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FRACTIONAL YACHT OWNERSHIP | WHERE TO BUY REAL ESTATE NOW

Worth

WEALTH IN PERSPECTIVE



New Global Opportunities in **PRIVATE EQUITY**

While many PE firms reel, money can still be made

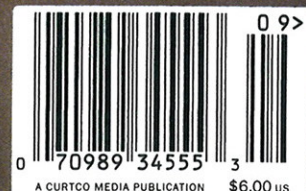
FAMILY RETREATS

Multigenerational get-togethers
for fun and profit

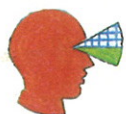
PAUL ORFALEA

The Kinko's founder's
anti-MBA manifesto

AUG/SEP 2008



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Foreign Accents

Real estate buyers can shield their investments from the worst market vagaries by focusing on properties with broad, international appeal.

With more than 30 years' experience in the real estate industry, Louise M. Sunshine is the development director of Alexico Group. From 1975 to 1985 she served as the executive vice president of the Trump Organization, and in 1986 she founded the Sunshine Group, a predevelopment planning, marketing and sales agent of new luxury condominium projects. Sunshine also founded Domineum, a global real estate marketing and media company set to launch this fall, and serves as its co-chair.

FOLLOWING FIVE STRAIGHT YEARS of gains, the Miami real estate market began softening in 2006. By August 2007, condo sales crashed as volume dropped 44 percent in just one month; they continued to fall in 2008. Pessimists pointed to Miami as yet another example of an overheated Florida real estate market where supply outstripped demand. But despite its declines, the Miami market has more in common with New York or Singapore than it does with Orlando or Fort Lauderdale.

As a real estate investor, it may be impossible to insulate yourself completely from the volatility of a falling real estate market. But building a portfolio of properties that show strong cross-cultural demand may provide some protection by increasing geographic diversity, while also betting on long-term interest from international buyers. Americans, too, can enhance their prospects by venturing abroad.

With its warm weather and beautiful beaches, economic ties and Latin American influences, Miami became a highly desirable market over the last few decades—particularly among Latin American individuals. And despite the current volatility, many foreign investors from the United Kingdom, Russia and Europe continue to view Miami as an opportunity. Why? Despite a short-term supply and demand imbalance—overbuilding in the face of rampant speculative investment—the long-term fundamentals of the region remain quite strong. Miami-Dade County ranked

sixth in the United States among counties most likely to experience the greatest population growth by 2020, according to a recent population forecast study conducted by professors at the University of Pennsylvania's Wharton Business School. And globally, Miami has gained cultural prominence for its deep Latin American and, increasingly, European ties.

This international demand will likely continue to grow in Miami and beyond. Recently, many nations began allowing their citizens to invest abroad, resulting in a new group of buyers looking overseas. For example, a new South Korean government policy permitting individuals and families to invest outside the country (up to \$3 million per person) created a flood of South Korean buyers drawn to luxury resi-

dences in cities such as New York and Singapore. Additionally, new residential markets, for business and tourism, now draw buyers to once inaccessible places, including Dubai, Bulgaria and Shanghai. Along with new markets, new types of luxury residential properties—condominiums appealing for their signature architecture, relatively carefree ownership style, and extensive services and amenities—have attracted wealthy consumers seeking a whole lifestyle, not just property.

The question then becomes: How do high-net-worth individuals and investment firms identify the specific cross-border markets that offer the best prospects?

Finding stable governments receptive to foreign investors is essential. Partnering may be a desirable way for a foreign business to leverage a local firm's market knowledge and resources.

Ownership structure must also be considered: In some countries (such as Mexico), foreigners are restricted by law from owning property outright, and they must instead buy through a trust or a long-term land lease. Beyond this, cross-border owners must consider the regulatory environment for residential rentals: rent-increase caps; relative power vis-à-vis local landlord-tenant law; and tenant rights



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with respect to lease renewals (countries like Italy and France are extremely pro-tenant).

Consider too the interest rate environment, ability to secure financing, and relative value of the local currency. In some countries, it may be very difficult to finance the acquisition. This situation is very specific to both home country and desired country of foreign purchase. For example, UK residents looking to purchase in Spain, France or Dubai generally have several options; however, Americans looking to purchase in Mexico or South America may find financing

considerably more difficult. Currency issues also weigh on the decision, given the relative weakness of the U.S. dollar compared to the euro or British pound.

And finally, cross-border investors want to feel confident about their personal safety and the physical security of their investments. For example, in major cities throughout Latin America, including Mexico City, São Paulo and Rio de Janeiro, many people worry about their safety following numerous reports of kidnappings and robberies that target foreigners. ■

HOME WORK

1. **GOALS:** What is the purpose of your purchase? Is this strictly an investment, is it for personal use, or some combination? Do you want both capital appreciation and rental income? When considering a rental investment, weigh the market's current strength, expectations for demand, growth and the supply pipeline. Also consider how the property will be managed.
2. **CREDIBILITY:** If you lack firsthand knowledge of the major real estate players in a country, research the developer behind the property. How long has the firm been in business? What other properties has the firm developed? Where does the firm's capital originate? Many major developers in emerging markets are partnered with a multinational real estate or investment company—for example, in India MGF Developments formed a joint venture with Emaar, the highly regarded Dubai-based developer. You want to feel confident that the product will be delivered as promised.
3. **LOCATION:** This remains a first principle in real estate; however, when purchasing abroad, particularly in an emerging market, marks of a desirable super-luxury location may be less clear than they are at home. I start by searching store locations of major international luxury retailers such as Louis Vuitton or Gucci, and also identify names and locations of local luxury fashion and design emporiums, as well as hot-spot restaurants. Consider where the contemporary art galleries are located. Or during a visit, ask a knowledgeable, luxury-lifestyle concierge. If you are a member of an international concierge service such as Quintessentially, consult with its local people.
4. **FINANCIAL CONSIDERATIONS:** You may have fewer financing options than you are accustomed to at home. Loan products may be less diversified; fixed-rate loans may not be available. An alternative strategy is to refinance to pull out equity from existing home-country real estate holdings to fund purchases abroad. This may effectively allow for more favorable financing terms such as interest rates. Exchange rates are also an important issue when handling the purchase or ongoing mortgage payments on a property abroad.
5. **QUALITY:** Quality is the hallmark of a luxury product, and this is true for real estate as well. A strong brand, highly regarded architect, and an experienced developer all contribute to this; however, quality stems directly from the construction company (hired and overseen by the developer) and its commitment to execute the product well. Here again, research the construction company's level of experience and the types of projects it has been involved with. If possible, visit the sales office. Examine the quality of construction and detailing in the sales office environment as an indicator of the care that the developer and his team, including the architect and construction company, take with their work. There may also be certain elements of established quality that are part of the development, such as kitchens by Boffi or appliances by Miele. If there are unfamiliar brands, confirm online that these are truly at a luxury standard. You may want to ask a trusted architect to review plans and specifications to ensure that they are up to the standard you desire and to which you are accustomed—is the master bathtub long and deep enough for a full-body soak? Is the oven large enough to accommodate your roasting pan? Is the size of the hot-water heater adequate for your morning shower (plus those of everyone else in the house)?
6. **BRANDING:** Certain brands enjoy global significance. Hospitality brands like Mandarin Oriental, Shangri-La and Four Seasons, as well as restaurants and clubs such as Cipriani, connote luxury universally. I consider this very important for a super-luxury property trying to attract an international audience; at minimum it provides a measure of insurance that a property will be respected and have instant appeal among an existing brand base. —LMS