

US Property Market

Members comment and our response

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A few members including Jeff Wilson have commented that, while they agree that property values in the US have dropped significantly, they feel that the market had not been badly affected in Florida.

However I strongly disagree and would simply highlight that anyone who has traveled to Miami recently you would immediately notice a major difference in the city. The real estate market has crashed. In some buildings, squatters have become a problem because many units are empty. Prices on most of the new downtown condos in Miami have fallen by more than 40% from their peak. Some are now selling for around \$200 per square foot. For less than \$200,000, you can buy a new condo.

On the beach, 83 current "short sell" condos are now for sale. There are now mortgage defaults on these units, and the bank is willing to sell for less than note value. The best properties in Miami – including ultra-luxurious Fisher Island and The Continuum – are now experiencing defaults and short sales. At the Continuum II, more than 25% of the units are for sale.

It would appear that everyone remained in complete denial as disaster loomed. Then, about six months ago, real panic began. With it, prices have fallen and transactions have picked up again. Recently RIO was offered a penthouse property at 50% less than the current owner's purchase price. He was desperate to sell and was prepared to take even less. RIO is always on the lookout for investment opportunity and as such is inundated with offers, but the property market in the US has not yet reached bottom. This market will take further losses on the back of further pending bad news.

Many institutions are finally in line with my earlier forecast that the worst is not over. Today almost 60% of U.S. and European institutional investors believe another large financial institution will fail in the next six months. Another 15% think it will happen in six to 12 months.

Perhaps the next large financial institution to fail will be Wachovia. The Charlotte, North Carolina-based bank announced an \$8.9 billion loss, slashed its dividend, and said it would exit the wholesale mortgage market. Now the Bank says it will cut 600 full-time positions. That is in addition to the 4,400 open positions and contract workers and 6,350 full-time workers Wachovia said it would fire in July. Our investigations show that the SEC is investigating

Wachovia for fraud related to its municipal-debt auctions. Its latest 10-Q, which it snuck in minutes before the deadline, showed a laundry list of lawsuits and investigations. It also showed non-performing assets more than doubling, from \$5.4 billion in December 2007 to \$12 billion today.

There will be opportunity for those interested to pick up a bargain in the coming months. I believe that even prime site properties in Miami will be offered in some cases at 40% of their previous values, but it will take some time for this market to stabilize and see the return of upward growth.

The three members who sold there US property during mid 2004 having read our RIO investment reports on coming crisis must be dancing in the street by now! I am glad that our reports lead them to make what can clearly be seen as the right decision financially. I worked out that had they not sold there property the combined loss would have been \$986,000 so being a member has saved these individuals almost \$1 million Dollars of very real financial loss. That's just those members who I know took our advice, what about others who decided to sell and did not let us know? The above being just one example of the benefits of being a RIO club member.

RIO will issue a gold update later today followed by reports due out Wednesday on both RIO Professional Investors Fund and RIO Prestige Performance Fund which is a strong buy especially for those members currently holding US Dollars due to current exchange rate just below 1.80

William Gray