

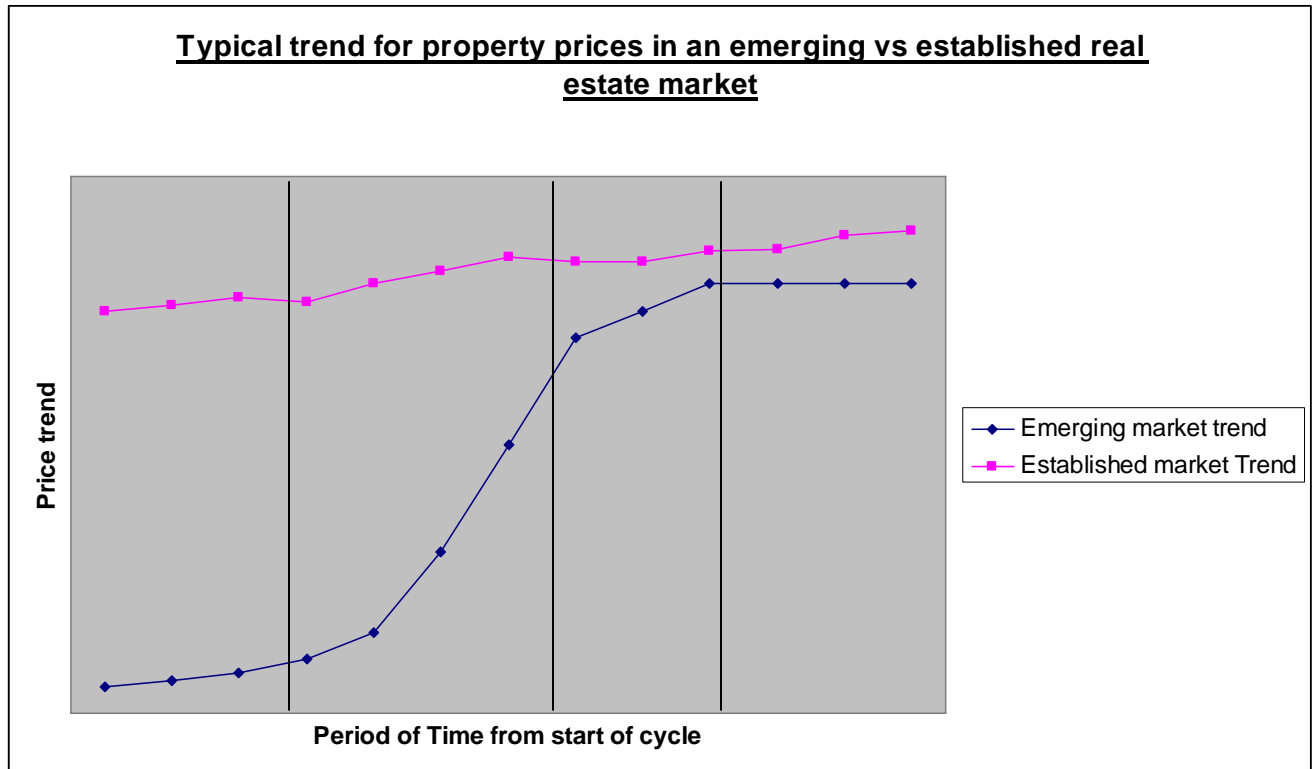


The importance of timing when investing in an “emerging” real estate market

For excitement in the world of real estate or property investment, there is an ever increasing desire to consider looking outside of one’s local area to markets that are relatively new onto the scene – one could put Dubai, Bulgaria, Costa Rica, Brazil, Panama etc. into this category. Let’s consider these “*emerging markets*”.

Whilst established markets tend to show a slow yet stable growth trend starting from a higher initial valuation, these emerging markets offer a potentially higher reward but in return, once has to accept and understand the associated higher risk. **Timing is of significantly greater importance in an emerging market cycle than in the equivalent established market one.** Why?

See the graph below for a visual on how prices move over a period of time, and how **if one picks the right time to invest in an emerging market, there can be significant relative growth**. Pick the wrong time, however, and you may be taking on all the risk in return for little of the reward.





It is quite clear from the blue “emerging market trend” line that one wants to be buying towards the left rather than the right of the graph. However, more often than not, reality/use of advertising/apparently wonderful “deals” etc. tend to mean the exact opposite occurs, with investors instead inadvertently buying at a time towards the right of the graph, as they were not aware or even “in the picture” during the proceeding years.

The four periods in an emerging real estate cycle are shown in the way the graph is divided up, and they could roughly be categorized as follows:

Period 1 – Birth

The area is seeing little inward investment, and real estate prices are not really moving at all. The market has little activity, and this is a very risky time to invest. Yes, the gains may be huge in the future, but you could be waiting many years to realize these gains. Unless using “throw away” funds, not worth investing at this stage.

An example of an area in this period may be perhaps parts of Africa. Prices may be cheap, but who knows how long you need to wait?

Period 2 – Growth

Suddenly, the area starts to see inward investment. Real estate prices start to pick up then gain momentum. As prices rise further, more and more investors realize the potential and start investing. It’s tricky to see the end point of the growth, but times are good. This is the period to be buying in.

An example of areas in this period would be perhaps Panama and Brazil, where after a period of good growth, there is an expectation of plenty more to come. Both are starting from a low point, so prices remain relatively low despite this initial growth spurt.

Period 3 – Peaking

Real estate prices have been rising for some years, but they’re starting to tail off. Experienced investors notice this and consider their exit strategy. Inexperienced investors continue to pile into the market, probably at the wrong time, as the opportunity for profit has largely passed.

An example of an area in this period would be perhaps Bulgaria, where there is a feeling that the big gains have passed, and the resale market is failing to cope with the demands of the sellers.



Period 4 – Flat

After a long period of price rises, things have now flattened out. Desperate selling techniques are employed with unrealistic rental guarantees, discounts, freebies etc. as developers try anything to shift units.

Whilst not knowing whether the cycle will suddenly restart, it's clear that the big profits have passed. Now is not the right time to buy.

An example of an area in this period would be perhaps Dubai, where there is a feeling that we may see a slight decline in property prices in 2008 as hundreds of developments bought entirely by investors suddenly flood the resale market.

Whilst this is an over-simplification of what is in reality a very complex area, it is wise to take note of the concepts. It also helps to explain why we, as a global investment company, promote such *apparently* unusual areas (e.g. Panama) as well as more established areas (e.g. Barbados). And, very importantly, when we are looking at these unusual areas, why we only consider those that are early on in their growth cycle.

So, if this “*buy early and reap the reward*” logic makes good sense to you, please do consider the emerging areas that are in Phase 2 of the 4 shown, such as Panama and Brazil (and any others that you feel are in that phase) and we would very much welcome a call to discuss.

Buy today at trade prices from us from \$250/sq ft for prime water-front Panama property and enjoy the fact that you're buying early into a rapidly rising market. We look forward to your call.



w: www.property4wealth.com

e: info@property4wealth.com

skype: “property4wealth”

UK: 0800 6120892

US: (202) 580-8528

UK fax: 0870 0632874

US fax: 1 (866) 281-7586

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