2009. The fundamentals of supply and demand are in kilter, with demand outstripping supply, although a series of eight interest rate increases, prompted by concern over inflation, has caused the market to go stagnant in 2012. This, as anywhere else in the world, caused the market to slow significantly, so much so, that in 2013, they have actually reduced interest rates a number of times.

In this environment, if investors were forced to sell, as in South Africa, the estate agents will give them really low values to create the sale, and investors might even find that they are below what they originally invested for. However, at IPS, we always take a five-year overview and as long as the property is earning income, and we have made great returns on our rand investment, there is no reason not to ride the wave and wait for the market to turn again. The only downside with Australia, for me, is the FIRB (Foreign Investment Review Board), which stipulates that we have to buy new property from developers, and the fact that the country's economy relies heavily on China continuing to buy up Australia's natural resources. Although tough, there are a few great opportunities to consider in this market as we find developers who are motivated sellers.

The United States

Although I went to the USA in 2010 and found many opportunities, I was extremely concerned, as I could not find partners on the ground that I could trust and I felt there was still a lot of pain in the market. In 2012 I went back with a different strategy, and partnered with a company I have worked with since 2005 in the UK. They have helped over 1,100 British and Irish Investors invest in the USA in the last six years, and the numbers were great. The average yields are between 15% and 20%, and vacancies of less than three weeks. For this reason I travelled there in April 2012 and we covered eight cities in eleven days. We were so excited for two reasons:

Reason One: We can buy a 40% to 60% of replacement value.

We don't care what the highs of 2007 were, but we are interested in the fact we can buy property for less than 50% of what it costs to replace that building. This is a significant indication of value.

Reason Two: Partners are on the ground to manage the property and collect the rent.

You can buy a property at any discount but, unless you get the income, it is irrelevant. In 2010 I did not believe it was possible to receive this income owing to partners I did not trust, and also the fact that rental demand was weak. In 2012 we found fantastic partners and have full

confidence in their ability to collect the rent, along with the fact that there is a significant rental demand.

Based on this, we started to invest heavily in the USA and I have been there seven times in the last 17 months, including making the trip with the IPS team, many times. We have reviewed all the major markets (I investigated 17 cities personally), but we have chosen a few specific markets thanks to the quality of the partners on the ground, and their unique fundamentals which I will explain later. At the moment we are investing in Memphis, Atlanta, Orlando, Oklahoma and North Dakota. We have bought 251 properties to the value of $25.7-million, with capital growth between 10% to 30%, and net yields between 8% and 15%, depending on the timing of the purchase and the area concerned.

Finally, many people are asking about financing in the USA. Please contact me to get access to my videos on "Un-Weaving the Truth about USA Financing", as many people are being completely hoodwinked at the moment. I can also show you how I managed to obtain financing for 4.5%, fixed for 30 years, at a 70% LTV. A no-brainer, when you consider the net yields are more than 10%.

Our Strategies to Invest in These Markets

Many years ago, a very sophisticated investor taught me about the three types of markets:

1. Primary
2. Secondary
3. Tertiary

Before I explain this, I did find it uncanny that even before I knew this, other than the mistakes I have made in South Africa, I have invested only in secondary markets internationally. Let's explain what this means.

Primary Markets

These are the best markets, or areas in any location. In London, this applies to Kensington and Westminster; in New York, this is Manhattan; and in Sydney it is the East Side of the city (Bondi Beach). The prices are really high in these areas and are driven completely by sentiment; the

income yields never make sense. The prices tend to rise quickest when the economy is doing well, but are also more susceptible to market-or economic adjustments. An example of this is when we had the GFC. Although the Australian housing market grew by 8.6% across the whole country, the up-market suburbs in Sydney lost 20% in less than 12 months. Bankers don't receive their bonuses in down times, for example, and suddenly the demand dries up and the incomes don't sustain the investments.

The counter side is London at the moment, where the best growth has been seen in these Primary Markets because the Arabs, Russians, Indians, Chinese and many other extremely wealthy people have been buying the best properties as trophies, and it is seen as a "safe" investment. The reservation I have is that the valuations are based on nothing but sentiment; the incomes yields don't work; and the question I always ask is, "how sustainable is this?"

Secondary Markets

The secondary markets tend to be on the periphery of the primary markets. They are desired by the middle-income employees who still want to live in "nice areas" and be close to work, school and lifestyle. Examples of this in London are Wimbledon, Putney, or Greenwich. All of these areas are in the suburbs but, with great transportation into central London, and are established with the infrastructure that people need, and want.

From my experience of living in London for nine years, the most important component here is transportation, and how close the property is to transportation. We used to refer to it as the "Rule of Ten Minutes": the property had to be within ten minutes of a tube station because people don't want to walk in the rain or catch buses. Also, in my experience in all the global markets, these properties are the most resilient as there is always demand from the middle-income sector of the economy, to live in decent houses and suburbs.

The second component, which is vitally important, is that, as the prices are generally one-third of the primary markets, the rental incomes are far more inclined to produce sustainable income. In the USA and Australia, we refer to these as the bedroom communities, and this is where the average US citizen or Australian wants to live with their family; this is the American, or Australian Dream.

My experience from my properties in London was that the properties

in the secondary markets have the most long-term, sustainable capital growth, and provide the lowest risk as we can rent them at decent yields, or returns, no matter what happens in the economy. Another example is New York. We are not investing in Manhattan, but in New Jersey, which is on the other side of the Hudson River and is only three stops from the World Trade Centre. Prices are one-third that of Manhattan and the yields are three times higher than Manhattan. This is a no-brainer to me, and is the reason that we always focus on the secondary markets.

Tertiary Markets

Often, in good times, investors get lured into investing in tertiary markets. These tend to be on the outskirts of the secondary markets. I have also yielded to temptation in the past.

When the market is booming, property in the secondary markets seem too expensive, and the yields don't stack up, and the only place to look for yields is in the tertiary markets. These markets, however, are the most susceptible to economic shocks because when the demand drops, they are the first markets that people move away from when they can afford to.

An example of this was that many South Africans were investing in Croydon and Barking in London. Both of these areas where far out of London, but there were great plans to rejuvenate these areas and to provide transportation links. The problem is that the GFC happened, and all infrastructure projects were put on hold.

Investors realize they can get better rental property closer to the city, and so what happens is that there is an oversupply, as generally there are a higher percentage of properties owned in tertiary markets by investors who were chasing the yield. The only way to compete is to drop the rent further, and then, if you want to sell, there is the problem of only being able to sell to another investor, who is also chasing a yield, and so destroying your chance of capital growth.

A classic example of this is in Clayton County, in Atlanta. Many South Africans have invested here owing to great prices and yields on paper. Unfortunately, however, these areas are dominated by investors; the education system is one of only four in the country to be downgraded. So, not only do homeowners not want to live here, neither do tenants, if they can help it.

I have learned a hard lesson in tertiary markets: that there is a large

difference between a paper yield (what it looks like on paper) and "Money in the Bank", (what it actually is), after vacancies, voids, and generally, many more management problems in this segment. After making this mistake a number of times with South African properties in tertiary markets, which have just not delivered anything like the return we expected, we focus only on secondary markets internationally to dramatically reduce the problems, increase the safety, and ensure sustainable returns.

Now that we have the overview, let's get into the heart of the three markets we are investing in.

CHAPTER 7

THE UNITED STATES

Chapter overview

1. Introduction
2. Fundamentals
3. Positives of the market
4. Negatives of the market
5. Areas of interest
6. Where to invest?
7. Commercial Property Market
8. FAQ and Glossary
9. What Next: The Property-Buying Process in Detail
10. More research for USA

1. Introduction

Contributions from Brendon Brown and John Chin, both business partners in IPS and Wealth Migrate and specialists in the USA property market.

In 2012, Donald Trump said that it was a great time to get into real estate in the USA, and he specifically pointed to houses as the best investment in the US property market.

Fellow billionaire, Warren Buffett, appeared on CNBC in late February 2012 and said essentially the same thing. He said that, if there was an efficient way to do it, he'd like to buy 200,000 single-family homes. "If held for a long period of time, and purchased at low rate." Buffett said, "USA houses are even better than stocks."

You may or may not agree with them at first blush, but when two billionaires, neither of whom is trying to sell you houses, say the same thing, it's probably worth taking a closer look don't you think?

As we have referred to so many times, the most important components of investing successfully overseas, are Information and Partners. The best-case scenario is where you are dealing with a partner who regularly travels to the relevant overseas markets to make sure that they are up

to date with the trends, opportunities, risks and the general state of the investment market. Collectively, IPS and Wealth Migrate have spent over R2.7-million in hard costs, travelling to the USA in the last 17 months, researching the market, vetting the partners, understanding the tax and structures and, once again, understanding the risks and finding the solutions. We have done seven trips to the USA in the last 17 months, investigated 17 different markets in the USA in order to obtain the right information, and to find the right partners.

Anyone who invests in property needs to know what is happening in the USA. This is where the trouble started, and it won't necessarily be where it ends, but it is certainly having a major impact on the global property market.

This is what I said about the market after my first investigative trip in 2012: "It was a fascinating country. The one thing you have to understand is that it is a massive country, and the property market is very regional. To understand this better, we met with many strategic partners around the country, including the likes of Wall Street bankers, Dr Dolf de Roos, author of *Real Estate Riches,* part of the *Rich Dad, Poor Dad* series, leading international property experts, and a plethora of property people. Personally, I always find I learn most from the "taxi drivers" about what is happening in any city. At the end of the day we went with a cynical approach, trying to punch holes in arguments, trying to understand the risks, trying to evaluate and measure the opportunity based on these risks. After a thorough analysis, we decided this was a great opportunity and we were going to invest heavily."

This is what Brendon Brown had to say: "Information is the most important fundamental. I spend more time gathering information than most investors who just use gut feel, but beware the analysis paralysis mindset. When I see the right information and the rest of the fundamentals are in place, I move fast. That's why I was able to buy my first property in the USA in 2011 at the very bottom of the property price curve. I gathered the right information, checked these fundamentals and then took action as fast as I could. The good information is only good if followed by massive action."

Some simple facts about USA property

- The average growth for 50 years across the country is 9.75%.
- Houses are much better than apartments.
- Apartments are a better cash flow, but have more problems.
- Tenants in houses are more stable because they are more settled.

There are 381 MSA (Metropolitan Statistical Areas) in the USA.

- South Africa has about fifteen.

The best-performing properties are the properties that target the bread-and-butter housing. This is the middle class and working-class housing in the secondary markets.

- Generally speaking, apartments range from $40,000 to $80,000; rentals between $600 and $900 per month.
- Three-bedroom homes (the ideal, residential, cash-flow property) range from $100,000 to $150,000; rentals between $900 to $1,300 per month.
- Single Family is the most liquid investment.

A major concern is all the repossessed properties that the banks are keeping off the market to try and protect the market.
There is also a pipeline of homes with mortgages considered to be "seriously delinquent" (over 90 days past due). This is known as "Shadow Inventory", and it is believed to encompass 2.7 million properties, although this is dramatically being reduced now as the market recovers.

The three most affected markets in the crash were Phoenix, Las Vegas and Detroit.
The first two were the fastest growing cities in the USA for a number of years, but they have been devastated by the oversupply. Detroit, the heart of the American car business, has been dramatically affected by the unemployment of the car industries and has recently gone bankrupt.

Two other states that have also been affected dramatically are California and Florida.
Both were two of the best performing markets with some of the highest

capital growth, but, owing to an oversupply and unaffordable prices, these markets have also dramatically readjusted.

California, Arizona, Nevada and Florida are known for their cyclical growth because of affordability and employment, which constantly changes in these states.
As it becomes affordable, people move into these states and employment rises. Then affordability diminishes and people move out to cheaper states. This cycle continues endlessly every seven to ten years.

California, Arizona, Nevada and Florida were also "trophy" markets, and when the foreigners and the investment funds started buying again, these were the markets which were targeted the hardest and in many cases, like Miami, are back to full value.

In the Northeast of the USA, you need to be careful because the judges interpret the law differently and there is a lot of consumer protection, specifically in the more "liberal" states.
In a nutshell, these are the social states and they protect their tenants well. Otherwise, in the more conservative states that are more "pro-landlord", tenant eviction can happen in as little as 30 to 45 days from the beginning of this process.

"Short Sale" is a popular term at the moment.
Essentially, it is when a property owner (bond borrower) owes more money than the house is worth and negotiates a sale "short" of the amount owed to align with today's market value. Property Brokers (Estate Agents), are now specialising in this in order to help those people who are in trouble to sell their properties. It can be very difficult and time-consuming as the banks don't have the resources to allow this to happen. They are changing though, as it is becoming more efficient than repossessing the properties which often costs them over $50,000 in legal fees and renovations costs, irrespective of the property value. This takes approximately 60 days to 24 months to complete the process, and is very difficult.

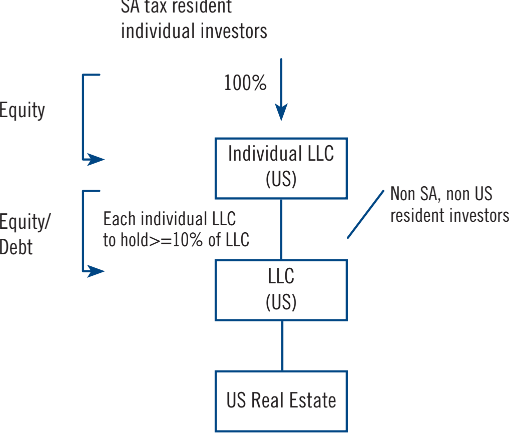
There are no immigration benefits to owning property.

- See the section on EB5, in Chapter 10.

Tax

Capital-Gains Tax is 15% if the property is held for more than one year; the LLC is 15%: Flow-through device for members and is then taxed on own personal tax forms.

We have paid Grant Thornton R250 000 to make sure that we have the right tax advice for South Africans investing in the USA. Contact the IPS or Wealth Migrate team and they can assist you with this as, obviously, it changes on a yearly basis.



Description:

1. Individual SA tax resident investors have surplus cash to invest and make use of their R4m per annum investment allowance in terms of SA exchange control regulations
2. SA individual establishes Individual LLC (disregarded entity) with nominal share capital
3. SA individual investor subscribes for shares in Individual LLC for cash using their SA excon allowance of R4m
4. Individual LLC establishes LLC (not tax transparent) to hold US residential real estate property
5. LLC issues shares / debt to Individual LLC and non US non SA tax resident investors for cash. Percentage shareholdings TBC but each Individual LLC must own at least 10% of LLC (SA foreign dividend participation exemption)
6. LLC acquires and renovates the property
7. LLC may either sell the property immediately after renovation (growth plan) or hold the property in order to earn rental and sell the property in the future (income plan)
8. Interest on shareholders loans paid by LLC to individual LLC
9. PAT paid as dividend by LLC to individual LLC
10. Gain on property upon eventual sale paid as dividend by LLC
11. LLC returns share capital to Individual LLC
12. If LLC holds the property to let, it may look to partially refinance a portion of the LLC equity with US sourced interest bearing bank debt in the medium term and return capital to LLC shareholders

Searching for property on the Internet

- Be very careful as Google, Yahoo and Zillow do not put many relevant property details on their websites; plus, since the data is drawn from local realtors databases, the information can be outdated.
- It is very difficult to compare apples with oranges, so it becomes equally important to get inside re-possessed properties as they can be destroyed on the inside. Take a look at this picture below. What would you rate this property from the outside? Probably eight out of ten, would you agree?

However, when we got inside they had destroyed the place. You have to see the video; with food and much more, strewn about. The skip alone would cost $8,000 to clean this house out. Inside, the house was in ruins.

You HAVE to have partners on the ground.

We have seen examples of where somebody had taken a chainsaw and cut up the bathroom and the kitchen.

Need to buy the property before they hit the MLS (Multi-Listing System), which means they are then on the open market.

- "More than 90% of agents in the USA are morons" RJ, Atlanta.

Wholesaling

This is when private buyers buy bulk repossessed properties from the bank. They have special relationships, buy cash, and buy multiple properties at one time. Owing to their bulk-buying power, they get significant discounts. Generally they renovate the properties; new bathrooms, kitchens, appliances, carpets, paint, and make it look as good as new. Then they sell them on the open market many times, with a one-year warrantee.

Items you need in the US to attract top incomes

- Dishwasher
- Range and Oven
- Refrigerator
- Washer/Dryer (in some markets)
- Fans in ceilings
- Good faucets
- New tiles, or carpeted floors
- Covered windows

Section 8 Tenants

- This is where the government gives the tenants up to 90% of their rent.
- There are strict controls every year to make sure the property complies with the regulations, such as water, heating, and so on.
- Some people are really against this, while others who have the right systems rave about these tenants.

Trailer Parks

These are the bottom of the barrel. Trailers, otherwise known as mobile homes, depreciate in value over time to zero. They are considered personal property, not real estate. As such, they pose exit problems if you ever need to sell since banks do not offer the same loan programmes for these types of properties than they do for "stick-built" homes.

Rent to buy

Otherwise known as "lease options," these offer tenants the option to purchase the home after a specified lease period.

For example, you might buy a property for $90,000 and agree to sell it to them in three years time for $180,000.

It's a great scenario for people with bad credit – and there are many in the US who found themselves with dents in their credit after the GFC. An advantage with lease-option tenants is that they treat the home as their own, and look after it.

Many of these tenants will not exercise their purchase option, but you get a great tenant when using the three-year rental option.

This is an example of leveraging the creative expertise and local knowledge of the Best-of-Breed partners on the ground.

Tips on being successful in USA property

First Rule: Always check the neighbourhood.

- "Junk cars mean a junk neighbourhood."

Second Rule: Where are the schools?

- Certain suburbs have better schools, and therefore they are in higher demand and attract a better quality of tenant. There is a rating on every school system and these drive values. A good school can increase prices by 50% per square foot.

Third Rule: Proximity to transport hubs.

- Different cities have different set-ups and, although the USA uses 50% of the world's oil with 6% of the population, (thus proximity to highways is very important), it is also important to know the public transport hubs.

Fourth Rule: Look at the lawns.

- Owner-occupied neighbourhoods will have the lawns that are well taken care of, and tenant neighbourhoods are often not looked after. For maximum growth potential, purchase in neighbourhoods with 50% or more owner-occupants.

2. Fundamentals

What Caused the Crisis and Where Are We Now?

Before we can understand where the market is going, we need to understand what caused the chaos so that we can make educated and informed decisions about the future.

There were two major problems:

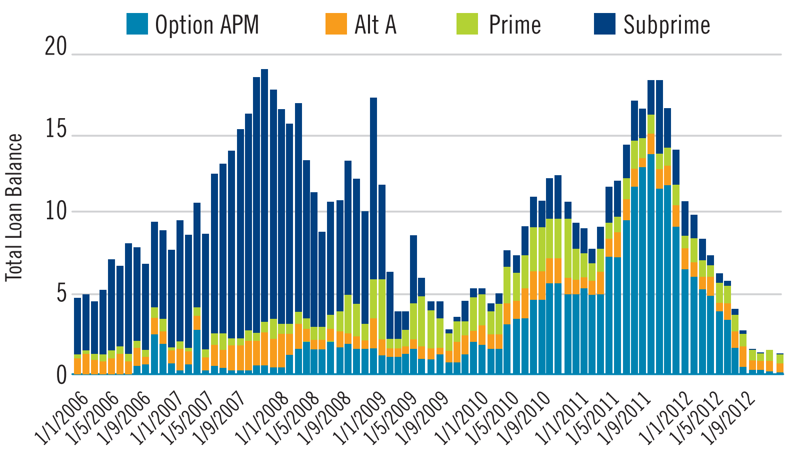
2.1 The Sub-Prime Crisis

- As you can see from the graph below, it is all about the **"reset mortgages".** What this means is that lenders were providing really cheap finance to people on two-, to three-, and five-year fixes. What mortgage brokers told people is that, when they came to the end of their fixed period, they would just re-mortgage again. However, as the market changed, they could not refinance; the mortgage rates often doubled, if not tripled, and then they could not afford their mortgage.

- As you can see from the first peak on the left of the graph below, this is where the sub-prime debacle reached its worst crisis point. The second peak on the left shows where Lehman Brothers went bankrupt.

SCARY MOVIE 2011

The upcoming surge in mortgage loan "resets" for "option ARMS" does not peak until late 2011



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- Another problem is that, in the USA, all lending is **"non-recourse lending"**. What this means is that, although you will get a black mark against your name when you walk away from your property, the bank can't come after you for your other assets. Therefore, people who find themselves in this negative equity position, find it easier to walk away from their mortgage rather than to continue trying to pay.

- **Ease of funding – reckless lending:** When I asked people how one got a mortgage before 2007 they said, "All you needed was a heartbeat!" This was the major problem; anyone was given mortgages, and this is what caused the "sub-prime" crisis to came into play. They had what they call "NINJA" loans; "No income, no job, no assets". When George W. Bush was re-elected in 2002, he said it should be every American's right to own a home and the government encouraged banks to lend freely.

For example, in Orlando, we were told about how the bank would approach you and ask you what you would want to pay monthly. You would normally be paying $2,000 a month, but you agree to pay $800 a month and put the remainder on the end of the loan. It was called "Pick a Payment".

Most people will always take the easy mortgage, and that is why most US citizens had two, and sometimes three or more mortgages on their homes. You also had the "Stated Income" loans, where you could tell the bank whatever you wanted to say what your earnings were. The bank didn't check, and you simply had to sign a form, verifying that this is what you earned. The bank lent against this form, with no check-up, to see if the income was justified.

Since lending was loose, moreover, home-owners who had growing equity in their homes cashed in to buy new cars, boats, and home improvements through home-equity loans (Home Equity Lines of Credit or HELOC). This caused massive over-leveraging of the American public and private debt doubled from $22- to $42-trillion from 2001 to 2008.

- From the graph on page 100 you can see where the "sub-prime" crisis is, and also why Lehman Brothers went bankrupt.

  (We understand this graph is out of date, but it best outlines what happened with the sub-prime crisis and the reset mortgages.)

The question is: Where do we go to from here? The scary thing is that there is another resurgence of reset mortgages, more than $1 trillion, which is on the horizon for the Commercial Securitised Debt. Government and banks are preparing for this. The banks are doing everything within their power to prevent the same catastrophe from re-occurring, but it is still coming, and it depends on how successful they are as to the type of damage it will do to the commercial market. At the moment in 2013, the government and the banks seem to be managing this risk, but there is still a tremendous amount of vacant commercial property, especially retail, and these mortgages are coming to fruition where they will be reset, and could cause big problems in regional commercial markets.

2.2 Oversupply of Property

- Unlike the UK, Australia or South Africa where demand continued to outstrip supply, in the USA there were, and in some areas, are still major oversupply problems. The country was so caught up in the property boom that they just continued building, whether or not there was real, local demand. In 2004 it was believed that, for every four houses built, one stood empty. Twenty-five percent of properties were unoccupied and people didn't care, as they were just focusing on the Capital Growth. The calculations are that there were as many as ten million properties oversupplied, well above the demand.

- The important thing to understand is that for over six years there has been no supply whatsoever. The population continues to grow at 9% per decade, and so supply and demand are coming back into equilibrium which is 5 or 6 months of inventory.
- Another major factor which has affected the demand-side of affairs is that the big funds are coming into the market. Blackstone have bought 29,000 homes across the US, spending $4-billion in six markets since 2012, and there are many other funds like them such as Colony Capital and American Homes. These funds are buying billions of dollars of American housing, renovating them and renting them. They are then bundling them as performing assets and, in time, they want to securitize them and sell the pool of seasoned rents on Wall Street. Blackstone is the world's largest private-equity firm and is leading investors in transforming an industry that historically was a Mom-and-Pop business (and which Goldman Sachs estimates is worth $2.8-trillion) into an institutional asset class. In May 2013 the firm expanded a credit line from Deutsche Bank AG to $2.1 billion for acquiring properties. Opportunities for bulk deals have been scarce, forcing investors to acquire properties one by one on the open market, at bank auctions, trustee sales, and in small portfolios. They've targeted states such as Arizona, California, Florida and Nevada that were hardest hit by the housing crash and subsequent foreclosure crisis.

Stunned Home Buyers Find The Bidding Wars Are Back

By Nick Timiraos

A new development is catching home buyers off guard as the spring sales season gets under way: Bidding wars are back.

From California to Florida, many buyers are increasingly competing for the same house. Unlike the bidding wars that typified the go-go years and largely reflected surging sales, today's are a result of supply shortages.

"It's a little surprising because we thought bidding wars were done with," said Andy Aley, who is looking to buy his first home in Seattle's Beacon Hill neighborhood. The 31-year-old attorney was outbid this year when he offered up to $23,000 above the $357,000 listing price and agreed to waive inspections and other closing conditions.

Competitive bidding in the current environment isn't producing huge price increases or leaving sellers with hefty profits, as occurred during the housing boom. Still, the bidding wars caused by tight inventory provide the latest evidence that housing demand is starting to pick up after a six-year-long slump.

An index that measures the number of contracts signed to purchase previously owned homes rose in March to its highest level in nearly two years, up 12.8% from a year ago and 4.1% from February, the National Association of Realtors reported on Thursday.

"We very much believe we've hit bottom," said Ivy Zelman, chief executive of a research firm, who was among the first to warn of a downturn seven

Please turn to page A12

- This catalytic change in the market from the middle of 2012, changed the market from a buyers' market into a sellers' market, and these funds are way overpaying for property as they are buying everything on a very conservative yield (between 5 to 7%), which is shrinking the opportunity in USA property fast. The aim is to stay one step ahead of the funds, not to compete with them.
- The final thing to be aware of is the "shadow inventory", where the banks are holding back repossessed inventory to ensure they don't flood the market. One has to be very careful about this and do one's research, as this can be a major risk in certain markets.

We need to understand these challenges, but it is clear that things are changing; there is no more reckless lending (in fact, at the moment the lending environment is ultra-conservative), and the supply and demand graphs are coming back into equilibrium. As a result, IPS decided in 2010, although there was opportunity, that there was too much risk to invest (see the "2010 USA Property Report" at www.ipsinvest.com). Now we believe that this is a market which investors need to understand and take advantage of. There are three reasons for this.

Why We are Excited About USA Opportunities

When investing, you always need to understand what the story behind the scene is and why you should invest. At the time of writing in 2013, we believe that US property offers a very compelling story for a number of reasons.

The USA Economy

You need to read the *USA Property Report – 2010* to understand where the economy was in 2010, what with the then unemployment rate, national debt, consumer spending and so on. On the whole, there were many parallels between the USA of 2010 and the USA in the Great Depression of 1929. Unemployment in the Great Depression was 25% and, if you compare apples with apples, unemployment in 2010 was 24.9%. The national debt rose to a position where, technically, the USA went bankrupt on 1 August 2011 when their debt repayments exceeded 100% of their earnings. The only hope for repaying this debt is when the "Y-generation"

reach an influential point in the economy (at an average age of 35), and this will not happen until 2025. Finally, 70% of the USA economy is based on consumption and with the "baby-boomers" hitting retirement (10,000 per day), this spending is decreasing.

An element of concern is the attitude towards President Obama. One of the major disturbances I found when I was in the USA not so long ago, was the polarized political climate. When Barack Obama was brought into office in January 2009, there was tremendous hope that he would be the saviour, not only of the American people, but also of the American economy. In 2013, however, these hopes had been turned on their head and it didn't matter who you spoke to, they believed his words were hot air. He promised too much, was not delivering, and was turning the country into a socialist state. Granted, he had one of the most difficult tasks of any president to date, but businessmen and capitalists in general are very dissatisfied with him.

The final, major concern is Europe. If the Euro goes on parity with the Dollar, then the Euro will collapse and it could take the USA with it. The USA economy is in trouble as many USA businesses rely on European clients, and thus Europe's problems are having a direct impact on the USA economy. Nevertheless, the latest European reports seem to suggest that the European economy is finally showing signs of recovery.

Taking the negatives of 2010, the Obama Presidency, and even the fact that many of the problems remain, the people of the USA are definitely a lot more positive that the economy is recovering.

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A gown for Angelina?
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iends at Fenway
Sox in disarray, fans vent
ns on Bobby Valentine, 1C

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NDAY, APRIL 23, 2012

GENETIC TESTING AND DISEASE

Optimism shows in survey on economy

According to *The Economist* of August 17, 2013.

After a year and a half of recession, the Euro area's economy has begun to grow again. Its GDP rose at an annualised rate of 1.1% in the second quarter (see article). Britain's recovery has gathered pace. Evidence is mounting that the United States' GDP grew faster in the second quarter than the initial estimate of 1.7%, and has accelerated since. Healthy retail sales, rising production orders and low jobless claims, all suggest that growth could be around 2.5%.

In China, the main monthly indicators from trade to industrial output improved in July 2013, easing fears that the world's second-biggest economy was heading for a slump. And though Japan's second-quarter GDP growth, at 2.6%, did not match the blistering 3.8% pace at the start of the year, it is still an impressive figure for a once-moribund economy.

Better macro-economics is a step forward, but its effect will be muted unless the financial plumbing is working, households are spending, and firms are ready to invest. Those conditions hold in the USA where repairs from the financial crisis are all but complete. After a painful adjustment, the housing recovery is built on solid foundations. Consumer debt has plunged. Banks are keen to lend. Add in the supply-side boost from shale gas, and you have the makings of a strong recovery.

Elsewhere, the good news looks thinner. Unlike America, the Euro area has failed to clean up its banks or write down unpayable debts. Uncertainty over the pace of banking union has helped create a dysfunctional credit market, with firms in the region's periphery starved of loans. Europe's recovery will not accelerate until this is fixed. Britain's rebound may fizzle out because its companies are investing so little. Japan's main problem is the gap between Mr Abe's macro-economic boldness, and the timidity of his efforts at deregulation. Structural reform is meant to be the "third arrow" in the quiver of "Abenomics", but he has yet to tackle cosseted sectors, from farming, to health care, so the economic rebound may not last.

China is more complicated. July 2013's figures suggest that it is not sliding into a slump, but there is little reason to expect faster growth. This is because China is in the midst of two tricky transitions: from an investment-led economy, to a consumption-

driven one; and from an economy addicted to rapidly rising credit, to one that is more self-sustaining. China has the capacity to adapt without calamity, not least because it has the fiscal resources to absorb bad debts. But neither transition has developed as yet, and both imply slower growth.

This leaves the United States as the likely engine of global growth. This is not in itself a bad thing, since the world economy has relied on US oomph many times before, but a broad recovery would be stronger and safer.

At the moment it looks like Clem Sunter's "New Balls, Please", or Scenario three, seems to be playing out.

We believe the economy is turning, and therefore, this is the first major positive.

USA Property Values fall since 2007 range between 35% to 40%

Since 2007, property across the USA has lost 35% to 40%, depending on which reports you read. Now we understand that these prices were extremely inflated and that it also varies from area to area, with areas like New York losing nothing, and Las Vegas losing 70%, but it is interesting to understand if nothing other than for the mere psychological effect on the USA people.

Replacement values are 40% to 60% of cost price to rebuild

Since 2007 prices were very inflated, a far better measure of value would answer the question: what would it cost to replace the same property today? In most areas you would be buying property for between 40% and 60% of what it would cost to replace that same property. Along with the historically high income yields which are possible, this provides a very compelling argument for discounts below intrinsic value in the property.

Dynamics are starting to change fast though, particularly in some markets. On 7 May 2013, *The Wall Street Journal* reported that more than half of US citizens now expect the country's home prices to climb within the next year. This illustrates a growing optimism towards the health of the housing industry. Public sentiment, low interest rates, and institutional demand is driving prices up. Properties at well-below market value will not last forever. Indeed, in several markets this has already corrected itself.

Property Fundamentals

The biggest lesson which was learnt from the Global Financial Crisis (GFC) was that those investors who invested for Capital Growth have been destroyed; be it the biggest funds in the world, or the individual "Mom and Pop" investors, and those that invested for income have not only survived, but thrived.

The most encouraging factor we find in the USA is that the rental demand is strong. This is based on two factors:

1. ***Psychological scarring***

   More than half of Americans we meet have had one of their properties repossessed in the last five years. Everyone, from property investors to secretaries, had gone through the pain of losing their property. Not only had they been repossessed, but now the Internal Revenue Service (the IRS, like South Africa's SARS), is coming after some of them for the tax obligation on their loan deficiency, as the IRS has deemed that some of these write-offs which the bank gave their clients, was a gift, and the clients had to pay tax on them. Basically, they have had enough of "property", and are quite happy to rent. Renters prior to the GFC encompassed 31% of households and now represent 35%.

2. ***Bank Lending***

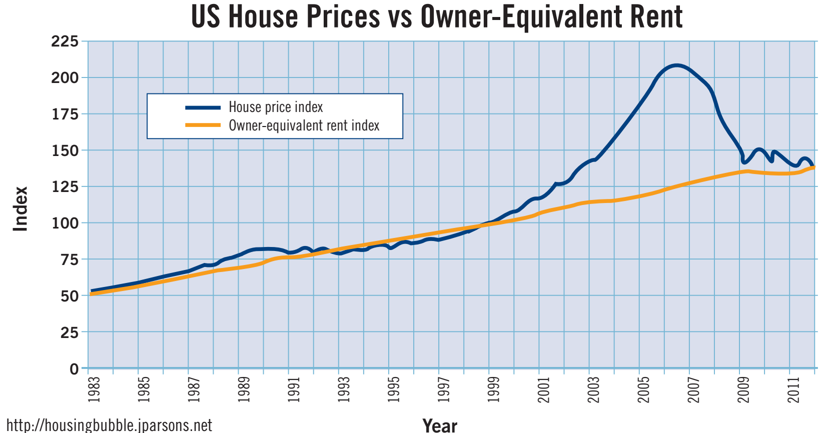
   More than 70% of homeowners have mortgages on their properties. The United States is a debt-ridden society. Even if they can get over the psychological scarring and realise the opportunity, there is very limited bank funding, and so they can only buy cash. The average person does not have access to cash like this, and is forced to rent.

Bottom Line

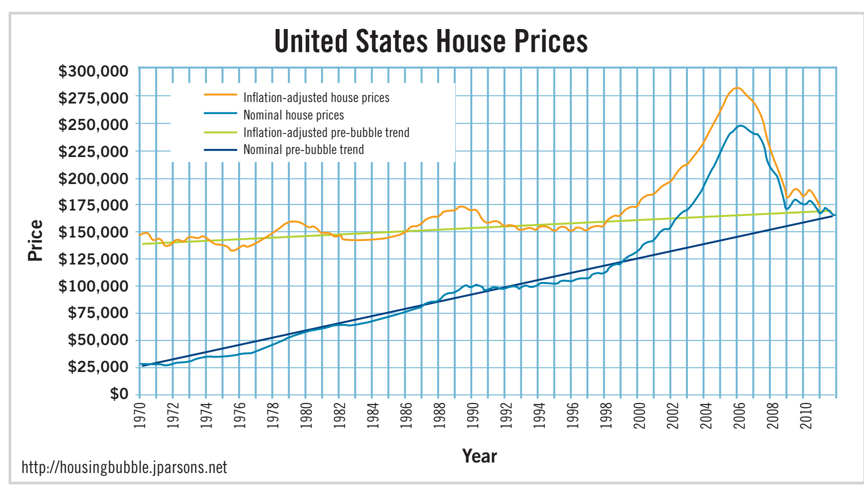
There Is a Strong Rental Demand, and Great Income Yields

Property is a simple investment, and it comes down to the supply and then demand. As explained already, this was one of the underlying problems which caused the GFC and the over-supply in the USA. After five years, and no supply, it is believed that the supply and demand is coming back

into equilibrium and in line with intrinsic value. Look at the long-term trends and see how they are back in equilibrium.



After supply and demand, all property, be it commercial or residential, should be evaluated on the income it can generate. The good news is that the USA property values are back in line with long-term trends.



These graphs all tell a story, but when I asked Ian Fife, editor of the *Financial Mail* Property Section and a very successful property investor,

"How do you deal with uncertainty?" he explained as follows:

> **"Through Knowledge;** by concentrating on the actual realities of the market we operate in. An index is a theoretical figure. **A transaction is concrete, and specific.** If you know how property actually works we know that it remains the biggest store of wealth in the world for ordinary people. This is because it remains the most predictable and conservative of asset classes. And it is, more often than not, a home, too".

As described earlier in this book, we bought our first property in London in 2002 and used this same logic. At the time England was going to war with Afghanistan after 9/11 and everyone expected oil prices to increase, inflation to rise, and eventually, interest rates to go up. We focused on the fundamentals of the opportunity. There was a three-bedroom house five minutes from Wimbledon tube station, and with a £20,000 investment, we could renovate it and turn the property into a five-bedroom house. With this we would net over £1,000 a month and decided that if interest rates went up, we would be able to ride the wave.

Unfortunately for the doomsayers, it never happened, but in late 2008 the GFC surfaced and we were very nervous as to what would happen if all the tenants left. As it transpired, if you had good property in good areas, the tenant demand remained. We might have lost £100,000 in capital values in the GFC (although the market has now recovered), but we didn't care, as interest rates dropped to 0.5%. Our passive income was more than £2,000 a month and so, logically, we rode the wave until the market recovered. As I always say, "Long may the GFC last!"

Once again, it is all about the fundamentals of the deal or opportunity. These are changing all the time, but when you are buying property at a 40% discount of replacement value, and net yields from 8% to 13%, there certainly are strong fundamentals, and is the reason that we have been investing so heavily for the last 17 months, having bought 251 properties to a value of US25.7-million.

For the latest information on the type of opportunities we are investing in, please go to www.ipsinvest.com.

The Partners

The bottom line is: you can try and do it on your own, or you can work with tried and tested partners; work together and use the laws of nature.

A flock of 25 birds can fly 70% further than one on its own.

In 2010, I met with a number of partners, including one company who was selling property in South Africa. I travelled to America to investigate them and what they were selling. I was horrified by what I found. The impression I received in 2010 was that they would "sell their sister" to get a sale, and they were just trying to flog property to us, "ignorant" South Africans. Because of this attitude, IPS decided that we would not be able to find partners on the ground whom we could trust and, as we know, international property is only about two things: information and partners.

In 2012, IPS adopted a different strategy and contacted a company they had worked with in the UK since 2005. When IPS started up in 2003, they sold South African properties to the British and Irish in England. They contacted many companies and all of them said, "Send us a mandate: we will sell the property and make *this* much money." That was all they were interested in, and not the client. Only one company got back to us and said he never helps people invest without doing his own, personal, due diligence. He explained that he was flying to Cape Town on that Friday and would I care to join him? We formed a great bond from that project onwards, as I realized that this is someone who has the client's interests at heart, and is someone whom I can trust.

In 2012, IPS adopted a new strategy. While travelling with Neale Petersen, (Owner and Editor of *Real Estate Investor* Magazine), and Brendon Brown, and pooling all our resources, I also made sure that we set up meetings with all the Best-of-Breed partners around the country.

It was a highly successful strategy, as we experienced an incredibly balanced view of the market, the best of USA property players, and a great understanding of risks and opportunities. It was these partners who were the catalyst for IPS to agree that we, ourselves, were now ready to invest and help our clients.

For more information on each partner, it is best to watch the YouTube videos where I have interviewed the partners, their experiences, and the solutions they provide. (See www.ipsinvest.com)

The bottom line is: with the right partners we now believed we were in a position to execute this opportunity.

3. Positives of the Market

Eight Reasons to Invest in the USA

1. A Mature "First-World" Market

Investment risks in emerging markets like China, India, Cyprus or Zimbabwe are, quite frankly, enormous. In the US we have a mature, highly developed country with world-class communications, finance and property sectors, and a wonderfully entrepreneurial approach to business. Risks are minimised, and opportunities are easier to see and benefit from.

2. Language

As an English-speaking nation there is great comfort in easily understanding and communicating with everyone involved in property purchase and sales. This is an important benefit for investors and you only have to ask someone who has tried to invest in a country like Spain or Germany, to understand exactly how important this actually is.

3. Laws

The laws are clear, and the rule of law is fully accepted. This is not necessarily true in less well-developed countries where laws may not be enforced, or foreigners are disadvantaged. In a country like Cyprus, there is a massive investigation by the EU, due to irregularities with title ownership; and foreigners have massive problems with the properties they "claim" to have bought. In the USA, registration of property is effective and you can insure against defects in title. Bottom line is the contracts are written in English and are easy to understand.

4. Size

The USA is an enormous country; ten million square kilometers, with 307 million people; the third largest country in the world. It generates a gross domestic product (GDP) of $15 trillion, the highest in the world, representing 23% of the world's wealth creation. It is also geographically diverse from the tropical southern states, to the frozen tundra of Alaska. The huge diversity of people and geography result in a wide range of investment opportunities, from inner city condos, to holiday property, to ranches in rural areas.

5. Easy to Buy and Easy to Sell

The laws and customs in place for property transactions make it easy to buy or sell quickly; often in one day. This opens up opportunities for profit in short time-scales which are simply not possible in the UK, Australia and many other countries. A property transfer can take as little as four days to complete (not that you would want to do that unless property inspections were done, but it's technically possible). Transfer taxes are also low, which makes short-term flips more desirable.

6. Easy to Visit, Either for Holiday or Business

Many of us visit the US on business or for a holiday. It's easy to get both a holiday and a work visa for 10 years. You don't have to worry about the language, sanitation, quality of food or accommodation. While owning US property, you can also charge travelling expenses to visit your investment against your rental income.

7. Low Taxes, with Generous Allowable Expenses

The tax regime in the US is generous to business owners. Tax rates are lower and have allowable expenses greater than in South Africa. Between interest and depreciation write-offs, minimizing your U.S. tax obligation is easy. As we said, we have a full tax opinion from Grant Thornton, which we share with our IPS and Wealth Migrate clients.

8. Risk/Reward Profile

Consider the points we've made, and the conclusion is clear; the USA is a low-risk country for property investors. Factor in the significant profit potential, and you end up with the best kind of investment destination: low risk and high reward! That's a rare combination and underlies our view that the USA now represents a rare opportunity for smart investors, as has been shown by our Global Property System™ (GPS™).

4. Negatives of the Market

On returning from my first trip in 2012, I spoke to my mother and friends and they all said the same thing, "It sounds too good to be true."

My uncle is a very successful investor and asset manager, and he

taught me a long time ago: if I can understand the worst-case scenario and manage it, then everything else is upside.

With this in mind, I went to the USA to understand what the worst-case scenario was, and I believed there were four risks. Here they are in order of importance:

1. Global Currency

If the USA loses the US Dollar and its status as the world's reserve currency, then they will no longer be able to print debt and will therefore have a major problem. Each time I go to New York, I meet up with a great friend of mine from UCT, Robert Gordon Brown, who is now a top Wall Street banker with UBS, one of the biggest Private Banks in the world, that operate out of Switzerland. When questioned about the risk of China, and the Yuan becoming the world currency, Robert explained that this is not actually a risk. Firstly, there is no way the world would allow a regulated economy, like China, to govern the World Currency and secondly, China has publically stated, on numerous occasions that they don't want it. If they did, the Yuan would increase by 30% in value and wipe out their manufacturing. We believe this risk can be parked.

2. Government Debt

There are two scenarios as to how the government is going to pay the debt back:

2.1. Keep interest rates as low as possible so that the government can keep paying the interest on the debt and then increase business and capital gains tax. This is what Bill Clinton did and he ended up with a surplus.

OR

2.2. Tax the middle class which Obama is doing and thereby effectively killing the middle class with State and Federal taxes.

The bottom-line is that we did not believe this would have a major impact on the economy or the property market, and we also believe that it would take them more than 20 years to pay off the debt. As Clem Sunter says, "This is certainly a flag we need to watch, and particularly the bond rates, where we determine the rest of the world's confidence in America paying back its debt."

3. Tenant Demand

The biggest risk in property is if there is no income which results in the business model not working, and then you might as well buy gold no matter what value you buy it at. Therefore tenant demand, and thus income, remains a risk which needs to be constantly monitored as market conditions change.

As previously explained, in the USA at the moment the psychological effects of what has happened, and the fact that people can't borrow, has ensured that there is a strong tenant demand. The population is growing with no supply and, short of an atom bomb, the demand will continue to grow. It all comes down to having the right partners to do the management and maintenance to find the right tenants, collect the rent, and look after the property.

As IPS and I learned in Australia when interest rates are cut dramatically, the would-be tenants suddenly buy homes and the yields can be compressed. IPS does not understand how this could be a risk, as interest rates are currently 0.25% in the USA. We don't understand how they could drop them further, and at the moment they are actually rising.

- There will need to be constant monitoring as to when people can borrow again, and therefore bolster housing demand.

4. An Increase in Interest Rates

In many First-World countries at the time of writing in late 2013, the challenge was that you were borrowing at the lowest interest rates in 30 years. In the UK you could borrow at 3.5% and the yields were 5%, but if interest rates go up, and they will when the economy recovers, then you might find that your investment does not look as favourable.

In the USA you generally have to buy cash or with private money (hard money), and in doing this you are not exposed to a rise in interest rates. In fact, it is the one negative of the USA; that it is only cash (conventional financing is not typically available for foreigners) but this is actually the opportunity, as no one has access to finance and when finance becomes readily available, the market will turn, allowing us to really capitalise on our investments and possibly re-finance our portfolio.

In any investment, therefore, there is always risk, especially for the uneducated and uninformed investor. The purpose of this book is to give you a balanced view of the market so that you can make the right decisions. It really depends on whether you can understand the risk, and manage the worst-case scenario in a way that will give you the peace of mind to make the right decisions. Bottom-line, in life, sometimes the biggest risk is to risk nothing.

In my experience, the wealthiest people I have met in property have taken advantage of markets in distress. In fact, more millionaires were made during the United States Great Depression than any other time in US history. In chaos lies opportunity. Like energy, wealth is neither created nor destroyed. It just transfers. Bad times for one group mean good times for another. This "opportunity window" played out in the UK from 1991 to 1994, and in South Africa from 1998 to 2002 and is still happening now, during the GFC. I believe that ten years from now we will look back and notice how some people created massive global wealth out of the GFC, and how most suffered and missed the opportunity.

5. Areas of interest

Different Markets Analysis

Just because we don't invest everywhere, doesn't mean we have not investigated these markets. This is how we understand each market:

THE EAST COAST

New York

New York is the same as London, there is no space. To build a new house, therefore, you have to knock one down, and for this reason there can't be an oversupply. Because it is the financial capital of the world many people go there to make their fortune, so there is significant demand. We are not targeting the Wall Street bankers in Manhattan, but the nurses, teachers, firemen, policemen and all the other middle-class people who choose to live in the secondary areas, adjacent to Manhattan.

During the GFC, New York lost none of its value, and it also represents strong rental yields, especially with the multi-family units

where you get multiple incomes from one property. The downside is that the properties are older, will need maintenance, and you need to be careful of Rent Control and regulations, which are more in favour of consumer protection in the North East (tenant-friendly legislation).

Finally, we have a fantastic partner in Glen. He will find, renovate, and manage these properties and this confidence is displayed by an Australian Fund, which is putting $100-million behind him. This is a conservative, blue-chip investment in the financial capital of the world. One has to watch this market. As the funds have targeted the "Multi-Family" units, we have tended to focus our attention on apartment buildings where we can have ownership of the whole building. We are targeting buildings between $-million and $10-million, in investment.

Build cost in New Jersey is $150/ft²

- Manhattan is $300 to $400/ft²
- Hoboken (having the same profile as Wimbledon in London) is $200/ft²

Hoboken is a three-to four-minute walk to the PATH train, which takes you straight into Manhattan in 15 minutes.

Jersey City is where Hoboken was 10 years ago.

- It is similar to Earlsfield in London, in comparison with Wimbledon.

Be careful of rent control in New York.

- Rent control only allows a two to three percent increase per year. There are many properties in Upper East Side, Manhattan, where housing is being rented for $1,200 per month when the market value is $5,000, and the tenants have it at this rate for life.

Single-family Houses

- Liquid, but not great yields.

Multi-family Houses

- Two to four units means two to four income streams.

- Over four units, you have rent control.
- This is what the Australian Fund has bought. Since November 2011, they have bought 135 of these Multi-Family Units to a value of over $100 million.
- *Cost*

2 Family = $200,000
3 Family = $250,000
4 Family = $350,000
Potential income: over $1,000 to $1,200 per family.

Taxes in New York are higher than anywhere else.

Net yield of 8% to 10% can be expected.

Seller must disclose any problems with property before you purchase.

Brownstones (built out of old stone) are more desirable for home buyers.

Properties are generally 75 years old.

Rents have been rising,

- Reached the bottom of the market in the autumn of 2011.

As long as the banks don't lend, the market will not recover.

- Rental growth is happening at 3% per year.
- New York has hardly been affected, with its property prices remaining stable.

Videos

Glen in New York
http://www.youtube.com/watch?v=7ZOW58JUOtQ

John on NewYork in comparison with the UK
http://www.youtube.com/watch?v=IiytZgfcALE

Multi-Family Units in New York, as well as explaining the Australian Property Fund
http://www.youtube.com/watch?v=iOYTiI2l-iI

Boston, Massachusetts

- Lost 30% and still down 20%.
- Houses are below value from 2002.
- No decent partners on the ground.

Florida in general

In some parts of Florida there are people who are as much as nine to ten months behind in payments, and yet the banks are not foreclosing on them as they don't want to make the market any worse. While I was there in 2010 I drove all over the state and saw so many completed developments, and yet there was no one living there. They are just standing empty! I went to one development that was being sold in South Africa, and although it was offered as a great opportunity in South Africa, when I asked the agents on site, they said they had not rented or sold a unit in over 12 months. Basically, they were just trying to "flog it to ignorant people in a faraway country". This is why IPS and Wealth Migrate never invest for ourselves, or for our clients, unless we have travelled there personally to investigate the opportunities. A lot of property is being bought in Florida by the Brazilians.

Orlando, Florida

Orlando is a growing economy, where the restaurants and shops are full. Disney World drives the economy, and there is a major influx of baby boomers looking for somewhere with lower taxes and nice weather to retire.

On the whole, I was very comfortable with the market here, and am happy about both the regional economy, the story about the baby boomers and the theme parks for employment and the general state of the market. Our focus here is the Secondary Markets where the workers from the theme parks work, and not the "aspirational" houses which have lost

so much value in the crash, but which can't be rented out.

Our partners on the ground, Ray and Jeff, certainly have a thorough understanding of this market and have the solutions to unlock this opportunity. Finally, I believe that Orlando provides South Africans with an affordable option to buy "nice" apartments and "houses" in estates, with all the landscaping and amenities that they are used to in South Africa. They can even write off "inspection trips" with the family, to go to Disney World, against tax on the income they earn from their properties.

Population Growth: Baby boomers

- Started hitting retirement in 2011
- Most of their money is in the stock market.
- 10,000 people per day, are retiring in the USA.
- This is having a major impact on the job market.
- They are called "Snow birds", as they don't want to live in the cold, and move to Orlando in the winter as there are lower taxes and better weather. They prefer condos, which are "lock-up and go"'.

No state income tax

The city is growing by 300,000 a year, and is expected to continue into 2020.

1,000 per day and the city is expected to grow by 50%, in the next ten years.

Employment Growth

- Disney employs 70,000 people and is on the west side of town.
    - Disney has had more than 100,000 people through its gates, every day since it opened in the 1970s.
    - 48 million visitors a year, and is the number-one tourist destination worldwide.
- Disney World is 28, 000 acres, and, so far, they have only used half of the land;

- 47 square miles (25% the size of the whole of Cape Town).
- Sea World employs 10, 000 employees.
- It has as many as 7 million visitors annually.
- Universal Studios has 20, 000 employees.
- They have 30 million visitors per year.
- 50 million people come through Orlando airport every year;
    - Even in the middle of the GFC this was 49 million people, unlike Las Vegas, which dropped from 50 million to 20 million.
- It is the13th busiest airport in the USA, and 29th in the world.
- It hosts the second largest convention centre in the USA.

Property

- Yields 9% to 14%
- On condos, or apartments:
    - Don't look at property with HOA (Home Owners' Association) when above $300 a month.
    - Don't have the highest yields, but also has lower vacancies.
    - Don't do section 8.
    - Price points: from $60 000 to $80 000.
- Houses
    - Prices range from $120 000 to $150 000.

There are no trains, so everyone in Orlando travels by car, so you need to be close to the transport nodes and understand how the highways work.

From Joyce, who specializes in REO's in Orlando:

- Market changed in mid 2012.
- On average, between four and five offers above list price.
- Generally cash buyers, and paying 20% above list price.

- Possibility of more REO's from banks in the next few months.
- Shortage of properties.
- Same as 2006, when there were bidding problems.
- Banks go for the Highest and Best Offer. Therefore, you need proof of funds.
- 40% to 50% of people in Orlando have lost their houses.
- Market is average to stable at the moment.

Videos

Ray and Jeff in Orlando
http://www.youtube.com/watch?v=3V6z7xgdBhc

Miami, Florida

- We travelled to Miami to investigate the market. We were surprised to find that there has been huge demand from the South Americans, and property along the main beach has recovered and reached the price levels that they were previously, before the crash.
- We also investigated an EB5 (see the section on this) in Hollywood, but we go into this in more detail in this section.

THE WEST COAST

California in General

- In April 2012, we met with two people, Ron and Marco, both of whom I met on my last trip in 2010. Marco, who I found on Twitter in 2009, has fascinating research on USA property and is one of the top three US investor property sales companies in that country. Ron was part of the company that came to South Africa, but specializes in San Diego markets. Both were fascinating, and gave us an interesting perspective of the market.
- In California, the eighth biggest economy in the world, the state is on the verge of bankruptcy ($21-billion in debt), and also, one in nine Californians are behind in payments. With ten million illegal immigrants living in the state, California also has some of the most tenant-friendly laws in the country with evictions potentially taking up to six months.

Highest income tax in America

Average prices:

Los Angeles = $505,000

San Francisco = $515,000

San Diego = $500,000

Video

Marco on California
http://www.youtube.com/watch?v=DkrTiBhbP3M

Silicon Valley, California

- The angels are coming back, and the economy is starting to turn in the right direction.
- We don't have any partners on the ground here, but the market has grown dramatically in the last 12 months.

San Francisco, California

According to a friend of mine, Mark, who lives in San Francisco, there's not much inventory in San Francisco or South Bay at the moment depending on the price, as the $800K to $2M range is very competitive. Anything more than $2.5M gets a return easier in the city. We see a stack of foreign money getting pumped into Bay Area market right now. The Facebook IPO, Zynga, LinkedIn and Pandora IPOs have increased market confidence, and there are quite a few newly minted, young folks running around making offers, and this is pushing everything up.

On the corporate lease side, I'm seeing $60 ft^2 rentals now. We locked in our office space in 2010 at $30 ft^2, so that gives you an idea about how crazy it all is!

People are moving to the California Institute of Technology in

droves, as the economy picks up, so there is currently also a shortage of rental spots.

With its trendy restaurants, gritty urban setting and easy access to Silicon Valley, San Francisco's Mission neighbourhood has emerged as ground zero of the tech-fuelled real estate boom.

We don't have partners in the area.

San Diego, California

San Diego is a great city, and although it has experienced significant pain, we have an equally great team on the ground to take advantage of the opportunities. As it is one of the premier cities, you unfortunately have to pay premier prices, and there are not many below market value properties.

Known as America's "Finest City"

- Very similar to Cape Town, but without the mountain. I would certainly live in San Diego if I moved to America.
- The local bird in 2003/2004 was the construction crane, as there was so much construction going on, but in the last five years there has been nothing.
- The market is now more competitive and is shrinking in terms of real opportunities.
- The Average Price was in the region of $450,000

Condo: Two-Bedroom apartment

- $150,000 and rent for $1200 per month.
- Low maintenance.
- Better yield.

Single-family house: Four bedrooms

- $350,000 and rent for $2300 per month;
- More maintenance.
- Better capital growth.
- Flip in five years' time.

The bottom has been hit in 2011, with prices the same as 2002

- There is now a lack of inventory.
- There were only 177 units on the market in downtown San Diego when we were there.
- They are starting new construction again; three projects have started recently.
- Ron reckons there were more opportunities in 2010 when I was last there, than in 2012.
- Employment is better and buyer confidence has improved.
- Less REOs (repossessed by the bank) as banks prefer to do "short sales", and now have specific departments to manage this.

Video

Ron in San Diego
http://www.youtube.com/watch?v=yfbb5Ft0WpQ

THE MID-WEST

Phoenix, Arizona

Dr Dolf de Roos is the leading International Property Investor, and he invests primarily in Phoenix and Las Vegas, as they were the two fastest growing cities in the USA. Although they experienced huge pain during the GFC, the cities are growing again with 7,000 families moving to Phoenix every month.

THE ARIZONA REPUBLIC

azcentral.com — A GANNETT COMPANY — FRIDAY, APRIL 27, 2012

Norway captivated by countryman's collision with U.S. justice system

Winslow wrong turn leads to prison

By Scott Craven
The Republic | azcentral.com

If not for an odd confluence of events that included a car accident, a small-town festival, a GPS unit that could not spot street closures, and a wrong-way drive down a one-way street, the Norwegian man and his mother would have had an uneventful drive from Los Angeles to Chicago.

Instead, John Kristoffer Larsgard, 33, faces 7½ years in an Arizona prison, largely as a result of some erratic driving that frightened and angered people at the Winslow street festival. Prosecutors said Larsgard turned his car into a weapon, hitting one woman, causing minor injuries and narrowly missing many others.

A frenzied, 8-minute ordeal ended up with Larsgard facing 36 criminal counts, including attempted second-degree murder.

In Norway, a country gripped by the terror trial of a man involving a bombing/shooting spree that killed 77, Larsgard's case is grabbing headlines portraying him as a man unfairly imprisoned for bad driving.

What began simply with a wrong

See NORWEGIAN, Page A6

John Kristoffer Larsgard (left, with attorney Criss Candelaria) blames his state of mind for his erratic driving while in Winslow. THOMAS NILSSON/VG

NHL PLAYOFFS / NFL DRAFT

2 MEN, 2 TEAMS

Price of homes in Valley up 20%

By Catherine Reagor
The Republic | azcentral.com

The market turned in January 2012, and since then some suburbs have been growing by 10% monthly.

Brendon Brown and I returned from our original trip in April 2012, and attended Dolf's Property Tour in October 2012. Unfortunately, we looked at properties on MLS, which were interesting but not fantastic. I have to say, that with the Funds already dominating in this market, we could not see the value when we compared it to other markets that we were investing in, like Atlanta.

A massive city, stretching 90 miles across

12 metropoles each with its own police force and mayor
Market lost more than 35%

- At one point there were 300 000 sellers, and 23 buyers.

It is cheaper to buy existing, than to build

- An example of this is; in a suburb like Gilbert, where there were 8,000 building permits in 2007, and one in 2011.

The market is changing every three months

The market has turned around since Jan 2012, and in some suburbs it has grown at 10% per month.

Phoenix has less than 30 days inventory and the rental market is strong.

Fastest growing city for 50 years

- 7000 families are moving to Phoenix every month.
- Attracts high-quality workers.
- Call centre for US airways.
- Motorola head office.
- Technical plants.
- Great aviation.
- Central to East and West.
- Land is inexpensive.
- $83/ft^2 to build.

We did a search on Google, and the question was, "Why do people live in Phoenix?" and the leading answer was, "If you don't like the colour green, you won't find a lot of grass over there."

- But seriously, it has great weather for nine months of the year
- 200 spa resorts, and
- 200 golf courses.

There were 5,000 properties a week on auction, but this has been dominated now by the Funds.

Dolf says he used to have to look at 20 properties to find a good one, now has to look at 200 of them.

Videos

Dr Dolf de Roos on Phoenix

Buy and Hold: http://www.youtube.com/watch?v=NuAMFE6yBnA

Fix and Flip: http://www.youtube.com/watch?v=DXI0aveacio

Las Vegas, Nevada

We went to Las Vegas with Dr Dolf de Roos on his buying trip in October 2012. This was not my first trip as I went there in 2010, and it was a disaster zone. Property has lost 70% from 2007, and great three-and four-bedroom homes that were previously selling in good areas for $320,000, were then selling for $80,000. The huge problem though is that tourism, which is the number one industry in Vegas, was down 60%. 5,000 people are leaving each month, and there are 3,000 homes sitting empty in the city. I decided in 2010 that there was too much risk. I don't mind how much discount you can get: if there is no income the business model does not work. As a matter of interest, I followed a $80,000 home and a year later in 2011, I was offered the same property for $40,000. On the property tour with Dolf we saw some great opportunities, but one has to be very careful as the economy is still very reliant on tourism, and Las Vegas has the highest unemployment in the country. Another major concern as to why we didn't invest there was because, once again, we were not introduced to a team who could provide a turn-key solution to take advantage of the Vegas opportunity.

- Vegas has been hit harder than Phoenix;
- Now, getting on average 12 offers for each listing, and bidding is above asking price.
- It is a lot harder to find discounts in Las Vegas now.
- Properties won't appreciate for three years, but in the next five to ten years they will double.
- Very "Tax Friendly" State.
- Huge water problems in the state.

Oklahoma City, Oklahoma

- Less than 5% unemployment rate, (the lowest in the country for MSA, over 1M population) and actually, Oklahoma City has employment problems, with not enough good workers.
- Strong, economically resilient market due to oil. Second-best concentration of oil companies in the USA.
- Lowest vacancy rates in the country at 2%. Our property manager has over 350 houses under management and, according to one of our private money lenders, is the number one property-management operation they have ever vetted in the country. Now there are five to six thousand people who have been displaced from the tornados of 2013.
- Population growth from 2010 to 2020 trending at 60% higher than national average.
- Strong and growing GDP, ($60B for OK City MSA).
- Landlord friendly: It takes three weeks maximum to evict a non-paying tenant.
- Class "A" locations: in front of local progress, 15 minutes from CBD and major highways, great schools, awesome demographics, and 90% owner-occupied suburbs.
- Our focus is on Secondary Markets, with the area of focus on the second-best schooling district in Oklahoma City.
- New construction, with builder warranty (sufficient bricks), priced around $140k.
- International financing (50% loan to value @ a 3-year fixed 8.25% rate.)
- One percent rent-to-price ratio (monthly rent is approximately one percent of the purchase price), with net yields between eight and nine percent.

THE SOUTH

Atlanta, Georgia

Atlanta provides an amazing opportunity, with houses built in the last ten years. RJ and his team are amazing partners on the ground, and have six people constantly looking at REO (repossessed from the bank) before they go to auctions. They are viewing over 300 properties a month, and then cherry picking the best opportunities. They have a full renovating and maintenance team and, on completion, they rent them out with their management solution. The values and yields are amazing and certainly an opportunity to understand.

We met with RJ, who is a real character. I have to say, in all my years of international property, I have never met someone like him, he is hilarious. We were concerned, initially, as the taxi trip we took felt as if we drove into the farmlands. However, RJ took the time to include us as he drove around looking at REOs in preparation for the monthly auctions on the coming Tuesday. It was amazing to see him in action, and we all learnt a tremendous amount. We were extremely impressed with RJ and the team he has; we met Antony who does management briefly. I was blown away by the properties which were on offer and the rentals that could be achieved. I think this is a major opportunity. It must be understood they focus on the Secondary Markets and, more importantly, the bedroom communities (15 miles to 40 miles from the CBD), where the American families want to live and work.

The fourth biggest city in USA.
5.5 million people live in Atlanta, and eight million in the metropolis.

Atlanta airport is the second biggest airport in the world, after Hong Kong

75% of the "Fortune 500" companies have a presence in Atlanta.

Very green and beautiful!

Broad-based economy.

More people are renting than buying.

From 2000-2010, 1.1 million people came to the city, mostly from

other parts of the USA.
According to the US Census, it will have a population growth of 19.84% to 2020.

Build at $85 per ft² and the land is 20% of the value.

Prices in the Secondary Market

- Bedroom Communities are $90,000 to $180,000 with yields of 8% to 9.5%.
- This is a very safe, common sense, development.

Videos

RJ in Atlanta: http://www.youtube.com/watch?v=PlGvA2mqUsA

Atlanta Management:
http://www.youtube.com/watch?v=wUj9ifdLmOM

Memphis, Tennessee

Memphis is a funny place. At first glance I did not like the city at all. We originally had another team on the ground, and were not impressed by their properties, their offering, or their professionalism. Then, in October 2012, we met "Hulet and Marathon", and everyone on the buyer's trip was blown away by their professionalism and the solution they were providing. This is a blue-collar town, and with the inventory available and the on-going foreclosures, I believe you need to focus on the rental income as capital growth may take a while here. In Memphis you are buying a great income, not curb appeal, and it is for investors who do not worry about what the property looks like and are more interested in the income statement. Capital Growth for the last 30 years in Memphis, has been 4%, and it has not seen a large rise or fall in property prices. They grade their properties into A, B and C class properties, and this will determine the quality of the area, the quality of the tenant, and the expected return.

1.2 million people in Memphis

- 40 miles, North to South; and 30 miles, East to West.

- No CBD.
- Eastern Suburbs are the best areas.

Memphis is the distribution centre for the USA

- Headquarters for Fedex, and their airport is bigger than Cape Town International, with 30,000 employees alone, in Memphis.
- Nike and Disney have their distribution centres there, and everything goes through Memphis before it is distributed worldwide.
- With the Mississippi being the biggest river in the USA, and the city being only one of three cities through which all the major railway lines go through, and also, where all the North and South highways pass, it is best situated to be the distribution hub of the USA.

Memphis is 65% African-American.

Memphis is Number 2 in the USA for crime.

51% of the city is on government grants. (We only invest in 40% of the city.)

48% of the city rents.

Rental demand is increasing: Vacancies are running at between seven and eight percent.

Mainly blue-collar jobs.

- Average salary is $2,000 per month.
- They have been renters for generations.

Property dropped another 18% since July 2009, but has now hit rock bottom.

Two-and-a-half years' inventory in Memphis.

Forecast to recover by 2014.

Prices are expected to grow by 9.4%, year on year.

Forecast to be the Number 1 city for the recovery.

City is growing, and economy is growing.

In Memphis you are buying income, and not curb appeal.

As the market recovers, the banks are releasing foreclosures.

- Double foreclosures have been in 2013, more than the previous year, as the banks are clamping down.

Section 8 tenants are the hardest to get, but the most stable.

Can take up to 120 days to find the right Section 8 tenant.

Videos

Hulet and Marathon Management
https://www.youtube.com/watch?v=UHLqgfDw7ro

Hulet on the different types of property, (A, B & C).
https://www.youtube.com /watch?v=dcPCarG947g

Hulet on Financing in Memphis
https://www.youtube.com/watch?v=yKmqJHW6gZM

Dallas, Texas

- The market is moving fast. Prices will recover to the 2007 prices in 2 years time.
- Strong flipping market in 2012.
- Average values: $180,000.
- Strong economically resilient market due to oil.
- Our partners are moving into this area; it needs a lot more research.

THE NORTH

North Dakota

- One of the hottest recent oil discoveries in North America, and possibly the world. This will allow the USA to be self-sufficient in oil by 2018, and be a net exporter by 2024

- Masses of people are flocking to this area. In fact, we met two young South Africans on the plane who were going there to "make their fortunes," and drive tractors. Interestingly, our region of focus, Bakken oil region, is home to the number 2 grossing McDonald's in the US and the number 1 grossing Walmart in the country!
- There is no accommodation, so they are building temporary hotels to house people.
- We went to North Dakota on our July 2013 "Buyers' Trip" and it was amazing. We are happy that the oil supply is sustainable, that fracking (hydraulic fracturing) is here to stay, and even more importantly, that the boom is sustainable. It is that estimated that another 45,000 wells need to be drilled to recover only 5% of the oil in the region. At a pace of 2,000 new wells per year, we easily have another 23 years of production (at approximately 27,000 new jobs per year).
- In Watford City, another target city, there are 7,000 people who are resident and it is the centre of the oil fields. They have just opened their first shopping centre and 1,300 businesses have moved there in the last two years.
- We looked into hotels and "man camps" as a potential residential play and we think they are not sustainable. We believe there are some real scams out there. Anything you see with 40% yields is not reasonable, not sustainable, and people will potentially lose their money. We met with the planning commission, who told us they want to phase out the "man camps" as soon as enough traditional housing has been completed.
- However, there are great opportunities in sustainable, traditional housing, and in commercial opportunities.
- Prices for houses are from $250,000, and net yields are easily North of 15%.

Detroit

- Part of an area known as the Rust Belt, it is also called "The Armpit of the USA."
- Declared bankruptcy in August 2013.
- Almost everyone said there are no good neighbourhoods in Detroit,

and no growth expected.

- Mayor is shutting down sections of the city to save on water and electricity, and they are completely unoccupied. (25% of the city is already shut down).
- Detroit is Number 1 in the USA for crime.
- Huge perceived discounts, but no tenant demand, and no sign of recovery as the local economy is in rapid long-term decline.
- From Dolf de Roos, to Marco, basically everyone we spoke to said they would steer very clear of Detroit. As Marco said, "You can buy a good investment in a 'war zone', but you are still in a 'war zone'!"
- In conclusion, during our last trip to the USA in July 2013, the city of Detroit filed for bankruptcy. It is the biggest city in the history of the USA to file for bankruptcy. This gives you an idea of the economy, both in the short and in the long term, and added to that, the car manufacturers are in trouble.
- We don't have partners here, but we wouldn't invest here, as the fundamentals are completely wrong.

Ohio

Marco said that someone needs to "turn out the lights!"

Los Angeles, Tampa, Charlotte and New Orleans

Although we have travelled to all these cities, we decided not to invest for various reasons. Primarily because we cannot find partners we trust. We have done in-depth research with our current partners, and they have warned as to steer clear of investing in these markets.

Chicago

On the USA Buyers Trip 6 we went to Chicago to try and understand the market. It is the sixth biggest city in the world now and it is a very beautiful city.

We met two separate partners, one for apartments and one for single family homes. They were both extremely professional and we are very excited about working with them.

Watch this space as we do further due diligence and make sure the management is also professionally done, as there is slightly more risk here as it is a tenant friendly state.

6. Where to Invest?

We are constantly asked how we choose an area to invest in. We always say there are three things we look for when we invest in an area. In order of priority:

1. **Partners**

   We must have the right partners first to execute on the opportunity. Inextricably, partners whom we can trust, and who can add value to our clients and ourselves.

2. **Fundamentals**

   The market fundamentals need to stack up so that we can have sustainable investments in the long term. Key indicators include: a strong population growth; increasing local incomes and jobs; a wide economic base; low property values relative to local incomes; and landlord-friendly laws.

3. **Management and Maintenance Solution**

   We have learnt that the best way to succeed is to find a partner who can offer everything in-house, meaning: they find the property, renovate the property, manage the property, and maintain the property, all with the same internal team. Simply put, there is no point in having the right partners to find the right properties if you don't have a management and maintenance solution. All long-term interests must be aligned. Otherwise, you run into a scenario where the acquisition solution does a sub-standard job on renovations because they have no long-term stake in the property or consideration for the future tenants.

We are always looking to adapt and stay up-to-date with the local trends, research, and make sure that each individual market is still the best place to invest.

As the USA is such a big place, and because the market changes so quickly, you need to adapt very quickly to ensure that you stay ahead

of the trend, and can outperform the market. If a partner has delivered for us, we like to stay with that partner and they, also, will continue to explore and adapt to new markets.

We have been in Orlando and Atlanta the longest as they had the best fundamentals and the right partners. When we found the right partners in Memphis, we invested there as the fundamentals are great. At the moment, we have just launched into Oklahoma and North Dakota, as we know the fundamentals are right, and we are following our partners who have delivered so well for us and our clients in Atlanta. New York remains a market in which we are only investing in from a Wealth Migrate perspective, where we can buy whole buildings. We have researched all the other markets but, for a variety of reasons, we have declined to invest there.

7. Commercial Property Market

This is the market which is in the biggest trouble, and it is tipped to affect the commercial market around the world. The biggest issue is the CMBS (Commercial Mortgage-Backed Securities), or Cluster Funds. This is where the man in the street invested in funds which bought commercial properties.

The problem is that these funds arranged three to five-year finance, which needs to be renewed. This is exactly the same as the Residential Mortgages: they believed they would just be able to remortgage when they expired. The retail market (such as strip malls) has been massively affected by the USA consumers' reducing their spending, resulting in so many retail stores having gone out of business. This dramatically reduces the properties' yields and therefore values are down 30% to 40%. When they need to refinance, it is believed that there is going to be chaos with many individuals losing money, and many banks being left with commercial property which is worth half of their original value.

From our observations of this space, there doesn't seem to have been a huge amount of this negative scenario developing. Although there is a lot of empty retail space around, even in major cities like Atlanta, it doesn't seem to have had a macro affect, yet.

Nevertheless, I think it is important to understand that the major funds on Wall Street are currently investing in residential property, as they believe that it is a better opportunity and more sustainable.

Having said this, though, through Wealth Migrate we have identified economically resilient commercial property in specific areas where we have the right partners to take advantage of opportunities. The hedge funds are

investing above $10 million, and the Mom and Pops below $1 million; so Wealth Migrate is focusing its individual investments on the "sweet spot" between $1 million and $10 million.

Please contact us for more information on: www.wealthmigrate.com

8. FAQ and Glossary

1. "How does US property compare to South African property?"

IPS has been helping investors invest overseas for a long time, and we are always told that South Africans can get much better value in South Africa, in comparison for, say, London or Sydney. Yet, in the USA on the whole, property is 30% cheaper than South Africa and offers double the income. Let us give you an example, trying to compare apples with apples between South African and American investments.

2. "What type of finance is available in America?"

It is very difficult to get finance at the moment, and generally only "hard money", which is private lending (or "non-recourse") is available. In fact, all buying is happening with cash at the moment.

Some USA borrowing facts

- The 45-year average for the borrowing rate is 8%.
- Those that can, borrow from the banks.
- There are 8,792 trading banks in the USA.
- The average borrowing rate is 6% to 7%.
- Base Rate is 0.25%, and there is very little correlation between this, and the borrowing rate.
- You can get a 15 year fixed mortgage at 6%.
- The banks are based on Income Based Lending.
    - Take up to 40% (Debt Ratio), of your income.
    - Need three references.
    - Take 75% of the rental income into account.
- In 2014 interest rates are expected to increase by 1%, although the worst increase would be between 2% to 3%.

- Some banks say there is no borrowing for Non-Residents, and others say it can be as high as 65% LTV to 70% LTV.
    - Rate is 6.5% to 7.1%.
    - 30-year amortisation

Interest and Capital

- We are currently exploring with a number of banks including Wells Fargo.
- The most important thing we have determined is that it takes six months to two years of payment history to get a reference letter for your LLC. Once you have an LLC, positive credit references, and income history, you will be able to apply for traditional financing through your LLC. If you don't set up and buy a property through an LLC, then you will never be able to get traditional financing as you won't ever get a Social Security number, unless you live in the USA, and therefore you will never be able to borrow in your own name.
- For Wealth Migrate, where you are investing more than $1 million, and buying buildings with six or more apartments, you can then have access to more conventional financing. As long as 80% of the income comes from residential rental income, you can expect to get:
- 70% LTV.
- Ten-year money, at 6%.
- We would need to buy a building, stabilize the rent, and apply for financing, retrospectively.

Private Lending – Hard Money

As mentioned, there is a lot of private lending in the market at the moment. Some of the deals we saw:

- 50% to 60% LTV at 8% to 12%.
- Amortised over 10 to 20 years.
- This is generally non-resident, and also non-recourse financing.

Generally 11% to 20%, and only short-term, Mezzanine-type Financing. The most important thing with financing is that you need to know what

you are getting and making sure the sellers are not loading the prices.

Please watch this video to understand what some promoters are offering to South Africans in South Africa, and how you can protect yourself: http://www.youtube.com/watch?v=hCQYK2GQKEM

3. **"I want to go to the USA to choose the right investment."**

There is absolutely no problem with taking trips to the USA and we would welcome it. We can also arrange for you to meet our partners on the ground. All we would not recommend is just "going" to the USA and "hoping" to find a good investment. If someone from Cape Town can go to Johannesburg for a week, what do you think the chances are of them finding the right partners and the right opportunities in such a short space of time? Our belief is that the chances are virtually ZERO, and that is why you need the right partners on the ground; to ensure you can take advantage of the opportunities.

The best option is to come with us on one of our "USA Buyers' Trips".
For more information go to: www.usabuyerstrips.co.za

4. **"I am worried about the management and maintenance of my investment property. It is so far away, what can I do if there are problems?"**

Management of your property is the most important component after buying the right property. However, something which is also important, is that it is not just about finding a partner who specialises in management and maintenance, you also need a partner that has experience in dealing with offshore investors as this is a unique skill. An example of this is Hulet from Marathon who has been doing management for over 20 years, owns over 100 properties personally, has his own maintenance team, and has over 1100 properties under management, of which roughly 400 are owned by foreigners. He understands the importance of communication, and has one lady whose singular role is to communicate with offshore investors. These are the type of partners you need, to ensure a "hands-free" overseas investment, where your partner manages your asset. The general management fee in the USA is 10%.

5. **"What happens if the tenants don't pay my rent, how can I afford my mortgage?"**

The good news is that the law in our target markets is in favour of the land lord. This is the great thing about investing with us: we know where to focus so that your rights and assets are protected and there are systems to enforce it. In our focus areas, should a tenant not pay their rent, it takes 30 to 45 days to evict them with an eviction order and if they don't leave, then the police removes them. The worst case is 60 days. In the UK, Australia and USA there are systems to evict the tenant quickly if they don't pay, and you and your assets are thus protected. It is this one fundamental difference with South Africa that caused me to change my investment strategy dramatically when I tried to evict a tenant who had not paid for six months. I met with her boss and he said he didn't care and then she had the police try to arrest me. This lady was working for FNB Home loans, and yet her boss didn't "care". I decided that the risks in South Africa are too great, and out of my control, definitely in certain sectors of the market.

6. **"How do I get a mortgage, and what happens if interest rates go up?"**

In the USA finance is very difficult. (Please see the section on "Finance and Mortgages"). Essentially, you have to buy the best deals with cash. The downside is that you need 100% cash in most cases, but the upside is that you are not exposed to rising interest rates. In London, at present, you can borrow at 3.5% to 4% and the yields are 5%, and look very attractive. The problem is that interest rates are at their lowest in 300 years, and will therefore only be going in one direction. This is something you are not exposed to in the USA. When the banks finally start lending to the general public, that is when the market will turn properly, but this will also signal the end of this awesome opportunity. My plan is; when this happens, refinance, release my capital, fix long-term mortgages for 30 years, and just enjoy the passive income. Many of our cash investors are simply paying cash as a short-term strategy while they posture themselves to secure refinancing in the future on their free and clear assets.

7. "If it is so good in the USA, why is it being sold in South Africa?"

This is not a case of them coming to South Africa. IPS has helped over 2,000 people invest overseas and, in the same way, we went to Australia and found the best partners, while we have done the same in the USA. Not only are many of our clients asking about the USA, we decided it was probably time to explore it, for our own personal investment.

8. "Why should I do it now?"

Hopefully this has been fully covered in this book. The bottom line is; the last time I was really excited, was in the UK, from Oct 2008, to June 2009. It lasted for little over six months, when there were amazing opportunities in London, as developers panicked. The problem was that it happened so quickly that we could not take "real" advantage of the opportunity. I am not making that mistake again, and believe the opportunity in the USA is ripe now.

9. "Surely it is cheaper if I deal directly with the USA, or even if I buy in USA from someone directly?"

Possibly, however, when investing overseas, do you want to buy a Fiat Picanto or a Mercedes? We provide a Private Banking experience, where we offer the best service, experience and partners in international property investment. We work with our partners on the ground, and split the commissions 50 / 50, as we add huge value to them, and they add huge value to us. Again, the bottom line is, how much will it cost you, if you make a mistake?

10. "There are so many companies, how do I choose?"

We have put together a free report on the *Six Things You Have to Know, Before You Invest Offshore,* to help you make the right decisions.

Go to www.ipsinvest.com and download the updated version on the front page of the website or look at chapter 12 of this book.

11. "Why should I bother to look globally? Aren't there better returns at home?"

We often get asked this question and are told that people can get far better returns in South Africa. As we have said so many times, we agree. However, wise and sophisticated investors understand the balance of a diversified portfolio, while also taking advantage of opportunities in international markets. Ten years ago it was all about investing in the city that you live in, but now, with the advent of the internet and access to information, one of the biggest trends in property is investors searching for the best return, and investments internationally.

Listen to what Dr Dolf de Roos has to say on Property Going Global: http://www.youtube.com/watch?v=EusuEbihhvQ

9. What Next?

The Next Step – How do I take advantage?

There are three ways to get involved in the USA

1. Direct Property

This is where we help you buy your own property in the USA.

- We will help you set up an LLC, get a tax number, and help you set up your own bank account in the USA.
- We will then help you find the property which suits your requirements.
- We provide a full end-to-end solution for you, from managing the purchase process, dealing with all the partners, right through to the management solution.
- The next step is for us to set up a meeting with one of our Offshore Asset Managers.

2. USA Buyers' Trips

Join us on one of our trips to the USA. We have successfully done six of these trips with our investors.

Here are the four things we accomplish together on these trips:

2.1. Come to the USA and find the right information on the ground for yourself.

2.2. Come to the USA and meet our partners personally, and experience everything they have to offer.

2.3. Be ready to take action as there are available properties to invest in.

2.4. Have fun: you can't travel to another country and not have fun, and enjoy the experience.

For more information on the latest trips, please go to www.usabuyerstrip.co.za

3. Crowd Funding, Commerical and Development Opportunities

As we explained before, the world has changed, and it is no longer about a few people with a lot of money, but rather about the collective buying power of many. If you look at Groupon or Kickstarter, the Internet has opened up massive opportunities to individuals to come together and have collective buying power. Wealth Migrate is no different and will by invitation only get investors to come together and take advantage of opportunities in the USA.

There will be two plans:

3.1. ***The Income Plan*** which aims to buy aggressively, renovate, and hold these properties for five years. We will first benefit from the yield and, when the market turns, we will benefit from the uplift as well.

3.2. ***The Growth Plan*** aims to buy aggressively and develop properties, both residential and commercial. We have fantastic partners on the ground, and they need capital to really take advantage of the opportunities available. The intention is to take advantage of these types of deals over the next two to five years.

You can find more information at:
http://www.youtube.com/watch?v=GsQsjOoUp9Y

Contact us if you want more information or to apply to be accepted as an investor, as we only seek like-minded, sophisticated investors to be able to participate.

For more information go to www.wealthmigrate.com

The Property-Buying Process in Detail

The process is completely different from the UK, South Africa or Australia.

- If you want IPS to assist you, you will need to sign the IPS Initiation Form.
- IPS will show you the pros and cons of buying in your personal name or through an LLC, but we recommend that everyone invests through an LLC, as per Grant Thornton's advice and every other educated advisor we have spoken to.

Take Ownership through a Limited Liability Company (LLC)

- Takes two weeks to setup.
- Can have multiple members of the LLC. (We recommend this.)

- Can have shareholding of LLC, owned by a foreign trust.

Get a local USA bank account and an income-tax number.

- The US Patriot Act says you have to go to the USA to open a bank account.
- IPS has a way to do it from the comfort of South Africa.
- This will take a further two weeks.

Send your money to your bank account in the USA.

- IPS can assist with your exchange-control approval, for free.
- We have a partner who can effortlessly, and cost effectively move your money overseas, more cheaply than the banks can.

IPS will find the right property for you.

- Send IPS the proof of funds.
- Fill in the IPS Property Acquisition Form.
- IPS partners source the right properties for you, based on your requirements.
- Sign the IPS Reservation Form.

We use only one lawyer for the whole process.

Escrow companies handle the change of ownership.

Payment is made into a Third-Party Escrow account.

Property is transferred into your name.

This takes between a few days and up to two weeks.

You need to take out Title Insurance in case they make a mistake as there is no single Deeds Office as you might find in the UK, Australia or South Africa.

Overall costs are roughly 3.5% to 5%.

You need to be very careful of tax, as there are Federal Taxes and State Taxes which are different in each state. IPS does all this research for you when we investigate areas and work with our partners.

Watch the video: http://www.youtube.com/watch?v=Ow5-m93BsN8

10. More Research for the USA

At IPS we are only interested in helping people to invest with confidence. We thus have a plethora of research which we like to share with such people so that they can make educated and informed decisions. Please go to our website for the latest information, and on the blogs for further information: www.ipsinvest.com

Research

- http://www.economist.com
- http://money.cnn.com/
- http://africa.spindices.com/index-family/real-estate/sp-case-shiller

Webinars

- Please keep a look-out for all our live webinars: All the previous ones are recorded and are on You Tube under the spicken09 account.

USA Investment Guides

- Please just ask and we can send you all the information you require.

Testimonials

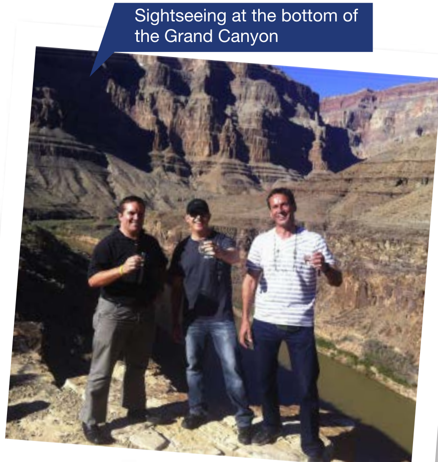
- Don't just trust us. Trust our clients who have invested with our help. We have loads. To see all the testimonials, please go to www.usabuyerstrip.co.za
- We are happy to share the names of any client who has been on the buyer's trip, and they can share with you what they experienced on the ground and how their investment experience has been.

Time Sqaure

Party on Beale Street, Memphis – place of Elvis!

Client who bought sight unseen, seeing his property. He bought 2 more after seeing his property.

At an auction with Dolf de Roos



Sightseeing at the bottom of the Grand Canyon

Viewing property in Atlanta

Dinner with partners, maintenance staff, accountants and attorneys

Buyers viewing property

Pre-tour briefing in Oklahoma

CHAPTER 8

AUSTRALIA

Chapter overview

1. Introduction
2. Fundamentals
3. Positives of the market
4. Negatives of the market
5. Areas of interest
6. Where to invest?
7. Commercial Property Market
8. FAQ and Glossary
9. How to get started
10. More research for Australia

1. Introduction

Parts of this chapter were written in conjunction with Kristen Miller, IPS Australia MD and a specialist in Australian property.

We have discussed my history with international property, but I have not explained how I ended up back in South Africa. After nine years in London, I decided it was time to return to South Africa (half the reason being the weather, and the other half because of the business opportunity). It made no sense to have local estate agents selling property in Bryanston one day, for example, then a house in London on another day. We have always only done international property investment and I decided to return to South Africa at the end of 2007 in order to concentrate on our three offices there. Although we already had offices in London and Dubai, I was not interested so much in investing in South Africa itself, but rather wanted to be the leader in helping South Africans to invest internationally.

In January 2008 I realized that, of every two clients I met in South Africa, one wanted to invest in London, a service which we already

provided, and the other wanted to invest in Australia. We had a problem, because we understood the London and South African market backwards and forwards, since we had already been investing there, but I had only visited Australia, and not invested there.

As is always our policy, I decided to travel to Australia again in search of investment solutions and went there immediately, returning another three times later that year. To be honest, it finally took us over a year to find a solution. Australia is a massive place, and my feeling was that the Australians would sell you anything with a whopping story attached: such as a piece of Ayers Rock with a splendid view of the Sydney Opera House.

We looked at a husband-and-wife team, who flew regularly to South Africa and sold property from their hotel room. Further investigation revealed that they had many unhappy clients because they had no infrastructure, so clients found themselves investing but then being left on their own. Having investigated that couple, and many other companies, we could not find anyone we could trust. Then, in December 2008, I met with a company called OzInvest, and more specifically the owner Phil Kelly and his associate, Richard Dunn. They had found me on YouTube, and were looking for a quality company based out in South Africa to work with. Because they had been helping Australians invest in property in Australia since 1987, it was a match made in heaven. They were the most trustworthy company I could find, were research focused, and most importantly had the interests of the clients as their number one priority.

Since then, we have helped hundreds of clients invest successfully in Australia, and we have had to adapt to the fluctuating market. We were extremely lucky to have established our Australian solution in 2008 because, when the GFC caused such havoc in the international property markets, Australia was the leading place to invest in the G20, had the strongest economy, and the strongest fundamentals, and we were able to take advantage of this opportunity.

At IPS and Wealth Migrate, we believe that we need to stay on top of the market trends internationally. I have explained how in April 2012 we decided that there was a huge opportunity in the USA, and I therefore shifted my focus to set up and get the USA operating in the same way as Australia. Kristen Miller, who had been with IPS since 2007, understands international property better than anyone else I had met, and she has always been passionate about Australian property. Kristen assumed the position of IPS Australia MD. As mentioned, she has kindly assisted me in compiling this chapter to make sure it is as current and as informative as possible, while she drives the Australian solution passionately and proudly for our clients.

Here's what our IPS partner responsible for Australia, Kristen Miller, had to say:

"Australian Property is truly my passion. Our Australian Client Support Team is growing stronger every year, and we still consider the country as a sound international property investment for any South African family wishing to grow their global wealth. Fortunately, it also happens to be one of the preferred destinations for immigrants from South Africa, who enjoy most the similarities in culture.

We have further assisted numerous investors to follow the correct legal procedures by working with various legal and finance firms. By thus guaranteeing asset protection for their investments, our clients are able to leave a legacy for their children and grandchildren. I've been involved personally with numerous clients in establishing the correct legal structures for trading purposes, and our preferred partners for dealing with the legal and tax regimes have proved invaluable.

Over the years, our Australian team has also gained extensive experience while working with our legal partners and finance divisions across the various states of Australia, because – in order to remain successful as we continue helping our clients – it's exactly as Scott says: one needs constantly to keep track of the global trends affecting all markets.

When we first launched the Australian Division at IPS, one of my first big realizations was that the general public in South Africa tends to think of Australia as just one property market. The truth of the matter, however, is that Australia is a very large and diverse country, where each metropolis enjoys its own unique property cycle at any given time.

Being a federal country, the differences in legislation promulgated throughout the various states in Australia also demand a thorough knowledge of when investing over there, including the finer details of property management and letting deposits, for example. The tax variances among several states can also affect the investment, as can the general median averages and historical influences pertaining to rental income for a specific suburb or location, and its proximity to a major city.

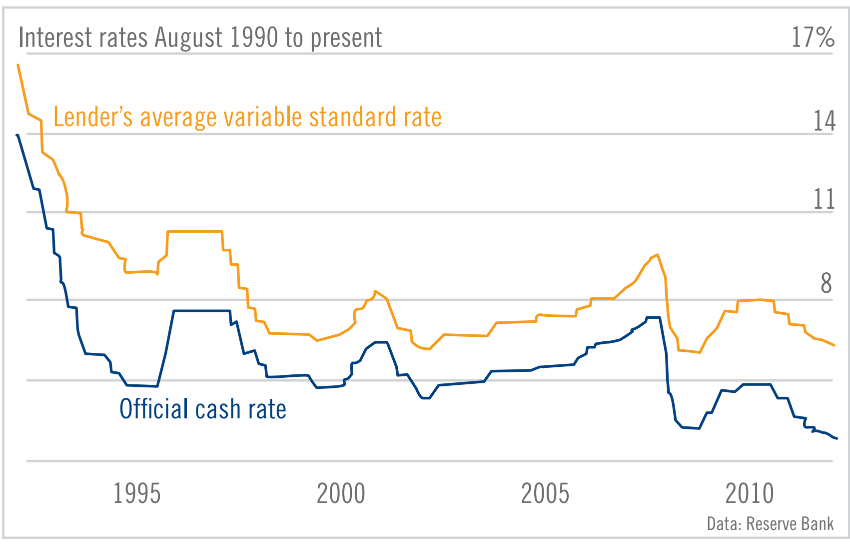
The other major learning curve for me when assisting clients with investment in Australia was that it took a good year of consistent investigation, countless travel miles, and exorbitant "school fees" to finally source the right partners on the ground. Too many people are out there who belong to a class of what we jokingly call "travelling salesmen": those who, once they've secured your funds for a sale, will happily leave you on your own and disappear back to their homeland. Given that we have a solid base in our home country and

can meet an investor anywhere in person, we are able to develop a level of reassurance in our investors as yet unmatched by those who continue to live and work out of foreign offices.

What our team exhibits daily, however, is so much more than just property investment. We thrive on helping our clients throughout the entire process, even after the point of reservation of any property in any Australian state. We believe we are dedicated to protecting our clients, acting on their behalf to make sure that their investment process is as smooth as possible. We also like to guarantee that the promises made by the various vendors are upheld, while continually helping to keep all clients abreast of the international market cycles, the latest news and data research, and the latest opportunities.

The property market anywhere in the world is always dynamic, and inevitably things do go wrong. Developers and builders can let people down, while managing agents can disappoint. As a client once told me, "It's the way you just sort it out that keeps me investing with you again and again." Results and happy investors are the real proof in the pudding, and that's what we provide.

The Australian economy as a whole is one on which we can be proudly elaborate. As Scott mentions in this book, not only were they highly successful throughout the GFC, but they seem to have grown from strength to strength since then. In August 2013, their interest rates reached their lowest since 1959.



The IMD has recently ranked Australia second in the World for resilience of its economy to international economic cycles - and this is truly impressive given the current state of uncertainty throughout the global markets.

Since the economic downturn precipitated by the GFC in 2008, Australia has ranked in the Top Three countries for economic resilience every year in the IMD's World Competitiveness Yearbook.

Although different States were affected by different local circumstances, the general House Prices are all on the rise – and 2014 is expected to bring a lot more international stimulus into the country with the G-20 Summit to be held in South Bank (already a favoured investment setting to many clients of ours since 2011). Property fundamentals also confirm that certain locations are best to invest in at specific points in time, but the general overriding confidence level portrayed by the plentiful sell-outs of numerous projects in 2013 already, all lean towards very positive growth for an Owner who invests now… As H.Jackson Brown Jnr once quoted: "Nothing is more expensive than a missed opportunity."

Another top feature as to why our Aussie Team prefers to deal with Australia specifically as an investment destination is a reason that may concurrently irritate a buyer… Australia is an exceptionally legislative nation in general, and one has to be careful of even putting a dustbin on the wrong side of the drive in certain parts! Nothing will happen in Australia without getting all the correct legal documentation in place and correctly executed by all parties involved.

The administration and paperwork is heavy, no doubt about it – but as a property owner and serious investor, we see it as just another level of protection generously offered. It's the kind of law that protects the Investors, not the tenants as is the case in South Africa; and being sued for continual misunderstandings is most certainly not a way of life amidst the Aussies.

One cannot enter into legal agreements blindly, and the documents are there to protect us as both foreigners and locals alike. The Foreign Investment Review Board adds to the layers of red tape and paperwork one has to sift through prior to an investment in most cases. This is simply what our Team includes in its Services to clients based on the experience gained through years of FIRB Office and Lawyer Liaison.

The "higher risk, higher return" factor also has to be taken into consideration when investing into Australia, versus the USA for example… Australia offers a superbly solid, non-volatile and steadfast long term property investment market in general, even if the returns may take longer to hit the double digits. To me, this makes it invaluable as one is building one's portfolio – a sound foundation on which to grow and add to as time goes by. As has been proven throughout history, the tortoise won the race with the right strategy in place!

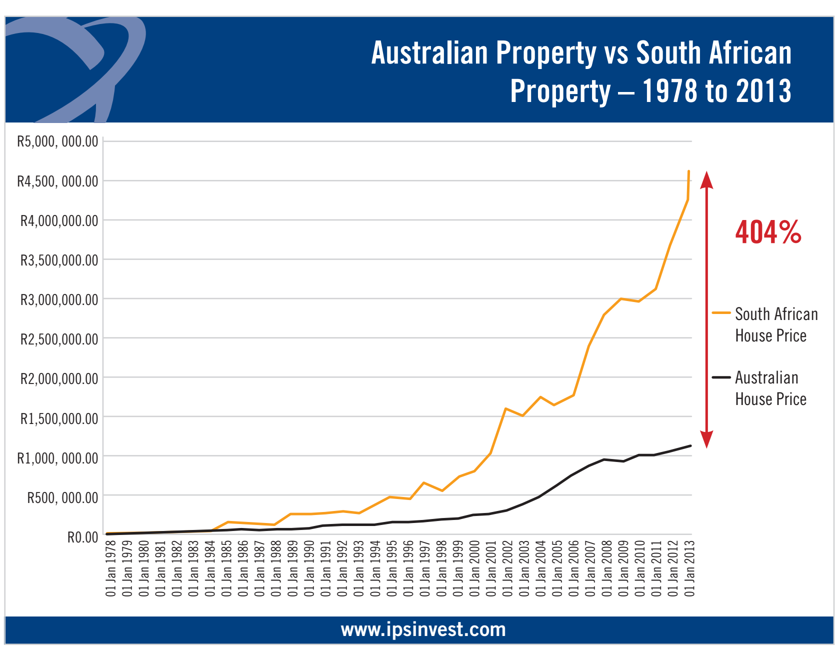
In summary, an Australian investment property isn't necessarily an

affordable option for everyone; nor may it feature in a clients' portfolio at all. I'm personally very proudly South African and don't want to emigrate, but I still believe it's essential to build a comprehensive international property portfolio based on sound and ethical principles: the right partnerships, trust, experience, transparency, and continual research and market data.

The fact that 84% (as at 2013) of our Australian Clients invest repeatedly with us stands testament to the fact that superior Client Service, on-going support and great results is most important to a savvy investor with a long term aim of creating wealth, a Plan B and peace of mind for the family".

As you can see Kristen certainly knows her stuff. However before we get started, I think it is essential to highlight this research again, as the results are overwhelming and conclusive, based on research I have done over the last 35 years. I tracked the average property prices and incomes from 1978 to 2013 and took into account the variables of exchange rates, and other factors.

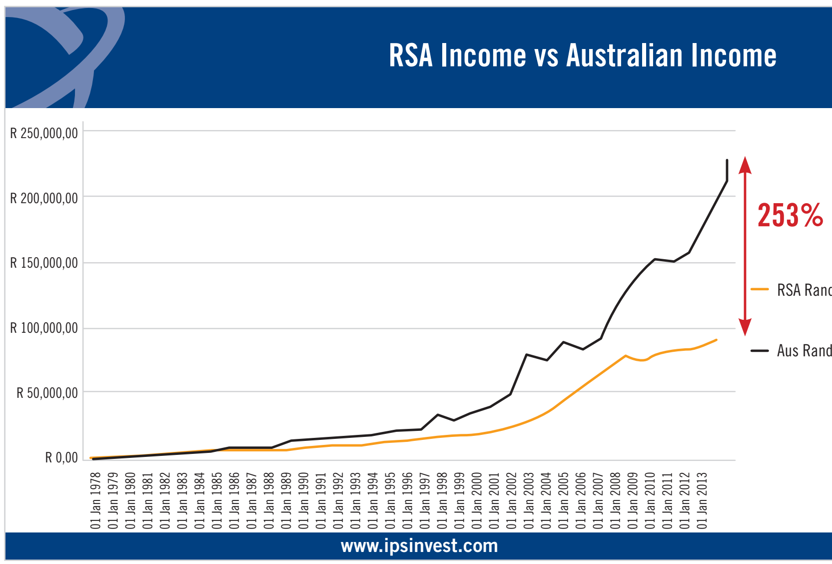
Australian Property vs. South African Property – 1978 to 2013



Although there are significant opportunities to make quick returns in

South Africa, over the last 35 years you would be four times wealthier if you had invested in Australia in 1978. Where will you be in 2048?
Some people, however, don't like capital growth and prefer to focus on income, so let's look at income returns.

Australian Yields vs. South African Yields – Passive Income: 1978 to 2013



In income terms you would be earning 2.53 times more passive income in Australia than South Africa.

Along with all the other research, you can now see why I am so passionate about international investments and having a portion of my assets, and also some of my businesses, in First-World economies. After travelling there on average four or five times a year, for the last five years, investing in hundreds of residential and commercial properties, this is what we have learnt.

1. Long-term Trends in Australia's Favour

As explained extensively in Chapter 3, long-term trends are critical to long-term success. There are three for Australia, which makes it so appealing.

1.1 The Economy

a. The Australian economy went into the Global Financial Crisis (GFC) with AU$18-billion in surplus. They used the surplus to put money back into the economy, but they never went into deficit. In comparison, USA has rung up $17-trillion, and the UK £980-billion. Every child who is born in Britain today, for example, is born with a debt of £30,000 on their heads.

b. The Australian economy, however, not only weathered the GFC better than any other G20 country, (it was the only economy in the G20 not to go into recession), but they are also in a very strong position, being a resource-based economy.

c. It is a small country with 20 million people and they operate efficiently, as demonstrated by how quickly they reacted to the GFC.

1.2 Immigration

a. Over two million people apply to emigrate to Australia every year. Only 177,000 people managed to get into the country in 2012. There are only two ways to get into the country. You must either have money or the skills that the country wants and this results in the population becoming stronger and stronger.

b. Compare this to South Africa and the UK which are being flooded with poor immigrants who continue to be a massive drain on the economy, and are diluting the very nature of their culture.

c. Where will these three countries be in 50 years, based on this trend?

1.3 Geography – Close to Asia

a. The 21st Century is all about the East and the growth of these economic powers. Although Australia is a Western country, it is geographically closest to these Eastern economies. It is in the same time zone, and is very closely linked to these economies.

b. You have to say, it is a case of being in the right place at the right time.

I believe our best asset, in being a South African, is that we are experts in running successful businesses in emerging economies. The 21st century is all about emerging economies, and we should never lose this skill and embrace it. This is where the growth is; it is where the opportunity is, and where you should be creating your wealth; **Wealth Create**. However, once you have made relative wealth, I believe you should be investing in First-World economies. This will preserve your wealth, and exemplifies our concept, **Wealth Migrate**.

While in Australia, I interviewed Louis Fourie, a South African who immigrated in 2010 and I asked him what the number-one tip would be if he were to advise people in South Africa. He said, “Don’t procrastinate.” He wishes he had known about the huge tax advantages of investing in Australia, and he wishes he had started building his property portfolio from South Africa before he left, as that would have made his arrival and setup in Australia a lot simpler for him and his family.

If you are looking to diversify and to put your money into a strong, safe, and politically stable environment, then the Australian property market is a great option. This chapter prompts the questions and aims to provide answers to all your questions regarding investing in Australia.

- Why should people be looking to invest there?
- What are the advantages, both for tax and immigration of investing, before one moves to Australia?
- Where is the best place to invest and take advantage of regional opportunities?
- What is the best type of property to invest in?
- How do you arrange finance in Australia?
- How do you avoid tax?
- How does the Residential Tenancy Act protect the landlord in Australia?

2. Fundamentals

I believe the most important dynamic to focus on is the fundamentals. The reason the USA market crashed was that there was an oversupply of over 10 million homes, and the banks were holding a shadow inventory of 9.5 million of them. (They didn’t want to repossess them.) In 2004, one in every four homes was unoccupied after construction, and so the writing was on the wall for a long time. This was exacerbated by Ninja loans, where they lent to people with no income, no job and no assets, ultimately creating the sub-prime crisis.

When Ireland and Spain merged with the Euro, they were accustomed to a high-interest rate environment. Because the Euro, however, (and its consequent lending and interest rates) was based on the strength of the German banks, interest rates dropped by more than 75%, and you can imagine that property developers and property investors went mad. The banks got in on the action and it led to a massive oversupply. According to a recent report from the BBC, one in five homes in Ireland have been standing empty. It is no wonder that it happened: imagine what would happen in South Africa if our interest rates went to two or three percent?

In 2008, when I was in Dubai for a friends wedding, I was training for the Comrades Marathon and ran 20 km along Jumiriqua Beach. I counted over 25 buildings that were as tall as 40 stories or more that were all being completed at the same time. I repeatedly asked my friend where all the people were to come from, and he said that it didn’t matter, as property just kept going up. In fact, he had done really well from speculating in the market, owning three properties off-plan, with the idea of selling them on completion. We all know how that movie ended!

A colleague told me in 2011 that 40% of homes and office buidings in Dubai were unfinished or unoccupied. Property had dropped 62%, according to Deutsche Bank. There were also another 48,000 homes coming into the market in the following two years, increasing supply by another 12% and this would prolong the price slump for another 18 months. In commercial space, another 1.1-million square metres was completed in 2011 and vacancy was already at 41 percent. Average rents dropped 30% in the fourth quarter of 2010.

For the purposes of keeping this condensed, the same problem has been experienced in other markets such as Cyprus, Bulgaria, Croatia, and similar countries, where there is a fundamental discrepancy between supply and demand.

In Australia, however, there are two significant fundamentals, which need to be understood:

2.1 The demand is a lot higher than the supply

With population growth and immigration, the demand continues to outstrip supply. With tedious planning procedures, red tape, and a significant lack of skilled labour, the developers and construction companies cannot keep up with supply. Even though they know there is greater demand, they cannot build houses fast enough to keep up with the demand. Although the rise in interest rates has reduced this demand in the short term, the fundamentals are very healthy towards strong and sustained demand for the medium to long term.

Christopher Joy, MD of research group Rismark International, said:

> "In recent times, Australia has had among the strongest population growth in the developed world, and, as the population expands to the metropolitan markets, it is becoming increasingly difficult to bring the new housing supply online. ANZ and Westpac estimate that Australia's current underlying housing shortage is around 200 000 homes, and rising. This deficiency, in the available new supply in concert with household formation-driven demand, should underpin residential real estate capital and rental returns going forward".

As mentioned already, this population growth also comprises some of the best people from around the world immigrating to Australia, and subsequently increasing the strength of the economy and the demand.

2.2 Australian banks are solid

Australia's top four banks are rated among the top 15 in the world. Like South Africa, they have many restrictions and are very prudent with lending, having never been caught out in the sub-prime crisis. Their defaults are less than one percent, and so they remain in a strong position. As with any banks around the world, they have battled in the last four years to source financing and this has caused them to become even more cautious with their lending.

A principal to understand is that the banks rely roughly 25% on foreign funding. This makes them susceptible to foreign-market

fluctuations, owing to their reliance on wholesale funding, but this is nowhere near as high as South Africa, which is over 75%.

When one reviews the fundamentals, they certainly support a stable Australian property market. Unlike the USA and other markets where the fundamentals were out of place, Australia is very different, and it is important to understand these distinctions. Like the UK, when the fundamentals are strong, even when the market has a downturn, it recovers quickly. In the UK the market lost 15% in the Global Financial Crisis, from peak to trough, and yet London rebounded by 17% in less than 12 months, as the fundamentals were correct with demand outstripping supply. The biggest element constraining the market in the UK is access to finance, but we will go into this more deeply in the next chapter.

So, in Australia's case, the biggest short-term pressure on house-price growth is affordability. This is what is constraining the market, as the average Australian is battling to buy the home they would like to, based on the salaries they are earning. The average Australian home is 7.5 times the average wage, above the average level of 5.5: Sydney is 9.6 times; Melbourne 9; and Adelaide 7.1 times. This is having a major impact on the market, although reports in Australia are expecting higher than expected wage growth over the next few years, based on the projections of the economy. Further movements will be dictated by interest rates.

With affordability, it is also important to take into account that interest rates have trended downward over the past couple of decades, which distorts the figures. The other important consideration is that most people tend to congregate in major metropolitan areas around the coast, putting major pressure on land prices. If Australia had more cities, then prices would not be as high. The solution, which is offered, is a change in thinking. Australians would need to adopt a high-rise lifestyle similar to those places such as Tokyo and Hong Kong, thereby reducing the significant demand for land.

The other significant trend, which is early in its cycle, is that of developers providing smaller, more affordable accommodation. Rather than living in four-bedroom homes, with their own garden, they provide townhouses, which are smaller and on smaller pieces of land. This is similar to what happened in South Africa, although our trend was based on people looking for better security, which is not the case in Australia.

A final trend is that Australia has the highest divorce rate in the world, resulting in far smaller family sizes per house. When there is a divorce, the wife normally stays in the house with the children, and the father wants

to live in close proximity. This, along with people only getting married in their late 20s or early 30s, means more young "twenty-somethings" living on their own, for roughly 15 years after leaving school and home. This is why smaller, more compact, up-market townhouses and apartments are certainly a trend to be aware of.

In conclusion, a research report by Gavin Wood from RMIT University, using Melbourne residential property from 1998 to 2009, found that the Internal Rate of Return was on average 18% per annum. According to Christopher Joy, MD of Rismark International,

> "On a risk-adjusted basis, residential real estate has, as a consequence, actually outperformed Australian shares, global shares, 10-year Australian bonds, and listed property trusts, over the past 28 years, which represents the longest period over which we can credibly compare returns. Australian housing has proven to be a resilient performer throughout all of the major crises of the past three decades, including the 1987 stock market crash, the 1991 recession, the 2011 "tech wreck", and the 2007-2009 global financial crisis. Since 1982, the real estates three-year capital, or total returns, has never entered negative territory".

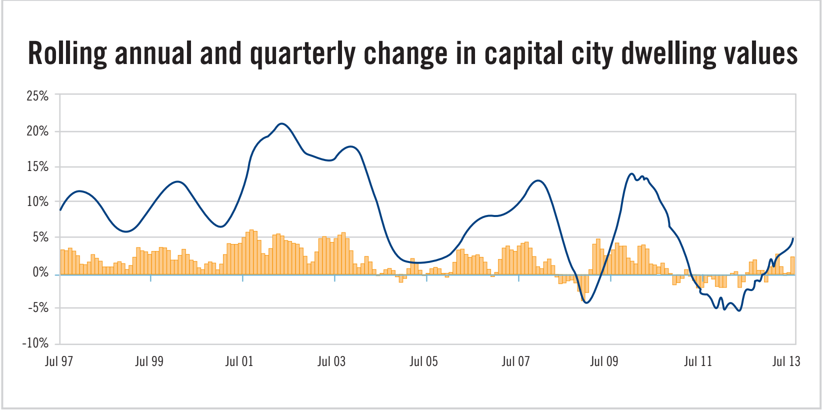
As South Africans, I think we are much more accustomed to booms and busts. It is what we have experienced, and we are not used to a less fluctuating market. I think the answer to this question of what is going to happen with the Australian market, lies somewhere in the middle. We South Africans are so dramatic, and they are a bit too confident, but I do believe we can expect the market to rise and fall slightly, or plateau, but in a systematic and sustained way. As long as an investor takes a long-term view, ten years or so, Australia will help them achieve everything they are looking for.

Another consideration is that, if the market was to remain stagnant or even slightly decrease, then should a South African wait? The problem for us is that we have to deal with another far more volatile uncertainty, and that is the Rand, as discussed in Chapter 2. In the next 12 to 24 months, there is a far greater chance that the Rand will devalue by more than 5%, making property more expensive for us. Investing, therefore, is about managing your risks and, based on this principle, it is far better to manage your uncertainties, of which predicting the Rand is certainly not one, and therefore I do not suggest waiting. This, and the fact that **there are four other major advantages of owning property now**, (accumulated tax loss, credit rating, immigration and buying your own

home), weigh heavily in the favour of investing now, rather than waiting, should Australia be part of your global strategy.

3. Positives of the Market

Australia has over 100 recorded years of statistics, showing that the values double nearly every ten years. Australia has a pattern of property cycles between seven and ten years. The most recent cycle has been a little longer, with 12 years from the previous peak, with the impact of the GFC and rising interest rates.



We rely on our research from PR Data-Rismark, which is owned by CoreLogic, the leading provider of consumer, financial, and property information, analytics and services, to business and government (see http://www.rpdata.com). The company combines public, contributory, and proprietary data to develop predictive decision analytics and provide business services that bring dynamic insight and transparency to the market it serves. In 2013, CoreLogic had more than 6,000 employees globally, with 2012 revenues of $1.6 billion, and is listed on the NYSE. Most importantly, they are the biggest and best independent research house and can therefore tell it as it is. This is preferable to some estate agency, or even Government, who tend to give out previously manipulated data in order to prove a point.

PR Data-Rismark's report of 1 August 2013 showed that capital-city dwelling values rose a further 1.6% in July 2013, taking the cumulative recovery in residential home values to 6.5% since the market bottomed out in May, 2012. According to RP Data research director, Tim Lawless,

despite the strong numbers, the market remains somewhat of a mixed bag:

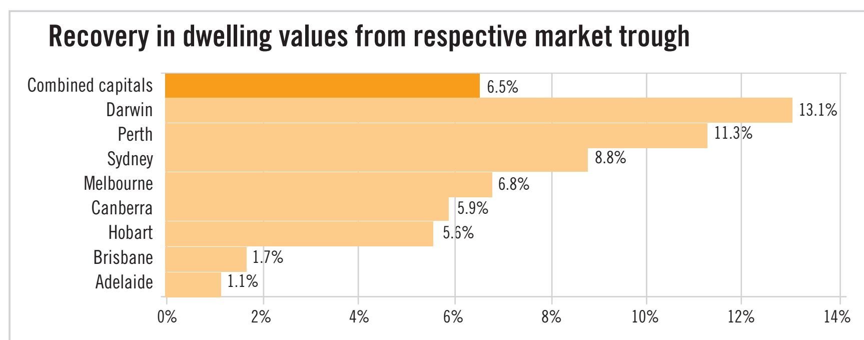
> "The housing market is being buoyed by very positive conditions in Sydney, Perth, and to a lesser extent Melbourne, with residential values in these cities now 3.7%, 4.4% and 2.4% respectively higher over the past three months, alone. At the other end of the scale, you have cities like Adelaide, Brisbane and, more recently, Darwin, where conditions are more sedate, with dwelling values slipping lower over the past quarter.
>
> By including rental yields in our assessment of the housing market, some clarity is provided as to why investors are becoming so active.
>
> The RP Data-Rismark Accumulation Index, which factors in both capital gains and gross rental yields, is up 9.4% over the past year. As noted by RBA Governor, Glenn Stevens, earlier this week; "With an easing in monetary policy, one of the expected and intended effects will be that people will begin to shift their portfolios away from the less risky assets, such as cash, and in the direction of holding equities and physical assets, such as property".

Index results as at July 31, 2013

	Change in dwelling values			Total gross	Median
Region	Month	Quarter	YoY	returns	dwelling price
Sydney	2.0%	3.7%	6.5%	11.2%	$570,000
Melbourne	2.3%	2.4%	4.3%	8.2%	$492,000
Brisbane	0.1%	-0.7%	0.8%	5.8%	$429,000
Adelaide	-1.5%	-3.1%	1.1%	5.7%	$382,000
Perth	1.6%	4.4%	8.3%	13.3%	$494,000
Hobart	0.9%	2.0%	-0.4%	4.9%	$305,000
Darwin	2.0%	-0.9%	1.7%	8.0%	$490,000
Canberra	2.5%	1.4%	4.1%	9.1%	$500,000
8 capital city aggregat	1.6%	2.3%	4.9%	9.4%	$488,000
Rest of state*	-0.3%	-1.5%	0.5%		$325,000

*Rest of state change in values are for houses only to end of June, 2013

> According to Rismark CEO Ben Skilbeck, an increase in investor activity is highlighted when examining lending commitments data.
>
> "While overall outstanding credit to housing only grew 4.4% over the past year, to May 2013, the dollar value of lending commitments to investors in the month were 24% higher than in May 2012. For owner-occupiers, the May 2013 lending commitments year-on-year increase was 11%."
>
> The most significant total gross returns were recorded in Perth, with the accumulation index up 13.3% for the year. Sydney trailed slightly with a total gross return of 11.2% over the past year. Total returns are now the lowest in Hobart, at just 4.9% over the past year.
>
> Each of the vendor metrics published by RP Data and Rismark International, has continued to strengthen over the month.
>
> According to Mr Lawless, a typical capital city dwelling is selling in just 45 days, compared with the 59 days at the same time a year ago. Vendors are discounting their prices less and clearance rates remain close to 80 per cent in Sydney, and slightly lower in Melbourne.
>
> "With the housing market once again showing solid capital gains, and rents also rising, the issue of housing affordability is likely to begin attracting more attention".
>
> "The recent housing market correction, which bottomed in May 2012, where values were down 7.4% from peak to trough across the combined capital cities, together with mortgage rates moving to historically low levels, delivered substantial affordability improvements for Australian housing. However, with Sydney, Perth and Canberra, values are now back at record high levels and some other capital cities are also not far off their previous peaks; there are likely to be a growing number of households who find it challenging to enter into the housing market" Mr Lawless said.



> Mr Skilbeck added, "While the highly anticipated interest rate cuts in August will further act to improve housing affordability,

> if these cuts do eventuate, they are likely to spur further house price appreciation, making the deposit requirements for first home buyers more challenging."

The RP Data-Rismark results also show that after some time in the doldrums, the more expensive upper quartile of the market is continuing to underperform the other broader priced segments of the housing market.

According to Mr Skilbeck, for the 12 months ended July 2013, the mid-market achieved 1.4 times the growth of the upper quartile. (Again, the reason for IPS and Wealth Migrate to focus on the Secondary Markets, as our strategy, is that the segment which is sustainable and gets the best returns).

"While the mid-market has largely recovered its peak from trough declines, the upper market still needs to add about 4% before it can claim the same" he said.

Sydney generally sets off each cycle. This cycle began in 1998 and appeared to have peaked in 2008. It went through a correctional phase there, and is now the leader again in terms of growth. Melbourne always runs 18 months behind Sydney. Gold Coast and Brisbane run three years behind the Sydney cycle. Perth remains very cyclical, and is very dependent on the demand for resources.

Particularly important in Australia, is the differing economies and taxes of the states. It is important to find out what the economic viability of the area is, and you need to determine which has the lowest cost of living.

Australia is a high-growth, low-inflation, and low interest-rate economy. The Australian economy is more stable than many, or most, of the others in the G20 group of countries.

Queensland is the lowest tax state, and the Queensland Government has accumulated financial assets to cover its liabilities by a good margin and has more net assets per capita than any other Australian jurisdiction. It has the lowest group tax and payroll tax of any state, which encourages corporations to establish their head offices there. Recent arrivals, such as Virgin Airlines, Qantas, IBM, Boeing, Hatch Engineering, Arnotts and Suncorp Metway, to name just a few, testify that they can be more profitable there, than other states, for the same turnover.

Australia has a population of approximately 20 million people, with a population growth of approximately 1.3%. Queensland, on the other hand, has a population growth of 1.5%, because this is one of the most

popular places to which people migrate inside Australia, as well as from overseas. Over 80% of South Africans who immigrate to Australia go to Brisbane, according to the leading immigration agent in South Africa.

4. Negatives of the Market

It all Depends on China, India, and Demand for Resources

In 2009, Australia was the only economy in the G20 to remain in positive growth. Their property market was also the only property market which actually grew in 2009, after the Global Financial Crisis. This happened because the Reserve Bank dropped the interest rate from 8.75% to 3% a 66% drop in four months. They also brought in the "First-Time Home-Owners Allowance" which equated to a 5% deposit, and the banks were prepared to lend the other 95% to these home buyers. This not only propped up the market, but caused it to grow 8.7% in 2009. This extended further in 2010 with some markets like Melbourne growing by as much as 17% in one year.

At the end of the day, everything good comes to an end. Just ask the people in the USA, Ireland, Spain, UAE, or anywhere else where the property markets have plummeted in the last few years.

When you ask an Australian about the property market, however, they all say, "It has grown for the last 100 years, and will continue to grow for the next 100 years." Unfortunately, I have watched this movie, and it has a different ending. One of my major objectives, therefore, is to investigate this and to understand what the risks are in the market. I speak to property people, friends and family, investment bankers from Investec, stock brokers, asset managers, Clem Sunter, and the general consensus is as follows:

The greatest risk to the Australian property market is unemployment. If unemployment were to rise, and people could not afford their houses, this would cause a fall in property prices. With unemployment at some of the lowest levels it has ever been (around 5%), this does not seem to be a threat to the market. In fact, they actually have the opposite problem. Those 5% don't want to work, and there is a significant skills shortage in Australia. This has been exasperated by the upsurge in demand for commodities.

But then I pushed harder, "Well, what could cause unemployment?"

The response was, "if the demand for commodities decreased", and when

I pushed again for a detailed answer, the consensus was that this would only happen if the growth in China and India dramatically reduced.

So the synopsis was:

The greatest risk to the Australian housing market was a significant decrease in demand for commodities in China and India; leading to unemployment and economic downturn in Australia.

According to a report from *The Economist* in August 2013:

China is more complicated. July's figures suggest it is not sliding into a slump, but there is also little reason to expect faster growth. This is because China is in the midst of two tricky transitions: from an investment-led economy, to a consumption-driven one; and from an economy addicted to rapidly rising credit, to one that is more self-sustaining. China has the capacity to adapt without calamity, because it has the fiscal resources to absorb bad debts, but neither transition has yet gone that far and both imply slower growth.

In a report from Investec, moreover:

- China is expected to continue to their urbanization of 10 to 15 million people a year, and is expected to continue until 2020. This requires heavy investment in fixed assets such as housing, factories, rail, roads, ports, airports, and these resource intensive projects that devour steel, copper, aluminium, and nickel.
- A massive new middle class is expected to emerge in China, over the next ten years. For this reason fixed asset investment, the primary driver of China's growth over the past 30 years, is expected to continue growing at 20% a year.
- Rail infrastructure expansion tells the story of China's aggressive growth. It has 8,300km of high-speed rail and plans to double this by 2015. It has 91,000kms of track and plans to expand this to 120,000 by 2020.
- India is emerging as a financial giant and will grow at 7%. Currently, India is Australia's fourth biggest trading partner.

As Clem Sunter has shown us, there are various flags which you need to observe closely in order to determine the path of the Chinese economy, and the resulting demand for resources.

Australian Tax

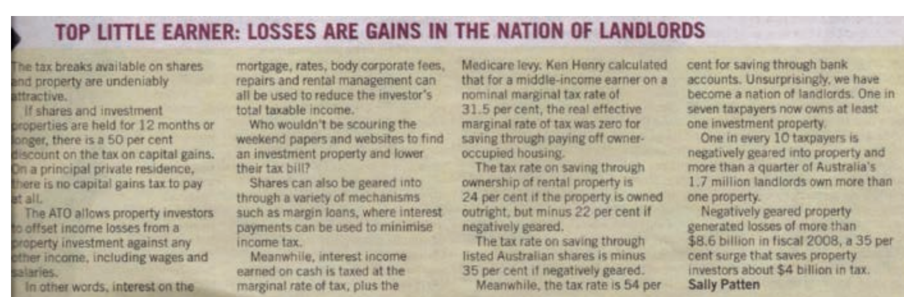
I do believe another risk which is not taken into account by the Australians is a change in the tax laws. In the USA in the 1980s, the government changed the laws on tax with regards to property and it had a dramatic effect on individuals and the property market. In Australia, the tax laws are very friendly towards property, allowing people to offset losses from property against other income. They can also depreciate on the construction of a property, the fixtures and fittings, and take a portion of the purchase costs.

All this means that many Australians own properties (even with negative gearing), as it makes them far more tax-efficient. If they were to change the laws and the properties were to become ring-fenced, as in South Africa (Section 21 of the Tax Act), I believe it would have a significant impact on the property market as many Australians might no longer view property as a great investment vehicle. Although there has been no mention of this from the government, in the *Weekend Australian Financial Review* (March 12-13, 2011), Saul Eslake from the Grattan Institute said,

> "If you hired a consultant from a foreign country to devise a tax system that penalises the accumulation of wealth through labour and savings, and rewards the accumulation of wealth through borrowing and speculation, they would have taken their time, charged you a lot of money, and handed you a copy of the Australian Income Tax Assessment Act".

In his report of 2010, Kevin Henry tried to have the negative gearing on property and shares abolished, but with little effect. These days neither side of the House wants to touch the issue.

Here is a **review of tax**, and how it works:



TOP LITTLE EARNER: LOSSES ARE GAINS IN THE NATION OF LANDLORDS

The tax breaks available on shares and property are undeniably attractive.

If shares and investment properties are held for 12 months or longer, there is a 50 per cent discount on the tax on capital gains. On a principal private residence, there is no capital gains tax to pay at all.

The ATO allows property investors to offset income losses from a property investment against any other income, including wages and salaries.

In other words, interest on the mortgage, rates, body corporate fees, repairs and rental management can all be used to reduce the investor's total taxable income.

Who wouldn't be scouring the weekend papers and websites to find an investment property and lower their tax bill?

Shares can also be geared into through a variety of mechanisms such as margin loans, where interest payments can be used to minimise income tax.

Meanwhile, interest income earned on cash is taxed at the marginal rate of tax, plus the Medicare levy. Ken Henry calculated that for a middle-income earner on a nominal marginal tax rate of 31.5 per cent, the real effective marginal rate of tax was zero for saving through paying off owner-occupied housing.

The tax rate on saving through ownership of rental property is 24 per cent if the property is owned outright, but minus 22 per cent if negatively geared.

The tax rate on saving through listed Australian shares is minus 35 per cent if negatively geared.

Meanwhile, the tax rate is 54 per cent for saving through bank accounts. Unsurprisingly, we have become a nation of landlords. One in seven taxpayers now owns at least one investment property.

One in every 10 taxpayers is negatively geared into property and more than a quarter of Australia's 1.7 million landlords own more than one property.

Negatively geared property generated losses of more than $8.6 billion in fiscal 2008, a 35 per cent surge that saves property investors about $4 billion in tax.

Sally Patten

According to everything else I have read, however, I believe that – although this is a small risk – it is one to be aware of. As I have said before, my uncle taught me many years ago that, if you can manage the worst-case scenario, then everything else is upside. If this tax reform were to happen, I believe there would be a quick decrease in prices, but, as was the case in the USA, it would last two years before the market would begin to recover again. As long as we all take a long-term view as investors, the Australian market would manage such a reform. The capital value might experience a decrease, but the rentals would remain stable, if not increase, which would allow us to ride the short-term situation.

Interest Rates

As with any country, the rise and fall of interest rates has a big impact on the demand for property. Some concern during the GFC was the easy availability of cheap finance in Australia, as well as the presence of the First-Time Home-Owner Allowance. As with any first-time home owners, they tended to extend themselves to the brink so that, when interest rates rose, they really struggled, partially resulting in the decline of the market. If one has a medium-term view of five years or more, then I do not believe this is a significant risk and, as we have seen above, the market has already recovered.

The long term-trend is for the average borrowing rate to be between 7% and 8%. The average borrowing rate is usually 2% above the cash rate. In late 2013 the cash rate was 2.5%, which is actually lower than the 3% that the Reserve Bank of Australia (RBA) dropped to in 2009. Here is the graph of the cash rate, since 2008.
Source: http://www.rba.gov.au/statistics/cash-rate/

RBA Cash Rate

8,00%
7,00%
6,00%
5,00%
4,00%
3,00%
2,00%
1,00%
0,00%
01 Feb 2008
01 Jul 2008
01 Dec 2008
01 May 2009
01 Oct 2009
01 Mar 2010
01 Aug 2010
01 Jan 2011
01 Jun 2011
01 Nov 2011
01 Apr 2012
01 Sep 2012
01 Feb 2013
01 Jul 2013
RBA Cash Rate

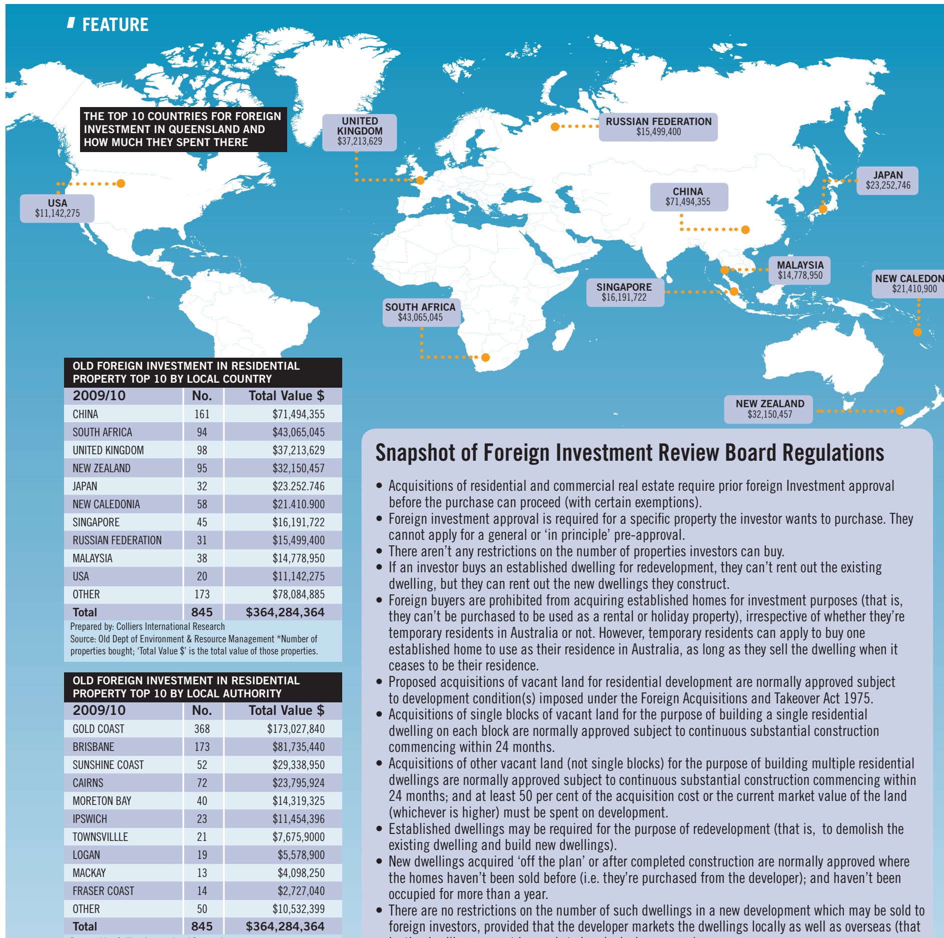
Interest rates, therefore, are at an all-time low. We did learn in 2009 that when interest rates drop it does tend to effect rental yields in the short term, as often renters choose to buy their own home. So, there are two risks here even though the market seems to be recovering:

1. The rental market remains stagnant for roughly two years.
2. When interest rates rise, as they did at the back end of 2010 and 2011, then the property-market growth tends to slow.

These are the usual trends of interest-rate cycles and property. It is just important to understand what stage of the cycle the interest rates are in.

FIRB – Foreign Investment Review Board

As a foreigner, there are restrictions on the property you can buy. Please look at this picture below, which shows you where the foreigners who are buying are coming from, and also how these FIRB restrictions work.



FEATURE

THE TOP 10 COUNTRIES FOR FOREIGN INVESTMENT IN QUEENSLAND AND HOW MUCH THEY SPENT THERE

OLD FOREIGN INVESTMENT IN RESIDENTIAL PROPERTY TOP 10 BY LOCAL COUNTRY

2009/10	No.	Total Value $
CHINA	161	$71,494,355
SOUTH AFRICA	94	$43,065,045
UNITED KINGDOM	98	$37,213,629
NEW ZEALAND	95	$32,150,457
JAPAN	32	$23.252.746
NEW CALEDONIA	58	$21.410.900
SINGAPORE	45	$16,191,722
RUSSIAN FEDERATION	31	$15,499,400
MALAYSIA	38	$14,778,950
USA	20	$11,142,275
OTHER	173	$78,084,885
Total	**845**	**$364,284,364**

Prepared by: Colliers International Research
Source: Old Dept of Environment & Resource Management *Number of properties bought; 'Total Value $' is the total value of those properties.

OLD FOREIGN INVESTMENT IN RESIDENTIAL PROPERTY TOP 10 BY LOCAL AUTHORITY

2009/10	No.	Total Value $
GOLD COAST	368	$173,027,840
BRISBANE	173	$81,735,440
SUNSHINE COAST	52	$29,338,950
CAIRNS	72	$23,795,924
MORETON BAY	40	$14,319,325
IPSWICH	23	$11,454,396
TOWNSVILLLE	21	$7,675,9000
LOGAN	19	$5,578,900
MACKAY	13	$4,098,250
FRASER COAST	14	$2,727,040
OTHER	50	$10,532,399
Total	**845**	**$364,284,364**

Prepared by: Colliers International Research
Source: Old Dept of Environment & Resource Management *Number of properties bought; 'Total Value $' is the total value of those properties.

Snapshot of Foreign Investment Review Board Regulations

- Acquisitions of residential and commercial real estate require prior foreign Investment approval before the purchase can proceed (with certain exemptions).
- Foreign investment approval is required for a specific property the investor wants to purchase. They cannot apply for a general or 'in principle' pre-approval.
- There aren't any restrictions on the number of properties investors can buy.
- If an investor buys an established dwelling for redevelopment, they can't rent out the existing dwelling, but they can rent out the new dwellings they construct.
- Foreign buyers are prohibited from acquiring established homes for investment purposes (that is, they can't be purchased to be used as a rental or holiday property), irrespective of whether they're temporary residents in Australia or not. However, temporary residents can apply to buy one established home to use as their residence in Australia, as long as they sell the dwelling when it ceases to be their residence.
- Proposed acquisitions of vacant land for residential development are normally approved subject to development condition(s) imposed under the Foreign Acquisitions and Takeover Act 1975.
- Acquisitions of single blocks of vacant land for the purpose of building a single residential dwelling on each block are normally approved subject to continuous substantial construction commencing within 24 months.
- Acquisitions of other vacant land (not single blocks) for the purpose of building multiple residential dwellings are normally approved subject to continuous substantial construction commencing within 24 months; and at least 50 per cent of the acquisition cost or the current market value of the land (whichever is higher) must be spent on development.
- Established dwellings may be required for the purpose of redevelopment (that is, to demolish the existing dwelling and build new dwellings).
- New dwellings acquired 'off the plan' or after completed construction are normally approved where the homes haven't been sold before (i.e. they're purchased from the developer); and haven't been occupied for more than a year.
- There are no restrictions on the number of such dwellings in a new development which may be sold to foreign investors, provided that the developer markets the dwellings locally as well as overseas (that is, the dwellings cannot be marketed exclusively overseas).

For more information contact the Foreign Investment Review Board.

As a foreigner, you can only buy a new house, apartment or land from a developer. Under these circumstances, the best way to make money is to buy from a motivated seller. In Australia, the laws force us to buy properties from developers and, unless we can find developers who are motivated, it is not the same as buying from a divorced couple, or as a result of a bank's repossession. This is another reason for us calling the Australian investment "Steady Eddie", as you know what you are getting.

5. Areas of interest

5.1 Master-Plan Communities

As South Africans, we all want to invest right next to the CBD and we all want to own property in Sandton. The Australians have very thorough planning approaches, and know exactly how they want their cities to grow. Each city has their own development plan. In Melbourne, for example, they are planning for five million people and they know what they want up to 2030. Their Master Plan shows the urban-growth boundary, the infrastructure growth nodes, the urban city growth nodes, and basically plans exactly how the city is going to grow over the next 20 years. It is imperative to know all this information, as investors need to know where they should be focusing.

When I first started trying to understand the Australian market, I did not fully understand this, or the scale at which they develop. They build Master-Plan Communities around urban-growth nodes. In Melbourne, four years ago, I was in a farm area called Point Cook. Have a look at this picture:

Although I did not get a great picture of the town centre, with the shopping centre, here is the picture from the same spot where the cows grazed, two years later:

This is less than 20 km from the Melbourne CBD, and is one of the most popular places in Melbourne to live and work. To use a South African example, this would be Centurion to Pretoria or Fourways, Midrand, Bedfordview, Randburg, to Johannesburg and Sandton.
As an investor this is very important to understand, as it is the location with respect to these urban-growth nodes. We went to Caroline Springs which is an entire city centre in Melbourne, and has been established over the last 15 years: over 20,000 people live and work there.

In Brisbane, we went to Springfarm which is the most successful development in the Southern Hemisphere, and has been established for ten years with another 15 years to go. There is a university in this development and the scale is incredible. The opportunity lies in understanding the research and investing in the urban-growth nodes early, even while all the infrastructure is going in. A classic example of this is Doreen or Point Cook in Melbourne; Heritage Park, North Lakes, or Coomera in Brisbane; Rockingham in Perth; and Springfarm in Sydney.

In Point Cook, by getting the timing right, our clients made over AU$100,000 in 12 months, as Point Cook grew successfully into one of these urban-growth nodes. In Doreen, our clients bought for AU$355k and they are now worth AU$410k to AU$420k, but by 2026 the average price is expected to be over AU$1-million. We hope that this shows how important it is to understand these growth nodes.

5.2 Market segments

Another important thing to understand in Australia is that there is not one market only. No matter what you hear about the market, you have to take it in context as there are very important segmentations.

The City

- As I have shown above, the cities all behave very differently in different times. As we have learnt, while Sydney was going sideways, Perth was booming; while Brisbane was stagnant, Melbourne grew dramatically.
- It is imperative to do the research and know what the fundamentals are in each city centre, and what is driving the market.

Geographical area

- Within each city, there are also very defined growth nodes. As explained above, you need to understand the city urban plans to know where the cities are growing and where the growth and the demand will be. In 2009/10, while Melbourne CBD was really struggling, the urban-growth nodes were expanding rapidly.

Type of property

- One also has to be very aware of the type of property. For example, if you were to read about the Gold Coast and what is happening, you would assume that there are problems in the market. However, these are leisure apartments and there is a severe lack of houses, which are available in Brisbane.
- Secondly, the average Australian earns between AU$45,000 and AU$65,000 a year, and they can borrow up to six times their earnings. Therefore, a single income family can borrow up to AU$300,000 for a property. If both mom and dad are working, they can borrow up to AU$600,000, but once you take off car finance and kid's schools, they generally fall into the AU$300,000-AU$500,000 bracket.
- This is where 85% of the population is found, and where statistically, you get the best growth and the best rental demand.
- The saying in Australia is: "A dollar per thousand, per week." Therefore if you own a AU$400,000 home, you should aim for AU$400 a week, (roughly 5% yield). However, once you buy something more than AU$500,000, these yields decrease dramatically. As on the Gold Coast, you can buy property for AU$1-million and only get $500 a week.
- This is the target market (the Secondary Market) we focus on, as it is the most robust, has the best growth, and the highest yields. We aim for **middle-income Australia** with four-bedroom homes, two bathrooms and a double garage in the suburbs of the major cities.
- Owing to the stability in this market, we can offer a Ten-Year Lease-back where you have a secure tenant who is paying market-related rents for ten years, or more. This is the ultimate management and maintenance solution, and perfect for long-distance landlords.
- The stability of this market is that it was the best performing sector during the Global Financial Crisis, in comparison with properties in Sydney, which were more than AU$2-million, and losing 20 percent.
- We also focus on investments that account for the affordability trend: townhouses and apartments in strategic growth nodes. As densification trends continue, we are noticing a change in demand and these townhouses and apartments, in strategic secondary markets, are now providing great returns as well.

5.3 Perth Property

The Perth property market is dominated by the commodities market and where the commodities are in the cycle. From 2004 to 2007, on the back of the commodities boom, the Perth property market was the fastest growing market in Australia. In a city where people earn AU$150,000 for driving a truck on the mines, (the average Australian earns AU$50,000 a year), they have significant spending power, and this is what drove the market.

Yet, it rose so quickly, becoming the second most expensive city in Australia after Sydney, that – owing due to affordability alone – the prices started to decrease even before the Global Financial Crisis. From 2008 to 2009, the market actually lost 15% from peak to trough. Since then it has recovered 11.3% to July 2013, because of a recovery in the demand for resources in the last two years.

The mining companies have taken a long-term view and are very "bullish" about the future. They are expecting a large increase in the Perth economy to follow the increase in demand for commodities and resources. An example of this may be found in a friend of mine in Mergers and Acquisitions whom has just brokered a deal to buy an engineering firm since it is easier to buy the company than to hire numerous engineers, owing to the scarcity of skills.

Nevertheless, owing to the downturn in the property market over the last two to three years, there has been a reduction in supply. There are few new developments in the CBD which has been driven by this demand.

Perth Apartments

In the suburbs, however, there is a demand for houses.

South Freemantle

Although the growth has already started, as is shown by the statistics, if the resources continue to escalate in demand, this will be a city to watch.

Melbourne CBD at Sunset

5.4 Melbourne Property

Significant development has taken place in Southbank and the Docklands. All the land in this area was owned by the city council and, as they wanted to expand the city, they gave away the land to developers with the only proviso being that they build immediately and that the land would only be transferred when people took transfer of their properties. This stopped the people land banking. What happened, however, is that it caused a massive development in this area. In the commercial space, it meant that developers could build a

lot more affordably and offer rents vastly reduced from the CBD. Many big tenants moved, causing large vacancies in the CBD, which resulted in Melbourne's commercial rents being the lowest of the capital cities.

With regards to residential, there has been a tremendous expansion in high-density development in these regions. It is expected that 20,000 apartments will be coming into supply in the next two years. This is against a backdrop in annual demand of roughly 3,000 apartments. There has also been significant overseas investment, mainly from the international and local Asian community. The one exception to this is some of the great residential areas on St Kilda's Road.

The suburbs, however, show a very different story. Melbourne is the most affordable capital city and has experienced significant growth in 2009, and in 2010 it was at 17%, but, owing to the rise in interest rates, and even problems in some areas of oversupply, the growth levelled off in 2011 and 2012, and the yields were some of the lowest in the country as the rents did not keep up with the initial price rises.

Street view – Ryan's house

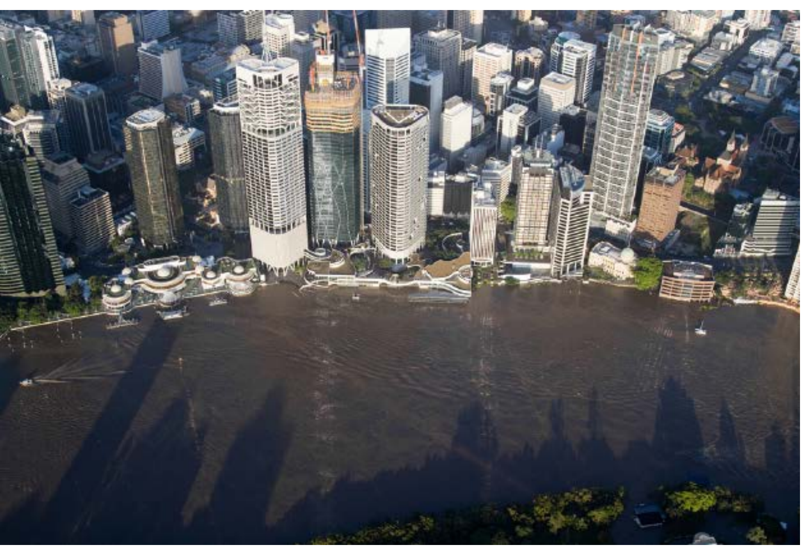
Dieter's House

Inside the house, great finishes

Ryan's house – gives it thumbs up

We believe that, although this market has seen significant growth, it is currently at the top of its cycle and there are better opportunities in other cities

5.5 Brisbane Property



Brisbane CBD

For the last three years, the Brisbane market has been fairly stagnant owing to affordability. A significant catalyst was the floods of January 2011. These floods damaged in the region of 20,000 homes, and this will significantly affect the supply in the future. In the short term, the economy has been directly affected. The Brisbane municipality had to spend AU$400- to AU$500-million, to repair the city, and the Queensland government had to spend AU$4- to AU$5-billion. Yet the biggest impact has been on individuals.

Richard's house

Richard's house with flooding

The entire house had to be gutted

These examples show you what the impact has been on the man in the street, and what impact the floods have had on spending capacity. These impacts suppressed the local economy for roughly two years and property remained fairly stagnant during this time. Although there was a significant discrepancy in supply and demand, as the demand increases, the supply will be dramatically slowed down, along with homes being taken out of supply.

Another factor is the demand for new homes. In 2011 a new report was released, resulting in the Queensland 100-year flood-line being extended, with 30,000 homes identified as being situated in low-lying areas. New property buyers therefore will be very wary in these old areas and will far rather invest in the newer areas to avoid the large insurance costs and the restricted growth prospects in newly designated flood-zone areas.

All three of these elements can really affect the market. For 5 years we have been telling South Africans that our research predicted that there were going to be problems on the Gold Coast as there was an oversupply, and also it is based on international investors and leisure buyers. Currently, there are over 2,000 apartments in oversupply on the Gold Coast and it is a bloodbath. I have seen a development on Hope Island which is very popular amongst South Africans who move to Brisbane. I have also seen another development which people bought into four years ago for AU$1,050,000, but whose units were repossessed in 2011 and were being offered by the bank for AU$395,000.

Hope Island, Gold Coast

In the Oracle Twin Towers, prices are now 50% less for each of the 300-units apartment. There is over AU$2-billion worth of property for sale on the Gold Coast. The big problem here is oversupply and the fact that most buyers are foreign and can't get adequate access to finance. Matusiks Property Insights director Michael Matusik, says,

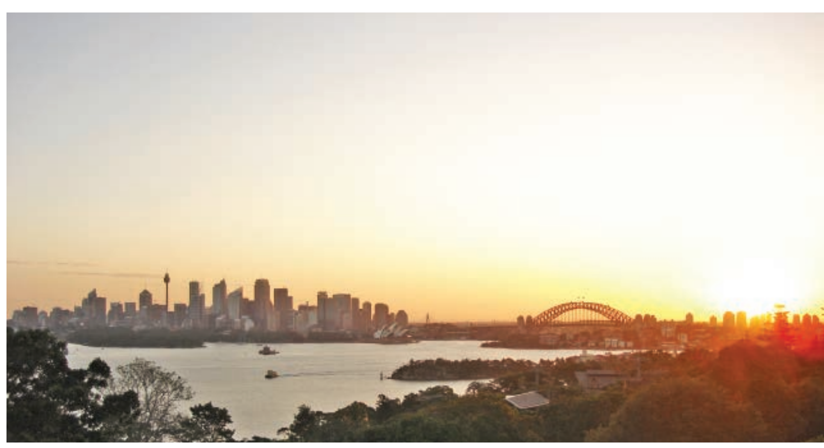
> "The Gold Coast, the Sunshine Coast, Cairns, Mandurah, and even parts of the North Shore of Sydney, have all suffered the same [fate]. It's a discretionary market that gets inflated when egos and confidence are inflated".

Infrastructure

In the Brisbane CBD, the transport infrastructure projects are in abundance. The North side of the city is expected to be the primary beneficiary of a major project which is currently under construction, the Airport Link, worth AU$4.8 billion. It is the single biggest infrastructure project happening in Australia at the moment. A bus-route network is also being introduced into the city to make bus transport more efficient. In the last two years, we have very successfully invested in the South Bank of Brisbane CBD. This is a classic Secondary market as it is one kilometre from the CBD of Brisbane, and is on the other side of the river. The conference centre is here, and there is huge re-gentrification taking place and we are working with some of the most established developers in the country. Our clients have been amazed that their rentals were above the predictions, and this suburb has been the leading suburb for growth and returns out of all the suburbs in Australia.

From my research, my opinion is that this is the city to invest in at the moment, and is certainly one of the most popular among our clients.

5.6 Sydney Property



Since the Olympics in 2000, the property market has grown dramatically up to 2003. Then, due to affordability, the prices went sideways for about five years. Nevertheless, despite the GFC, Sydney has been the second-best performing market behind Darwin. In 2011, there were only 4,000 properties in the whole Sydney metropolis which were below AU$500,000 and it is only getting worse.

Talking to many people though, as the economy continues to improve, Sydney is a city to watch. One thing I found that was amazing in Sydney was the Urban-Growth Centres which are 40km to 60 km from the CBD, but which are huge growth nodes where the average Australians choose to live and work. Many will live here and even commute into the CBD as there are very efficient buses and trains. One is Norwest Business Park, which is massive, and there is also a huge city centre where people live. They have built in the heart of the city centre much like Melrose Arch, but about ten times bigger. When I was there in 2011, one of our Australian property partners, a South African who immigrated in 2009, showed me all around the suburbs and told me why he chose to live and work there. The sheer scale on which they build these Master-Plan Communities is fascinating.

From our research, along with Brisbane, Sydney is where you should be investing at the moment, but only in the Secondary Markets.

6. Where to invest?

We only focus on the four capital cities (Sydney, Brisbane, Melbourne, and Perth), where the fundamentals are right, and the economies are driven by multiple industries.

There were some great opportunities and obviously these change quickly, and so I am not going to dwell on them.

We have opportunities on the beach in Perth; repossessed, finished apartments in Perth CBD; apartments in Melbourne CBD, Brisbane CBD, and Sydney CBD; repossessed, finished properties on Hope Island (180 m^2 in size and close to the water on the Gold Coast, which were originally selling at AU$1,050,000 but are now going for AU$395 000,); and four-bedroom family houses in the best urban-growth nodes in Perth, Melbourne, Brisbane, and Sydney.

Remember that our family homes come with a ten-year leaseback, a unique concept globally, where you sign up a tenant at a market-related rent for ten years or more, before you buy the property. This gives you

complete peace of mind; guarantees you your rent each month; provides a complete management and maintenance solution; and was specifically designed for long-distance landlords. This is not a rental guarantee, such as in Dubai or the UK, but it does use economies of scale and is a very simple, reliable, and sustainable solution.

Please ask to see the pictures and videos of our clients' investments, as we are so proud of the quality and the general look and feel. **65% of the people who invest through us are repeat clients** and this is because clients often first put the ten-year leaseback to the test, but when they see how accurate and reliable it is, along with the quality of the property, they then buy multiple properties through us.

Please contact Kristen on: kristen@ipsinvest.com
to allow her to understand what it is you are trying to achieve and she and her team will be able to assist you.

Finally, in a recent independent and anonymous survey, our clients gave us great feedback.

72% of clients gave us 5 out of 5 for their investment and the overall experience, and the other **28% gave us 4 out of 5**. This is pretty conclusive evidence of how passionate we are to help our clients in their wealth migration. We provide the full private banking solution, from helping you understand the market, choosing an investment, arranging finance and FIRB applications, managing the purchase process with the lawyers, arranging independent surveyors to examine the property for quality, right through to management and maintenance on your property. It is the full turn-key solution.

We have the experience, the knowledge, the track record and, more importantly, the **Information** and the **Best of Breed Partners,** to help you do this successfully, achieving all your dreams and desires for you and your family, long term success and well-being!

7. Commercial Property Market

The commercial market is too complex to thoroughly review in this chapter, as it is enormously vast with so many categories. The overall assessment is that it is a buyer's market, and the commercial market is fairly subdued at the moment. None of the banks are prepared to lend to

commercial funds or commercial property companies, which gives you an indication of their views of the market.

In all the cities there are a tremendous amount of office and retail vacancies.

Because we have best-of-breed partners in each city, we can offer a far more bespoke solution, depending on what you are looking for through **Wealth Migrate.** Our partners are specialists in helping international investors invest in commercial property.

Recently, they have helped an investor to buy an $80-million shopping centre in Brisbane, and we have investigated light-industrial; medical centres; commercial buildings with national tenants; student accommodation; and so on.

The bottom line is that you have to be so careful. In 2011, through Wealth Migrate, we looked at a shopping centre in the heart of Brisbane and had an offer for AU$15-million accepted, after a property fund bought it for AU$34-million three years earlier, and owed the bank AU$24-million. On the face of it, it looked great, but with further due diligence, it was a complete lemon. We also went to Bondi Beach to buy a medical centre with a 15-year lease from a blue-chip tenant. Once again, on interrogating the lease it was a 5 X 5 X 5, which means the tenant was only signed up for five years with their right to renew: a completely one-sided contract.

Trust me, if you are interested in commercial, you need to speak to our best-of-breed partners, or you will almost certainly join the 80% of South Africans who lose money. This is why we have Wealth Migrate, to help sophisticated investors take advantage of the commercial opportunities in Australia.

8. FAQ and Glossary

8.1. What are the different types of property and loan types?

A. House and Land Packages

There are two types of house and land packages: construction loans and completed packages. Both will come completely finished, fully landscaped, with no further money to spend on the day possession is taken.

1. Construction Loans

1.1. Buyers sign one for the land, and an additional one

for the house.

1.2. An application for finance is then made, and the client settles on the land.

1.3. A reservation fee is paid to reserve the lot.

1.4. A further 10% is required to be paid on finance approval, less the reservation fee

1.5. The balance of their deposit, plus the fees, is paid on settlement of land.

1.6. The purchaser will then pay interest over the duration of the building, for subsequent draw-downs. The lender will pay the builder for the pouring of the slab, then the walls, the roof and so on.

Clients will have funds to be paid out during construction (no rent received, of course, until finished). A saving is still made, however, because Goods and Services Tax (GST at 10%) and stamp duty on construction is not payable with this format

8.2. Complete Packages

8.2.1. Buyers sign a contract for a completed house to be built, and pay a reservation fee.

8.2.2. A further 10% is required to be paid 21 days later, less the reservation fee.

8.2.3. There is no finance clause with these contracts. An application for finance will have to be made, approximately two months prior to the completion date. Financial circumstances are checked approximately six to eight months following reservation, to check for any significant changes.

B. Units, Condominiums and Town Houses:

This format is the same as for a completed house and land, as discussed above.

1. Buyers sign a contract for a completed house to be built, and

pay a reservation fee.

2. A further 10% is required to be paid 21 days later, less the reservation fee.
3. There is no finance clause with these contracts. An application for finance will have to be made approximately two months prior to the completion date. Financial circumstances are checked approximately six to eight months following reservation, to check for any significant changes.

All loan offers are only valid for 90 days.

C. Mortgage Types

There are two types of mortgages.

1. *Non-Residential*

This is for people who earn their money offshore, (it has nothing to do with whether they have permanent residence or citizenship). Even if an Australian citizen moved to the UK and earned money there, they would only be eligible for a non-residential loan.

The typical loan-to-value ratio for this type of mortgage is between 70% and 75% of purchase price (calculated on the valuation of the property, not the purchase price). Non-Residential Loans place no issue on Debt-Service Ratio, or DSR.

2. *Residential*

For people who earn their income ***in*** Australia. Typical loan-to-value ratios are higher: between 95% and 100%. With these loans, there is a consideration to the DSR and lenders will only commit buyers to 35% of their income as a repayment, including any rental income.

If the buyer moves to Australia, they can apply to change it to a Residential Loan and draw back the original 25% to 30% deposit once they are employed. This means that clients can gain access to the funds they put in earlier, once they arrive in Australia.

2. What are the advantages of buying property in Australia before emigrating there?

2.1. Immigration

It does not guarantee you immigration into the country but it can facilitate it, especially if you go in on a business visa. We are not an expert in immigration and can recommend you to Network Migration who are the top immigration agent in the country. steve@netmigration.co.za

Please make sure you let him know you came from IPS to get the discount on their fees.

2.2. Credit Rating

Buying property before you move, can improve your credit rating. The best way to describe this is the example of my uncle who moved from Harare to Brisbane in 2003, and bought a house for AU$1.2 million cash. He could not get a credit card, cell phone, or car finance, for more than a year.

2.3. Tax Breaks

There are huge advantages to owning property: you can accumulate the tax loss; you can offset a portion of the purchase price; you can include the fixtures and fittings; and you can even include an inspection trip once a year. The bottom line is: you can build up a tax deficit, or credits, before you move to Australia and you don't pay a cent in income tax when you arrive until this is paid off.

2.4. Buying your home

When you move somewhere, I would highly recommend that you rent for at least a year to test the area and see where your kids will go to school, where you will work, play golf, and so on. It will also probably take you more than a year to immigrate, and so you will be out of the market for two years. You want to find the best investment so that your Rands are growing at the best rate. Then, when you are ready to buy your dream home, you

refinance your investment property and buy the home you want once you know exactly what you want, and where you want it.

3. How do I emigrate to Australia?

There are three ways to get into Australia:

1.1. A Skills-Based Visa;

1.2. A Business Visa; and

1.3. A "Buy-Your-Way-In" Visa.

3.1. Skills-Based Visa

Some of the criteria include:

- You have to be under 50 years old.
- It is based on a points scoring system and they want people in occupations that are listed both nationally and in the individual States.
- The permanent residence visa is valid initially for five years, but it must be initiated in the first 12 months.

3.2. Business Visa

Most of our clients go through this route.
If you have had a successful business career for more than two out of the last four years, and you can prove you have a turnover of more than AU$500,000, and net business and personal assets of AU$800,000 per year, then you can apply for a Business Visa.

3.3. "Buy-Your-Way-In" Visa

This is where you invest AU$ 1.5 Million into a State or Government Bond for four years, for which you will receive dividends on your money. You also have to have net business and personal assets in excess of AU$2.25 million.

An Australian immigration office in South Africa does not guarantee you immigration into the country, but it can facilitate it, especially if you apply under the Business-Visa category. We are not experts in immigration, which is a very specialised subject. We can recommend you, however, to

Network Migration who are the top immigration agents in the country. To contact them e-mail: steve@netmigration.co.za and please make sure you let him know that you were referred by IPS, in order to qualify for a discount on their fees.

4. Please can I have an example of House and Land Packages?

These will work as the following:

4.1. Pay initial AU$3,500.

4.2. Sign contracts.

4.3. Apply for finance and provide documentation.

On finance approval, the client will pay 5% or 10% (depending on which builder he uses), less their initial holding deposit.

On land settlement, the buyer needs to pay the balance of their deposit, plus fees.

For example:

- Let's say the package is AU$425,000, made up of the land at AU$230,000 and the house at AU$195,000.
- If they are putting in 30% deposit of the above, this will be AU$127,500.
- So, in this case, there would be a shortfall of AU$102,500 for the land. The lender would then advance those funds, from the loan.
- So, a 70% loan for AU$425,000, will be AU$297,500. From that amount, the lender will advance the required AU$102,500 for land settlement to take place.
- From that date, the purchaser will pay interest for the AU$102,500.

After land settlement, the house plans will go into council, then the building will commence on approval.

- The builder will then lay the slab and request the lender to pay 25%.
- When the walls are up, they request another 25%.
- The roof goes on, and they request another 25%.

- Then, at handover, they get the balance of the funds.

Therefore, the client will need to be aware that they will have interest to pay out during draw downs. This is over and above any other costs and is shown to them at the point of sale.

Note with House and Land Packages

- There is no GST (Goods and Service taxes) payable on the land.
- There is no stamp duty payable on construction.
- There is, however, interest to be paid during draw-downs until completion, but the amount is still significantly less due to the savings on the GST and stamp duty.

5. How do I get finance, and how does tax work?

It is necessary, in Australia, to provide three things when applying for finance for property:

- Proof of deposit (photocopy of bank account, or shares);
- Proof of income (two year's tax return);
- Proof of Identity (photocopy of passport, driver's licence, ID book).

We provide a complete breakdown of fees for all properties so that investors know exactly what to expect when working out what they can afford.

The two factors that lenders take into consideration are:

1. LVR (Loan-to-Value Ratio): They will lend offshore investors to the value of 70% to 75% valuation of the property.
2. DSR (Debt-Service Ratio): Only a consideration once working in Australia; no more than 35% commitment is allowed of income of borrower. This is really applied to local residents and not overseas borrowers.

Some off-shore lenders will also allow foreign buyers to mortgage their own property, in their country, to raise the necessary deposit for their Australian investment.

Type of Loans

The loan will be for 25 to 30 years and there is no age restriction to it. We have arranged finance for people who are 80 years plus of age. It is sensible to take out an "interest-only" loan for the first five years, as there are no taxation benefits on the principal.

Some off-shore investors have a hard time coming to terms with this concept of "not paying the principal". If, after five years, you still have the property, then the increased rents should contribute to the principal component of the loan.

The loan we arrange will be an access loan, meaning that you can put more money in and then take it out as you want it. We arrange a maximum loan for our clients and that means they often have access to more funds than they require for this purchase. They don't pay interest on the loan we arrange until they draw it down in parts or as a whole. Only on the amount taken is the interest paid.

We also have a variety of lenders who will be flexible and not have on-going costs and heavy exit fees for clients who wish to pay out the loan earlier.

Taxation Benefits

Property investment is the only way one can legally reduce the amount of tax they pay in Australia and the more properties you have, the less your taxable income will be. The more properties you own, the greater the asset base, and the lower the taxes.

There are no taxation benefits on one's prime place of residence, only on investment properties. The Australian government allows people taxation deductions on investment properties.

The claims which can be made are:

- Any shortfall between the income and the outgoings.
- Depreciation of the construction of the building.
- Depreciation of fixtures and fittings.
- Percentage of the acquisition fees over five years.
- Inspection costs.

It is imperative that all property owners do lodge a tax return each year, even if they are not making a profit, as they should record their annual

deductions with the Government in order to make a claim against them. In the event of the off-shore buyer moving to Australia at any time in the future, then these deductions will be accrued and thereby reduce their taxable income once they have settled in Australia. This is the money you can then put into your investment property.

Once you are working in Australia, the property will generally become cash-flow balanced or positive. It is in your best interest to lodge a return each year with the Australian Tax Office. Some countries have tax treaties with Australia, which means that the person will only pay tax in one country, and not both, the one they live in, and their Australia income.

Once you own the property, you can lodge the annual return yourself, or we can introduce you to a licensed tax accountant, to do this on your behalf. You will need to allow approximately AU$350 per person per year for this to be done, depending on how many properties and what other Australian income you have, each year.

6. How does capital-gains tax work in Australia?

Australian property investors receive excellent tax benefits from the Australian government if they buy property to rent out. All tax claims can be accrued annually until the year of sale, or on relocation. The capital-gains tax is not a set rate and is payable at whatever rate of tax the person is paying in the tax year that the property is sold.

In fact, many Australians will sell their property in a year when their income will be lower as the capital-gains tax will be less. The Australian Government also allows 50% discount on net profit to individuals. This is not allowed for trusts or companies.

EXAMPLE

A property has been held for three years,

THE TAX CLAIMS ARE AU$25,000 PER YEAR, SO TOTAL OF AU$75,000

PROFIT	AU$100,000
Less tax claim	AU$75,000

PROFIT	AU$25,000
Less 50%	AU$12,500
C.G.T ON 50%	AU$12,500

The rate will be dependent upon what the income level is in Australia that year. So, if you only own one property and no other income in Australia, the rate would be at the base rate of the day.

7. How does a generic cash flow work?

Four-bedroom house and land package to be built in South Queensland:

Purchase Price	AU$ 380,797
Deposit required, 30%	AU$ 114,239
Plus fees	AU$ 14,455
Total	AU$ 128,694
Rental Income	AU$ 18,200
Less Expenses	AU$ 3,380
Surplus	AU$ 14,820
70% Mortgage, at 8.35%	AU$ 22,257
Leaving a shortfall of	AU$ 7,437
Shortfall per week	AU$ 143
TAX CLAIMS Shortfall	AU$ 7, 437
Depreciation construction, (2.5% over 40 years)	AU$ 5,200
Depreciate Fixtures & Fittings, (over 5 years)	AU$ 3,900
Acquisition costs, (over 5 years)	AU$ 1,400
Inspection costs, (every year)	AU$ 1,500

Total	AU$ 19,437

This can be accrued every year, until the eventual sale or relocation to Australia. Rents will increase every year to reduce the shortfall. The tax benefits will be a cash basis when working in Australia.

Income in Australia, with no property	AU$ 60,000
Tax to be paid	AU$ 13,520
Income in Australia, with property	AU$ 60,000
Less deductions	AU$ 19,437
New taxable Income	AU $ 40,563
New tax to be paid	AU$ 7,436
Tax saving(AU$117 per week)	AU$ 6,084
Shortfall per week was	AU$ 143
AU$ 143, less AU$ 117 leaves a shortfall per week of	AU$ 26

Disclaimer: Statement of facts contained herein is based on information believed to be accurate and reliable.

8. What costs are involved?

Every property we show you will have a breakdown of fees indicating what all the costs are for the purchase. Units are approximately 6%, and house and land packages 4% of the purchase price.

A. You will have upfront Legal costs of:

- Legal fees
- Stamp duty
- Rates adjustment
- Search fees
- Couriers

B. Finance Costs

- Establishment fee
- Valuation fee
- Mortgage solicitor fee
- Brokerage fee
- Registration fee
- Stamp duty on mortgage
- Couriers

Once the property is completed, you will have the following costs:

- Management and letting fee, between 7.5% and 10%, depending on which State the property is in
- Body corporate where applicable
- Council rates
- Insurances
- Mortgage payments

On a 30% deposit, most properties will have a shortfall between the rental income and the outgoings for the first few years.

You can claim any shortfall and costs involved, and also claim depreciation of construction; depreciation of fixtures and fittings; inspections costs; and half of the acquisition fees. A typical property will give approximately AU$20,000 tax claims, which can be carried forward until either eventual relocation to Australia, or offset against capital-gains tax.

9. Who will look after my property?

IPS will appoint a Licensed Property Manager.
With units, the people managing it will have bought the Management Rights, and have paid millions of dollars in most instances. This gives them a unit and an office, and they will be paid a wage by the Body Corporate and earn the management and letting fee which is between 7.5% and 10%, depending on

which State.

- They are responsible for the on-going management and daily operation of the complex.
- They will screen the tenant and do the necessary checks.
- They will collect the rent money and deposit it into your Australian bank account.
- They will deduct their management fee before banking the money into your account.
- The lender will have an automatic debit authority to take the monthly payment from your account.
- Holiday lettings management fee is higher at 12%.
- With house and land packages, the Property Manager will have an office approximately 15 minutes from your property and they will arrange the mowing of the lawn and deduct it from the rental income.
- Alternatively, they will let the tenant do the lawns and charge a little less rental.

10. Which areas are the best to buy in?

The points to consider when investing in Property are:

Hot Spots

- Economy of the area
- Development and Infrastructure
- Property cycles, (where it is on the cycle)
- Demand for property, and supply available
- Employment
- Population Growth

Our on-going research of the Australian property market ensures that you will be able to achieve maximum profit and takes the guess-work out of it. Please enquire about our 100-point system as to how we determine where to invest in order to outperform the market.

11. What type of property can I buy?

You can buy any property as long as it is new and not second-hand as we discussed under the section on the Foreign Investment Review Board (FIRB).

12. What type of person will be my tenant?

35% of all Australians rent their homes. You will have a wide range of tenant selection, as we source areas that have more demand than supply. When you name an industry, you will know where the tenants come from. We also look at the affordability of the area you invest into. New job creation and employment is a very important issue that we look at when selecting properties.

Queensland creates more work than any other State as it charges less payroll tax than other States, so companies relocate there to make more profit, therefore creating more jobs.

13. What restrictions do I have?

Unless you have Permanent Residence (PR) or Australian Citizenship, you can only buy new property and not second-hand. When you sell, you must sell back to an Australian and not another foreign person. Australians, also, cannot sell their homes to people who do not have PR. The only exception to the above laws is an Integrated Resort Status, which will be a resort with a golf-club facility. There are only three of these in the country now. Again, see the section on FIRB.

14. How much rent will I receive, and by how much will it increase?

The average rental yield is approximately 4% gross. Some corporate rentals do have higher yields, with up to 5% net. The rental increase depends on where the cycle is. When the market is peaking, rents don't usually catch up to the higher prices for some time, and then they start to increase. There is also a difference between houses and apartments, and it varies by areas.

15. Which pitfalls should I avoid?

First and foremost, do not confuse your buying motive. Determine if the property is to live in or for investment purposes. Make sure that you

take Landlord Protection Insurance. Do not try to manage it yourself. Do not buy something using non-Australian thinking. For example, South Africans will tend to want to buy into a security complex as that is important in their country, but it is not important in most parts of Australia. Knowing the mind-set of the people in the area is the prime consideration.

Follow the market. Don't try to ask for more than fair market rental.

Communicate with the property management.

Never take advice from well-meaning friends and relatives.

16. Being so far away from there, how do I know what is happening?

The newsletters and reports that IPS sends out regularly will keep you updated on anything that may affect the property market, both negatively and positively. The property manager will also be doing three inspections a year with photographs to keep you informed. IPS also goes to Australia regularly to keep up to date with the partners and we feed this information back to our clients. Finally, IPS does regular webinars, so make sure you don't miss them to be kept updated.

Glossary of Terms

Expression of Interest:

This is the form that "starts the ball rolling". This takes that property off the market for 21 days to give us time to get the contracts to the client and start the finance application. This form is the information which the contracts will be drawn up from, so it is important that all legal names and details are accurate.

Credit Card Authority

Each state has a different lawyer, and some of the lawyers do not have credit card authorities, so the clients have to transfer the AU$3,500 direct to the vendors solicitor account.

Explanation of off-plan and land deals

We find that new people often get the settlement times mixed up between house and land and units, so please see the further explanation.

Irrevocable Finance

In Australia, any funds to be charged to the client MUST BE DISCLOSED. IPS charges $2,000 for the finance sourcing, and the client has to sign this form so we can get paid at settlement.

Form 27C

The office of fair trading often does inspections of real estate licensee's premises, so IPS has to get this right. Essentially, it protects the client and ensures they understand the process and what they are investing in.

Settlement

This is the same as TRANSFER in South Africa, where the property transfers from the seller to the buyer.

9. How to get started

Process and Generic Information

The bottom line is you need to speak to one of our Offshore Asset Managers and they can assist you, once they understand what you are looking to achieve. Contact Kristen Miller at ***kristen@ipsinvest.com*** and she will assist you.

Once a client has agreed to a specific property, the following procedures take place:

1. ***Complete an Expression of Interest,*** getting full legal names, as this is the document that the contracts will be prepared from. Send these to our After Sales Manager who will then advise the vendor and start the ball rolling. Show postal and courier addresses and all contact numbers, including email.

2. ***Complete a payment authority*** for the initial holding deposit, either R20,000, £1,500 or AU$3,500, depending on the vendor's requirements.
3. Every property needs to have ***a licensed Australian solicitor for conveyancing***. IPS introduces them to a solicitor, who will work for them, not the vendor or IPS. The solicitor has to be licensed in the state the property is located. A South African lawyer cannot work for you in conveyancing matters.
4. ***Full contracts*** will be couriered to IPS and then the client will need to sign them. Most contracts are subject to finance. If the project is off-plan and not going to be ready for settlement within 90 days, then the contract will be cash unconditional (refer to other correspondence regarding this matter). All contracts need to be subject to FIRB (Foreign Investment Review board) approval. IPS will assist with this at no additional cost to the client, as this is merely a formality. In the case of units (Res "B"), the client does not have to make the application as the vendor usually gets a blanket approval, but they need to advise if they are non-residents on the contract.
5. Contracts will be signed, ***finance application and FIRB application*** made.
6. ***Settlement*** means: when the property is ready to be transferred into the client's name.
7. ***Registration*** means when the land or complex is ready for government approval;

   7.1. For house and land, the client's deposit is required on the land settlement.

   7.2. For units, the client's deposit is required when the complex is completed 14 days after registration.
8. The contracts will allow 21 days for finance and 30 days for FIRB approval.

A Note on Contracts for Sale

Not all vendors will give access to agents to sign the contracts until after the sale is made. Others will give generic ones. House and land is very difficult to do generic, as the land will be different from project to project and covenants alter from one estate to the other.

The most important issue is the sequence of signing the contracts, and IPS will manage the clients through this process. Units have a large disclosure document with them, as well as the contract for sale. House and land have land contracts and building contracts.

In Queensland, all commissions or payments are disclosed and the client has to sign a form that declares that.

10. More research for Australia

There is a lot more information available:

1. www.ipsinvest.com
   a. This has all the information. Pictures and videos are available.
   b. I also upload monthly property reports from research companies.
2. http://www.rpdata.com/press_releases/Page-1.html

   This is where we get out monthly research on the Australian property market.
3. www.youtube.com/spicken09

   This is my YouTube Channel where all videos are uploaded.
4. www.twitter.com/IPSInvest

   This is the IPS twitter account where I will keep you up to date with property news.
5. www.twitter.com/Aus_Property

   This is our Australian property account which is specific to Australian property news.

6. IPhone App

How cool is this?.

You can download this app for your IPhone and it tells you everything you want to know about every property in Australia, where it was bought and sold, what the mortgage is, what the market value is and where the current properties for sale can be found.

iPhone App from Commonwealth Bank

CHAPTER 9

UNITED KINGDOM

Chapter overview

1. Introduction
2. Fundamentals
3. Positives of the market
4. Negatives of the market
5. Areas of interest
6. Where to invest?
7. Commercial Property Market
8. FAQ and Glossary
9. What Next: The Property-Buying Process in Detail
10. More research for theUK

1. Introduction

As I have explained before, I moved to London after graduating when I was 21 We bought our first house in South Africa when we were 22 and our first house in London when we were 24.

Our first house was in Wimbledon. We built the conservatory and turned the property from a three-bedroom house into a five-bedroom house, which dramatically increased the rent because you rent houses in London by the bedroom.

When we bought this house in London, it was the park outside the house that appealed to us and has appealed to tenants ever since. Many people want to buy "period houses", but these cost another 20% and don't get you anymore rent. Since your tenants will spend most of their time inside the house in London, it is what you provide on the inside of the house that determines your rental yield, not the outside. This house was a five-minute walk to Wimbledon Station. I tried to buy more property here and, in hindsight, I should have aggressively bought every single one on the square.

Warren and I worked out that, if you live in a house for one year, there is no capital-gains tax. Therefore, while most of our friends were renting, we bought a house every year from 2002 onwards, lived in it, renovated it, tenanted it, remortgaged it, and then bought another one. It was an awesome strategy, until the banks worked out I was self-employed and then it was a lot more difficult to get access to finance.

It worked so well that it is actually the reason I started IPS. People were asking us how we did it, and so I jumped on stage and taught people what we were doing. It was in these early days that Wealth Migrate was actually conceptualized. Since the banks were making it extremely difficult for me to borrow, I wanted to merge investors and just keep repeating the successful model. We actually set up a structure, raised the capital

and started a fund. The only problem in 2007 was that the market had run so quickly that you could no longer find properties in the secondary neighbourhoods where the numbers still made sense. After six months, we decided it was better to do nothing than buy an average property, so we returned the money to the investors and changed our strategy from houses to apartments in the city.

Up until this point, we had only focused on the secondary markets of Wimbledon, Earlsfield, Putney, Raynes Park, and so on in South-West London. This was a great market as we knew the market backwards: we knew what the tenants wanted and it was merely a case of finding the right property to suit the model. In 2007, however, the numbers were no longer working and so we ventured into the city and started focusing on the secondary markets around Canary Wharf, places like Greenwich, which is still one of my favourite places in London.

We had one simple rule in these secondary markets. Find the right property to fit the model and make sure it was within a ten-minute walk of the nearest tube station. We called it the **"ten-minute rule"** and literally, in every area we bought, we walked from the station and knew every single street in the neighbourhood where you could not comfortably walk in ten minutes. My second house I rented when I arrived in London, was 17 minutes' walk from South Wimbledon station and it was awful to come home on the tube and still walk in the rain, or wait in the rain for a bus. We ended up moving just because of the location of the house, and we decided we wanted to own property that we knew the expat tenants would want.

Along with being within ten minutes, we always furnished the property, put in DSTV (Sky), internet and a power shower. You see, when expats come over they are tired of living like students and they want a nice home. If you provide all the services, then you can have tenants staying for a long time and looking after the properties which is great.

I have spoken a lot about my experiences with my first property and how I learnt to manage risk and how I learnt that, if you focus on income, then you can ride any economic cycle. I really like London and it has been extremely kind to me as an investor. There is great rental demand, and if you know what you are doing and you have the right partners, it is very robust. This was proved to me in no uncertain terms during the GFC. We didn't have one day's void on any of our properties.

As I have mentioned, and as you will see in the research below, my concern is that prices in late 2013 are at an all-time high and are therefore, I believe, very susceptible to economic shocks. This, along with the lower

yields, is the reason I have remortgaged my London properties to invest in the USA and get as much growth out of that market as possible in 2013. This is what Chapter 5 was all about, as the GPS™ shows me where I can get the best and safest return on investment.

The fundamentals are still sound, however so let's explore what makes this market tick.

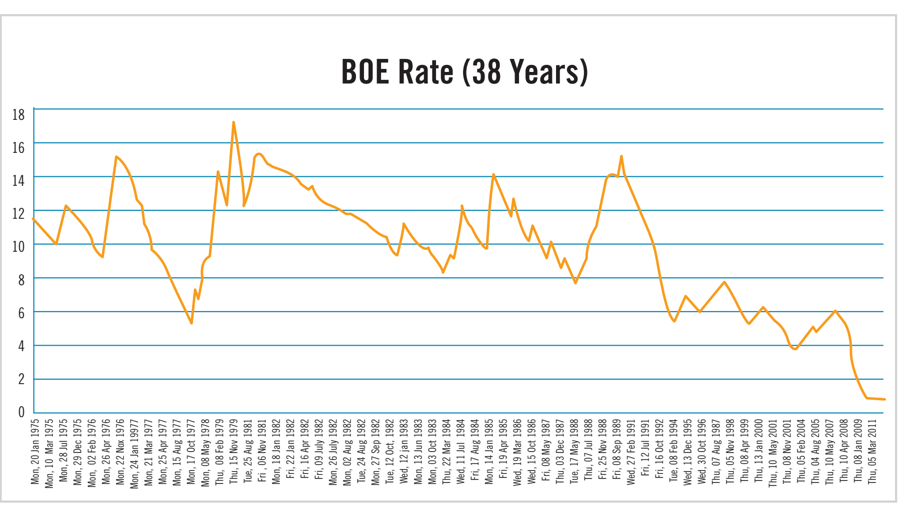
2. Fundamentals

Traditionally the UK property market has only fallen, owing to rising interest rates and unemployment. Currently interest rates are stable, the economy is recovering, and unemployment is low. The rise in property prices is due to affordability, the pure economics of supply and demand, and the fact that the banks have finally come back into the market. This, and the continual influx of migrant labour into London provides a solid opportunity to invest in this market.

Current Market Analysis

- Since 1956 the compounded, average annual property price increase has been at a steady 9.5%.
- The worst fall in the property market was 11% back in 1990. Prices were back up to the same level within three years.
- House building cannot keep up with demand. The UK population is predicted to rise by 10% over the next 25 years.
- Rental demand will nearly double inside the next ten years, as more young, first-time buyers are priced out of the market.

The market has adapted, and the underlying factors behind the property price increase are affordability and the basic principles of supply and demand. This graph below shows interest rates over the last 38 years, and you can see that they are being maintained at a level that is below the averages. In fact since 5 March, 2009 until now, they have been maintained at 0.5%.



Obviously, these rates are the lowest they have been in over 300 years, and they will not stay at this level. As an investor, similar to what we witnessed in Australia, it will have a large impact on the property market when the Bank of England (BOE) decides that the economy is robust enough again to start raising rates. This is certainly something to take into account in any future calculations.

Affordability is something which has really constrained the market. For the last few years with rates being so low, affordability has been great, but unfortunately the banks were not lending. So, even though there was demand, the buyers could not get finance. As you will see in the research below, this is changing, but as rates rise, the affordability will again come into question as property prices are at an all-time high and wages have not increased in line over the last 20 years.

The other consideration is supply and demand. Owing to a continual influx of migrant labour into London, both nationally and internationally, and the limited output of supply, there remains a vast housing shortage. With the increase of popularity of London as a work destination, the gap between supply and demand continues to grow. Neither the government nor the private sector is keeping up with this demand and this is fundamental to sustainability, house price growth and the buy to let market.

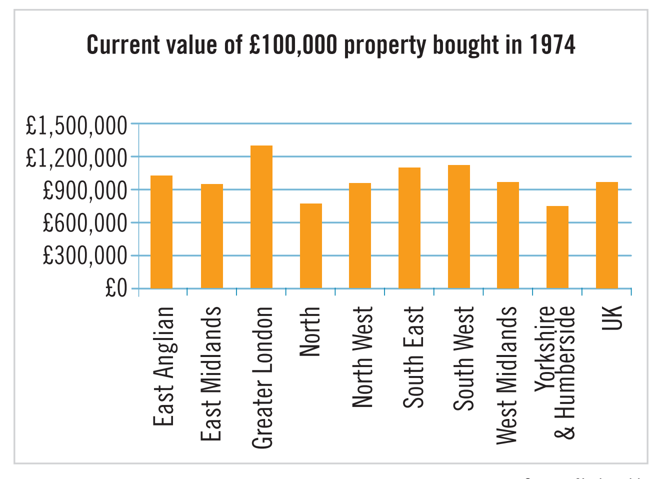
Here are some vital statistics:

- Population increase by 10% or 4.4 million by 2021.
- Household sizes are dropping from 2.36 to 2.28.
- Means need 208,000 houses per year.
- Currently building 170,000 per year.
- 40,000 houses short or 15%, per year.
- Government wants to increase to 240,000 by 2016 or 30%. (Housing Green Paper).
- This year they are expecting only 60,000 houses to be built.

Based on these criteria, therefore, house prices will continue to increase although at a far slower rate, while they adjust to allow for spending power to come into line with house prices. This is not to say that house prices will not drop; there are many unexpected factors that could affect the market, and as the market is at an all-time high, it is very susceptible to economic shocks. This is overcome by ensuring a long term strategy is in place and buying property which is based on good rental returns.

London vs the Rest of the UK

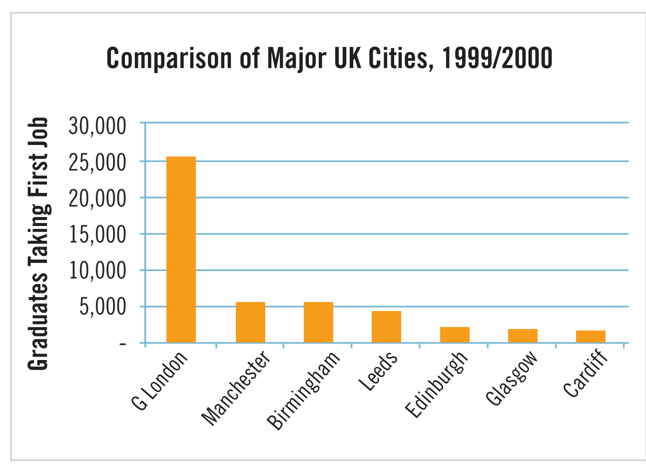
As you will see in the research below, London has outperformed the rest of the UK market by 2.5 times. This is also consistent with the long term trends for the duration of nearly 40 years.



Source: Nationwide

It is for this reason that we have always only focused on property inside the M25 (London). You will always be told that you can get better deals, better yields, and lots of other stories, but the long-term trends prove that London has better capital growth and also better long term sustainable yields than anywhere else in the country.

Look at the difference in demand for tenants in London, compared to other cities in graduate demand for first job placements, from 1999/2000.



Source HESA

We also found that during the GFC, the big companies consolidated and moved everyone to London. In a place like Canary Wharf for the first six months of the GFC there were vacancies, but then companies like Barclays decided to consolidate and they closed all their offices around the country and brought everyone to London, filling up the office space which they had. This led to more tenant demand in the area, and it recovered in less than 12 months from the start of the GFC.

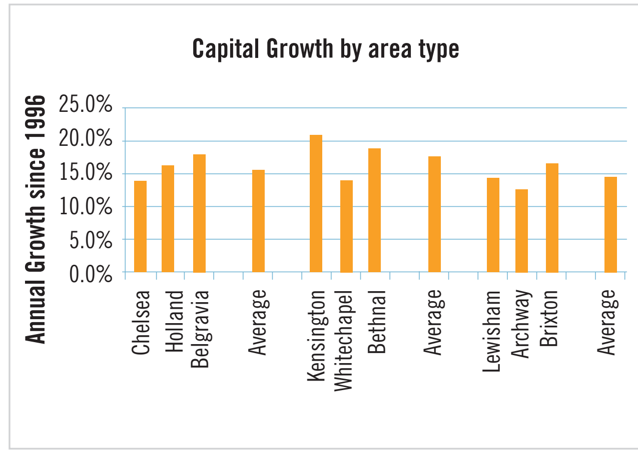
London's population has a very cosmopolitan mix and the foreign communities in the capital continue to grow. The majority of Antipodeans and expats in London are here for a short stay (less than four years), and are not interested in purchasing property for themselves, therefore fuelling the demand for rental properties.

I can tell you many horror stories of South Africans who chased fantasies in Leeds, Nottingham, and Manchester and got a hiding. One of the classics is about 200 South Africans investing in Manchester. I actually looked at doing my Masters in Manchester, and so I knew the university well. There were 2,000 apartments being built and the target market was

the students. Given that I was a student at the time, something didn't make sense. The apartments were 20 minutes' drive from the university and – knowing where all the action was – I knew as a student, that I would never want to stay there. Needless to say, they couldn't rent these apartments, the banks would not finance them, as they had no income and the South Africans could not even give them away.

Our First Strategy: Stick to London

Secondly, as we have already discussed, a strategy I learned in London is that we stick to the secondary markets. If you look at the research, the secondary markets have been the best performing markets over the long term.



Source: Land Registery

Chelsea, Holland Park, and Belgravia are primary markets. If you read the in-depth research below, you will see that these markets have done extremely well in the last five years, with all the foreign money buying trophy properties as a safe haven. These properties are based on sentiment though, and not fundamentals, and it will be interesting to see how sustainable this is.

Kensington, Whitechapel, Bethnal, and Wimbledon have performed best over the long term, and this has certainly been my experience with my properties. It also allows me to have diversification, as with £1.2 million, I can buy three properties in a secondary area as compared to one in a primary area. I have three tenants, which seriously dilutes my risk, and due to affordability and the property being more available to the

average British person, there is more chance of sustainable capital growth and not having to rely on some wealthy Russian to buy my property.

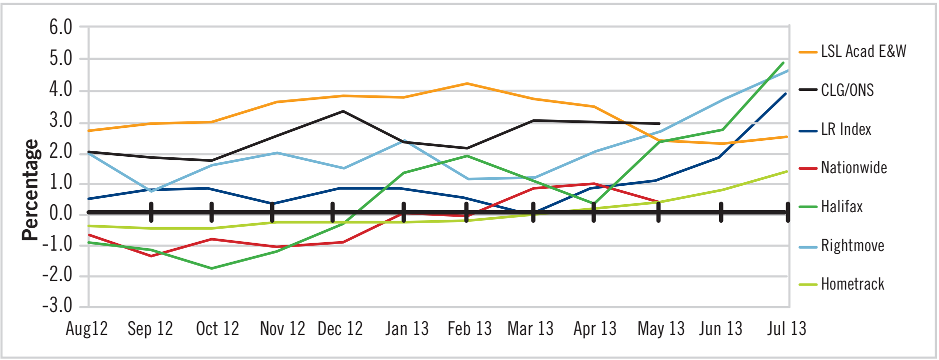
As discussed in chapter 6, the tertiary markets (Lewisham, Archway and Brixton) always look attractive in the boom times, but as I learned the hard way in the GFC in South Africa, these markets are the first to fall in the tough times, and this is where one experiences the most rental, vacancy, and maintenance problems.

As Warren Buffett says, "I never have the faintest idea what the stock market is going to do in the next six months, or the next year, or two." It is for this reason, in London, that we focus on the fundamentals and the long term. We have not sold property, as the fundamentals are strong, but using the GPS™, we just analyze the markets, do the research and have the data to decide when to buy and what to buy.

Let's look into the current research in better detail.

3. Positives of the Market

As it is in Australia, we use the most sophisticated third-party research company to do our research in the UK. I have been following them since they started, and although there are seven major indices in the UK, this is the best as everything is taken off the land registry and so it includes all transactions, whether they are cash or with a mortgage. Some of the other, most well-known research is from the banks such as Nationwide, and this only includes lending and, more importantly, they have a vested interest in the data they produce.



Acadametrics (LSL Acad E7W) is independent.

In 2003, Acadametrics, an independent research group, pioneered the use of Land Registry (LR) data for a mainstream house-price index launched

by the *Financial Times* as the FTHPI. In 2010 LSL Property Services assumed the significant preparation costs from Acadametrics, rebranding the index as the LSL Property Services/Acadametrics HPI; now LSL Acad E&W HPI, LSL Acad Scotland HPI and LSL and Wales HPI, launched in 2011.

Using a 2002/3 purpose-built "index of indices" forecasting methodology developed by Dr Stephen Satchell at the University of Cambridge, and Dr George Christodoulakis, then at City University, Acadametrics resolved the problem that only about 35% of sales are promptly reported to LR; an insufficient sample to be definitive. For finality, our LSL Acad HPI "forecast" is updated monthly, until every transaction is included.

As FTHPI, our index was chosen by the Chicago Mercantile Exchange, the world's largest derivative exchange, for a possible residential house price derivative, put on hold by the financial crisis.

See: http://www.acadametrics.co.uk/acadHousePrices.php

House prices hit another record high in July

- Beats previous peak in 2008
- House prices up £5,796 in the past twelve months, reaching a high of £232,969
- With first-time buyers accounting for 45% of all house prices

House Price	Index	Monthly Change %	Annual Change %
£232,69	237.2	0.3	2.6

David Brown, commercial director of LSL Property Services, comments:

> **"House prices have never been higher. 2013 has marked the time when the property market recovered from the 2008 financial crisis.** Prices are up £5,796 over the past year thanks largely to a significant increase in mortgage lending to first-time buyers. House prices are growing steadily, signifying that long term recovery is becoming a reality. Mortgage lending, in May, was up by over a fifth compared with April and 17% stronger than a year ago, while the number of first-time buyer mortgages are at the highest since 2007.
>
> Typically, the property market flourishes in the summer and July sales are the highest, so far, this year. But the improvement is more than just a seasonal trend. The market is palpably stronger than a year ago, and confidence is returning to lenders and buyers. The 'Funding for Lending' scheme can take plenty of the credit, as can 'Help to Buy'. Both schemes have helped banks boost first-time buyer lending by providing them with credit to offer more loans to new buyers, and reduce rates on house purchase mortgages. Funding is more accessible for lenders, while banks are more confident than they were six months ago; which bodes well for the future.
>
> But this improvement continues to be powered by the strong performance in the capital, where prices are rising far faster (7.1%) than in other parts of the country. Domestic and foreign buyers' interest for bricks and mortar in London appears to be undiminished. Supply is restrained, and without a sudden rush of properties hitting the market prices will rise even more over the coming months. The bottom line is that the divide between London and the rest of the UK housing market is deepening, with parts of London operating at an entirely different level from the rest of the country, and even from the rest of the capital.
>
> Despite this overall improvement in the market, the level of first-time buyer activity is still around half of what might be considered normal levels. Both the lack of housing supply and rising competition in the property market are supporting prices, but at the same time making it more difficult for first-time buyers. The government urgently needs to address housing supply if it is serious about boosting home ownership levels. One way would be to remove stamp duty which is a disincentive to

buying for both home movers as well as first-time buyers".

Dr Peter Williams, housing market specialist and Chairman of Acadametrics, comments

> "House prices are continuing to edge upwards, and on a monthly basis the average price has increased in 16 over the last 20 months. July is no exception, and at £232,969, the average house price in England and Wales, this month is £725 or 0.3% higher than it was in June. This sets a new record level for the third time in 2013, and exceeds by some £1,140 the previous peak reached in February 2008 at the height of the last housing boom. The trend-line in the figure below shows that prices have been rising over the last year on a near straight-line basis with only August 2012, the month of the London Olympics, seeing a noticeable decline in average house values. Excluding the downturn in August 2012 and the short-lived upturn of 0.8% in February 2013, house prices have been increasing in a tight band of between 0.0% and 0.4% per month, for most of the year. This month's increase of 0.3% is near the top end of that range".

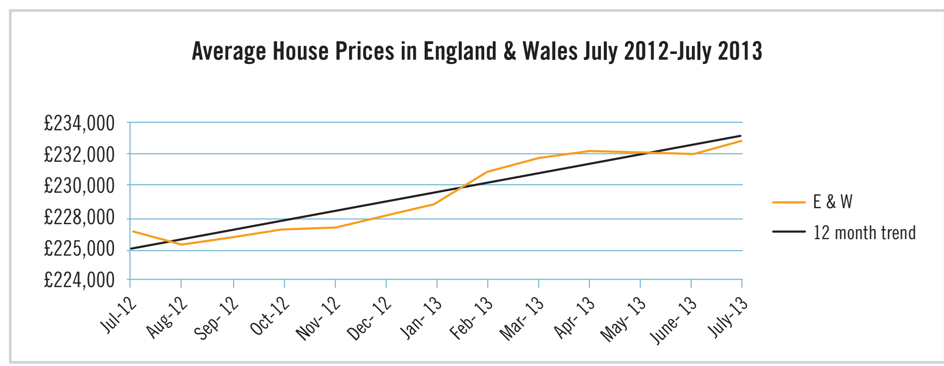


Figure 1. The Average House Price in England & Wales, July 2012 - July 2013

On an annual basis, the average house price has increased by 2.6% since July 2012. This level of house price inflation is below that of the ONS annual Retail Price Inflation (RPI) Index of 3.3% for June 2013, so – in real terms – house prices have fallen over the last 12 months.

Although some housing commentators have expressed concern that house prices in 2013 will 'bubble' out of control, there is no evidence to

date suggesting this has happened in any, but a few exceptional localities.

Looking at the graph above, we can note that the LSL/Acad annual percentage change in house prices has been consistently higher for the first ten months of 2013 than the other indices, which we track. We ascribe this position to the fact that we monitor cash transactions, while Nationwide, Halifax and the ONS, only use data derived from transactions involving a housing loan. The mortgage lending-based indices have not picked up on the recent spate of high-value cash transactions in Central London, where prices have been increasing to what can only be described as "eye-watering" levels. In late 2013 however, the Nationwide annual Index at 3.9%, was ahead of the LSL/Acad Index for the first time in over sixteen months.

Two factors may help to explain this phenomenon. The first is, as we report in our discussion of the Greater London market, in July 2013 there appeared to have been a fall in prices at the top end of the London market. This mainly involved cash transactions, or rather the lack of such transactions, during that month. This would have affected the LSL/Acad Index, but not those of the mortgage lenders. The second possible explanation of the phenomenon is that the LSL/Acad Index uses data on housing completions, whereas Nationwide uses data from the time of mortgage approval, which could be one to two months ahead of the actual housing transaction that is physically taking place. The LSL/Acad Index, therefore, may start to follow Nationwide in an upward direction. We wait for further developments on this with a keen interest.

In terms of the market overall, with the economy strengthening, it is no surprise that we have seen the demand for borrowing increase too, as can be seen from the graph below (from the Bank of England) The chart very clearly shows the pattern of recovery in both expected and actual lending over the last six years.

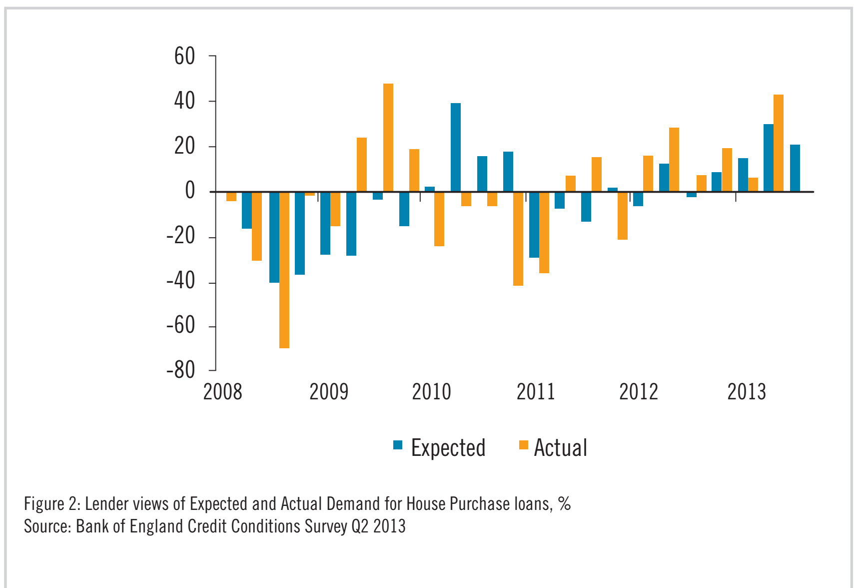


Figure 2: Lender views of Expected and Actual Demand for House Purchase loans, %
Source: Bank of England Credit Conditions Survey Q2 2013

According to the Bank of England, gross mortgage lending in May 2013 was up by over a fifth compared with April 2013 and 17% stronger than the previous year, giving the strongest performance for mortgage lending since 2008. The Council of Mortgage Lenders, (CML) Regulated Mortgage Survey showed that the number of first-time-buyer mortgages in May 2013 reached 25,100. This figure was 29% higher than in April 2013 and 42% higher than the previous 12 months, thus confirming it as the best monthly result since late 2007. This is perhaps, as should be expected given the recovery, the rise in consumer confidence and the government's housing market initiatives. Yet it is important to keep all of this in perspective and two issues, perhaps, highlight the need for caution.

First, although the underlying pace of first-time-buyer activity is heading towards a quarter of a million per annum, we must remember that historically, that figure was around half a million, meaning that current activity levels are still well below what might be considered normal.

Second, we should recognise how important trends in London have been to the overall picture. Our analysis of the London market set out below shows very clearly how activity in the capital has been driving the market overall. Extensive coverage recently has highlighted the importance of foreign buyers in key central London boroughs. Research by Knight

Frank has shown that 75% of new home sales in inner London went to foreign buyers in 2012, while the *Financial Times* reported that between 45% and 62% of London's most desirable areas were owned by high net-worth individuals from outside the UK.

London is seen as a safe haven for residential property investment, and beneficial exchange rates have more than offset the increased costs that are faced through the revised Stamp Duty regime. As we discuss later, however, there is some evidence to suggest that this market is less buoyant than it was. This, taken together with the likely fall in bankers' bonuses, suggests that the London market might see its growth rate fall. These bonuses have been hugely significant in the London market (the European Banking Authority recently revealed that there were 2,436 bankers earning more than €1 million living in the UK, most of whom lived in London)

Housing Transactions

Based on the evidence from the statistics over the last 18 years, transactions in July are typically higher than in any other month in the year. The early summer months are favoured by potential buyers for property searches with longer daylight hours, and hopefully better weather influencing the purchaser's decision to buy. It needs to be remembered that transactions at the Land Registry, on which we base our statistics, are recorded on the date of house completion rather than offer date. This means that transactions in July are based on offers made in June, or on occasion, even earlier in the month. As the schools break up, many families take their holidays with a consequent falling away of transactions in the later summer months. This year we estimate that there will be approximately 68,000 housing completions in July, which is the highest level of any month over the last four years and the highest figure for the month of July since 2007, when there were 121,000 sales.

During 2013 we have seen a gradual increase in housing sales when compared to 2012. Our current figures indicate that there has been a 5% increase in sales over the first seven months of 2013 compared to 2012 (with this estimate probably erring on the side of caution). Indeed, looking at Q2 2013, compared to Q2 2012, transactions are up 12.5%, so the middle part of the year is proving to be far busier than anticipated. So why the change?

The main factor has been the easing of credit conditions, enabling

more potential purchasers to obtain a mortgage. The mortgage lenders have been assisted by the Bank of England's "Funding for Lending" scheme, which has resulted in more competitive products being offered in the market place. This is especially true of lending to first-time buyers as discussed above. According to the CML "First-time buyers accounted for 45% of all loans for house purchase in May 2013, similar to the levels of the past few months, but considerably higher than the 38% seen on average since 2007."

The weather, and the Olympics, suppressed both demand and sales in 2012. There were record levels of rainfall between April and June 2012, which literally dampened demand for housing. We should perhaps therefore not be surprised to see the opposite effect of an increased demand for housing in the early summer months of 2013.

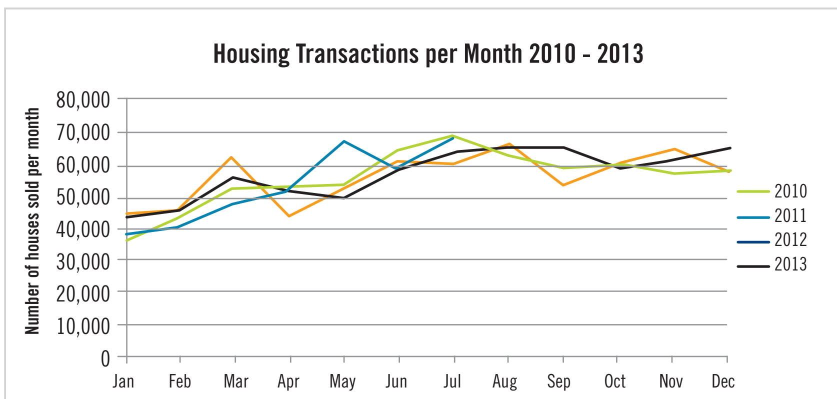


Figure 3 illustrates the number of housing transactions per month for the period January 2010 - July 2013, without seasonal adjustment. As we can see the transaction levels in 2013 are rising and have every possibility of exceeding the annual levels reached over the period 2010 -2012.

Figure 3. Number of properties sold per month in England & Wales, Jan 2010 -July 2013. Source land Registry

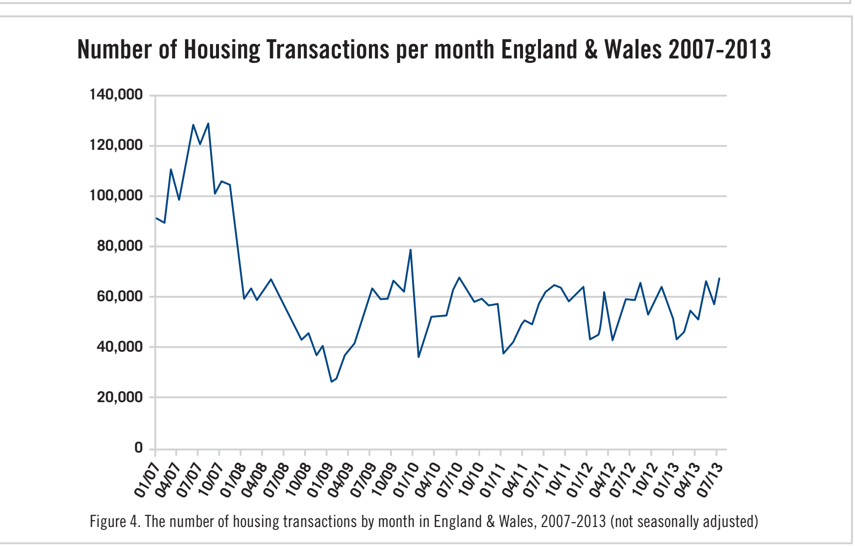


Figure 4. The number of housing transactions by month in England & Wales, 2007-2013 (not seasonally adjusted)

Regional Analysis of House Prices

Greater London continues to dominate the housing market in terms of annual price changes, with house-price inflation over two and a half times that of any other region of England and Wales. For the sixth month running, East Anglia takes second place and joins Greater London in being one of only two regions in the country with annual price increases higher than the average for England and Wales, as a whole. The figures below are annual percentage changes over three months, centered on June 2013.

All ten regions in May 2013 showed a decline in the annual rate of house-price inflation compared to the previous month. We did, however, explain that this was due to special circumstances relating to Stamp Duty changes in 2012. In mid-2013 the statistics returned to a more normal pattern with six of the ten regions showing an increase in the annual rate of change, compared to the previous month. Despite a small upward movement this month in its annual rate of price change, Wales continues to experience the greatest fall in house prices of all the ten regions in England & Wales. Wales has now been at the bottom of the house price growth league for seven of the last twelve months in 2012/13.

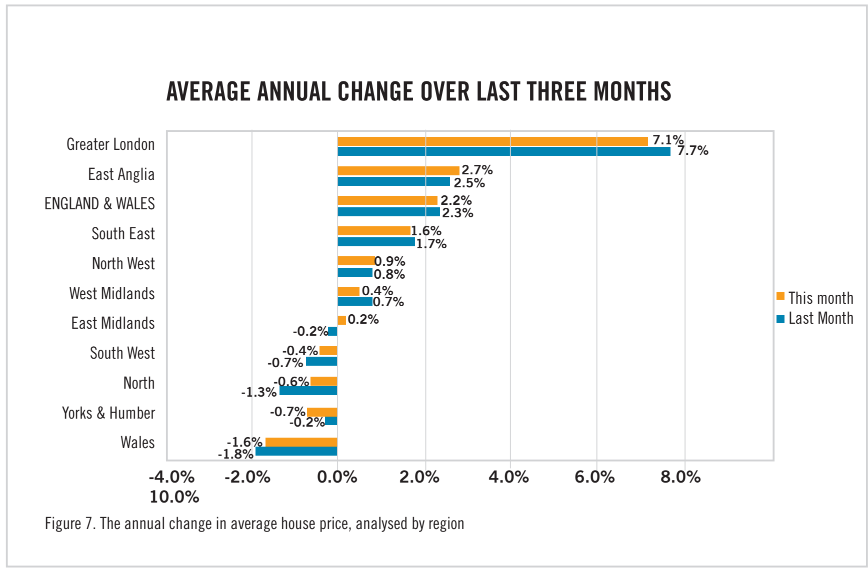


Figure 7. The annual change in average house price, analysed by region

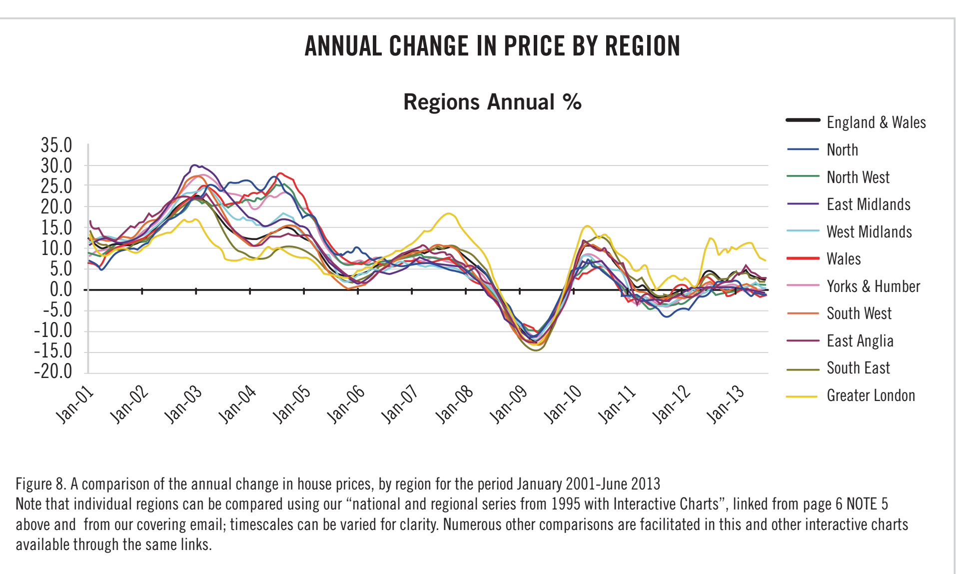


Figure 8. A comparison of the annual change in house prices, by region for the period January 2001-June 2013
Note that individual regions can be compared using our "national and regional series from 1995 with Interactive Charts", linked from page 6 NOTE 5 above and from our covering email; timescales can be varied for clarity. Numerous other comparisons are facilitated in this and other interactive charts available through the same links.

This month the LSL/Accad Index has once again reached a new peak price which indicates a general recovery in the housing market from its low point in April 2009. Yet a large part of this recovery has occurred because of upward price movements in the Central London areas, with other parts of the UK still having seen little or no price movements since 2009. We appear to be witnessing a two–speed recovery with London, East Anglia and the South East in overdrive, while other areas continue to see little or no movement in their average house prices.

Figure 9 below shows the effect of London, and we can see that, if the Greater London price rises are taken out of the index, the rate of annual growth of house-price inflation falls from 2.6% (including Greater London) to 1.0% (excluding Greater London). As Figure 9 highlights, the annual percentage change in house prices for all regions, excluding London, has been running at half the level of that, including London, since May 2012. The picture is therefore much less positive and this reality is a key factor outside of London. The question is whether the strength of the London market will ultimately carry through to the rest of England and Wales, or whether, if London loses momentum, the market as a whole will start to slip backwards.

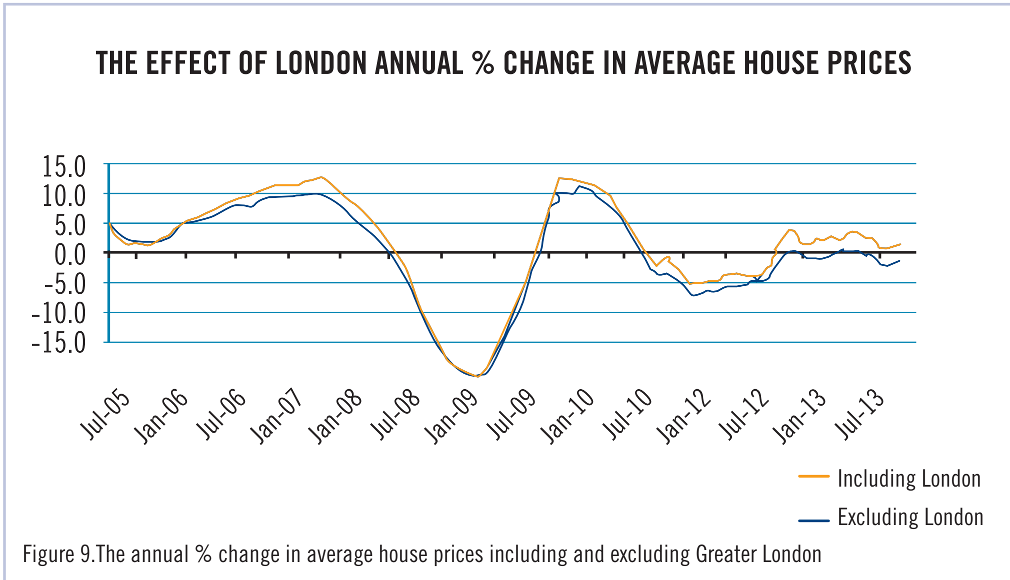


Figure 9.The annual % change in average house prices including and excluding Greater London

4. Negatives of the market

As discussed already, the two biggest risks in the UK property market traditionally are rising interest rates and unemployment.

As interest rates are at the lowest they have been in 300 years since the Bank of England came into operation, there is only one way for them to go. Investors need to do their calculations on more realistic rates in the medium term. To be honest, I hope the market never recovers, and the BOE keeps the rates at record lows, but we know this is not going to happen.

When interest rates go up, three things are going to happen:

1. Demand will decrease, and subsequently, price growth will decrease.
2. First time homeowners will find themselves pushed to the limit, and when interest rates rise and they have not planned for this and have little, or no equity built up, they will find themselves in trouble.
3. Rentals tend to remain very stagnant in London. However, when interest rates go up then demand for rentals go up and thus the yields.

There is nothing complicated here, and this is normal for interest-rate

cycles. The BOE knows how important housing is to the economy and sentiment and so, as Clem Sunter would say, “Barring an outlier event, I would see them raising interest rates sustainably.”

The second risk is far more prevalent, and that is unemployment. 70% of the British economy’s GDP is based on banking and insurance. They don’t manufacture anything anymore and these businesses are very volatile and transient. The economy is now very susceptible to the global markets, and also, if the government continues to tax the banks and the bankers absorb it instantly by raising fees, then the investors will just move to another jurisdiction.

The UK is very tied to Europe and they still have their fiscal debt and, more importantly; they have an aging population and are going to struggle to pay off their debt. Therefore, the long-term economic outlook for Britain is not that rosy and for this reason I see unemployment being a more important factor to watch. I think it is vital that people understand Clem’s scenarios and determine which of the four global scenarios are going to pan out, and how this will affect the UK.

Another factor which has impacted our investment strategy is that they have stopped South African’s coming into the country on a two-year work visa. It used to be common practice to go to university, and then go to London. At one point, of my 20 best friends from UCT, I had 16 of them living in London. Now they have changed the rules and they don’t let the youngsters in anymore. This has had a large impact, because at one point there were over 850,000 South Africans living in London, with 60,000 in Wimbledon alone. If my friends are anything to go by, everyone, bar two of them, has now left the UK. Those two have married British girls and moved into the suburbs.

There is thus no new stream of expats who are moving up the chain and wanting nice accommodation in good areas like Wimbledon. Don’t get me wrong: the Aussies and Kiwis still come, but they are not as studious and as diligent as the South Africans, and certainly are not the same standard of tenant. (Maybe I just like South Africans more.)

There is one final risk which I do mention to people. I have mentioned that I lived in the UK for nine years and qualified for a British passport. Even though I got my Masters *cum laude* from a London university, I still had to write an English exam to get my passport. I was astounded when I went to the ceremony to find that at least 15 out of 30 people in our group in Wimbledon could not speak English.

This to me represents what I witnessed in the nine years that I lived there: that England, and London, were being overrun by the wrong type

of immigrants who only wanted to live off the system and were breaking down the very fabric of English society. I have nothing to prove this, but common sense tells me that, if you take this trend and you compare it with Australia, Australia will be in a far stronger position economically and socially in 30 to 50 years. What impact this will have on housing, the economy and society in general, only time will tell, but for now I am choosing to keep my London properties and not buying any more at full value, based on the above risks.

5. Areas of interest

As I have explained, since starting to invest in the UK in 2002, I have only invested in London. I have explored all the other markets and could write about all of them, but as I am adamant that I won’t invest outside of London, and, on my research, the statistics, and most importantly, my and other peoples experience, I don’t see the point in discussing all the other towns and cities which people may want to investigate.

I believe I have already covered this, but basically, we invest in the secondary markets within the South West of London (Wimbledon), and the East towards Greenwich and Canary Wharf. These are two of the most stable, sustainable and growth nodes of the city. Finally, in a micro sense, we are very specific which properties we invest in based on location to transport and finally the configuration of the property, and whether our typical tenant would like the layout of the property and whether we could command maximum rent.

6. Where to invest?

The most important element when making any investment decision is to understand the underlying risk and how to manage it. The UK property market is far more sophisticated, with both retail and trade markets. The retail market belongs to the high-street estate agents and the auctioneers, where the general public tends to operate. The trade market is based on relationships, and is for the more sophisticated investor as traders sell volumes of stock below market value to instigate quick sales. Generally, properties are purchased between 20% and 40% below market value, but I must stress that this is only for the sophisticated investor, as there are many more risks than in the retail market.

IPS has two strategies of how we have taken advantage of this Trade Market:

6.1. Primary Assets

These are "Buy-to-Let" properties where IPS buy (usually Ex-Local Authority flats), renovate, undertaking minor and cosmetic refurbishment, and let out to the professional sharer market. This is a long-term strategy which takes advantage of capital growth and strong yields. In certain cases, the configuration of the ex-local authority flats allows for an additional room to be added to the flat, which increases the returns significantly. These properties can also be remortgaged after renovation, releasing capital, and allowing future properties to be purchased.

6.2. Secondary Assets

These are "flipped" properties where IPS buy, renovate, and sell. This is a short-term strategy where properties are bought well below market value, and quick returns can be realised by splitting larger properties into multiple units, or simply upgrading to a high level of finish, modernising them and selling them. The timescales are anywhere between three and six months, and the expected returns 20% and more.

As we said, at the moment we are not as focused on London as we used to be, but we can still assist clients as we have all the relationships with the Best-of-Breed partners in place.

7. Commercial Property Market

Although I know Best-of-Breed partners who are investing in the UK and have extensive track records, we chose to invest in Commercial in Australia and the USA because their economies, long-term, are more sustainable.

If you would like me to introduce you to them, then please get in contact with me.

8. FAQ and Glossary

8.1. How do I get financing in the UK?

The banking industry has been completely shaken up by the GFC. Unfortunately, we learnt some very hard lessons during the GFC. As an example, we bought, along with investors, into off-plan developments in 2008. We had one of the leading mortgage brokers come to South Africa and get pre-approved finance for all the clients before they bought. When the GFC happened, however, Barclays Bank reneged on the deal and said that the pre-approvals didn't count. We now had put down 10% deposits on the property and we could not get finance and were liable to lose our 10%. We spent six months trying to sort it out, and managed to get 23 out of 30 clients financing through banks, believe it or not, such as the Bank of Nigeria. I learnt a big lesson through this experience, and that is that I don't like buying off-plan as I don't know what the variables will be when the property is finished.

As we showed you in the research, the lending market is opening up again. For the last couple of years the banks were prepared to lend to a maximum LTV (Loan-to-Value) of 60% for non-residents. They used to be Asset-Based lenders where they would only take into account the value of the asset and the income stream of the property. Now, however, they are more like the South African banks where they are Income-Based lenders: they also want to know who is buying and how sustainable their own income is.

As this environment is constantly changing, we chose to only work with the best mortgage brokers as we prefer for our clients to deal directly with them, as there are so many options for finance and the clients need to explain their long-term goals, and can then be advised as to the best way forward.

8.2. What is the best structure to own UK property?

An offshore structure is the most effective structure, in terms of mitigating exposure to capital gains and income tax. Therefore, we have the partners who can setup an offshore company and the offshore company will own the property. Again, the details depend on the individual and their requirements, but having done this for over 10 years, this is the usual structure which the clients use to purchase property. I always say to people that, if you plan on only buying one

property, you have to be careful of not spending too much on the structure, as what you might save on tax you will spend on structure fees. It only makes sense to buy through a structure if you are looking to build a portfolio. Please remember this is not like the USA, and there is stamp duty (transfer fees), and you therefore need to have your structures setup before you buy the property, or you will incur a lot of costs transferring the property into the right structure.

8.3. How many attorneys are involved in the process?

There are two attorneys in the process: one is acting on behalf of the seller and one on behalf of the buyer.

8.4. What implications does this have on me being a South African-based tax resident?

All investments should be disclosed in South Africa for tax purposes. We suggest you seek independent tax advice. There is, however, a dual tax agreement between the UK and South Africa.

8.5. What about income tax?

Income tax will be levied in the UK at 19%. This will be minimised due to careful tax planning.

8.6. What about capital gains tax?

If you use the correct structure, the structure is not liable for capital-gains tax.

8.7. Who is going to manage the properties?

IPS has Best-of-Breed partners who will provide a full management and maintenance solution. We have used them for many years and they have an excellent understanding of our needs.

8.8. What happens if the geyser leaks?

Our management partners have a number of maintenance partners who can repair and maintain properties. This would be down to the account of the property owner, but would not be their problem.

Glossary

Exchange is when the contracts exchange between the buyer and the seller and the deal becomes legally binding.

Completion is when the final transfer takes place and the money is transferred from the buyer attorney to the seller attorney. This is when the property ownership legally takes place. It is the same as a transfer in South Africa.

Gazumped is what happens in the UK and it is extremely frustrating. Basically, until the exchange of contracts and sometimes even after the exchange until completion, the buyer and the seller can change their minds. You can agree on a deal with the seller, undertake all the attorney's searches and due diligence fees, and then another buyer comes along and offers the seller more. You are gazumped when the seller takes the higher offer and you are left with no recourse. This is not the case in Scotland, where the contract is binding. It is extremely frustrating in the UK as the deal is not done until it is all finalised This can be very costly.

9. What Next?

Clients need to inform us what they are looking for. We are not estate agents and we don't hold stock. Once we understand what the client is looking for, then we can work with our partners to source the property. The process is as follows:

1. The client will pay a R20,000 deposit into the SA IPS Trust account, either through a bank transfer or credit-card payment.
2. The client then fills in and signs the Property Acquisition Form.
3. IPS sources properties for the client.
4. Once the property is found, which the client is happy with and which suits their requirements, IPS reserves the unit for 24 hours.
5. The client signs a reservation form.
6. IPS updates the online system to reflect that a unit has been sold.

(This is only done when reservation form is signed and monies are paid.)

7. IPS passes the client on to a mortgage broker who arranges finance approvals with the client.
8. IPS passes the client over to an attorney, acting on behalf of the purchaser, to organise exchange.
9. The client deposits money into the attorney's account. This is due for exchange, or 28 days from signing the reservation.
10. The attorney exchanges for the client.
11. IPS manages the purchase and transfer process in South Africa to completion.
12. 90 days prior to completion, the mortgage broker will arrange finance for clients if this was not an existing property and it was done upfront. Banks pre-approvals are only valid for six months.
13. Attorney manages completion (transfer).
14. Our management partner manages, inspects, does snagging, cleaning and prepares the unit for management.
15. IPS arranges furniture packs for clients who elect furniture packs.
16. Our Best-of-Breed partner manages the property and communicates directly with the client, paying the rental into the client's bank account.

10. More research for UK

Further Information:

There is a lot more information available:

1. www.ipsinvest.com
   a. This has all the information, including pictures and videos which are available.
   b. I also upload monthly property reports from research companies.

2. http://www.acadametrics.co.uk/acadHousePrices.php

   This is where we get out monthly research on the Australian property market.
3. www.youtube.com/spicken09

   This is my YouTube Channel where all videos are uploaded.
4. www.twitter.com/IPSInvest

   This is the IPS twitter account where I will keep you up to date with property news.
5. www.twitter.com/UK_Property

   This is our UK property account, which is specific to UK property news.

CHAPTER 10

EB5 AND RESIDENCY, GREEN CARDS, PASSPORTS AND IMMIGRATION

The question every South African asks is, "Can you get international residency, passports, or both by buying offshore property?"
But the question they should be asking is, "Are you buying an investment or a nice boat with a passport?"

Are you a sophisticated investor or a turkey?

The bottom line is that in 15 years of personal International Property Investment, and assisting over 2,000 clients invest internationally to a value of over R1.7 billion, I have not seen one opportunity where you get a passport that also makes sense as an investment.

Nothing in life is free.

Let me give you some examples:

Mauritius

- Invest $500,000 in cash, and buy a house in an International Resorts Scheme (IRS). When you do this, you get residency. According to a document released by the Board of Investment the "IRS is basically a project for the development and sale of luxurious residential units to foreigners." It defines the parameters for an IRS as a "Development of luxurious residential units on freehold land of more than ten hectares, to be sold at a price exceeding $500 000."
- When you sell that house however, you lose your residency and so you are only effectively renting the residency. Then, when one looks at the fundamentals of the property market and the fact that the majority of the opportunities are based on the tourism markets, the numbers do not stack up.
- Because it is a very unsophisticated market, it is very difficult to provide information as there is no property research in Mauritius. Try and search Google, and you will see what I mean. The only research available is from estate agents selling property who clearly have their own motivations. According to the 2011 Housing Census, the building inventory increased by 43,200 or 16.1%, from 2000 to 2011, with buildings categorised as hotels, tourist residence and guest houses experiencing a much higher growth, almost tripling from 400 to 1,100. This represents 0.3% of the market. Statistics from the Board of Investment for Mauritius show that around 30% of the foreigners buying into the IRS are from South Africa, 37% from France, and 20% from the United Kingdom (UK).
- Owing to this lack of sophistication, virtually no research or empirical evidence, investors have to 'hope' that international investors (not affordable to the locals) continue to buy into the island, and that tourism is strong enough to ensure the promised yields.

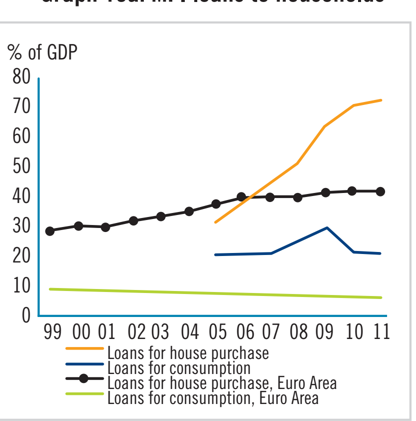
Cyprus

- Invest EUR 300,000 and buy a house. When you do this, you will get temporary residency and then five years later you are allowed to apply for a passport. This is great but let's look at the fundamentals of the market.
- In the past couple of months, the Cypriot economy managed to just avoid bankruptcy with a bailout from the European Union.

- A paper recently published in August 2013 by the European Commission entitled "The Economic Adjustment Programme for Cyprus," provides an insight into the findings of the troika delegation out of which came the Memorandum of Understanding for the island's bailout. Read more at: http://www.news.cyprus-property-buyers.com/2013/08/02/housing-market-in-cyprus/id=0015457
- The paper contains several references to the property and construction sectors, the most significant of which is reproduced below:

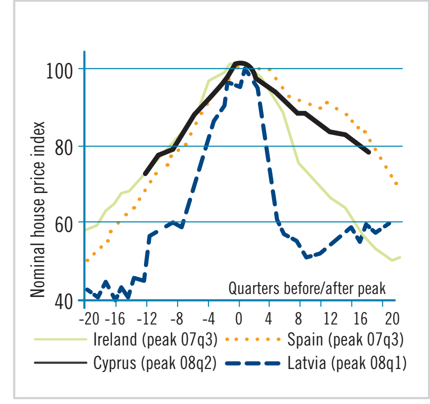
  The housing market in Cyprus is of particular importance for both financial stability and fiscal sustainability, as it poses a serious risk to bank balance sheets. The housing boom was accompanied by a rapid increase in loans to households (Graph 13a), and non-financial corporations up to 2008, **leaving the Cypriot private sector the most indebted** (in relation to the country's GDP) among the Euro-area member states (on a par with Ireland). Indeed, loans amounting to 150% of GDP in 2011 were directly related to the domestic housing sector, with even more consumer and business loans collateralized with real estate. The due diligence of the Cypriot banks has established that, in many cases, banks put a greater weight on collateral than on cash flows of the borrowers. Loans to residential developers and the construction sector exceeded 50% of GDP in 2011, with more than half of them already having been rescheduled (estimate). Thus, an important part of bank balance sheets hinged on assets related to local house prices which were experiencing protracted adjustment after a long boom. **In real terms, real house prices saw a downward correction** by about 28% (in Q1 2012) from their peak values in Q1 2008 (Graph 13b).

Graph 13a: MFI loans to households



Source: ECB

Graph 13b: Nominal house price indexes



Source: Commission services

- EC graphs Cyprus housing market Regulatory factors influence the scale and pace of house price adjustments **Moreover, supply-and-demand factors indicate that prices are set to undergo a further substantial decline, in particular prices for holiday homes.** The pace of the house price decline will crucially depend on the amount of loan rescheduling, and the efficiency of collateral seizure.
- Repossession procedures are, in turn, affected by both the backlog of the land registry system (title deeds) and considerable delays in asset liquidation administration, and judicial procedures. Furthermore, the housing market will be affected by fiscal consolidation efforts via the rationalization of the existent myriad of housing assistance schemes and the implementation of a recurrent property tax system, based on updated valuations of the tax base. Collateral seizure is in turn influenced by both the backlog of the land registry system (title deeds) and considerable delays in asset liquidation administration and judicial procedures. Improving these settings would result in a more rapid supply increase and a swifter decline in house prices and accordingly in earlier price stabilization. The potential advantages of a swift decline in house prices would be: front-loading of mortgage book valuation losses, earlier restoration of confidence in the housing market, and thus a pick-up in (external) demand, with a positive feedback to GDP growth. The risks lie mainly in front-loading effects on the economy and the risk of undershooting house prices and, thus, collateral values. **Registration and transfer of immovable property in 2011, up to 120,000 – 130,000 properties lacked title deeds** that is, the land registry does not reflect their building and ownership situation. Scattered evidence on the progress since 2011 indicates that only a rather small portion of pending cases have been resolved so far.
- This regulatory issue creates a bottleneck for the housing market in two respects: First, it acts as an impediment to demand, particularly from foreigners, as they are not able to fully enjoy the benefits of ownership, for instance, deeds are generally required as proof of mortgage collateral. Second, there is a risk element for the bank mortgage books, as it is not clear how many (developer) mortgages are secured with title deeds that are actually out-dated and should be replaced with new title deeds to be transferred to dwelling purchasers. This is compounded by the fact that a sales contract on immovable property represents a senior claim on the property for the amount that has already been paid, thus giving the buyer a secured creditor position.

- Against this backdrop, the Parliament approved substantial reforms in 2011 (N81(I)/2011). The new framework introduced vested contracts, enabling the sale of a property without a deed, and provided purchasers and authorities with the rights to request and enforce the issuance of title deeds. The approval of planning and building permits as a necessary prerequisite for the issuance of title deeds, was identified as a major driver of the title deeds backlog and has been tackled by the introduction of simplified approval procedures and a town planning infringement amnesty, in 2011. However, the effectiveness of these reforms hinges on their implementation in expediting the issuance of the more than 100,000 still-outstanding title deeds. Preliminary figures suggest this measure resulted in a substantial, but by far non-exhaustive, decrease in the title deeds backlog. Note, however, that any new title deeds issued still have to be transferred to the purchasers which poses further risks for sales contracts concluded before 2011. Improving judicial incentives in order to ensure speedy title deed transfers is therefore a crucial aspect in resolving regulatory risks to house prices, banks, and the economy.
- **Extensive coverage was given to the fall of rental and sale prices of property in the first two quarters of this year: reported by RICS (Royal Institution of Chartered Surveyors**, 27 July 2013). The property bubble, financed by easy bank credit which saw real estate prices soar to absurd levels, has been deflating in the last couple of years; the only surprise being the slow rate at which this has been happening. It appears the rate of decline of prices would be slower than was initially expected and the correction of the market would take longer to be completed. This is because the banking sector is still in disarray and there is uncertainty about its future, not to mention the capital restrictions. These factors are slowing down the correction, but once the banks start to sell off collateral used as security for loans that are not being repaid, property prices would go into free-fall, until they are at a level that is attractive to speculators with cash. Read more at: http://www.news.cyprus-property-buyers.com/2013/07/27/law-of-supply-and-demand-will-take-care-of-prices/id=0015413
- I was at a property event in May 2012, and I heard a South African promoter talking very positively about the Cyprus economy and the property market. I learnt about the natural gas, which is in the ocean, and how positive everything was, including the fact you can get an EU passport. When I went home I thought I wanted to research this. Having only ever done international property, the one skill I have

learnt is how to find the research which is based on neutral sources, not written by real estate agents. I was astounded at what I found. Here was the research:

> Liquidity problems, record levels of unemployment (which has doubled in the last 30 months), and huge uncertainty in the market (Cyprus banks are tied to Greece) and continue to send the Cyprus property market into a tailspin. (Cyprus Property News, November 5, 2011). Sales are down for 16 consecutive months and 11% down on 2009 when the market crashed. Overseas sales are down 36% (in some places as much as 90%), due to huge problems with legal title and the deeds office in Cyprus (Cyprus Property News, Feb 2012). A serious stock overhang, weakening occupational and investment demand, and the consequences of a worsening Greek banking situation, do not bode well for the Cypriot real estate market, made worse as speculative supply kept being added 'long after demand begun to weaken', an analyst report has concluded. Prices, in general, have lost 30%. *(Cyprus Property News*, Dec 2011)

- After finding this research, I began warning people about the fundamentals of the market. In fact, in May 2012 I wrote, "It is no wonder, based on this research, that the Cypriot government is doing whatever it can to get FDI (Foreign Direct Investment) and trying to stimulate the property market, and are trading passports to make this more attractive."

You see, when you understand where to find the right research, you can make educated and informed decisions. When I found this research, I believed that the market was about to have a massive correction. In less than 12 months this is what has happened. With the economy collapsing, their GDP down 15%, they expect it is going to take more than ten years to recover. I don't invest in markets with fundamentals like this, or markets which are based on tourism.

In conclusion, I do have clients who want to go there and buy a holiday house "cheap". I understand this, but buying a holiday house is something completely different and I tell them, "Don't kid yourself that it is an investment."

USA – EB5

- In the USA there are Federal Schemes: EB5, where you invest $500 000, and then they give you a Green Card.
- According to Wikipedia (http://en.wikipedia.org/wiki/EB-5_visa) the EB-5 visa for Immigrant Investors, is a United States visa, created by the Immigration Act of 1990. This visa provides a method of obtaining a green card for foreign nationals who invest money in the United States. To obtain the visa, individuals must invest $1,000,000 (or at least $500,000 in a "Targeted Employment Area", a high unemployment or rural area), creating or preserving at least ten jobs for US workers, excluding the investor and their immediate family.
- Initially, under the first EB-5 program, the foreign investor was required to create an entirely new commercial enterprise; however, under the Pilot Program, investments can be made directly in a job-generating commercial enterprise (new or existing "Troubled Business"), or into a "Regional Center", a third-party-managed investment vehicle (private or public), which assumes the responsibility of creating the requisite jobs. Regional Centers may charge an administration fee for managing the investor's investment.
- Once again, this sounds very interesting until you evaluate the returns of 1% to 4%. A high unemployment area is one where unemployment is 150% above the national average, and the long-term growth and sustainability is questionable. Do you think the Federal government is giving away passports in an area to try and help the devastated region recover, as the EB5 only applies in areas where the government needs to revitalise areas and create jobs?
- Take these investments and contrast them with the investments our clients are making with solid net yields (8% to 13%), capital growth, (10% +) and, most importantly, sustainable fundamentals.
- Please see the section on Dr Dolf de Roos, discussing how you can get an EB5 by buying existing property. This is what he did as a foreigner, in order to move to the USA, and this is why I know it is possible to immigrate to the USA by just buying great investments.

Dolf on New Developments and EB5

Watch this video - http://www.youtube.com/watch?v=Wb7iI_qliZs

Malta

- Many South Africans invested in Malta and were promised that when they bought they could get a passport. After they bought the Government changed the rules, and now they have an average investment, in an average market, with no passport.

Spain

- In 2013 the Spanish government wanted to change the legislation so that people who bought property have residency permits in Spain, and by extension the EU. This was the sweetener the Spanish Government has decided to offer investors from outside the EU who buy property in Spain.
- The policy is aimed at attracting Russian and Chinese investors who are already some of the biggest foreign buyers of Spanish property. Under the present rules, Russians and Chinese can only visit Spain for 90 days at a time on visas that have to be renewed.
- **Spain needs to attract foreign investors to help to digest the property glut, including some 700,000 new homes languishing on the market in search of a buyer. Even Mariano Rayo, the Spanish Prime Minister said, "Someone's got to buy those homes."**
- Back in November, when the Government first floated the idea of residency permits in return for property investments, it proposed an investment threshold of €160,000 ($212,600), but backtracked in the face of a barrage of criticism for setting the bar too low.
- Earlier this month, after six months of dithering, the Government appeared to confirm the threshold for residency permits would be raised to €500,000, but subsequent press reports suggest the amount is still under discussion.
- The residency permits come with strings attached. They are only for two years, although they can be extended to five. They do not entitle their holders to work in Spain, or use the public health system, and

they expire with the investment.

- The current oversupply in Spain's housing market could take at least another five years to absorb according to a new market report from RR de Acuña & Associates (5 July 2013). "**The firm estimates prices have decreased 27%, although many other sources place the declines much higher and will continue to drop with property investment demand remaining low.**"

Conclusion

Have you noticed a trend between all these countries and investments? I think the Prime Minister of Spain sums it up perfectly, **"Someone's got to buy those homes."** These are basically, distressed economies giving away passports to try and fix a problem where the fundamentals are out of sync and ultimately caused the problems. They see passports as a way to incentivise foreign investors to invest and hopefully fix their problems and economies.
Unfortunately, there are many more examples, but in all cases only a turkey would kid themselves that they are buying an investment. Sophisticated investors would understand; like buying a boat, it is nice to have but it is an expense, as is to get the luxury of a passport, and not an investment, as the numbers do not stack up.

Watch this video on how my Uncle left Zimbabwe and managed to move his family to Australia where he lives very comfortably as a global citizen. (Or read in the acknowledgements about what he was about to achieve and how)
http://www.youtube.com/watch?v=rZYLaH7vGy4

The bottom line is that if you want to become a global citizen, you have to invest in First-World assets and First-World income to ensure that you can grow your wealth. If you make the right investment decisions then your global wealth will ensure that you have the luxury of living wherever you want to, with your family. Dr Dolf de Roos has proved this in the USA.

I know I have been direct here, and I look forward to your responses, and I am happy to be challenged. I find it very interesting in investments which are backed up with solid fundamentals in Australia, the UK or the USA – there is no passport which comes with a property. Don't get me wrong, buying property can assist with immigration and citizenship, as Dolf said, but what our sophisticated investors focus on, is the investment, the returns, the risks, and creating global wealth, as this will take care of the rest, and – most importantly – their future.

CHAPTER 11

OTHER MARKETS SYNOPSES

1. South Africa

As I have said, I bought my first property in South Africa at the age of 22 and developed it into six townhouses.

We have invested ourselves and helped thousands of others invest in South Africa. I love living in South Africa, but I do have my concerns about the property market. I bought my last investment property in South Africa in 2010. I had a tenant in Johannesburg, however, who had not paid for four months. She worked for FNB Homeloans and had loads of excuses. The irony is I had my mortgage with FNB. I went to FNB Homeloans and met with her and her boss. The boss said her not paying was not his problem. I said, "Well, I will pay the mortgage to you when she pays the rent." Obviously, he protested.

My wife is a qualified property lawyer in South Africa and the UK and yet with such problems in getting tenants out, I decided to use other methods to motivate my tenant. She obviously had a security problem as she couldn't pay and so I added extra security to the property. The next thing the police arrived to arrest me. I, the landowner, who has not been paid for more than four months and now I am the criminal. I was

shocked and decided then and there that I was done investing in markets where the law protects the tenant. This doesn't mean I don't believe in the market. I just bought a family home on Thesen Islands and got it at a great price. But a home is not an investment; it, too, is like a boat.

I do follow the market, and the best research in South Africa for property comes from ABSA.
http://www.absa.co.za/Absacoza/Economic-Research/Property-Research
The best economist, whom I like to follow in South Africa as he explains economics simply, is Cees Brugeman - https://www.fnb.co.za/economics
The bottom line is that the fundamentals in South African property are good, but the two challenges of inferior building quality (owing to the lack of skills) and the legal protection of the tenants are a major concern of mine.

I believe there are even greater risks for foreigners. They can only get 50% financing, and therefore they are very exposed to the Rand Devaluation. Although I lived in London and tried to help British and Irish investors in South Africa, we weren't very successful. I finally realized: the only people who were going to invest were people buying homes or holiday homes, and South African property does not stack up for foreigners against other destinations.

Finally, in terms of the commercial property market, it is very heavily over-traded. The funds are very cash rich and there is a lot of money

chasing only a few deals. For this reason most of the successful funds have actually gone offshore as they can make better returns. This, along with the factors of the Rand Devaluation, causes me to invest in commercial opportunities in first world countries where there is not such a buying demand and therefore better value and returns.

The best opportunity in South Africa is affordable housing. My partner, Jaco Maritz, is one of the leading experts in this field having built one of the biggest affordable housing companies in South Africa. He is experienced through the entire cycle from inception to management of thousands of units. He also has experience with the institutional investors who are moving into this sector and are looking to create residential funds or REITS. This is what he has to say about this sector.

Affordable housing
Jaco Maritz, IPS MD

> "When I first started in affordable housing in the year 2000, it was a largely overlooked and underestimated sector. I joined what later became a listed company on the Johannesburg Stock Exchange (or JSE): RBA Developments. They were one of the first-tier development companies to enter the affordable housing markets in Gauteng and the Western Cape Province. The Western Cape Division of RBA was taken over by Riaan Roos, one of the founders of RBA, who later left RBA to form the now well-known MSP Developments, the leading provider of affordable housing in the Western Cape. Owing to the high demand, a quality product, inventive marketing strategies, and a community-building component, I continued to flourish in this market.
>
> A significant segmentation of the market below the R550,000 mark may be defined as follows:
>
> - 0–R150,000 – low-cost housing, RDP, or "Breaking New Ground" (BNG)
> - R150,000–R250,000 – so-called "gap-housing"
> - R250,000–R550,000 – affordable housing

The gap-housing market has different segments, in turn, which are funded by both National government and local government at three different levels:

- CRU – Community rental units (Local Council)
- Social Housing – SHRA (Social Housing Regulatory Authority)
- Gap Housing subsidy – Newly rolled out individual subsidy

The affordable housing market has no subsidies and is normally financed by one of the major financial or banking institutions. This market is largely controlled by the banks' lending criteria and provides protection to first-time homeowners. Depending largely on the availability of suitable and cost-effective land, these kinds of developments are usually found on the urban edge of previously disadvantaged population areas.

Investors started entering these markets in early 2002 in the Western Cape and this had a major impact on the pricing, delivery of more units, and the expansion of the property management sector into these markets. The marketing mix focused on governmental and institutional employees and included the entry levels of the emerging black middle class. Sparked by low prices and a high demand, this sector became a very popular entry point for prospective investors.

With the advent of the GFC, moreover, large institutional and banking entities started financing land for selected developers to roll out larger developments in this market, owing to the continued high demand and good profit margins. This placed fresh light on this sector, where investors found they now received even more value for money.

Nevertheless, this segment comes with a larger risk than other housing segments because of the difficulties of property management and rental collections. These diffiiculties have now led to a new breed of property manager with very effective collection and eviction procedures to fit in with the new legislation that continues to protect tenants and illegal occupiers of property. All such considerations reinforce the principle of choosing the correct partners to manage the property.

Something like 26% of all households in six of the metropolitan cities in South Africa consist of informal housing. With a backlog of 2,2 million houses to begin with in 1994, the state has managed to build 1,4

million houses in 19 years, which is less than 75 000 a year.

Currently developers are producing 36,000 housing units per year in the affordable housing market. Yet, with the growing population and the housing shortage, there are 256,000 households in the Western Cape and roughly a million in the country, all of whom need affordable houses.

As the government provides further incentives to the banks to provide end-user financing, and the institutions seeing the opportunity to hold thousands of rental units and thereby effectively create rental REITS, this market remains the biggest opportunity in South African property. To succeed though, it is essential to have the experience, the right information and the right partners to be able to deliver a valued and affordable product to one's clients, and yet still make a profit.

This will be our focus in South Africa and Africa over the next 10 years and with Wealth Migrate and crowd funding we plan to revolutionize this sector".

2. France

When I was attending the Property Investor Show in London, the biggest property event of the year, there were over 100 presentations. I used to attend as many functions as possible to learn everything I could about other countries and markets. I came across the French Leasebacks, over ten years ago.

France has the biggest tourist market in the world, with over 80 million tourists coming into the country each year. The government wanted to incentivise investors to provide tourist accommodation and came up with the concept of the French Leaseback. You buy the property, and then the property is leased back to a management company for nine or 12 years. The management company specialises in tourism residences; business residences for corporate travellers; retirement homes (with or without medical care); and student halls.

The management company is responsible for managing and maintaining these properties and guaranteeing your annual rental return, which increases with inflation irrespective of occupancy of the property, NET of all communal charges, maintenance and running costs. These properties are situated in popular locations such as the Alps and Provence, with villas and beach resorts.

You are buying properties from developers and they are therefore at full value; and the returns are from 2% to 3%.

Again, if you want a holiday home in France, great as they are, they are not investments. Hennie Bezuidenhout, my partner in Wealth Migrate, actually went to France to buy a French Leaseback as he enjoys his skiing. His feedback, however, was that – even though it was nice – he could not justify spending the money as it was not an investment. Equally, there are fundamental problems in Europe and this opportunity is obviously affected by this. Finally, this is all based on tourism which is very cyclical and the first market to be affected by global economic movements. This is why we don't invest in tourism property.

3. India

In India, the fundamentals seem perfect so we aggressively looked into setting up an Indian division. Also, only Indians of previous descent can buy in India, but the Indian population in Durban is the second biggest population of Indians outside of India. With this in mind, we thought we could provide a great solution. After doing loads of research, however, and finding an Indian partner, we found out that there are no laws to protect the property from tenants. Therefore, all the Indians I met in the UK who invest in India actually don't rent their properties out. They leave them standing empty. At this point we stopped the research, as this made no sense to me as an investment. I am sure this will change in time and we will keep watching this market, but it is not a place for us to invest in, at the moment.

4. China

The Chinese market has fundamental issues. In the USA an oversupply of property, by 10 million homes, is what caused the GFC. In China it is reported to be as many as 60 million homes. They built entire cities and towns which are standing empty. There are big problems connected to city and town councils who have taken on massive debt to sustain the growth of the Chinese economies, so they built these cities which stand empty. The Chinese government is so concerned about the property market, that they passed a law that investors can only own one investment property. This is the reason the Chinese are investing all over the world now. Finally, when I travelled to China in 2003 and spent a month there, I found it the most difficult country I have ever travelled to. It was virtually impossible

to buy lunch, let alone a property. In China you have to be very careful as you don't understand the laws, the language or the contracts. Add this to the fundamental problems and aging population.

5. Japan

Clem Sunter wrote about the problems in Japan earlier. According to Wikipedia, the Japanese asset price bubble was an economic bubble from 1986 to 1991, in which real estate and stock prices were greatly inflated. The bubble episode has been characterized by rapid acceleration of asset prices, overheated economic activity, as well as uncontrolled money supply and credit expansion. More specifically, over-confidence and speculation over the asset and stock prices has been closely associated with the, then current, excessive monetary easing policy.

By August 1990 stock prices had plummeted to half the peak by the time of the fifth monetary tightening by the Bank of Japan (also known as BOJ). The asset price began to fall by late 1991 and the asset price officially collapsed in early 1992. Consequently, the bubble's subsequent collapse lasted for more than a decade with asset prices plummeting, resulting in a huge accumulation of non-performing assets loan (NPL) and, consequently, difficulties within many financial institutions. The Japanese asset-price bubble contributed to what some refer to as the Lost Decade.

The property market has now gone sideways for over 20 years. The population of Japan is decreasing from 120 million people to 100 million, and so the fundamentals are out of sync. This, along with an aging population and an economy which is stagnant, doesn't bode well for long-term sustainability.

6. Brazil

Brazil is certainly a market on my radar. South America is one continent I have not been to and I think I need to go and do a full investigation during the World Cup in 2014. When I was in the USA having lunch with my friend from UBS, the banker, he was telling me about the fundamentals. There are over 100 million people who have joined the middle class in the last few years. This is insane, as when the middle class grows it drives the fundamentals of the property market.

This is certainly a market to watch.

7. New Zealand

I have been to New Zealand twice, (including flying there for the Rugby World cup semis, and final, when South Africa had already gone home). It is a really small place with a population of 4.4 million people. The economy is in recession and the property market has been through tough times for the last five years. The fundamentals are not right, as when there are recessions, all the New Zealanders want to leave for Australia. There is limited population growth and the returns are low.

8. Canada

The Canadian market is overvalued with low returns. The Canadian market never corrected, and with low returns, the biggest number of foreign investors investing in the USA are the Canadians because the returns are much better. The properties are at full market value with low returns and therefore the risks are higher, like in the UK.

9. Germany

As Clem Sunter says, Germany is the shining light in Europe, and with their manufacturing capability they are the only economy which is growing. Therefore the economic fundamentals are right, but the problem is that more than 70% of people actually rent in Germany. The laws are very socialistic, with rent controls, and it is a very difficult environment in which to generate an income. Also, it is tied to Europe, so – like the taxpayer in South Africa – it will always have problems trying as a minority to prop up the majority.

With regards to commercial property, we investigated the market for two years and eventually decided that the European economy has structural problems, and an aging population. With these fundamentals we decided it was better to invest in Australia and the USA for commercial, long term.

10. Kenya and Zambia

These countries, in Africa, went through very tough times when they received their independence, but in the last decade they have embraced the future and now they are some of the fastest growing economies in Africa. There is no finance available and everything is cash. Owing to this, the rental returns are strong but you cannot benefit from leverage. We believe there is still too much risk in residential and we don't have enough knowledge, or the right partners.

What we are really interested in are medical facilities throughout Sub-Saharan Africa. We have partnered with a logistics company which controls 40% of the transportation throughout Sub-Saharan Africa, and we are combining on their experience. This is certainly something we will be focusing on for the next five years. Wealth Migrate will certainly be providing a solution for African property, as investors from all over the world are looking to Africa which according to David Houle, author of *The Shift Age Futurist,* says from 2020 Africa is going to have a Golden Age.

11. Mozambique

This is a market which requires more investigation. We understand there are good things happening there but investors need to be very careful as the whole country is still lease hold land. Certainly requires more research.

12. Zimbabwe

As you know, my father actually came from Zimbabwe. I have to say, when the market was falling apart in 2001, my uncle was still in Zimbabwe and I told him, "I need to come up there and pick up some cheap property."

I was very surprised when he said, "Don't waste your time as property is really overvalued."

As the currency was depreciating so quickly, the only asset which was retaining value was the properties based in US dollars. Also, the people that were losing their farms were coming into the towns and cities and buying residential homes. I went back there in March 2013 and I could

not believe that properties in Borrowdale were selling at US $400,000. This was an older 1980s-style house with rental yield of 5%. This makes no sense when I can invest in the USA for a quarter of the value, and double the return.

In terms of commercial property like many South African firms, we are waiting on the fence to understand what is happening with the economy and the politics.

13. Dubai

In Chapter 8 on Australia, I wrote a lot about Dubai and the challenges it faced with the GFC, and I pointed out their oversupply when I was discussing the fundamentals of supply and demand. It was unfortunately too easy to see the disaster which was going to happen in Dubai – even without the GFC. According to a number of friends and colleagues, it has now really rebounded but, to be honest, I have not been there since 2008.

Nevertheless, I can give you three reasons why I do not like Dubai:

1. ***The population is very transient***. When the jobs dried up in the aftermath of the GFC, people literally left the UAE and there was a massive oversupply of property. Ian Fife, the former editor of the *Financial Mail* (a great friend who unfortunately has passed away), wrote an article in the magazine about how, in 80 years, Dubai would be a city lost under the desert sand again and would be deserted. The bottom-line is that their oil will run out in less than 15 years and that is why their Sheikh has been trying so hard to build an economy which is not reliant on oil. There are obviously huge risks either way.
2. ***I don't like investing in a place where the playing field is not equal.*** When someone asked Dr Dolf de Roos about investing in Dubai in 2008, he said he would not invest there as he would be competing with Russian Billionaires who are cleaning their money and oil sheikhs. These people do not mind if the property stands vacant, because there is no way to compete with them financially. You are at a disadvantage from the beginning.
3. Something I really didn't like on my numerous trips to Dubai was that ***I was classified as a second-class citizen and treated as such.*** I have been privileged to have had a great education and general upbringing, and in England I was regularly told you that can't date "that girl" because you are not "Upper Class". I always retorted that I am as upper class as anyone else. In Dubai you are literally a second-class citizen, and the locals all fit into a medieval hierarchy which treats everyone differently according to their race or where they are from. I just don't like this at all.

The one major positive of Dubai is that they pay the entire year's rent in one or two cheques. You can therefore get the whole year's rent upfront.

I also know that many investors have moved from Dubai to Abu Dhabi as they say it is the next Dubai.

As I think this whole area is politically very unstable, and also that the USA will be independent of OPEC by 2017 owing to their having acquired their own, fresh sources of oil, this is a region I will avoid for the foreseeable future.

Conclusion

There are many people out there who promote property in new countries and they seem to change all the time. They are just salesmen, not investors. I will never forget the one company who sold South African property and, because they had a database, they decided to sell Australian property. Needless to say, they stopped pretty quickly as there is a lot more to international property than they thought. As you can see from our experience, it takes over a year to fully understand a market, limit the risks, and find the Best-of-Breed partners whom we can trust before we can invest.

Having only done international property, and being passionate about investing globally, I have built up tremendous experience about all the major markets, globally. Therefore, even if we don't invest in a country, it does not mean we have not been there or researched the market. Again, we use the GPS™ system to compare apples with apples between different countries, as there is so much more to take into account than just the property.

If you want to be a successful investor, with your ***Property Going Global***, you need to be researching markets consistently and watching the fundamentals. You will notice the trends and find the emerging markets. You want to be ahead of the trend and this is what we specialise in, at IPS, and Wealth Migrate.

CHAPTER 12

FURTHER TOOLS

Here are the tools that we provide to our investors and clients to ensure they are more successful.

A. Five things you need to know how to create wealth through property

B. Six things you need to know and ask before you invest offshore

C. Making Sure You Have a Successful Buying Trip

A. Five Things You Need to Know to Create Wealth through Property

"Do you know what percentage of people in South Africa will retire wealthy at the age of 65?"

"Do you know how many people will either be poor, reliant on the government, or still working at 65?"

"Would you like to be wealthy, financially independent and financially free?"

Well, unfortunately, the statistics are not in your favour. Only 1% of people retire rich at 65; 94% are poor, reliant on the government, or still working. The other 5% are financially independent, which is described as retiring, with 75% earnings of your last pay slip. Basically, you get 25% poorer and you are financially independent. That makes no sense to me. Based on these very bad statistics, with my Dad having a pension and still passing away broke, and the fact that 49% of the world's wealth is held in property, I decided to master property at an early age and be in control of my own destiny. I read everything I could and attended as many presentations as I could find, and then I bought my first property at the age of 22. Since then I have never looked back, and have built a property portfolio in South Africa and overseas which enabled me to start my own business at the age of 26. My wife and I are now able to live on

Thesen Islands in Knysna. Let me share with you five of the seven laws of creating wealth through property.

Law One: Invest in Yourself First

Do you know what the definition of ignorance is? It is the difference between truth and perception. 99% of people don't retire wealthy or rich because they listen to all the stories their friends and family tell them. They listen to newspapers, live in fear, and because they don't understand the fundamentals, they are scared to take action. Very few people (actually 1%), take the time to find out the truth, to understand how to measure the risks and returns, understand property fundamentals and be able make educated and informed decisions.

Three books I would highly recommend to understanding wealth and property are:

Think and Grow Rich **by Napoleon Hill**

This book was written in 1937 and has produced more millionaires than any other book written in the last century.

Rich Dad, Poor Dad **by Robert Kiyosaki**

Explains the difference between working in a job, versus investing in assets like property (your home is not an asset) and starting a business.

Real Estate Riches **by Dr Dolf de Roos**

This is the first book I read on property that explains the principles of property, and gave me the confidence to get started.

Many people believe that knowledge is power but they are wrong. There are plenty of professors worldwide who are poor. Informed knowledge is power. As Napoleon (one of the greatest generals in history) said, "The right information at the right time, is nine tenths of any battle!"

Once you have invested in yourself (the greatest investment you can make), you need to take action. You need to realise that you will make mistakes but you can't learn properly until you get started. No one ever learnt to swim or walk, by reading a book!

A final word on this, is a repeat of the lesson my Uncle taught me when I was young. With any investment, work out what the worst-case scenario is and if you can manage that then everything else is upside and you can proceed. But don't take risks you can't manage, as they can sink you permanently!

Because investing in yourself is so important, we have a number of courses and webinars which we believe could be of value to you.

"Wealth Create – South African Property"

"Let's Talk Property – learn from the best in property"

"How to buy a house"

"How to buy auction property"

"How to become a property investor" and

"Wealth Migrate – Investing Offshore"

Refer to www.ipsinvest.com for more information.

Law Two: Always Buy from a Motivated Seller

Dr Dolf De Roos, in *Real Estate Riches* says, "To find a deal one needs to:

- View 100 properties.
- Make an offer on ten of them.
- Be accepted for three of them.
- Buy one!

Since that book was written, the rules have also changed, and since everyone can view properties so easily via the internet, you need to drastically increase these numbers. One principle stands steadfast, however, the best way to make money in property is to buy well. If you buy from a motivated seller (divorce, downsizing, death and repossession), you are dealing with a seller with high emotion and a concomitant reduced level of awareness, so you can often negotiate the best deal possible for yourself. Since the Global Financial Crisis, there are excellent opportunities

through bank repossessions or from developers who have got themselves into trouble and need to sell their remaining units as soon as possible before the bank forecloses on them. It is no longer about profit, but about survival.

The best way to take advantage of these opportunities is to ensure the buyer that you can move quickly. You either need to be a cash buyer or have your finance pre-approved from the bank. Preparation is the key and will ensure you can negotiate aggressively. Investors normally get 20% to 30% lower on the price than general buyers.

- Make sure you do the course on

  "How to buy auction property" and "How to be a property investor".

Law Three: Always Do the Financial Analysis Before You Buy

Most people buy property on their "gut" feel, and most people retire poor. Sophisticated and wealthy investors run the numbers and make decisions based on the financial facts and the returns the investment can generate. With an understanding of the numbers, they can also calculate the risks and make sure that they can manage them.

Make sure that you understand how the mortgages work and how much the monthly payments will be, even if interest rates do go up. Calculate how much you can afford and what the bank will be prepared to lend you. Understand how to calculate risk and then manage it under various scenarios and, in particular, understand how to use the bank to protect yourself and your property investments.

Understand all the costs involved, not just the deposit, but the lawyer's fees, transfer fees, and all the other ancillary costs which are included. Please don't forget about maintenance, voids, tax, body corporate fees, rates and taxes, water and electricity, etc.

Once you have all the numbers, you can take the emotion out of purchasing and use the numbers to decide which the best investment is for you.

- This is complex and one of the areas you need to invest the most time in learning.

  I suggest you do the courses on

  "How to buy a home" and "How to be a property investor"

Law Four: Look At Cash Flow First, Then Capital Appreciation!

In the past five years since the GFC, we have all learnt huge lessons in property. From the biggest property funds in the world, to the individual investors; those who focused on capital growth only have died financially. There are many people in South Africa and around the world who "teach" property and yet their whole philosophy is based on capital growth. Capital growth is something you can't control and as sure as night will follow day, at some point the market will turn. And when it turns there will be plenty of blood on the streets with all the investors who didn't have a plan B. Those "teachers'" strategies have fallen apart and left their students bankrupt.

It is actually in the tough times that true investors make their best returns. The reason may be found in that they invest in property based on the income. What income can the property generate? As long as the property makes sense from an income perspective, then they are prepared to invest. If the market goes up or down they don't mind, because the property continues to pay the income, allowing true investors to ride the storm. Then, based on the cash returns they are generating from their properties, they are in a strong position to buy properties from the motivated sellers who have bet against winter by only focusing on capital growth; and winter arrives. There is a saying in property, "The best time to make money is when there is blood on the streets."
As Warren Buffett says, "**Be fearful when others are greedy, and be greedy when others are fearful.**"

I have a personal example. In 2002 I bought my first house in London. Although all my friends were telling stories about how the UK was going to go to war with Afghanistan (after 9/11), oil prices were going to go up and therefore inflation and interest rates were going to rise, I decided to focus on investment.

I found a property that we could change from a three-bedroom into a five-bedroom house in Wimbledon. The property has been cash-flow positive since Day One. While all my friends were scared they did nothing, and kept on renting. Sure, it was really tough, but from 2002 to 2007 the property grew in value from £270,000 to £450,000. But, the really exciting thing was it was generating a couple of hundred pounds per month, net, after the costs. Then at the end of 2008 the GFC hit, and the market collapsed. People asked me if I was concerned as the property lost, probably, £100,000 (R1.5-million), in value. I was nevertheless over the moon!

The Bank of England reduced interest rates to 0.5%. I was on base minus 0.36%, resulting in my interest rate being 0.14% or £26 pounds per month. My rent is over £2,000 per month, thus generating an awesome revenue, or income, for me; (£1,800 or R21,600 per month). I hope the GFC continues forever, and only wish I owned hundreds of properties like these.

Through IPS, I deal with many sophisticated high net-worth individuals, and anyone who creates significant wealth through property only focuses on income in order to evaluate a property and decide on the investment potential (residential or commercial). If you buy the right property in markets where the fundamentals are right, capital growth will come as a bonus.

The final word is that you really have to do your research on the tenant demand, and where the income is going to come from. You cannot rely on salespeople or estate agents, and you need to be sure that the demand for rentals is available. The more secure you are about the income, the less risk is involved in purchasing the property.

- Do the course on "How to be a property investor"

  and we will show you the tricks on how to determine the rental demand, and how to understand the fundamentals of property.

Law Five: Property Is Secured in Law, But It Is Relationships Which Bring in the Money!

Like anything in life, it is your network and relationships which will really help you to build your wealth. This does not mean what school you went to, or your dad's friends, but how you go out and build relationships with the right people.

You need to find the Best-of-Breed partners and work with them as they are the experts in a particular niche of the market. Depending on the strength of your relationships, you will often be given opportunities from motivated sellers which do not even come onto the market. If people can trust you, then you will be amazed at what comes your way.

Do your research, find out who the genuine players are, and then start to build relationships by adding value to them. Often, when you start out you don't have the money, but you have time. I believe there is plenty of money for good deals and what you need to focus on is building

relationships with the right people, and bringing great deals to them. It is only a matter of time until you are building great momentum, just as Warren Buffett explains in his book *Snowball* how he created his wealth.

After investing in yourself, your next most significant investment is in your network. Build relationships with estate agents, brokers, developers, bankers, management agents, lawyers and successful property investors. This is a law of nature that we all achieve more when we work together. A bird flying in a flock of 25 birds can fly 70% further than a bird flying on their own. Focus on building your network and your team. Who can help you achieve your objectives? I leave you with one thought, which is the motto we built IPS upon:

"You can have anything you want in life,
if you help enough other people get what they want."

Zig Ziglar

In conclusion; as Tony Robbins, the world renowned expert on getting results, and billionaire, said, "Your destiny is determined by the action you take." You now have the foundation of information you need to help you create all the wealth you want. The results will be up to you, and the actions you take. Follow the first five laws of property and when you are ready, invest in yourself with the relevant courses and you can learn the remaining two laws, which will ensure you ultimate success! Your destiny is now in your hands and it is now your responsibility!

Enjoy, have fun and live the life you have dreamed of!

B. Six Things You Have to Know, and Ask Before You Invest Offshore

Dear Potential Offshore Investor

Napoleon said, "Information is nine-tenths of any battle." The challenge is: do you have the right information, are you choosing the right partners, making the right investments and, most importantly, asking the right questions?

1. Information is like water: the right information makes you financially healthier, but the wrong information is poison.

1.1. 80% of people who invest offshore lose money, and the investment becomes a tremendous headache in a short space of time! According to Real Estate Web http:// www.realestateweb. co.za/realestateweb/view/ realestateweb/en/page206?oid=54920&sn=Detail,

1.2. You could also make far better returns in South Africa.

1.3. The reason for this is that people make decisions without the right information. Sure the salesperson gives them a lot of information, but invariably they will tell people what they want to hear.

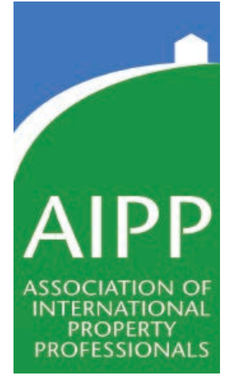
1.4. For example, in the last few months South Africans have bought $184 million on the Gold Coast in Australia. They think they are getting a huge bargain, but when you talk to Peter Dunn, OzInvest CEO, a company who spends millions on research, says, "We get offered opportunities on the Gold Coast every day! At the moment we would not offer these to our investors as there are huge vacancies, and the property values are in real trouble."

1.5. Similar examples are to be found in Manchester or Leeds, where South African investors believed they were buying real value (perceived huge discounts), and yet there is a huge oversupply, banks are not lending, and there are huge rental problems. Do we need to talk about the information that was presented on Dubai, and how that has changed?

1.6. *The questions you need to be asking:*

- "How much do you spend on your research, monthly?"
- "Can you show me how you have communicated this research over the last couple of years, so that I can see you really understand your market?"
- "Can I see the research from an entity that doesn't have a vested interest in selling something to me, and who substantiates this information?"
- If someone is based in South Africa; "How often do you travel over to the investment country to understand the market and make sure you are keeping up to speed with current trends?"

2. Partners – the key to the vault of success!



2.1. In life there is a saying, a chain is only as strong as its weakest link.

2.2. Investors often underestimate how important the choice in your partner is, to your long term success. Dr Dolf de Roos, says, "You are only as strong as your team."

2.3. Many investors invest because they like the salesmen, they have been referred by a friend, or they associate with a brand. This can be catastrophic to your success!

2.4. To ensure investors success, an international body was setup to regulate companies who help people invest in international property. AIPP (Association of International Property Professionals) is run out of London. In an effort to improve the professional standards of the international property market, Members of the AIPP are invited and have committed themselves to industry regulation.

When you see that a company is a member, it means:

- the company has been vetted and approved;
- the company has submitted to industry-standard training; and
- the company has agreed to follow the AIPP Code of Conduct, established to help and protect you, the buyer, by ensuring members follow professional guidelines.

What is the AIPP?

The AIPP has been set up to guide and to regulate the international property market, and to provide quality assurance to consumers. Members have signed up to follow all aspects of the AIPP Code of Conduct. The work of the AIPP, and that of its members will improve the quality of the service and product delivered to the consumer when buying property overseas. It is a non-profit organisation.

In short, AIPP membership is the stamp of approval for international property companies. It's a reminder to you, at all times, that AIPP companies are following professional industry standards and working hard to deliver customer satisfaction, through honesty, integrity and accountability.

It's important to ensure that the company you are dealing with has met, and will continue to meet industry standards of professionalism in the international property market (AIPP) and should be something you should be looking for, with anyone you deal with, in International Property.

The questions you need to be asking:

(i) "How long have you been helping people invest internationally?"

(ii) "How many people have you assisted, to invest in this specific country?"

(iii) "Is this your core business, or something which is supplementary to your estate agency business where you help people buy homes?"

(iv) "Are you a property investor yourself, and have you bought international property?"

(i) "Are you a member of AIPP?"

3. Rentals – the life-blood of property investment!

3.1. Property Investment fundamentals live and die on cash flow. Experienced property investors understand this, and this is why they succeed in all property cycles. Inexperienced investors are always chasing the bargain and yet, often, they find a great bargain or focus on capital growth, only to realise there is no rental market. This often destroys the investment and in many instances, themselves, financially.

3.2. Examples of this include Manchester where you can get 60% discounts, but there are 2,000 units oversupplied on the market. Dubai, which is also at a 60% discount, has massive oversupply problems (The numerous developers who offered rental guarantees, and who have gone bust, are testament to this.) And then Las Vegas, which is 70% down, but there are 5,000 families leaving every month as tourism is down by 60% and there are 32,000 homes on the market.

3.3. If there is one thing you have to be certain about, it is the rental market and where this demand is going to come from. You need to ask:

(i) "How can you ensure me of the demand for my property when it is ready to rent?"

- I am not talking about a one-, or two-year rental guarantee from the developer which has often been included in the price. I am talking about my receiving long-term sustainable rental income, at market related rates, from the demand which already exists.

(ii) "Are you prepared to put your money where your mouth is, based on this guarantee or assurance?"

- How would you sustain this long term if you were wrong?

4. Local and International Offices – Geography is so important!

4.1. Many salesmen will travel to South Africa with a suitcase, put on a classy presentation, meet you in a hotel, sign you up, take your money, and leave in a couple of days. This is where all the problems start, and you can't get hold of them or find out what is happening, and this is how a "great investment" (supposedly), turns into a lemon.

4.2. To be successful, you need to ensure that the partner you choose to invest with not only has offices in the foreign country, but also offices and a physical presence in South Africa. It makes such a difference when you can speak to a local South African on the phone, on the same time scales and, if needs be, come and see them in their office whenever it suits you.

4.3. ***Questions you need to be asking:***

(i) "Where are your offices in South Africa, and in the country I am investing in?"

(ii) "If you don't have offices in South Africa, how can I ensure that you will still be here in a couple of months or years when I need help with the investment?"

(iii) "I would like to visit the property. Who is going to show me around overseas?"

(iv) "How do you understand the market unless you have someone who is permanently looking for opportunities, and living in the property market?"

5. Financing – The catalyst for growth, or the cancer which will destroy your dreams!

5.1. Very popular in recent years has been for investors to invest in off-plan developments as they could put down a 10% deposit and then wait, sometimes, up to 2 ½ years for the development to be built. They were hoping for capital growth in this time.

5.2. The problem is, in international property you can only secure financing six months prior to transfer and so, although you can

get a guideline early on, it is not binding until you reapply within six months of transfer.

5.3. The contract and the purchase is not subject to financing, and if you cannot complete / settle / transfer, the property, then you will lose your 10% deposit and can be sued for damages by the developer.

5.4. As we have seen with the Global Financial Crisis, there is no way to manage this risk, as no one knows what the international banks will be doing, with regards to lending in six or 12 months or two and one-half years' time.

5.5. With most international destinations, you can get 70% LTV, (Loan to Value), from local banks in that country, which greatly reduces your capital outlay, but you have to understand the risks, and, once again, the solidity of your income stream is vital.

5.6. ***Questions which you need to ask:***

(i) "Who will be organising the finance?"

(ii) "What was their experience in the Global Financial Crisis, and what did they do to secure financing during this time?"

(iii) "What do you do to mitigate this risk for me?"

(iv) "Who was your hardest client, and what did you do to help them get finance?"

(v) "What are your averages in helping people get finance?"

(vi) "How many fail?"

(vii) "Can I invest, subject to financing?"

6. After-Sales Support: The helping hand you need! Trust me!

6.1. Most investors only focus on the purchase of the property, and forget how important it is to manage the sale. Salesmen are also only interested in closing the sale, but do not help you right through the process, when you are investing from afar. Many companies claim to provide the full service to you, but where are they based, and how are they going to do it?

6.2. ***Questions which you need to ask:***

(i) "How big is your after-sales team and who will be assisting me personally, making sure the property transfers timeously into my name?"

(ii) "Sorry, I am not talking about the salesmen, I want an 'After-sales Professional' who has been dealing in this for many years and understands the nuances between South African property and overseas property."

(iii) "What happens when the property is ready? Who will be assisting me with transfer of the property and inspections?"

(iv) "Can I see referrals from people who were happy with your service?"

With these simple questions you can ensure you don't buy lemons and you can take advantage of the significant opportunities. It is not only wise; it is prudent to invest some of your wealth in foreign markets. In the real-estate article above, it talks of the tremendous opportunities locally. We completely agree with this and continue to make great money in South Africa through the use of strategic partners, as they suggest. Once you have made this money however, it is essential, if not irresponsible, not to take some of this wealth and invest overseas. To achieve your goals of Asset & Wealth Preservation, Capital Growth, a Rand Hedge, Diversification, and Positive Cash Flow in First-World Currencies, a Plan B, and Peace of Mind; you need the right information and partners and you need to be asking the right questions.

Good luck and with this guideline you can ***"Invest with Confidence!"***

Scott Picken

IPS CEO

www.ipsinvest.com

C. Making Sure You Have a Successful Buying Trip

Avoid the Mistakes That Most People Make

South Africans who lose money overseas tend to make crisis investments. Either the Rand is falling, and they panic, or they fly to somewhere like London for a week and expect to find a good investment. I always turn it around and ask how successful a British person would be if they arrived in Johannesburg for a week and expected to find a good investment.

Most people who go overseas to buy have accumulated wealth through property in South Africa. They are experienced, have the right partners, and they have a 'gut feel', which has through the years of their experience really helped them make the right decisions. Now they book a trip to London, Sydney, Atlanta etc for a week with the expectation of buying a property and using their "gut feel", and it DOESN'T work. Let's look at some scenarios. When you arrive in the country or city, you try and look up a few estate agents. They take you out to see properties and tell you everything you want to hear. Bottom line is; they know you are from out of town and so it is easier to sell you properties which the locals don't want. Let me give you some examples:

Having lived in London for nine years and having invested in a lot of property, I have a "Rule of Ten Minutes". In a nutshell, I don't buy a property unless it is less than a ten-minute walk to the nearest tube station. Trust me, when it is raining and cold you don't want to have to walk too far. If it is more than ten minutes, people have to catch a bus which they don't like and so you can only command a far lower rent, will have more vacancies, and basically, it will affect your capital growth. Your 'gut feel' will never understand this, and I can prove this with the hundreds of South Africans who have travelled to London and bought in areas where, we, the people who lived in London don't want to live!

Another example is in the USA. Many South Africans have been investing in Atlanta. They think the returns look great on paper or because there is a financing (dodgy) option, but they are buying in Clayton County. Clayton County has had its education system downgraded and

no one wants to live there; neither tenants nor home owners. No one in Atlanta wants to invest there, but this is where all the South Africans are buying because the properties are cheap and the returns look good on paper. As my partner in Atlanta said, **"You can put lipstick on a pig, but it is still a pig!"**

In all First-World countries your exact address determines the school your children can go to. So you can go down the same street and if you are in the house on the left, you can go to the good school, and if you are in the house on the right, you can't. You would never know this and, trust me, the estate agent won't tell you as she can't sell the property locally.

Then you buy the property and the agent earns their commission. I am sorry, but you are a nobody on the other side of the world. You have no critical influence and it is very difficult to contact them. You deal with time zones, communication problems and generally it is a nightmare; sitting on the other side of the ocean, sapping, time energy and money!

It is not possible to do this on your own with your brother who lives there, or a friend.

I am not saying this because I own an international property company. I am saying this because, when I lived in London in 1999 and I was coming back to South Africa to buy properties on my own, it was a nightmare. I am South African, but dealing with the agents, developers, lawyers, banks, management agents, all in a rushed time, was fraught with disaster. This is why we started International Property Solutions to help people negotiate the challenges of investing overseas. We decided to use our experience of investing in international property for 14 years personally, and helping over 2000 people invest to a value greater than R1.6 billion, to investigate international countries and uncover the opportunities by doing two things; getting the right information and right partners.

Because of this I would like to offer advice as to how to invest internationally, achieve wealth creation and preservation, a plan B, and peace of mind, and achieve a successful buying trip.

Here are the steps:

1. Be strategic: whatever you do, don't allow a crisis to influence you to make emotional decisions.

2. Firstly, read the report on the "Six things you need to know and ask before you invest offshore"

Go to www.ipsinvest.com to download.

3. Based on this report, find a company who ticks the boxes, which are outlined to ensure that you are dealing with the RIGHT partner: someone you can trust and someone who has your best interests at heart.

4. Book an investment consultation with one of their specialists in South Africa many weeks before your planned trip. Outline exactly what you are trying achieve, your thoughts and concerns. The more open you are with them the more they will be able, with their partners on the ground, to help you make sure you achieve all your objectives.

5. Work with the Investment Specialist to plan the trip.

6. Read all the recommended research before you go.

7. Go on the internet and see what some of the competitors are offering and take down all the details.

8. If the above steps are followed then, when you arrive overseas, you can hit the ground running.

9. I would suggest that on the first day you land you plan a rest day, as generally you will be jet-lagged and there is nothing worse than looking at property and trying to seem intelligent when you are shattered.

10. Make sure that they take you to see plenty of properties which meet your requirements. This all should be pre-planned, based on your discussions with the investment specialist in South Africa who will coordinate everything. Make sure they have printed documents with all the relevant information on the properties so you have the full financial picture on each property.

11. Ask the partners to take you to the competitor's product, and give you feedback.

12. Decide if you TRUST the partner. I have a saying, "I don't invest in property I invest in people." Your gut feel doesn't work, and it doesn't matter how much research you do, even in six months, you will never know the market as well as someone who has been operating there for decades. The only "gut feel" you should have is if you trust the partner. From there, listen to them. Don't try and think what you would like, or what works in South Africa. It is irrelevant. Listen to what the partner says will work in that country.

13. Make sure you meet the entire team: lawyers, inspection agents, management agents. Know who you are dealing with.

14. While you are there, and you are fully focused, if you like a property then work with the partner and the Investment Specialist in South Africa to secure the property, and get the necessary paperwork done before you leave. Once you get home life will hit you in the face and often you lose focus, and all the hard work you have done will be wasted.

You can see that everything is based on two things: getting the right information, and dealing with the right partners. I truly believe that, with our experience over the years, this is the greatest value we add to our clients as we can quickly achieve these two objectives. I made 35 videos when I was travelling in Australia on an investment trip on everything I do to get the right information and partners. We are about to launch a book, based on our work with Clem Sunter, to help people make strategic decisions about which are the best countries to invest in. When we launch the book, we will make these videos available so that we can continue to educate people and they can make the best decisions for them, and their family's future.

Please go to www.youtube.com/spicken09 and look for the playlist "How to buy offshore property?" There are 30 videos which I have taken on my international trips to teach you what I do to be successful on the ground.

Enjoy.

CHAPTER 13

MISTAKES I HAVE MADE AND WHAT I HAVE LEARNT FROM THEM!

Property Lessons

Wow, where do you start? I can ensure you that, when you have been in business for ten years and helped so many people invest internationally, it has not all run smoothly. Property is a people business and things do go wrong.

"When faced with a mountain, I will not quit! I will keep striving until I climb over, find a pass through, tunnel underneath or simply stay and turn the mountain into a gold mine."
Robert Schuller

Here is a motto I like to instil in the team for our businesses.

"I believe in business it is not about what you do when it works, it is about what you do when it doesn't work."

In 2008/09 International Property Solutions (IPS) helped 30 investors invest in a luxury development on the banks of the Thames in London. There was amazing demand as it was a prime investment and we had negotiated a great discount from a motivated seller and got them to include a rental guarantee. To manage the risk we had a full investment team and each client dealt with their own solicitor to help them through the contracts, and a mortgage broker to give them a full financial assistant. In the UK, the banks will only offer you a mortgage for six months. As this project was an "off-plan" development with a 2½-year construction time, the mortgage broker analysed the clients and gave them assurances that, based on their current situation and current conditions, they would be able to get a mortgage. A number of clients were informed at this time they would not be able to get a mortgage and so they were advised not to proceed.

In 2008, the world changed completely with the Global Financial Crisis. As an example, in 2007 there were over 2,000 different ways to get

a mortgage in the UK. Currently there are only 112. The banks completely changed everything about their lending criteria and IPS and our clients had a major problem. From February 2011, IPS started working with clients to help them secure their finance as the development was due to complete (transfer) in July/August 2011. In the UK, once you have signed your contract and paid your 10% deposit, if you don't get finance and don't complete on the property you lose your deposit and so you can imagine the stress and the pressure.

Almost without fail, the original mortgage approvals which were granted in 2008/09 were cancelled. The banks were incredibly difficult and also very finicky about what documents they wanted from clients. Many clients had pre-approvals in writing from Barclays Bank and they literally wrote back and said, ***"Circumstances have changed and this no longer provides the guarantees as originally agreed."*** We fought so hard with Barclays on the clients' behalf as every objection they had, had nothing to do with the clients: it was just plain rubbish and full of technicalities. They clearly had simply lost their appetite to lend at all and to anyone. This is what I said in a statement to our clients at the time.

> ***"To be honest, the banks were a nightmare! However, IPS provides an end-to-end solution and so as our clients' partner in the process we were determined to find a solution. I always say to clients "In property you cannot guarantee there will be no problems, but what I can guarantee is that we will do everything we can to hold your hand and make the process as smooth as possible."***
>
> Normally, we work with one mortgage broker, but we consulted with anyone who said they could help. We even got one client a mortgage through the Bank of Nigeria and one through the Bank of Cyprus. While this was taking place, we were also furiously working and negotiating with the developer to apply for extensions to allow our clients time to finalise their finance, as the developer wanted to just cancel their contracts. Although it was a very difficult process and very stressful for the clients, we are very proud to say, now that the development is complete, that we successfully helped 23 out of 30 clients to complete their transaction.

When it was all over I was quoted as saying,

"I am really disappointed about the seven whom we could not assist, but we did everything we could and there was nothing we could do. Each was a unique circumstance and, unfortunately, there were no options. However, we are really proud of the 23 clients who we were successful with. Six months ago, based on the mountain we faced, I would never have thought we would be so successful."

Unfortunately, we all learnt big lessons from the Global Financial Crisis and how to manage risks better, and for this reason we no longer help people invest in off-plan developments unless a client is prepared to sign a disclaimer stating they understand the risks, as anything can change with banks in over two years and we cannot control or manage this risk. We have also updated our report on the **"5 things you need to know before you invest offshore,"** to make sure people understand these risks. As you saw in Chapter 12 this is now the "**6 things you need to know before you invest offshore"** to allow for the new section on financing and off-plan developments.

As I said, "In property and business, it is not what you do when it works, it is what you do when it doesn't work," which I believe defines your company and the type of service and value you want to offer to your clients.

Here are some other examples of this and the lessons we learnt:

1. Flying to Germany

We had a client who was based in Germany and we needed to assist them with signing their contract and so one of the IPS team flew to Germany from London to assist them with finalising the contracts.

The lesson here is that clients recognize when you go out of the way to assist them and this was the start of our Private Banking service where we decided, not to be the cheapest, but to deliver the best Private Banking Service available in property investment.

2. Fixing the brickwork

One of our clients in Australia discovered that when he received an independent survey before he took settlement (transfer), there was a

problem with the brickwork. Through our partner we agreed with the builder that they would completely render (plaster) the house to ensure that they fixed the problem, even though this meant the builder lost all their profit on the house and had to pay for the three weeks which the client had lost in rent.

The lesson here was rather to invest in First-World countries where the laws and regulations protect you as the investor. We had no lawyers involved here, as the builder knew they would lose their license and it was resolved in three weeks. What do you think would have happened in South Africa?

3. Management not working

In the USA, Australia and the UK, IPS also sets up a full solution, including the management to help the client ensure that they have tenants. In the USA, UK and Australia, IPS has had to fly to the various countries to meet with partners and ensure that the clients are paid what was promised to them. In most cases, the clients were paid as we have some collective bargaining power of all the clients.

The lessons we have learnt are very clear. Only deal with companies where the person who helps you invest in the property is also responsible for the management, because then the left hand is accountable to the right hand and there can't be any passing of the blame. **This is one of the most important lessons we can share with you.**

4. Crimson Square

In this development, the developer built a product of terrible quality. IPS made a mistake as it was being launched by Seeff Property and, since this is a respected brand, we thought they would have done their due diligence, but unfortunately not. The quality was shocking and so IPS got on the Body Corporate and worked with the developer and Samuel Seeff to make sure that the clients were looked after. Eight years later, IPS is still assisting clients to make sure their rights are protected.

The lesson we learnt is never rely on anyone else's due diligence, no matter how significant their brand is. This is why IPS and Wealth Migrate now don't rely on anyone and always travel personally to check out all our partners and all the information that has been supplied to us. I suppose you could also say that we never work

through third parties anymore and always go direct so we have control of the outcomes.

5. Palm Springs

Aquacor was liquidated in this development and sold the last 80 units for less than 50% of the value to their housing fund, Deliculu, which ruined the valuations. Trust me, I know exactly what happened because – as luck would have it – my wife was working for ABSA equities as a property lawyer and she was the one who handled the Aquacor account and liquidated them.

Aquacor also built a terrible quality development. After trying for two years to get this resolved, I joined the Body Corporate to ensure that the NHBRC got involved and would be likely to hold the developer accountable. We have still made little progress because, unfortunately, the developer has no concern about their clients and the NHBRC is toothless, even though we have professional engineer's reports which categorically state that Aqaucor produced a development with latent defects and therefore is responsible.

Owing to the non-delivery from Aquacor, we have now embarked on a social proof campaign so that any future investors who invest with Aquacor know about their track record and how little they care about the quality of their developments and also for their clients. I think the most important thing here is that I own five units in Palm Springs and so, when our clients tell us it is a terrible investment, I agree and say, "Trust me I know: I own five of them!"

Interestingly, though, the owners of Aquacor and the staff reserved all the best units at the launch. When the GFC came, they all just walked away from their units with no accountability, but still threatened lawsuits against my business partner who wanted to pull out.

The lesson from this experience is: don't invest in Off-Plan where the pictures are great and yet you have no control of the quality the developer will produce and also never invest in "Investor towns." You need the development to be at least 50% and preferably 70% or more, owner-occupied to succeed in the long term.

Finally, in 2010 with experiences like Crimson Square and Palm Springs, along with the serious management challenges in South Africa, we stopped helping people invest in South Africa as we could not trust the quality of the developments, our name was tied to

something which we could not control, and in most cases we would work extremely hard for the developer only to be NOT paid when it was finished or they would hold us to ransom and pay 50%, AFTER all the work had already been done.

Bottom-line: unfortunately very few developers are trustworthy in South Africa from my experience and one has to be VERY careful.

6. Canary Gateway

A development in London through City and Docklands was launched in 2008. When the GFC arrived, the developer lost their financing from the Bank of Ireland. For over five years they have been trying to resurrect the development, but with very limited communication. Although IPS has not been paid, IPS has tried tirelessly every month to communicate with the developer, the lawyers, and the clients to keep the pressure on the developer and find solutions for the clients. In 2012, IPS organized for the developer to come to South Africa and meet with all the clients. Although they were promised to be fully refunded on their deposits, nothing happened. IPS continued to follow up and pester everyone from the developer to the lawyers, etc. I am glad to say that in October 2013, all the clients have finally been paid back their deposits plus interest.

The three major lessons here are:

Firstly that, in any contract in the UK, you need to check for a "long-stop" clause. I will be honest I didn't even know what this was, but basically it meant that the developer can keep the money for five years in order to try and resurrect the development. It is completely unethical as they couldn't complete the development in time, but they contractually were allowed to do it and so they did.

The second lesson is that perseverance pays and no amount of silence from developers is going to allow us to let our clients be treated like that. Although we earned nothing, we persevered through thick and thin until this was resolved.

The final lesson here, and one I wish the developer had learnt, is that no matter how bad the situation is you need to communicate regularly. All people want to know is what is happening and there is no point in burying you head in the sand and HOPE the problem goes away!

7. Sometimes – no matter how good it is – it changes

We worked with a company in Australia called OzInvest. It was owned and run by Phil Kelly and an excellent management team. As I talked about in the chapter on Australia (Chapter 8) I spoke about how much integrity they had, how much we trusted them and how the client came first. They offered the 10-year lease back and even if things didn't work, they cared and they fixed it, looking after the clients first. It was a marriage made in heaven and we thought we would be doing business forever.

Then in 2011, Phil Kelly got to the age of 65 and decided to sell the business and retire. He had an extremely solid business with 25 years experience, an excellent management team, great results, and over 1,000 happy clients who they were managing properties for.

However, a developer bought the property business and his goal was profit and not clients. He stopped the company being independent and finding the best opportunities and now they could only sell his stock. He changed the ethos of the company and all the senior management left. Basically within six months the company literally fell apart. Kristen had to fly to Australia and move most of our clients to other management companies who could provide a comparable service.

The lesson here is that, no matter how good it seems, you always have to have a back-up plan. Something which IPS offers is that, when a number of investors are together, we have the power to make sure that we are looked after collectively. If you are on your own, you are really going to struggle, as with natures laws.

8. Orlando management problems and communication

Although we believe in our experience, one of our best assets is choosing our partners. In Orlando we broke the rule above where we had great guys helping us find good investments in Orlando and then they introduced us to their trusted partner to manage the properties. This partner had everything we looked for in a management company, experience, a large-enough portfolio, international clients, online management system, thorough market knowledge, etc. It was perfect and so we happily invested and helped other clients invest. However, over the months the quality of the communication was shocking. We had a number of emergency meetings and flew to the USA three times in an attempt to resolve the matter. Eventually, in January

2013, we moved all the clients to another management company.

The lesson is that, sometimes you don't get it right and then you need to take action by moving everyone. The biggest lesson however, as we already described earlier, is that the sourcing company and the management company need to be under one roof!

9. Memphis – a problem with one property

Sometimes in life you need to trust your gut. Again we made the mistake of working with two different companies: one which helped us find the properties and one that did the management. Although we were given all the right information and I even flew to Memphis to check out the property, we found that the quality of the tenants was not great. The first tenant stopped paying and we needed to evict them. Luckily the laws in Memphis are in favour of the landlord and it took us 45 days to evict the tenant. Then they had damaged the property and it needed to be repaired to get it rent-ready. IPS decided that it was our responsibility and not only covered the client's costs during the eviction, but also paid for the repairs. The entire cost was well over $6,000, but we believe far more in building a relationship with clients and letting them understand we are in it for the long haul.

The lesson we learnt, for the last time, is NEVER work with independent companies and now it is compulsory to only work with companies who have everything under one roof.

10. Banks are such a nightmare – especially in the USA

Something which has always been a major challenge, as we have discussed, is banking and something which is very much out of our control. I truly believe that in the USA it is easier to buy a gun than to open a bank account. They have the Patriot Act, which does not allow any bank to open a bank account unless the client is literally sitting in front of them in the USA. We have tried to get the bank to come to South Africa, we have tried offshore banking, we have worked tirelessly with the different partners, banks, and so on to find a solution. We have even had clients who came on the USA Buyer's Trip 2 in October 2012 and open accounts with the Bank of America, only to have them all closed (including mine). There was no explanation except they were closing all accounts across the country for non-residents. Banking has been a nightmare. Our clients bought

great assets but they have been frustrated as we have not been able to find a decent solution. The team has worked so hard and persevered and finally, after 17 months, we found an accountant who could open bank accounts with Wells Fargo (without having to go to the USA), get a credit rating in six months, and then get traditional bank financing at 6%, fixed for 15 years and a LTV of 80%.

The lesson here is that this is what our company stands for, as suggested by Zig Ziglar, "***You can have anything in life, if you help enough other people get what they want.***" As investors, we know what we need and we have persevered until we have found the right partner.

As we always say, "***Your partners will determine your long term success!***"

11. Conclusion

In the property market everything doesn't always go according to plan. Our team, Wealth Migrate and IPS cannot ensure that everything will run smoothly, but we can assure you that we will hold your hand and make the journey as pleasant as possible. The bottom-line is we are investors and we are in this for the long term to build relationships and help people ***Invest with Confidence*** and ***Create Global Wealth***.

Business Lessons

The biggest lessons in business involve partners, friendships, structures, the GFC, learning from failure, and perseverance.

As we have said in the book, the philosophy of IPS has always been keen to help people invest collectively and benefit from buying power. Even though Wealth Migrate had not been born at the time, right from the beginning this was the philosophy as we wanted to do developments, major investments and help people create wealth through property internationally. Together with IPS, we created IPS Developments in South Africa and the UK so that we could do our own developments in both South Africa and the UK. Then we created IPS Management so that we could ensure the quality of the management solution provided to the clients. Then we managed to head-hunt the CEO of the top development company in South

Africa and got him to invest in IPS so that we could do developments properly in London.Once he moved to London and joined our team as chairman, we were finally on track to provide the vertical and integrated solution to provide our clients with the best experience possible. We ended up with offices in London, Dubai, Brisbane, Durban, Cape Town and Johannesburg. We were assisting over 400 clients a year in London to invest in South Africa, and hundreds from South African to invest in Australia and the UK.

Then a bomb-shell hit. We were trying to finalize the structure for our holding company, and even though we had agreed that founding shareholders would retain the shares, the new chairman was adamant that if someone left, they should have to sell their shares. I tried for months to try and negotiate between my best friend and the chairman to resolve the situation, as both were right and both were important to the future of the business. Even though I proposed meeting half-way, we could not find agreement between the partners and I lost my friend in the process. The lesson I learnt from this is, even though I have agonized over it many times, I am not sure how I could have handled it better. I should have stuck by my friend and lost the chairman and all other partners who voted for the new proposed structure, but I rather tried to negotiate and find a solution to keep everyone happy. It didn't work and many will look back and say I should have stuck by my friend, and maybe I should have, but there is still no solution. I just wish I had never got myself into the situation in the first place. The saying that you should think twice before doing business with close friends and family is true. It's a major risk not to be considered lightly.

Then in October 2008, business was pumping and Lehman Brother's decided to ruin the party. We had a big team now, with big overheads and when Lehman Brother's folded, the GFC started. By March 2009 we needed to make some fundamental changes and quickly. The board was split. The chairman and two other partners wanted to get rid of all the staff and keep paying the partners. I was the CEO and with the two other partners we wanted to keep the staff, as they were the engine of the company, and rather put all the partners on an incentive-based structure only. Eventually in March 2009, the chairman walked out and said we would go broke in three months. The other two partners joined him. I sent an email to the team and partners confirming that he had resigned. We then went about restructuring the firm, dramatically reducing overheads and

also aggressively pursuing debtors to collect the money which was owed to us. By June 2009 we had turned the company around, and even though we were breaking even, we were back on track. The ex-partners then arrived back and demanded that we pay them R5-million for their shares in the company they had walked out on, and declared we would go bankrupt in three months.

We tried to negotiate and a year later we arranged a formal mediation. Our partners flew from Australia and South Africa to be present and we were spending R75,000 a day on lawyers. Even though everything was agreed up front, the former chairman never turned up from London. We tried to resolve the situation and agreed to borrow £120,000 from my uncle and pay them out immediately, even through we would have had to work for a year to recover this money. They refused the deal and so our lawyer advised that the only solution was voluntary liquidation because we had already spent R500,000 on lawyers and the next step was arbitration and this would cost R1-million. As my uncle said, it was like two bald men fighting over a comb.

What this voluntarily liquidation means is that the company retains the assets and then distributes the profit to the partners, since there can be no further debate about their value.

Although certainly the most frustrating thing I have ever been through, the biggest lessons I learnt from this was to hold the property assets in a different structure as this has caused a load of problems. Secondly, as the business owner and founder, I had signed all the surety and so I only had 31% of the upside, but 100% of the downside. Over three years later I'm still paying for this lesson and have just had to pay R220,000 personally to sort out a problem with the banks which relates to this. A third lesson was always look into the track record of your partners. If they left their last business or partnership with a fight or animosity, then there is a very high chance the same thing is going to happen to you.

If I had known this lesson, I could possibly still have my best friend and certainly not gone through five years of tremendous conflict. The final lesson I learned was how important finance and metrics are to business. Before the GFC, even though my uncle was constantly asking for it, I was very weak on finance and our company numbers. Accounting bored me and I much preferred to grow the business, educate clients, and focus on sales and marketing. I mean our financial director was paying VAT on money we had not

received and signed off costs for partners to fly Business Class with no agreement. No wonder we had financial challenges to our cash-flow. I don't blame anyone, except myself. I should have been on top of this and I am responsible to know the numbers, have the metrics and manage the business with dashboards. Trust me, today I know everything which is happening financially in our business.

In conclusion, not a single client, supplier or anyone related to our business lost any money and for over three years we (myself and the other two partners – not the ones who walked out) have continued to look after every single client, pay all the outstanding debts out of our new income streams, and ensure everything and everyone was settled. It has been extremely tough, but we have done our best under the circumstances.

The further lessons I learnt from this was to be very careful who you chose as partners. Do not have a business where your costs are in Pounds and your income is in Rands. Do not have a business where your costs are paid upfront, but your income is earned years later. Rather respect yourself, the value you bring to the table, and make sure that everything is set up fairly and that the percentage equity represents what happens in good times and bad times.

In hindsight, these challenges were just that – lessons that taught us how to keep more of what our firm earns. Making money has never been our problem, but as they say, "It's not what you make, it's what you keep." They also say, "The true test of a man's character is not how much success he achieves, but how he overcomes adversity." Therefore, in conclusion, I have learnt so many life lessons from all these experiences, successes and even some failures. Some of them I would not like to wish on my worst enemy, but I have a quote which is on my desktop and one I keep in my wallet and was given to me by one of my best friends when I started IPS:

> ***The credit belongs to the man who is actually in the arena; whose face is marred by dust and sweat and blood; who strives valiantly; who errs and comes short again and again; who knows the great enthusiasms, the great devotions, and spends himself in a worthy cause; who at best knows in the end high achievement; and who at worst, if he fails, at least fails while daring greatly. Far better it is to dare mighty things, to win glorious triumphs, even though chequered by failure, than to rank with those poor spirits who neither enjoy much nor suffer much, because they live in the grey twilight that knows neither victory nor defeat.*** - Roosevelt

I wouldn't change it for anything. We are out there, trying, learning, even failing and ultimately we remain in the arena. We have had some massive victories and even failed while daring greatly, but I am passionate about property and business and although it has taken me over ten years, IPS is really helping so many sophisticated investors Invest with Confidence and I truly believe we are living up to our vision of a "Global Property Investment Solution Provider, who will revolutionize and set the industry benchmark by 2015, through cutting-edge technology and driven dynamic personal."

My real pride is that, after ten years of perseverance and so many obstacles I can't even mention, we finally have given life to Wealth Migrate in 2013, investing millions of dollars in USA real estate and living up to our vision, "To provide a global, self service, crowd -funding property solution, which takes advantage of local property markets, through Best-of-Breed partners and collective buying power. This will be optimised by a Global IT Platform, providing transparency and efficiency of property markets. We will do to the property industry, what Google did to the Internet."

My final lesson is that, if you want something bad enough, then you have to persevere and make it happen - no matter what. My favorite book as a young kid was the little train which said, "I think I can, I think I can," and persisted to the top of the mountain. As a young boy my aunt gave me this quote:

"***Nothing in this world can take the place of persistence. Talent will not; nothing is more common than unsuccessful men with talent. Genius will not; unrewarded genius is almost a proverb. Education will not; the world is full of educated derelicts. Persistence and determination alone are omnipotent. The slogan 'press on' has solved and always will solve the problems of the human race."*** Calvin Coolidge.

As my father taught me, ***"You can have anything you want in life if you put your mind to it."***

We hope that ***Property Going Global*** gives you the tools to help you achieve your own dreams, but the rest is up to you. Good luck and I look forward to creating loads of global wealth together with you.

CHAPTER 14

FURTHER INFORMATION

I shared my journey with you, my knowledge base, my systems and structures and our investment philosophy. As you can imagine, property and, even more so, international property, (***Property Going Global!***) is very dynamic and ever-changing.

We have tried to write this book for the principles to remain evergreen and then provide you with the sources, so that you can continue to find the latest and best research so that you can update the models.
To stay up to date with the latest information, here are the best resources we can offer so that we can be in real time.

Property Going Global website
www.propertygoingglobal.com

Mind of a Fox
Clem Sunter's website where you can find his latest scenario's and probabilities.
www.mindofafox.com

International Property Solutions (IPS)
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