Investing in US property funds

» *By James Harris*

Foreclosed properties
(Photos courtesy Pacific Holdings Group)

Investing in US real estate may sound dicey, but in these days of low bank interest rates and sluggish stock markets, it is an option that should considered. Like all investments, the pros and cons must be weighed carefully; but overall, the odds look favorable.

Real estate prices have not yet completely recovered from the buffeting they took in the sub prime crisis; consequently, they are considered to be below their real potential value in most parts of the US.

According to estimates, the price of real estate in the US fell by about 60 percent. That means that an apartment that sold for, say, $100,000 in 2007 had fallen to $40,000. Since then, average real estate prices have risen by 40%. This means that the apartment that sold for $100,000 in 2007 now costs $56,000, only 56% of the price in 2007. Given that on the eve of the burst of the sub prime bubble real estate was overvalued, it means that on a realistic basis, real estate prices are 30% to 35% below their real value.

Prices are still being weighed down by foreclosures. Banks are still seizing the properties of those who cannot meet their mortgage payments. The number has fallen since the initial dark years after the sub prime crisis, but the level of foreclosures is still high.

This means that investing in real estate can yield handsome capital gains, which can be even higher when acquiring foreclosed properties. Youval Ziv is the CEO of Pacific Holdings, a large US company that specializes in investing in real estate in the US. He says, "It is possible to acquire properties at even lower prices by taking advantage of the sale of foreclosed properties. In the US, such properties are auctioned off on the grounds of the court once the court has authorized their sale. And we at Pacific Holdings specialize in such transactions."

Not only does Pacific specialize in such transactions, but it has set up a fund called BNF that will finance such transactions. These are short-term funds in which individuals can invest relatively small amounts, say NIS 100,000 ($25,000). The fund has a lifespan of 12 months. At the end of this period, the original capital and the earnings are returned to the investor.

Buying properties at foreclosure auctions can be very profitable, but it can also incur big losses. The properties are sold blind. That is, the potential buyers can view the properties from the outside but are not allowed to see the interior. Thus it entails somewhat of a gamble.

Nevertheless, companies and individuals who engage in this business have acquired the necessary expertise to assess the overall state of the property by analyzing what can be observed from the outside.

The short lifespan of the fund is made possible because the fund will buy a certain property and then resell. In most cases, the property is refurbished. This means that within the 12 months, it is possible to execute a number of such transactions.

Ziv says, "I cannot guarantee anything in regard to yields, but we have already launched a number of such funds, and the yields to the investors have been double digit. The high number of foreclosures means that there is no end of bargains in real estate, and our company is buying what it considers worthwhile purchases. Many of the properties we buy require refurbishing. We upgrade them and resell them at a profit to investors or to people who want a home in which to live."

Ziv believes that prices will continue to rise. This means that a property in the US will render a yield much greater than a bank deposit of a stock-oriented mutual fund.

At present there is a shortage of housing. Due to the sub prime crisis housing starts have fallen, while the population has continued to grow. Insufficient supply will most surely drive up prices in the present and in the future. ■

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