



U.S. REAL ESTATE MARKET: TRENDS AND OPPORTUNITIES
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Overview of current state of U.S. real estate market

The U.S. real estate market is currently going through one of the worst corrections in history as evidenced by a steep declining trend of new home sales and rapidly growing real estate foreclosures.

The sales of new single-family homes in August 2008 were at a seasonally adjusted annual rate of 460,000, according to the estimates of the U.S. Census Bureau and the Department of Housing and Urban Development. This value is 11.5% below the revised July 2008 rate of 520,000 and 34.5% below the August 2007 estimate of 702,000.¹ The number of purchases in August hit a 17 year low and there is little doubt that sales will continue to decrease in upcoming months.² The widely quoted S&P/Case-Shiller Home Price Index of 166.23 “confirms the ongoing drop in home values across the U.S.,” which is down nearly 10% from June and 16.3% from the year before.³ This huge decline in real estate prices is due to immense oversupply and dwindling demand caused by factors such as the credit crunch, low consumer confidence, high unemployment, and high cost of production. According to the New York Times, “real estate prices are likely to tumble over the next 12 to 18 months as more borrowers default on their loans and regulators crack down on banks.”⁴

¹ Luke Mullins “New-Home sales down sharply in August” U.S. news.com. September 25th, 2008. Available online at: <http://www.usnews.com/blogs/the-home-front/2008/9/25/new-home-sales-down-sharply-in-august.html>

² Ibid

³ “Portland homes values drop 6.6% since last year” Portland Business Journal. September 30th, 2008. Available online at: http://www.bizjournals.com/portland/stories/2008/09/29/daily16.html?f=et75&ana=e_du

⁴ Ilaina Jonas “U.S real estate hasn't hit the bottom yet” Herald Tribune. September 9th, 2008. Available online at: <http://www.iht.com/articles/2008/09/09/business/invest10.php>

In reference to the nation's precipitous increase in foreclosures, Peter Steier, VP of Inland Mortgage Capital in New York said, "we're going to see a whole lot more trouble going forward."⁵ This seems to be the case as the rate of foreclosures in the U.S. continues its upward trend. The Center of Responsible Lending projects foreclosures to reach 2.2 million nationwide from late 2008 through 2009.⁶ This will in turn push more properties onto the market, increasing overall supply.⁷

So far, regulators have closed 11 U.S. banks, according to the Federal Deposit Insurance Corp., which had 117 institutions on its watch list as of June 2008.⁸ The availability of debt, which is a critical component of the real estate sector, has dried up, significantly reducing sales. In fact, Americans' mortgage debt in the second quarter of 2007 grew at the slowest pace in 9 years. This is mainly due to declining real estate prices and increasing foreclosures that have put borrowing under pressure.⁹ Currently, borrowers are resisting selling because of falling prices and banks are not selling off their troubled loans fearing huge write-downs.

BRIC economies and their growing importance in the global economy

Brazil, Russia, India, and China, four of the world's largest emerging economies collectively known as the BRIC play a vital role in the global economy. These countries are not only registering massive growth rates but also experiencing huge FDI inflows. FDI inflow to BRIC economies reached \$255.6 billion in 2007, more than doubling that of 2006. Since 2000, the annual real GDP growth averaged 9.6% in China, 7% in Russia, 6.7% in India and 2.6% in Brazil.¹⁰ It is predicted that by 2009, the annual increase in total U.S. dollar expenditure to the BRICs will be greater than that of the G6 (Germany, France, Italy, Japan, UK and USA).¹¹ As growth accelerates and per capita incomes rise in these countries, they will become the world's most important consumer markets. It is also predicted that under the right conditions, the combined economies of these four countries could be worth more in U.S. dollar terms than the G6 by 2041.¹²

5 Ilaina Jonas "U.S real estate hasn't hit the bottom yet" Herald Tribune. September 9th, 2008. Available online at: <http://www.iht.com/articles/2008/09/09/business/invest10.php>

6 "New foreclosure and spillover projections" Center for responsible lending. September 23rd, 2008. Available online at: <http://www.responsiblelending.org/issues/mortgage/research/updated-projections-of-subprime-foreclosures-in-the-united-states-and-their-impact-on-home-values-and-communities.html>

7 Ilaina Jonas "U.S real estate hasn't hit the bottom yet" Herald Tribune. September 9th, 2008. Available online at: <http://www.iht.com/articles/2008/09/09/business/invest10.php>

8 Ibid

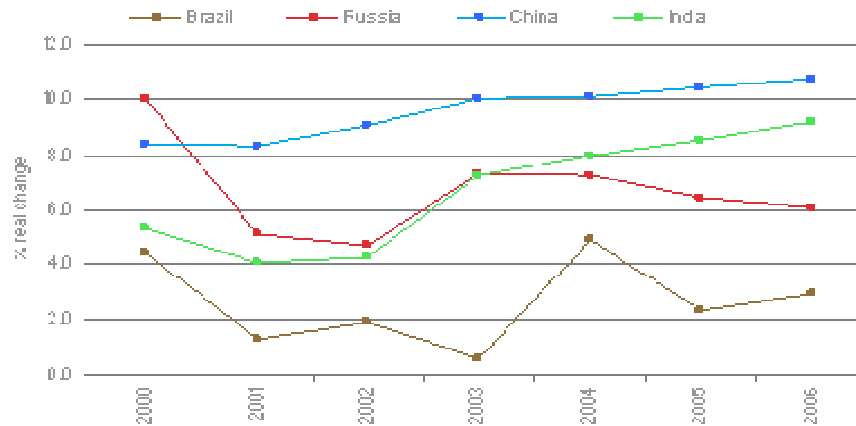
9 "Mortgage debt increases 7.25%." Wall street journal. September 18th, 2007. Available online at: <http://www.proquest.com.ezproxy.t-bird.edu>

10 Felipe del Pino "Brazil-The BRIC laggard?" March 12th, 2007. Available online at: http://www.euromonitor.com/Brazil_The_BRIC_laggard

11 Ibid

12 Ibid

The following figure shows the real annual GDP growth in BRICs from 2000-06.¹³



The BRIC countries are seen as an area of huge opportunity by nearly two-thirds of NYSE Euronext CEOs. Acquisitions and expansions are targeted in these countries, with the majority of these CEOs saying that they would maximize their opportunity by establishing or expanding local marketing and sales activity. In fact, around half of the listed companies have plans to establish or expand local marketing and sales activities in BRIC countries next year.¹⁴

Though all of the BRIC markets provide incredible opportunities for FDI, we will now focus on the two that are most lucrative to U.S. real estate companies - Russia and China.

Russia's economic outlook and business prospects

Russia's growth: Since 1999, Russia has experienced outstanding growth rates, constantly improving macroeconomic conditions, and a growing involvement in the global economy. The Russian economy achieved an average GDP growth rate of about 7% per year.¹⁵ GDP in 2007 grew by an estimated 8.1% to \$1.344 trillion, making Russia one of the top ten economies in the world. Worldwide demand for oil and natural gas continue to be the engine behind much of the growth.¹⁶

Russia's financial strength: Russia's financial situation continues to strengthen as is indicated by the federal external debt¹⁷ shrinking from an estimated \$44.7 billion in December 2006¹⁸ to \$37.4 billion in December 2007.^{19, 20} Russia's sovereign credit ratings

¹³ Felipe del Pino "Brazil-The BRIC laggard?" March 12th, 2007. Available online at: http://www.euromonitor.com/Brazil_The_BRIC_laggard

¹⁴ "BRIC nations viewed as opportunities" Zee news. August 16th, 2008. Available online at: <http://www.zeenews.com/articles.asp?aid=462505&sid=BUS&ssid=50>

¹⁵ Powell, Bill. "Just how scary is Russia?" Fortune. September 15, 2008.

¹⁶ "Doing Business in Russia, A country commercial guide for U.S. companies", U.S. and foreign commercial service and U.S department of state, 2008.

¹⁷ External debt is the part of total debt that is owed to creditors outside its own country.

¹⁸ "The world fact book, Russia," Central Intelligence Agency. September 4, 2008. Available online at: <https://www.cia.gov/library/publications/the-world-factbook/print/rs.html>

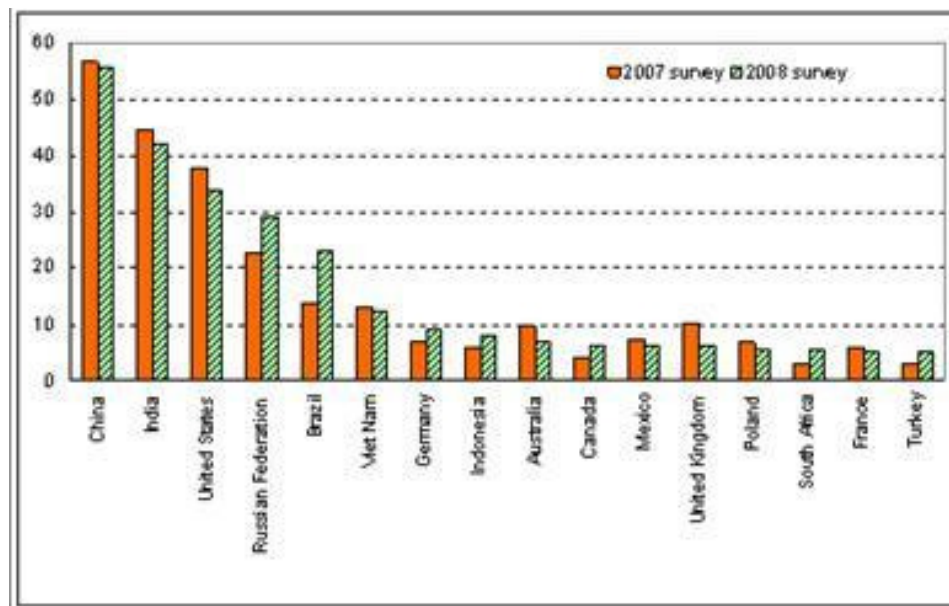
¹⁹ Ibid

²⁰ "External Debt of the Russian Federation," The Central Bank of the Russian Federation. Available online at: http://www.cbr.ru/eng/statistics/credit_statistics/print.asp?file=debt_07_e.htm

have increased to investment grade.²¹ In 2008, the oil and gas sector in Russia accounted for about 20.5% of Russia’s overall GDP.²² The Russian oil boom has produced a flood of cash, increase of political power, and an expansion of the opulent elite. Russia’s international reserves (formerly referred to as its gold and currency reserve) are the world’s third biggest - \$581.5 billion as of August 28th, 2008.²³ The Russian wealth is enormous.

Investment into Russia: Russia has recently attracted a lot of foreign investment. According to the World Bank, foreign investors have contributed \$27.8 billion to Russian ventures in 2007,²⁴ up from \$6.8 billion in 2003. Russia was the fourth largest recipient of FDI in 2007 after China, India, and the U.S.²⁵ This demonstrates the undeniable attractiveness of the Russian economy to global investors.²⁶ Russia outperformed other top developing countries when measured on a per-capita basis, attracting \$369USD for each of its 141 million people, more than twice Brazil's per-capita figure and six times the comparable mark for China.²⁷

The following figure shows the 15 most attractive economies for FDI in 2007 based on the percentage of responses to an UNCTAD survey.²⁸ China, U.S., and Russia are in the 3 of the top 4 spots.



21 Ibid

22 Powell, Bill. "Just how scary is Russia?" Fortune. September 15, 2008.

23 Alex Nicholson. "Russian international reserves rise to \$581.5 billion", Bloomberg. August 28th, 2008. Available online at: http://georgiandaily.com/index.php?option=com_content&task=view&id=6818&Itemid=74

24 "Direct investment flows in Poland in 2007" Narodowy Bank Polski. Available online at: http://www.paiz.gov.pl/files/?id_plik=9652

25 "FDI surged 30% in 2007." Finfacts business news center. September 25th, 2008. Available online at: http://www.finfacts.com/irishfinancenews/article_1014807.shtml

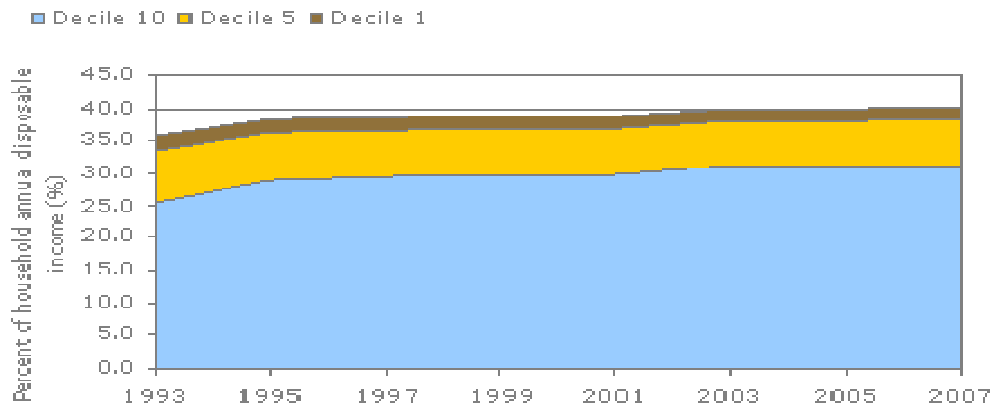
26 Lynch, David. "Georgia clash makes investors in Russia nervous", USA Today. September 9, 2008. Available online at: http://www.usatoday.com/money/markets/world/2008-09-08-russia-stocks_N.htm

27 Ibid

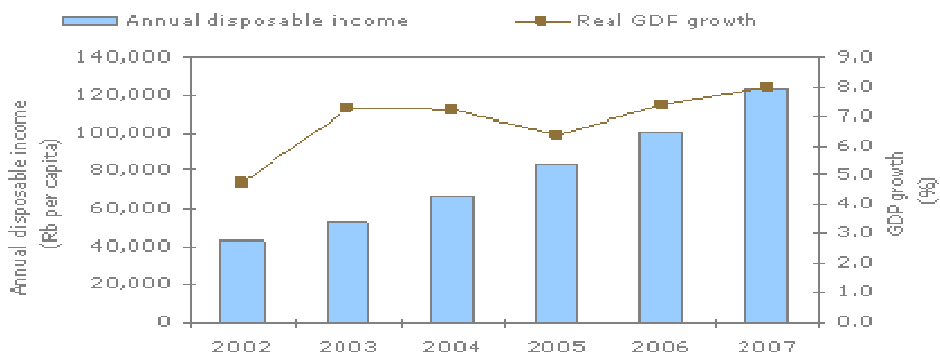
28 "FDI surged 30% in 2007." Finfacts business news center. September 25th, 2008. Available online at: http://www.finfacts.com/irishfinancenews/article_1014807.shtml

Consumer demand and purchasing power: Russians have high disposable incomes; close to 70% of Russians' income is disposable vs. around 40% for a typical Western consumer. They have a 13% flat income tax, subsidized housing and utilities, and about 10% savings. That provides an enormous amount of consumer capital for investment.²⁹ Between 2000 and 2007, the average annual disposable income of the richest 10% of households grew faster than that of any other income group, reaching \$34,741 in 2007. These households possessed 31.2% of the total disposable income in 2007 (as can be seen from the graph below).³⁰ Russia currently has close to 110 billionaires (measured in US dollars), placing it second only to the U.S. in terms of number of billionaires.³¹

The following graph shows the percentage of household annual disposable income (%)³²



Annual disposable income per capita and real GDP growth: 2002-2007
Rb per capita and %³³



29 "Russia: Shoppers gone wild." Business week. February 20, 2006. Available online at:

http://www.businessweek.com/magazine/content/06_08/b3972071.htm

30 "Russia's growing elite" Euromonitor International. August 13, 2008. Available online at: http://www.euromonitor.com/Russias_growing_elite

31 Luke Harding. "Metals tycoons push Abramovich off top of rich list" The Guardian. April 19th, 2008. Available online at:

<http://www.guardian.co.uk/world/2008/apr/19/russia>

32 Source: Euromonitor International from national statistics

33 Source: Euromonitor International from International Monetary Fund (IMF), International Financial Statistics and World Economic Outlook/UN/national statistics

According to some analysts, Russia is now the fourth largest consumer of luxury goods, after USA, Japan, and China.³⁴ Russia's elite are passionate about luxury cars, vacations, international properties, branded clothing and footwear, and exotic pets and racehorses. It is predicted that Russia will account for one-third of global luxury sales by 2017.³⁵

Many major luxury automobile manufacturers such as Land Rover, Bentley, BMW, and Mercedes have all had huge success in Russia. For instance, Russia is likely to replace Italy to become the third largest market for Land Rover after Britain and United States in 2008.³⁶ Russians are no longer content to drive just BMW or Mercedes; there is an increasing propensity towards more sophisticated brands such as Bentley and Rolls-Royce. Out of the 10,000 cars that Bentley sold globally in 2007, about 300 of them were sold from a single outlet showroom located at Barvikha luxury village (close to Putin's residence).³⁷ This is just one example of the increased demand luxury brands are experiencing in Russia. According to most experts, this trend is likely to continue into the foreseeable future.

Russian investment overseas: Many Russian companies such as Gazprom, Lukoil, and Rusal now have the financial muscle to not only invest in foreign firms, but to also acquire them. These companies have invested in pipelines, refineries, production facilities, and processing plants around the globe. Although most of these investments were previously in physical assets,³⁸ corporate acquisitions are now a growing element for companies such as Evraz, a steel group that acquired Oregon Steel for \$2.3 billion in 2006.³⁹ Another example is a series of investments by Rusal's owner, Oleg Deripaska, who bought large stakes in General Motors, Magna International, the Canadian Auto Parts Group, and a few construction groups including Hochtief (German) and Strabag (Austrian).⁴⁰

The fact that Dmitry Medvedev, Russia's current president, is encouraging Russian businessmen to invest in foreign companies illustrates a strong national desire to purchase foreign assets and boost Russia's standing overseas. As a result of an improving economy, new capital resources, and a taste for international investment, Russians have made substantial purchases of U.S. financial assets. Their holdings of U.S. financial assets in February 2008 reached \$38.4 billion, a 400% increase from the year before.⁴¹ Russians are now the 13th biggest international owners of U.S. securities.⁴²

Russian investments in U.S. real estate: In addition to luxury cars, vacations, designer clothing, high-end footwear and race horses, Russia's elite is also passionate about buying international properties. This can be illustrated by a few recent noteworthy real estate transactions such as the purchase of Donald Trump's beachfront mansion in Palm Beach, Florida by a Russian fertilizer oligarch, Dmitry Rybolovlev for \$95 million (the most

34 Ibid

35 Ibid

36 Mark Milner and Luke Harding. "Russia's new rich spurn Zil for British Luxury", Guardian news and media Ltd. September 8th, 2008. Available online at: <http://www.mg.co.za/article/2008-09-08-russias-new-rich-spurn-zil-for-british-luxury>

37 Ibid.

38 Isabel Gorst. "Big groups set to lead Russian buying spree", Financial Times. February 2nd, 2008. Available online at: <http://www.proquest.com.ezproxy.t-bird.edu/>

39 Ibid

40 Ibid

41 Turi Condon. "Russian wealth finds new home on the gold coast." The Australian. April 19, 2008. Available online at: <http://www.theaustralian.news.com.au/story/0,25197,23560904-21782,00.html>

42 Ibid

expensive residential sale recorded in U.S.),⁴³ the purchase of a Manhattan townhouse by investor Len Blavatnic for \$50 million,⁴⁴ and the purchase of a ranch in Colorado by the Chelsea football club owner Roman Abramovich for \$36.4 million.⁴⁵ Moscow's real estate is among the world's costliest so prestigious, inexpensive, international property in the politically stable U.S. environment is a boon for well-to-do Russians. According to Hall Willkie, president of real estate firm Brown Harris Stevens, foreign buyers now make up about 15% of the New York City real estate market and Russians are the largest contingent. The Miami area in particular with its upscale shopping and hip nightlife is attracting Russians and is increasingly viewed as a fashionable escape from Moscow's harsh winters.⁴⁶

Some real estate brokers and agents have realized the huge purchasing potential of Russian investors. For example Nelson Gonzalez, a broker with Esslinger-Wooten- Maxwell Realtors in Miami, says he has shown several Russian shoppers a house on Indian Creek Island worth \$35 million, one of the area's most expensive listings. According to Washington, DC-based broker Daryl Judy, real estate agents at a recent Sotheby's International Realty conference considered Russian and Chinese nationals as hot new customer segments for eight-figure homes.⁴⁷

Real estate investments by Russians are not limited to the purchases of individual properties; Russian developers are also getting involved. For example, Mirax Group Corp. of Moscow has purchased 13 partially completed houses at the Aqua, a New Urbanist-style development near Miami's South Beach. The \$75 million project will offer fully furnished homes, including linens, flatware and towels, aimed at Moscow-based buyers.⁴⁸

China's economic outlook and business prospects

China's growth: In the last several decades, China has risen rapidly as a major economic power. Following economic reforms in the late 70's, China became one of the world's fastest growing economies and is now a prominent global player, experiencing outstanding growth rates and rapidly progressing macroeconomic conditions. From 1979 to 2007, China's real GDP grew at an average annual rate of 9.8%⁴⁹ and it has shown no signs of slowing down. In 2007 the growth rate was actually in the double digits at 11.4%, the fastest annual growth since 1994.⁵⁰ It is predicted that if China continues to enjoy such rapid economic growth it could become the world's largest economy within a decade.⁵¹ According to many economists, large-scale capital investments (financed by large domestic savings and foreign investment) and swift productivity increases are the two main factors behind China's rapid economic growth.⁵²

43 Glaister, Dan. "Real estate crisis: Trump bucks US trend with \$95m home sale." The Guardian. July 18, 2008. Available online at:

<http://www.guardian.co.uk/world/2008/jul/18/donaldtrump.usa>

44 Ibid

45 Ibid

46 Lewis, Christina. "From Russia- with cash." The Wall Street Journal. July 11, 2008. Available online at:

http://online.wsj.com/article/SB121572293118743655.html?mod=fpa_editors_picks

47 Ibid

48 Ibid

49 Wayne M. Morrison "China's economic conditions" Congressional Research Services report. May 13th, 2008 Available online at:

<http://www.fas.org/sgp/crs/row/RL33534.pdf>

50 Ibid

51 Wayne M. Morrison "China's economic conditions" Congressional Research Services report. May 13th, 2008 Available online at:

<http://www.fas.org/sgp/crs/row/RL33534.pdf>

52 Ibid(page 8)

China's financial strength: Trade and foreign investment continue to be the major drivers of China's booming economy. From 2004 to 2007, the value of total Chinese merchandise trade nearly doubled. In 2007, China's exports (at \$1,218 billion) exceeded U.S. exports (1,162 billion) for the first time and its trade surplus registered a historic high of \$216 billion.⁵³ China is the world's largest holder of foreign exchange reserves, valued at \$1.5 trillion at the end of 2007.⁵⁴ Large trade surpluses, foreign direct investment flows, and large-scale purchases of foreign currency have contributed substantially to this huge foreign exchange reserve.

Investment into China: Foreign direct investment has been a major source of China's capital growth. China's FDI including the financial sector totaled \$69.5 billion in 2006 and increased by 19% in 2007 to \$82.7 billion.⁵⁵ The cumulative level of FDI in China at the end of 2007 was nearly \$760 billion⁵⁶, helping to secure it as the top destination for FDI in 2008-2010, followed by India, United States, and the Russian Federation.⁵⁷ An estimated 40% of cumulative FDI in China is from Hong Kong, 9.7% is from the British Virgin Islands, 8.1% is from Japan, and 7.1% is from the U.S.⁵⁸ Nearly 55% of total FDI was utilized in the manufacturing sector, but as much as 23.7% was used for real estate development.⁵⁹

Consumer demand and purchasing power: China is currently experiencing a consumption revolution, which remains strong despite recent slowing of the global economy. China's retail sales volume growth exceeded 20% year on year in the last eight months and is still growing rapidly.⁶⁰ As the purchasing power of the Chinese increases, so does the luxury market in China. China is currently the third largest consumer of luxury goods after USA and Japan, followed closely by Russia.⁶¹ Not only are luxury goods spreading from bigger cities to other regions of China, but they are also becoming more diversified. The fact that second tier cities such as Shenyang and Chengdu are becoming luxury shopping hubs illustrates this point.⁶² China has recently surpassed France for number of US dollar millionaires and now stands fifth in the world according to Merrill Lynch and the France-based Capgemini.⁶³ A large percentage of Chinese millionaires also own huge amounts of liquid assets. China was reported to have about 415,000 people owning at least \$1 million in liquid assets last year.⁶⁴

Chinese investment overseas: Some analysts believe that China will increasingly use its reserves to purchase foreign firms or shares of foreign firms that are perceived to have great potential. Some Chinese companies have started purchasing existing international firms to develop internationally recognized Chinese brands. A recent example of such a strategy is

53 Ibid(page 1)

54 Ibid(page 1)

55 Ibid(page 11)

56 Ibid (page 10)

57 "World Investment Prospects Survey 2008-2010" UNCTAD. June 2008. Available online at: http://www.unctad.org/en/docs/wips2008_en.pdf

58 Wayne M. Morrison "China's economic conditions" Congressional Research Services report. May 13th, 2008 Available online at: <http://www.fas.org/sgp/crs/row/RL33534.pdf>

59 Ibid (page 12)

60 "China consumer spending still strong and accelerating" Xinhua news agency. August 26th, 2008. Available online at: <http://infoweb.newsbank.com>

61 Source: Euromonitor International from International Monetary Fund (IMF), International Financial Statistics and World Economic Outlook/UN/national statistics

62 P.T Black "Luxury market in China is fast growing" Advertising age. October 29th, 2007. Available online at: <http://proquest.umi.com.ezproxy.tbird.edu/pqdweb?did=1378237161&sid=8&Fmt=3&clientId=309&RQT=309&VName=PQD>

63 "China now fifth in millionaire race" June 27th, 2008. Available online at: http://www.china.org.cn/business/news/2008-06/27/content_15896892.htm

64 Ibid

the purchase of IBM Corporation's personal computer division for \$1.75 billion by Lenovo Group Limited (a Chinese computer company).⁶⁵ Another example is the \$5 billion Chinese investment into the Morgan Stanley Sovereign Wealth Fund in 2007.⁶⁶ China is also the second largest foreign holder of Treasury securities (after Japan) and its share of total foreign holdings has increased considerably over the past few years.⁶⁷ China's U.S. Treasury holdings, as a share of total foreign holdings from 1999 to 2008, rose from 4.1% to 20%.⁶⁸ In 2007, China reported that its Overseas Direct Investment (ODI) (excluding the finance sector) totaled \$16.1 billion, up 32% over the previous year, making it the world's 13th largest investor.⁶⁹

Chinese investments in U.S. real estate: There is no doubt that many Chinese now have the purchasing power and liquid assets to purchase prime real estate properties in U.S. In Chinese, the U.S. is called "meiguo", which means beautiful country. It is the dream of many Chinese to own a piece of this beautiful country and there are now many Chinese citizens who can afford this dream.⁷⁰ Not only are they investing in real estate but they are also setting up factories and purchasing companies.⁷¹ Kent Valley, senior vice president with City of Industry, California-based brokerage Majestic Realty, said more than 40 percent of recent buyers of industrial space there have been ethnic Chinese.⁷²

"Corporations based in China are interested in institutional-grade properties like office buildings," said Alice Yip, director of the China Desk at CB Richard Ellis' office in Los Angeles. "On the other hand, the first wave of companies from China set up their first locations in the U.S. in industrial buildings." Perhaps the largest project in Los Angeles County to be financed by a company from China is a \$600 million mixed-use business center in Santa Ana. To be called simply the Chinese Center, the project is owned by a Shanghai firm called, paradoxically, First California Equity Group. Scheduled to open in 2009, the center aims to get a thousand Chinese firms to rent space. So far, 600 firms have signed on. Soon after it opens, the Chinese Center will have competition. Two other huge business centers catering to Chinese manufacturers are also on track to open in Los Angeles in 2011.⁷³

According to the National Association of Realtors, investors from China are the most likely of foreign investors to purchase U.S. properties valued at \$1 million and more. Furthermore, the median price paid by real estate investors from China was \$450,000, which was the highest median of any customer segment in the report.⁷⁴

65 Ibid(page 23)

66 Ibid

67 Ibid(page 30)

68 Ibid(page 30)

69 Wayne M. Morrison "China's economic conditions" Congressional Research Services report. May 13th, 2008 Available online at:

<http://www.fas.org/sgp/crs/row/RL33534.pdf>

70 Lina Tornquist "China primed to invest in U.S. sites" Herald tribune. January 23rd, 2008. Available online at:

<http://www.iht.com/articles/2008/01/13/properties/rechina.php>

71 Vittorio Hernandez "Chinese on U.S property buying spree" AHN newsletter. May 5th, 2008. Available online at:

<http://www.allheadlinenews.com/articles/7010854034>

72 Benjamin Cole "Los Angeles: Investment by Chinese accelerates." The Real Deal Magazine. September 2007. Available online at:

<http://ny.theideal.com/articles/los-angeles-investment-by-chinese-accelerates>

73 Ibid.

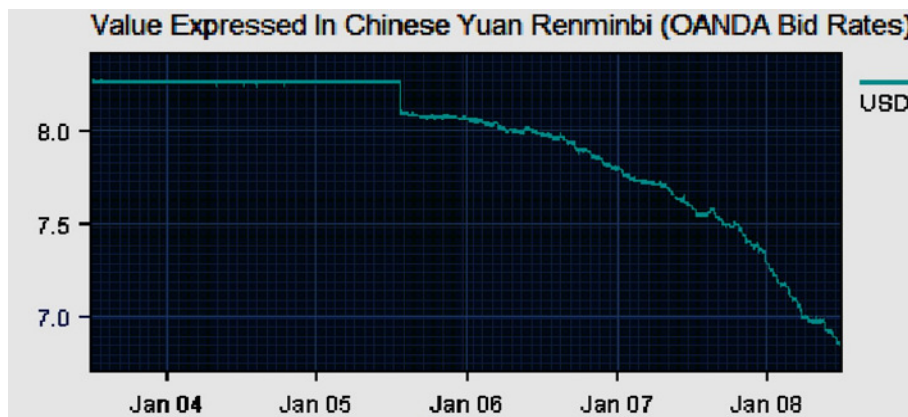
74 Trista Winnie "International real estate investors choose U.S properties" New National Association of Realtors research. August 11th, 2008. Available online at:

<http://www.nuwireinvestor.com/articles/international-real-estate-investors-choose-us-properties-51896.aspx>

Opportunities for U.S real estate companies

The real estate bubble has finally burst causing unprecedented turmoil in the international financial markets. The oversupply of real estate properties and shrinking demand for them has caused real estate prices to plummet by as much as 16.3% in July from a year earlier in both residential and commercial sectors.⁷⁵ Simultaneously, the U.S. dollar has suffered a steady decline for the last 5 years against most major world currencies,⁷⁶ losing as much as 37% against the Euro,⁷⁷ 31% against the Canadian dollar,⁷⁸ and 17% against the British pound.⁷⁹

The U.S. dollar has also depreciated considerably against the Russian ruble and Chinese Yuan. As depicted in the graph below, the dollar has depreciated from an exchange rate of 8.28 Chinese Yuan per U.S. dollar in 2003 to 6.83 Chinese Yuan per U.S. dollar in 2008.



The next graph below shows the dollar's fall from 30.7 rubles per U.S. dollar in 2003 to 23.4 rubles per U.S. dollar in 2008.



⁷⁵ "Record 16% drop in July home prices" CNN money. September 30th, 2008. Available online at:

http://money.cnn.com/2008/09/30/real_estate/Prices_plunge.ap/index.htm?postversion=2008093009

⁷⁶ Scott Lilly "Bush's Weak Dollar" Center for American Progress. May 27th, 2008. Available online at:

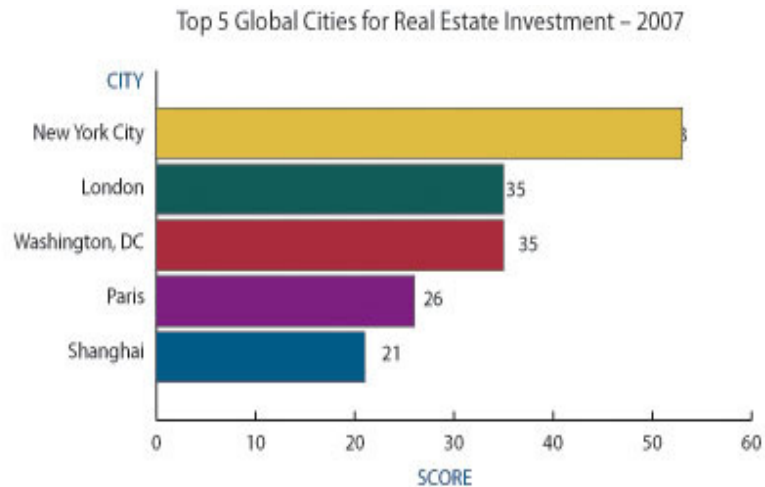
http://www.americanprogress.org/issues/2008/05/weak_dollar.html

⁷⁷ Ibid

⁷⁸ Ibid

⁷⁹ Ibid

In spite of the current turmoil in the U.S. real estate market, the U.S. still remains at the top of the list as the most stable and secure country for real estate investment with the best opportunity for appreciation, according to an annual survey of the Association of Foreign Investors in Real Estate (AFIRE), conducted in January 2008.⁸⁰ As can be seen from the graph below, New York and Washington DC are two of the top three global cities for foreign investors' real estate dollars in 2007.⁸¹



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Though current financial turbulence plagues world markets, several economies are experiencing unparalleled economic growth. Both China and Russia continue to compete as front runners in the race for global economic power. Both of these countries have huge accumulated wealth, a growing taste for consumer goods, and a new burgeoning upper class with immense purchasing power. The wealthy elite in these countries has already identified huge opportunities in the U.S. real estate market and are willing to make such investments. The fact that between 150,000 and 190,000 homes were sold to foreign nationals from May 2007 to May 2008 (an estimate from The National Association of Realtors) further illustrates this trend.⁸³ Political and economic transitions in the last four years have made it easier than ever for foreign investors to find attractive U.S. real estate (based on a survey of 200 AFIRE members), as can be seen from the graph below.

80 Prashant Gopal "Foreign investors love U.S real estate" Business Week. January 28th, 2008. Available online at:

http://www.businessweek.com/the_thread/hotproperty/archives/2008/01/foreign_investo.html

81 Ibid

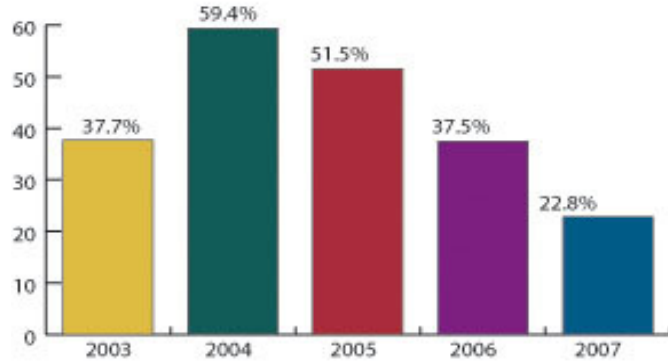
82 "Top 5 global cities for real estate investment-2007" Association of Foreign Investors in Real Estate. Available online at:

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83 Trista Winnie "International real estate investors choose U.S properties" New National Association of Realtors research. August 11th, 2008. Available online at:

<http://www.nuwireinvestor.com/articles/international-real-estate-investors-choose-us-properties-51896.aspx>

Percentage of Respondents Finding It "Very Difficult" to Find Attractive US RE Opportunities



84

Current market conditions present an obvious, dramatic crisis for many but an incredibly lucrative opportunity for those with access to large amounts of capital and for those who facilitate investments of that capital. "Buy low and sell high" is the mantra of most savvy business people and the real estate market is no different. Those who do not need credit or have excess cash will take advantage of this opportunity until the market starts to turn back around, which according to most experts, is not likely to take place until at least 2010.⁸⁵

It is in times of uncertainty and tumult that good companies become great companies under the guidance of visionary leaders taking advantage of disinformation, competitive advantages, and unexpected opportunities. We feel it is a very lucrative time for U.S. real estate companies to take advantage of the changing economic landscape and position themselves to be the industry leader in the global real estate market.

If you have any questions about this report or would like to obtain additional information regarding this opportunity, please feel free to contact Mr. Brinton Reed, at b.reed@aginskyconsulting.com.

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