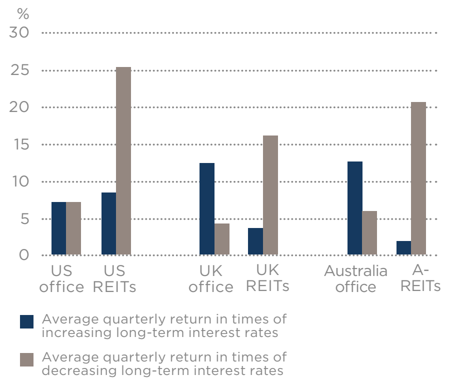
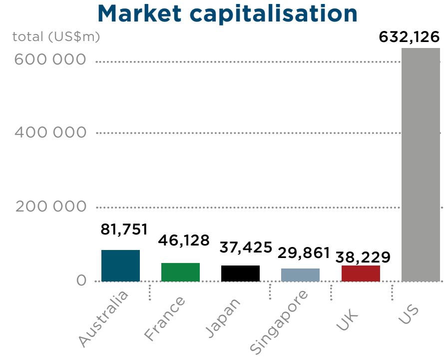
RISING LONG-TERM INTEREST RATES:
Robust direct markets but underperformance of REITs historically



SOURCE: Datastream, Credit Suisse

Market capitalisation



SOURCE: Ernst & Young, SNL Financial

tax of 15% after 1 January 2014.

Stuart-Findlay adds that as the Capital Gains Tax liability also falls away (upon conversion), the NAV of the REIT entities will rise and hence the sector will look more compelling from a Price/NAV perspective.

The conversion to the new REIT structure, which became operational as of 1 May 2013, is expected to go on for the next 18 months.

Some property counters that have already converted and received their REIT status include, among others, Growthpoint Properties, Hyprop, Vunani Property Investment Fund and Resilient.

Stuart-Findlay says that the framework has generally been very positively received.

"It is flexible and investor friendly and complexities such as entry/conversion charges have been successfully avoided."

Tandisizwe Mahlutshana
tandisizwem@finweek.co.za

The US of A still rocking

Ever since the US government bailed out the sub-prime mortgage market in mid-2008, the US housing market has been in something of a funk. However, a number of data points suggest that there is broad-based recovery happening in the US property markets.

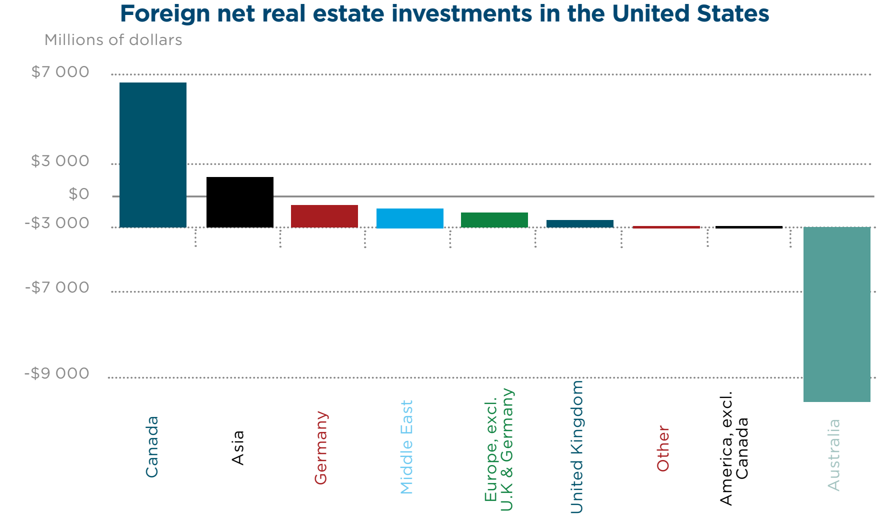
One thing that the US does have going for it is liquidity across the board.

Gea Elika, Principal Broker at Elika Real Estate, told *Finweek* that there are few markets more liquid than that of New York. Elika said: "New York City real estate provides foreign buyers with a lucrative buying opportunity due to current values, future growth potential and overall transparency. On a price per square foot comparison, New York is ranked eighth most expensive when compared to cities such as Hong Kong, London and Paris, among others.

"Foreign buyers are able to freely purchase free-hold condo properties and, if desired, even pursue resident visa's on the back of their property purchase. The geographical position of New York City appeals to many foreigners from all parts of the world and allows them to purchase real estate that has a global audience when they choose to sell. For the risk-averse, New York City also provides a high level of safety for their investment given the political stability of the United States in which foreign buyers have rights."

She comments that there was an influx of purchases seen from Greece due to its banking crisis, France due to higher taxes and Europe overall due to the region's slow recovery. "The market will likely continue to outperform other US property markets, including those abroad, while the Federal Reserve continues to buy mortgage back

Foreign net real estate investments in the United States



Note: Net capital flows from second-quarter 2011 through second-quarter 2012.
*All dollars in millions

SOURCE: Real Capital Analysts


Gallo Images/Thinkstock

New York

securities and keeps rates low," she said.

Jed Smith from the National Association of Realtors pointed *Finweek* to a recent survey that the body had conducted: "International buyers are heavily concentrated in four states: Florida, California, Texas, and Arizona, accounting for 58% of total international clients. Purchasers from South America frequently find Florida attractive. Miami is viewed as a culturally diverse, international city. Canadians tend to focus on Florida and Arizona, vacationing from the weather of northern winters. Mexican purchasers tend to focus on Arizona and Texas, possibly due to geographic proximity. Asian purchasers frequently locate in California – accessible by air. Buyers tend to cluster in specific locations based on their countries of origin, probably based on word-of-mouth and shared experiences and likely because of the shorter geographic distance from their home country to the state location (e.g., Europeans locating on the East Coast and Asians locating on the West Coast). International buyers are diverse – some looking for trophy properties and other buyers looking for very modest vacation properties," the report said.

Eddie Shapiro, CEO of the New York-based real estate brokerage Nest Seekers International, told *Finweek* that foreign buyers have purchased more than $68bn worth of US residential real estate over the 12 months ending March 2013. "Residential real estate is now a tale of two markets – luxury and everything else. Record sale prices of luxury goods and luxury homes continue to capture headlines and intrigue the buying public around the world. Foreign buyers are investing in high-end real estate in record numbers in cities such as London, Paris, New York, Hong Kong and Toronto."

Marc Ashton, Kelly Berold
kellyberold@gmail.com

WHAT IS FIRPTA?

Under the Foreign Investment in Real Property Tax Act (FIRPTA), a buyer must withhold 10% of purchase price if the seller is a foreign national. No withholding is required if the seller is a US citizen; green cardholder (lawful resident); or resident alien (meets either the physical presence test – present in the US for at least 183 days in the current calendar year; or the substantial presence test – present in the US for a weighted average of 183 days over three years).

At the time of purchase, inform your foreign buyers that they must acquire a US taxpayer identification number (TIN). Waiting until the time of sale to obtain a TIN may cause difficulty recovering money withheld pursuant to FIRPTA. ■

WHAT ABOUT INCOME TAX ON INCOME PRODUCING PROPERTY?

Generally, non-resident aliens are taxed at a flat 30% federal tax rate on gross rental income, unless they make a certain income election on their returns. This election, which allows for deductions for regular expenses before income tax is calculated, is commonly known as the 'net election'. An investor who is interested in income properties should ask any potential tax adviser (lawyer or accountant) if the adviser knows about, and how to exercise, the 'net election'.

Further, anyone who collects income for a non-resident alien and then pays that income to a property owner is generally required to withhold 30% of gross US source income (such as rent). No withholding is required if the foreign person has a green card, meets the physical or substantial presence test, or if there is a treaty addressing this issue between the US and that person's home country. ■