GLOBAL
PROPERTY
GUIDE

Property recommendations mid-2010

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Every year we look at property around the world, and select locations for potential property purchases which make good investment sense. Our criteria have little to do with the locations' aesthetic attractions. Some would say our criteria have little to do with common sense! That's because we narrowly focus on how much appreciation in value a property in a certain location is likely to see, and the stream of future earnings it will yield. These are guesses, but based on our data.

Introduction

The world looks a much happier place than 12 months ago. The world's economies are recovering, and housing markets are recovering. Which parts of the world are most attractive for property investment today? The Global Property Guide looks through the options and has some suggestions.

The economic forces moving the world today

1. One part of the world has made enormous progress over the past fifteen years - the leading economies of developing world (China, India, Vietnam, and to a lesser extent Latin America). These economies have high savings rates, low budget deficits, high current account surpluses, viable financial systems, and very high GDP growth rates.

2. The period 1995-2010 saw something rather different in the developed world. There is no doubt that there was enormous real growth in the developed world, new buildings, new ideas, new products, especially in the US, a highly dynamic economy. But the growth was also partly artificial, a boom puffed up by over-spending on housing in some countries like the US, housing, but also (the example of Greece) by exaggerated state spending, social security budgets and other spending, i.e., a deficit-financed boom, a dis-savings boom.

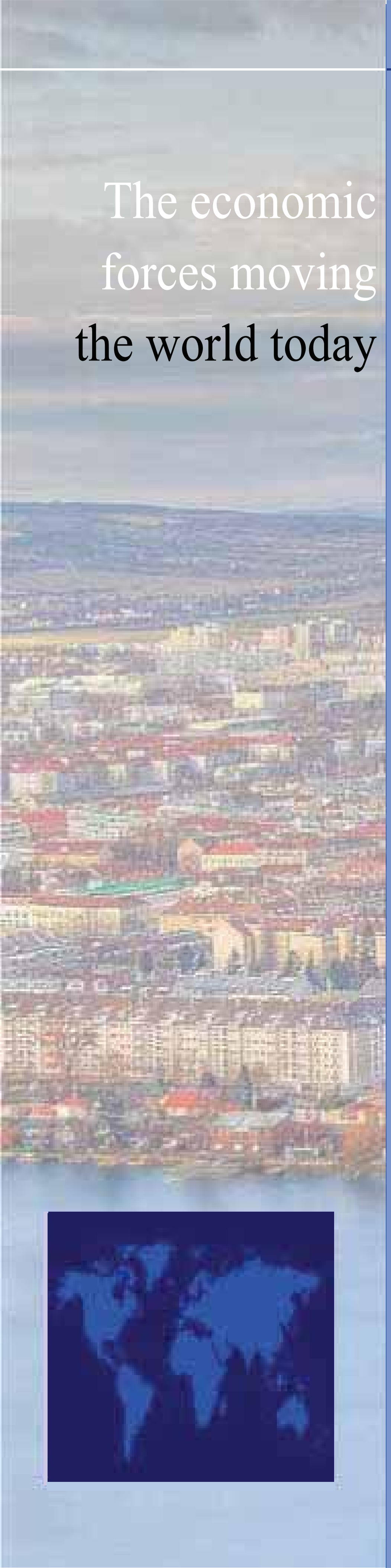
The response to the crisis has been correctly Keynesian, but in real terms this response does not solve the fundamental problem.

What is the fundamental problem? That the developing world now produces goods more cheaply, and often better, than the developed world.

- Graduates easily get jobs in India, China, and across the fast-growing developing word
- Graduates in the UK, US, and much of the developed world cannot get jobs. And even more so, non-graduates.

Why? Because the developed economies have increasingly been priced out of business. Lower communication and transport costs, the web, the spread of education, a better understanding of the economics of national competitiveness, have all been contributory causes.

The housing boom disguised the problem, by boosting the developed economies - but the housing boom is over. The painful process of adjustment is beginning.



Our recommendations

Governments around the world have responded to the crisis by lowering interest rates. That's pushing many property markets up again - temporarily. But eventually, things will return to normal, when sensible interest rates return.

Conclusion 1: Don't buy in parts of the world which have just come out of housing boom (except in the US). In countries where prices have not fallen, they will fall (in real terms) as interest rates rise. Where prices have fallen, no need to hurry. Housing market recoveries tend to start slowly.

The housing market is not the stock market. There is time. Yields are low so there is little out there that's so attractive.

In our view, the US is an exception, because in some part of the US, residential prices have fallen so much, that there is value

Conclusion 2: Buy in Latin America and other high-growth economies. The leading emerging economies are experiencing another kind of boom - a productivity boom, a growth boom. But property cannot be bought in China, India or Vietnam, so that leaves only some parts of the developing world.

Many Latin American countries are seeing the sort of institutional reforms that grew the mortgage markets in Eastern Europe, and raised valuations so much. These reforms will encourage the growth of the mortgage markets, encouraging the mass purchase of housing.

Conclusion 3. Buy where yields are good, preferably where high GDP growth is to be expected.

The economic forces moving the world today

The rental yield is a key number. It is the amount can be earned from renting out a property before expenses and taxes, expressed as a percentage of the property's value. So a property worth $1 million that earns $100,000 in rent per annum, has a gross rental yield of 10%.   For a fuller treatment, see our (explanation of residential real estate valuation parameters).

The price/rent ratio is equivalent to the P/E ratio in the stock market. It is simply related to the yield - it is the reciprocal of the yield, i.e., 1/ the yield. The price/rent ratio represents how many years you would need to rent out the property, to earn back your buying cost.

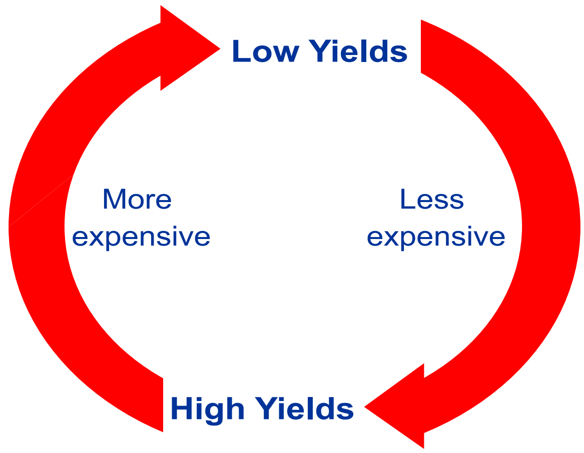
House prices tend to revolve around a range. The house price cycle can be viewed as a kind of circle, with houses prices moving from yields of (say) 4% to 11%.

VALUATION YARDSTICK FOR HOUSING MARKET		
PRICE / RENT RATIO	GROSS RENTAL YIELD (%)	
5	20	Very undervalued
6.7	15	Very undervalued
8.3	12	Undervalued
10	10	Undervalued
12.5	8	Borderline undervalued
14.2	7	Fairly priced
16.7	6	Fairly priced
20	5	Borderline overvalued
25	4	Overvalued
33.3	3	Overvalued
40	2.5	Very overvalued
50	2	Very overvalued

- Yields shifting down to 4% represent danger.
- Yields rising to 10% signal opportunity.

The economic forces moving the world today

The house price cycle can be viewed as a kind of circle



Where yields are low (i.e. prices are high), this will tend to mean that the interest cost of buying a house is high, compared to the cost of renting a house. Many potential buyers will choose to be renters, not buyers, putting downward pressure on prices.

Where yields are high, and prices and rents are low, it will encourage people to buy. Prices will tend tend to rise.

We look both at yields and costs. It makes little sense to make an investment if at the outset you lose 25% of your money on transaction costs. The property market has extraordinarily high transaction costs, asas - the result of governments unscrupulously using property as a taxation milch-cow.

Our core role at the Global Property Guide is to do objective research, into what these yields, and taxes, and costs are.

The economic forces moving the world today

Our recommendations:

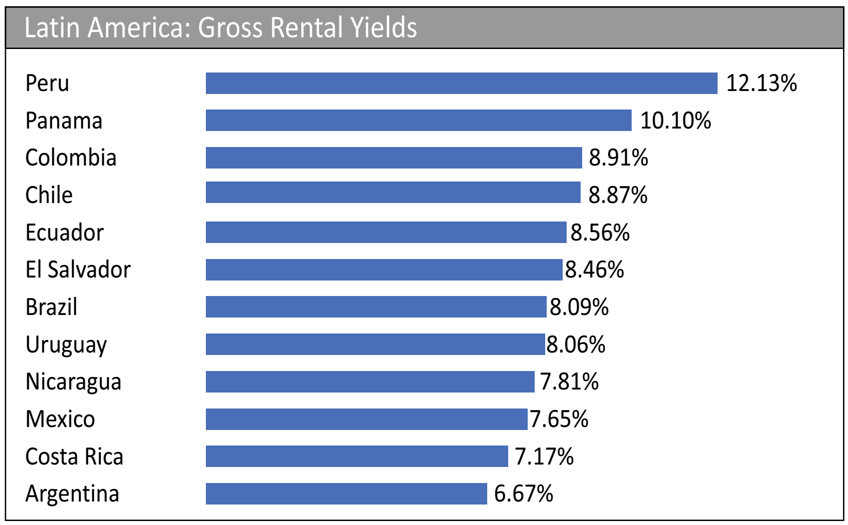
Recommendations:	Buy in:
Latin America	Peru, Panama, Brazil, Chile (possible: Colombia)
North America	Selected states
Europe	Turkey (possible: Hungary)
Middle East/Africa	Egypt, Jordan (Possible: Morocco)
Asia	Malaysia (possible: Thailand)
Caribbean	No recommendation

We suggest an opportunistic approach, as the debt crisis unfolds. Hungary (for example) has high debt levels. Its currency could arguably fall a victim to the debt crisis. Properties in Budapest are already cheap, they could become very attractive. Crises come and go - opportunities also! And we apply the same logic to Thailand.

Latin America

The Global Property Guide began to recommend Latin America three years ago, well before the US boom began to crack. We were attracted by the undervalued currencies, cheap property, and high yields.

Three years later Latin American currencies have appreciated considerable against the dollar (but the dollar has fallen somewhat). But to our surprise, good values are still there.



We recommend the following locations for residential property investment:

- **Peru** Great yields, low prices, and high GDP growth. The downside is very high taxes. An election looms in 2011, with several undesirable candidates possible contenders.
- **Panama** Good yields, reasonable (but not amazing) prices, and the canal -spending boom. New right-wing president Ricardo Martinelli is making unusual anti-corruption moves.
- **Chile** Good yields, low transaction costs, low prices. Very high income taxes for non-residents, but no capital gains taxes for those who hold more than 4 years. New right-wing president unlikely to alter Chile's successful formula.
- **Brazil** Somewhat less attractive on the numbers: higher prices, higher transaction costs, reasonable yields (but high taxes). The key positive is that Brazil's strong domestically-driven economic growth seems likely to continue - the two leading candidates for the October 2010 Presidential election are both impressive.

Latin America

Peru
Panama
Brazil
Chile
Colombia

Peru

Our rating: recommended

Latin America's growth champion is Peru. Peru's economic performance is surprising, given the country's dismal past, but it is causing Peruvians to get richer, rapidly. New buildings are going up, yet developers are having a hard time keeping up with the economic growth. Yields are very high - and high yields are an important element of a 'good buy' in residential property.

Property in Lima is relatively inexpensive, as it should be, given the country's stage of growth. However taxes are high, which significantly changes the investment equation. Indeed, this is a problem throughout much of Latin America. Round-trip costs (i.e., the total costs of buying and selling a property) are however relatively low in Peru.

Quick property facts:
● Rental yields of 12.5% in Lima ● Low per square-metre prices at approx US$944 ● Round-trip costs of around 7.8% ● High capital gains tax rates, high income taxes

The foundations for Peru's economic performance were laid by the government of Alejandro Toledo (2001-2006), who instituted solid economic reforms. Alan Garcia's return to the presidency in July 2006 caused initial alarm, as he had presided over a high-spending leftist government during his first term as president (1985-1990). However he was a reformed man, determined not to repeat the mistakes of his first administration.

Fiscal rectitude became the government's No 1 priority. As the economy improved, the international credit rating agencies upped their ratings and the cost of Peru's debt-service dropped. In April 2008 Fitch Ratings gave Peru a BBB- rating, the only Latin county aside from Chile and Mexico to have an investment grade rating, allowing more pension funds and insurers to buy Peru's debt, driving spreads down to record lows.

Meanwhile the government paid off its debt. At the start of the decade, Peru's national debt equaled 50% of the country's gross domestic product. It now stands at just 25%. About 40% of Peru's debt is denominated in the national currency, the Nuevo Sol.

Peru Transaction Costs		Who Pays?
Transfer Tax (Alcabala)	3.00%	buyer
Notary Fees	0.10% - 0.25%	buyer
Registration Fee	0.30%	buyer
Estate Agent's Fees	3.00% - 5.00%	seller
Costs paid by buyer	3.40% - 3.55%	
Costs paid by seller	3.00% - 5.00%	
ROUNDTRIP TRANSACTION COSTS	**6.40% - 8.55%**	

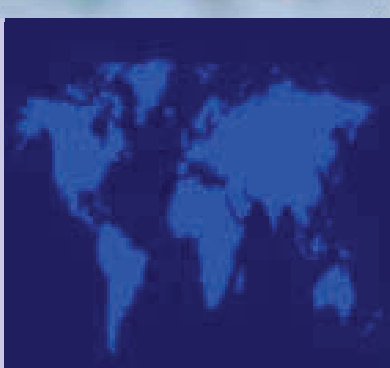
Peru positives:

- The country had the fastest-growing GDP of any Latin American economy in 2009 (albeit with only 0.8% GDP growth), and is again likely to be the fastest growing Latin economy in 2010, when it should see 5.8% growth (IMF World Economic Outlook).
- The current account and the trade account are both in healthy surplus.
- Remittances are strong.
- Urban unemployment fell to 8.5% in the third quarter of 2009.
- Peru's stock market was up 120% in 2009, the second best performance in the world after Brazil (145% in dollar terms). Rising stock markets tend to be good predictors of house prices.

Finally, Garcia has made Peru the first Andean country to secure a free trade agreement with the United States. He has also signed free trade agreements with Canada and Singapore, and an important agreement with China.

Not that Peru is perfect. The poverty rate has fallen from 50% in 2003 to 35% in 2009. but the bulk of the wealth is in the coastal region, and the interior is very poor.

President García is also becoming unpopular.



Peru
Taxes

Tax on Rental Income (effective rate)			
Monthly Income	US$1,500	US$6,000	US$12,000
Tax Rate	24%	24%	24%

Capital gains - tax rate:
Gains earned by non-residents selling Peruvian property are taxed at a flat rate of 30%.

Residents:
Residents are taxed on their worldwide income at progressive rates, from 15% to 30%.

A flood of decrees has opened up indigenous ancestral lands to mining and petroleum companies, on the back of the Free Trade Treaty of the Americas (FTAA). On June 5, the Special Operations Directorate attacked Awajun and Wami protesters blocking a road near Bagua village. 34 people were killed in this and other incidents, caused widespread revulsion. Ninety percent of Peruvians said Garcia should have tried to win the tribes' support before passing the controversial laws, according to pollster Ipsos Apoyo. Congress ended up repealing the laws.

Garcia cannot run for re-election in the next presidential election in April 2011. One candidate will be his ex-chief minister Yehude Simon, who resigned from the government after the massacre.

Simon has a leftist activist past. He was arrested by President Fujimori and sentenced to 20 years in prison as a terrorist sympathizer. After Fujimori fled the country, and he was released, he recast himself as a moderate leftist, won two terms as governor in Lambayeque, where he oversaw an influx of private investment. He then joined the Garcia government, and backed Peru's free trade pact with the U.S.

If Simon wins, Peru's future seems in good hands. Simon favours strongly increased spending on social services, but within a free-market context. Just what the country needs, it might seem.

Other candidates are Ollanta Humala, a nationalist party member who nearly defeated Garcia in 2006, congresswoman Keiko Fujimori (President Alberto Fujimori's daughter), and Luis Castañeda, Mayor of Lima.

Panama

Our rating: recommended

The collapse of the US real estate market has affected Panama. House prices in United States have been fallen so much, that the baby boomer cannot sell his house, and move to Panama. Real estate prices also appear to have decreased in Panama (though there are no reliable house price statistics, so it's hard to know for sure).

Quick property facts:
• Rental yields of 10 %
• Low per square-metre prices at approx US$1520
• Round-trip costs of around 8%
• Capital gains tax rates are reasonable

The popular perception of Panama is as Dubai No2, with too many new condominiums flooding the market. However, in the view of consultants Panama Economy Insight, enormous oversupply is unlikely, because of the low leverage of Panama's developers. Developers with ongoing construction projects can wait. Those in the promotion stage, can delay starting construction.

However, no upturn in the real estate market of Panama is likely before US house prices recover, perhaps in 2011.

Panama will be one of the fastest-growing economies in Latin America this year, thanks in large part to the $5.2 billion expansion of the Panama Canal. GDP rose 12.1% in 2007, and 10.7% in 2008, though less in 2009.

Panama Transaction Costs		Who Pays?
Lawyer's/Notary's Fee	2.00%	buyer
Transfer Fee	2.00%	seller
Agent's Fee	3.00% - 5.00%	seller
Costs paid by buyer	2.00%	
Costs paid by seller	5.00% - 7.00%	
ROUNDTRIP TRANSACTION COSTS	7.00% - 9.00%	

Panama's rapid GDP growth, good yields, lowish taxes, reasonably priced real estate, and reasonable round-trip costs make it hard not to put Panama on our list of recommended locations buying property, despite its history of corrupt government.

The government deficit is low - at 2.3% of GDP in 2009. Standard & Poor recently upped its Panama debt risk rating to BB+ with positive perspective.

In May 2009 Ricardo Martinelli, 57, a free-market enthusiast and self-made millionaire, became the first presidential candidate in Panama's modern history to win an absolute majority. He has no ties to the traditional parties, marking a break with the dominant pattern of Panamanian politics where the ruling centre-left Democratic Revolutionary Party (PRD) and the right-of-centre Panameñista Party (PP) have alternated in power for decades.

Panama Taxes
Tax on Rental Income (effective rate): Rental income is subject taxation at progressive rates of up to 27% and to VAT at 5%.
Capital gains - tax rate: Gains realized from transactions not related to business activities are taxed at 10%.
Residents: Resident are taxed on their Panamian-sourced income only, at progressive rates.

He arrested a number of past government officials for corruption, including former President Ernesto Pérez Balladares (under house arrest), who he had just defeated. Actually in prison are former Education Ministers Belgis Castro, and Salvador Rodriguez.

"There's a general feeling of "it's about time" - even among people who you would not normally expect to support these kinds of actions," says blogger Don Winner. "I spent a considerable amount of time polling people with the following question - 'Ernesto Perez Balladares - Persecution or Justice?' Only the most die-hard PRD faithful told me they really think Perez Balladares is being hounded for purely political reasons, and that in fact there's nothing to the charges he faces.

It is too early to tell whether Martinelli is a good thing, or a case of 'same old story'. But continued corruption or not, it is hard to argue with good yields, low taxes and low costs.

Brazil

Our rating: recommended

Euphoria about Brazil's emergence as a growth powerhouse, member of the 'BRICS' quadrimvirate accounting for half global economic growth, has been accentuated by good performance in the recent global crisis.

Quick property facts:
● Yields around 8% in Sao Paolo ● Prices per square metre of US$2,277 in Sao Paolo ● Round-trip costs higher than in some other places, at 11.50% ● High capital gains tax rates, high income taxes

So, on the face of it, less attractive numbers. Yet the enthusiasm for Brazil is enormous, and the economy has performed outstandingly. Brazil is an unusually closed economy, with a small import/export sector. Yet it is so big, so populous, that it can grow on its own steam.

President Lula de Silva is getting much of the credit for Brazi's rapid growth. His election in 2002 brought fears of a socialist agenda. Instead, he introduced a pragmatic approach that combines the free market with social support for the poor and workers.

Under Lula, the economy grew by an average of 4.3% from 2004 to 2006, before growing by more than 5% in 2007 and 2008.

Latin America

Peru
Panama
Brazil
Chile
Colombia

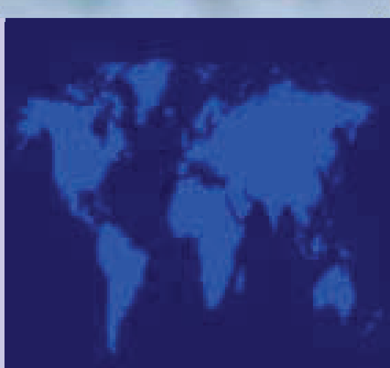
Brazil		
Transaction Costs		**Who Pays?**
Transfer Tax	3%	buyer
Notary's Fees	2% – 3%	buyer
Agent's Fees	6%	seller
Costs paid by buyer	6.59%	
Costs paid by seller	5.04%	
ROUNDTRIP TRANSACTION COSTS	11.63%	

Lula's pro-market reforms have greatly helped expand Brazil's mortgage market. The first big break was the government's approval of fiduciary alienation, whereby the buyer becomes the owner of the property only after it has been fully paid. The lending institution owns the property, while the loan is being repaid.

As a result, housing loan terms have become more favorable to borrowers:

- Loan terms have lengthened to 30 years, from 10 to 12 years.
- Interest rates on housing loans offered by banks have fallen to 13% to 14%, from around 16% in 2005.
- Government-owned housing institutions now offer loans at 12% interest, payable over 30 years.

According to the World Economic Forum, Brazil was the top country in upward evolution of competitiveness in 2009, gaining eight positions among other countries, overcoming Russia for the first time, and partially closing the competitiveness gap with India and China among the BRIC economies.



Latin America

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Brazil

Taxes

Tax on Rental Income (effective rate):

Monthly Income	US$1,500	US$6,000	US$12,000
Tax Rate	15%	15%	15%

Capital gains - tax rate:
Capital gains tax is levied at a flat rate of 15%.

Residents:
Residents are taxed on their worldwide income. Income tax is levied at progressive rates, up to 27.5%.

There are caveats:

- Taxes are high, the state sector is large and inefficient, and state spending does not efficiently direct money to the poor
- Investment is relatively low
- Interest rates are relatively high, though falling
- Corruption is high

Brazil's growth at around 5% per annum therefore does not approach that of the 'champion economies' of China, India, and Vietnam.

But improvement continues. In September 2009, Moody's promoted Brazil to investment grade.

The highly popular Lula is barred from running in the national presidential elections in October 2010, and has shown no interest in changing the law.

He has backed his chief of staff Dilma Rousseff as the Worker's Party's candidate (WP), despite her recent chemotherapy treatment for cancer. She will face Sao Paulo state Governor Jose Serra, of the Brazilian Social Democrat party (PSDB), who was Cardoso's health minister, and another supporter of government intervention (Brazil currently lacks any charismatic leadership on the pro-business right).

From the investor's perspective, both choices seem highly satisfactory. For the moment the country is in good hands.

Chile

Our rating: recommended

Chile isn't perhaps an exciting property investment. But prices are low, returns are good, and for a long-term holder there's no capital gains taxation, though income taxes are very high.

Quick property facts:
● Chile's capital Santiago has good yields, at 8.9% ● Prices approximately US$1,204 per square metre in prime Santiago ● Round trip costs, i.e., the total costs of buying and selling a property, are low, at 6.1% ● Taxes are high - 35% income taxes, but 0% capital gains taxes on long -term holders. Leasing of real estate is also subject to VAT at 18%. The Decreto con Fuerza de Ley 2 (DFL-2) encourages affordable housing of less than 140 square metres (sq. m). DFL-2 properties are exempt from income tax, and enjoy 50% off the Real Estate Tax for corresponding periods, according to land area. However, this tax benefit is not available to non-resident owners, as non-residents earning Chilean-sourced income are subject to a final withholding tax at the general rate of 35%.

Chile has elected a new conservative president, Sebastian Piñera, of the centre -right coalition. In March 2010 he replaced the highly popular Michelle Bachele of the left-leaning Christian Democratic Party (PDC), Chile's first woman president. No sharp policy changes are expected under Piñera, as he has promised to continue the government's social programs. He has to deal with the legacy of the earthquake, which caused substantial damage in Chile.

Property prices have remained relatively stable during the recent global crisis - and rose, agents say, during the last quarter of 2009. This is difficult to verify, however, due to the lack of official or unofficial house price data.

Chile Transaction Costs		Who Pays?
Lawyer's Fees	1% - 2.5%	buyer
Stamp Duty	0.2% - 0.3%	buyer
Transfer Tax A56	0.10%	buyer
Agents Fees	2%	buyer
	2%	seller
Costs paid by buyer	3.3% - 4.9%	
Costs paid by seller	2%	
ROUNDTRIP TRANSACTION COSTS	5.3% - 6.9%	

In December 2009, Chile was the first South American country to join the exclusive "rich man's club" of the Organization for Economic Cooperation and Development (OECD).

OECD membership serves as a crowning glory to the accomplishments of the coalition led by centre-left Christian Democrat Party (PDC). After winning the elections in 1990, the PDC continued the economic reforms begun by Pinochet dictatorship, but with a social orientation, combining economic openness, market reform and social safety-nets. Chile experienced rapid economic growth, lower unemployment and the expansion of the middle -class.

In the 2010 elections, the PDC became victims of their own success in growing the huge middle-class, which voted for billionaire Piñera.

Chile
Taxes

Tax on Rental Income (effective rate):
Non-residents earning Chilean income are subject to VAT, which is levied at 35% on gross income.
Rental Income is subject to FCT at a flat rate of 17%. FCT and property taxes are credited against the taxpayer's VAT liability.
Leasing of real estate is subject to VAT at 19%.

Capital gains - tax rate:
Gains are taxed at the standard FCT, if immovable property is sold within the first year, or if an apartment is sold within the first four years. Otherwise, 0%

Residents:
Residents are taxed on their worldwide income. Income tax is levied at progressive rates, up to 27.5%.

A housing shortage still exists in Chile, but has been reduced significantly through a very successful housing policy, while the owner-occupancy rate has been raised. The Ministry of Housing and Planning (Ministerio de Vivienda y Urbanismo or MINVU) was created in the 1970s, and it has dominated the housing sector since. It is the country's largest real estate firm, and its second largest mortgage bank.

The special law Decreto con Fuerza de Ley 2 (DFL-2), which subsidises housing of less than 140 square metres (sq. m) may explain the slightly lower yields in Santiago on 60 sq. mt. and 120 sq. mt. apartments, which is contrary to the usual rule that smaller apartments have higher yields.

Chile's GDP contracted by around 1.8% in 2009, after growing by 3.2% in 2008 and rising an average of 5.2% from 2004 to 2007. Economic growth is expected to resume in 2010 with a 4% expansion.

Chile is a well-ordered country, with a historically high growth rate. It's unlikely to go broke, or have a crisis. You'll be safe here, which is a real virtue in these uncertain times.

Latin America

Peru
Panama
Brazil
Chile
Colombia

Colombia

Our rating: possible

House prices have been climbing in Colombia since 2004. Yet despite the price rises, yields on properties in Bogota remain attractive, at around 9%.

Quick property facts:

- Colombia's capital Bogota has good yields, at 8.9%
- Prices approximately US$1.688 per square metre in prime Bogota.
- Round trip costs, i.e., the total costs of buying and selling a property, are reasonable, at 9.6%
- Taxes are high - 28% income taxes, and 30% capital gains taxes.

Once a by-word for kidnapping, narco-terrorism, and an ongoing Marxist rebellion, led by the Revolutionary Armed Forces of Colombia (FARC), Colombia now has competent and technocratic government, restrained budgetary policies, and a pro-market attitude.

The star of the Colombian economic success story is president Álvaro Uribe, whose anti-terrorist campaign has borne fruit and whose economic policies have been successful. Progress since Uribe took power in 2002 has been little short of astonishing.

In his two terms since 2002, Uribe has made Colombia less violent, by expanding the security forces by half. The FARC has shrunk to less than half its 2001 peak of 20,000 fighters.

Colombia

Transaction Costs		Who Pays?
Registration Fees	1.50%	buyer
Stamp Tax	1.50%	buyer
Local Government Taxes	1%	buyer
Notary Fees	0.30%	buyer
Real Estate Transfer Charge	0.15%	buyer
	0.15%	seller
Estate Agents' Fees	3% - 4% (+16% VAT)	seller
Costs paid by buyer	4.45%	
Costs paid by seller	3.63% - 4.79%	
ROUNDTRIP TRANSACTION COSTS	8.08% - 9.24%	

Private investment has returned. So too has foreign direct investment (FDI), which has risen from 2.50% of GDP in 2000, to 5.20% of GDP in 2007. Unemployment has been falling.

Growth took a small hit in 2009 (-0.2 % GDP). The Colombian peso dipped. The country's access to the credit markets is however good, external debt is low (at 20% of GDP), reserves are comfortable, inflation is low (2% in 2009), and there are no systemic bank solvency problems.

Some of the political elite, however, still have links to the gangster elements in the Colombian military and society, and Uribe's enthusiastic alignment with US policy in Iraq disillusioned many liberal-thinking young.

Colombia

Taxes

Tax on Rental Income (effective rate):

Monthly Income	US$1,500	US$6,000	US$12,000
Tax Rate	27.70%	27.70%	27.70%

Capital gains - tax rate:
The capital gains tax for non-residents is at a flat rate of 33%.

Residents:
Residents are taxed on their worldwide income at progressive rates, from 19% to 33%.

Credible claims emerged in 2008-9 that the army murdered up to 1,800 civilians and passed them off as dead rebels (a practice dubbed "false positives"). Uribe sacked 27 officers, including three generals, following these reports. Meanwhile, just before Christmas, the FARC kidnapped and murdered the governor of Caquetá department.

Uribe cannot stand for a 4th term. The Uribista candidate is former defense minister Juan Manuel Santos, who was initially generally expected to win the May 30 presidential first round. However Uribe's enormous achievements are by now largely taken for granted, and Santos suffers from his association-by-proximity to the 'false positives' scandal.

This may explain why recently a nationalist-socialist candidate, Antanas Mockus, former mayor of Bogota, made a strong showing and now stands equal in the polls with Santos. Mockus has expressed his admiration for 'Venezuela's Hugo Chavez' but this does not seem to alarm much of the electorate. He is generally admired for his honesty and his achievements as mayor of Bogota

Colombia is an attractive country - with obvious downsides.

Europe

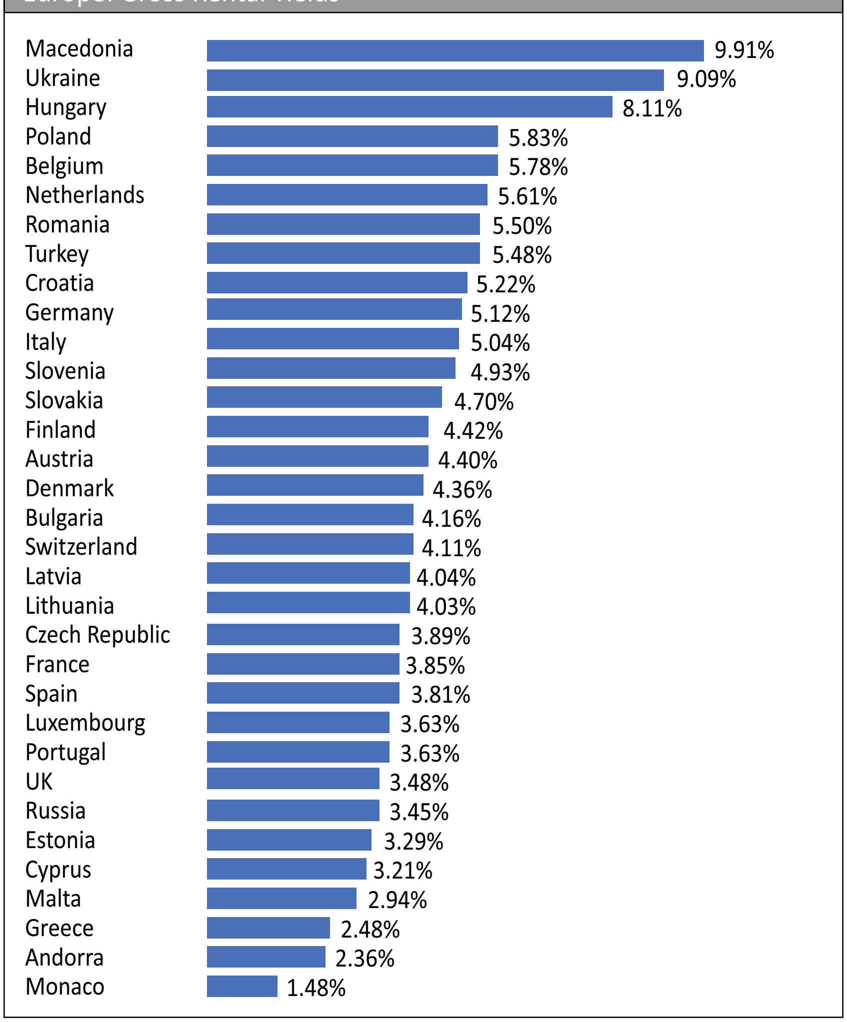
It is too early in the cycle to buy in most of Europe, even in countries where substantial corrections have taken place. Much of Europe is exposed to the 'developed country debt crisis', which is just beginning.

However, we place our bets on one country where long-term growth prospects seem reasonable - Turkey.

We also place as a 'possible', with reservations, Hungary.

We suggest an opportunistic interest in Hungary. Hungary has a high budget deficit, and high debt levels. The xenophobically conservative and policy-less Fidesz party won the elections of April 2010". Despite these serious issues, property in Budapest is inexpensive, and a little currency depreciation could make it very attractive.

Europe: Gross Rental Yields



Europe

A short note about some attractive countries which aren't on our list:

- **Poland.** A country which has emerged triumphantly from the crisis, with positive growth. Yields are quite good, transaction costs are low, there are no capital gains taxes, but residential prices are, we judge, too high at approximately €3,348 per sq. mt

- **Estonia.** The Russians are buying in Estonia, betting on a recovery. Estonia has responded well to the crisis, cutting wages, cutting the deficit. It will probably adopt the Euro in 2011. For our taste yields in Estonia are too low at 3.29%, prices too high at €2,386 per sq. mt., and taxes, too, are high.

  Plus, the opposition may well win the 2011 parliamentary election - not good news.

- **Belgium.** Brussels always seems attractive, with good yields, low taxes, and a captive and ever-growing reservoir of foreign tenants. The downside is the high transaction costs, with round-trip costs of 17% of the purchase value. Too high!

Europe

Turkey
Hungary

Turkey

Our rating: recommended

Turkey wouldn't normally make it into our 'recommended' list. Yields are in medium-range - 5.5% - i.e., below what we normally consider optimal. But Istanbul has low per square metre prices, reasonable round-trip costs, and a reasonable tax situation, and the country's attractively young population, plus its growth prospects, and its increasingly core role in the near-East, make it 'recommendable'.

Quick property facts:

- Yields of 5.5% in central Istanbul
- Low per square-metre prices at €1,390
- Round-trip costs of around 10%
- Low property income tax rates, no long-term capital gains tax
- Frequent earthquakes - certainly, a negative.

Turkey was severely affected by the economic crisis (although the process of recovery has already begun). After six years of uninterrupted growth of around 7% annually, GDP growth fell by 6.5% in 2009.

The economy was "too reliant on the industries that got hit the worst, viz, household appliances and cars," said Tevfik Aksoy, an economist at Morgan S tanley in London. "Turkey didn't have a basket of sectors that it could diversify among."

Turkey Transaction Costs		Who Pays?
Registration and notary fees	0.10% - 1.0%	buyer
Title deed charge	1.50%	buyer
	1.50%	seller
Agent's commission	3%	buyer
	3%	seller
Stamp Duty	0.75%	seller
Costs paid by buyer	4.60% - 5.50%	
Costs paid by seller	5.25%	
ROUNDTRIP TRANSACTION COSTS	9.85% - 10.75%	

As job losses mounted, Turks began to lampoon Prime Minister Recep Tayyip Erdogan's often-expressed optimism. A popular Turkish song on YouTube ended with the mocking refrain, "Thank the Lord, it barely touched us," echoing Erdogan's over-optimistic economic predictions.

Yet under Erdogan's Islamist-based Justice and Development (AK) Party government, elected by a landslide in November 2002 (then reelected in July 2007), much economic reform has been achieved. Services have been improved, freedom of speech has increased, and military influence has been restricted. The economy expanded by 5.3% in 2003, 9.4% in 2004, 8.4% in 2005, and 6.9% in 2006, before slowing to 4.5% in 2007, and 1.1% in 2008.

Turkey
Taxes

Tax on Rental Income (effective rate):

Monthly Income	€ 1,500	€ 6,000	€ 12,000
Tax Rate	14.60%	21.70%	24.80%

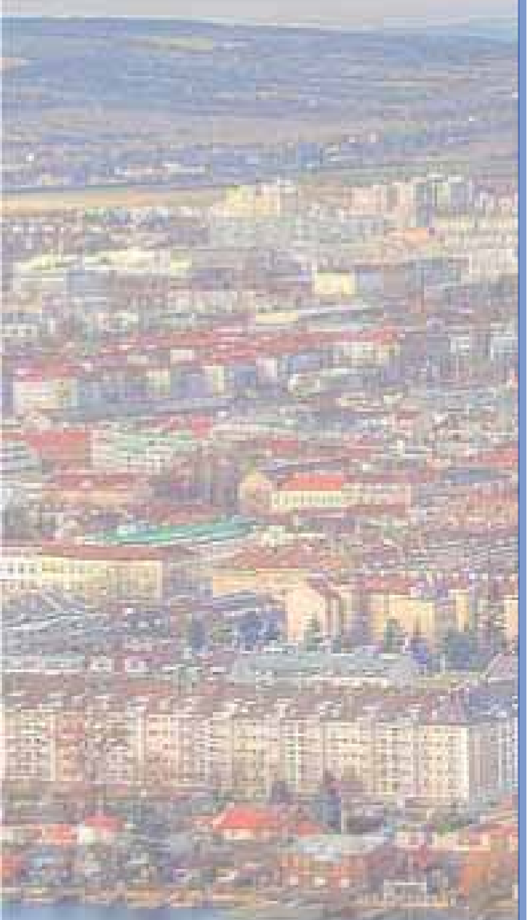
Capital gains - tax rate:
Gains are tax-exempt if the holding period is 5+ years (4 if the property was acquired before 01 January 2007).

Residents:
Residents are taxed on their worldwide income.

Turkey has a strong banking system and a large upside potential, due partly to demographics and strong tourism growth. The OECD, in its recent forward look at OECD member countries' likely future growth, foresees GDP growth of 6.7% p.a. for Turkey during 2011-2017 - the highest among all OECD countries.

The rebound is now on. Moody's has upgraded Turkey's bond rating to Ba2 from Ba3. Fitch Ratings has also upgraded its longer-term currency ratings, citing the strength of the Turkish banking sector.

"If the real interest rates continue to be around 4 to 5 percent, then Turkey has a huge growth potential and it can be the next Brazil," says Türker Hamzaoglu, a Merrill Lynch economist. "Brazil saw huge growth after the 2001 crisis. Maybe Turkey does not have valuable underground resources, but instead of this, it has low real interest rates."



Hungary

Our rating: possible

Hungary's position on our 'recommended' list is due to reasonably low prices of property in Budapest (which we track), and several other positive factors. However as an economy, Hungary is a risky bet, of which more below.

Quick property facts:

- Budapest's rental yields are around 8%
- Budapest has square metre prices of around €1,683
- The total cost of buying and selling a property (round-trip costs) is 11%, i.e., not unreasonable.
- Hungary has reasonable capital gains taxes and effective income taxes, at 19% and 11%, respectively, according to our calculations.

Yet the Hungarian economy is a worry. Hungary's GDP is believed to have contracted by -6.7% in 2009 and is likely to contract again in 2010.

Hungary has long-term economic problems.

- A large national debt, at 80% of GDP. Moody's long-term debt rating for Hungary is a low Baa1.
- An over-spending government, with excessive health and pension obligations.
- Uncompetitive industry.

For a decade the political class avoided facing these issues. "I almost perished because I had to pretend for 18 months that we were governing. Instead, we lied morning, noon and night. I do not want to carry on with this," said previous Prime Minister Ferenc Gyurcsany in a famous speech in June 2006.

With this, the country admitted to a fiscal deficit way beyond what had previously been talked about, and entered a financial crisis which has now lasted three and a half years. However a crisis does not mean a solution, and two "austerity" measure packages (2006, 2009) have had little effect in reducing the deficit.

Hungary **Transaction Costs**		**Who Pays?**
Transfer Duty	2% - 6%	buyer
Legal Fees	0.5% - 1.5% (+20% VAT)	buyer
Registration Fees	0.01% - 0.05%	buyer
Real estate Agent's Fee	3% - 5% (+20% VAT)	seller
Costs paid by buyer	2.61% - 7.85%	
Costs paid by seller	3.6% - 6%	
ROUNDTRIP TRANSACTION COSTS	6.21% - 13.85%	

The positives:

- Significant current account improvement recently
- The OECD forecasts3 % GDP growth in 2011, and 4.3% growth 2011-2017
- (To repeat) Properties are relatively low cost, and have high yields

The negatives:

- Some danger of currency collapse. Over 85% of mortgages in Hungary are non-forint denominated (mainly in Swiss Francs), so if the forint were devalued, there could be financial chaos.
- The 2010 parliamentary elections saw the landslide the victory of Fidesz, a right-wing populist party with a muddled agenda, which is somewhat anti-capitalist and anti-foreign. However in his first remarks after the 2010 election results were declared, the new prime minister Viktor Orban drew a clear line between Fidesz and the far-right racist Jobbik party, which entered parliament for the first time.

Fidesz has pledged to cut some taxes and curb tax evasion and reduce state bureaucracy, and immediately began pruning the number of ministries to just eight - leaving Orban with the smallest cabinet in the post-communist era. The governent's belief seems to be that reduced state spending is reconciled with economic growth by easy money, and it has already picked a quarrel with the Central Bank governor

Hungary **Taxes**			
Tax on Rental Income (effective rate):			
Monthly Income	€ 1,500	€ 6,000	€ 12,000
Tax Rate	18.70%	29.60%	32.80%
Capital gains - tax rate:			
Net capital gains are taxed at a flat rate of 25%			
Residents:			
Are taxed at progressive rates on their aggregate income, from 18% to 36%.			

APIP

ASIA PACIFIC INVESTMENT PARTNERS

TOMORROW'S EMERGING MARKETS TODAY

Mongolia: the impact of the minerals boom

Visitors to Ulaanbaatar are often amazed by the city's vibrancy and dynamism - this is a town on the go. Once a sleepy outpost of the Soviet Empire inhabited by bureaucrats and a resentful and largely nomadic local population, the character of Ulanbaataar is changing rapidly, as bars, restaurants, hotels and modern shops spring up, and affluent locals show off their new wealth, filling the streets with Hummers and Mercedes Benzes.

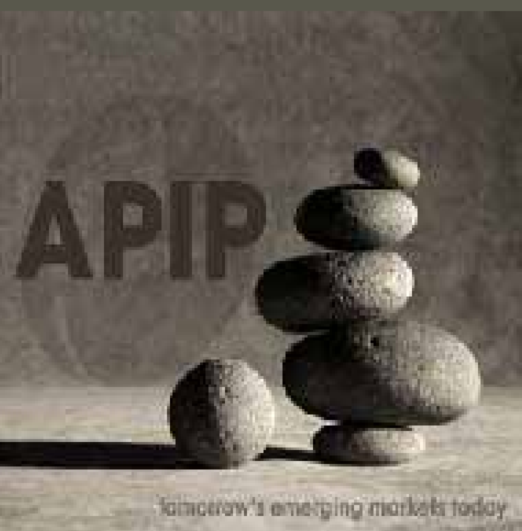
Mongolia now has the excitement of the frontier, the dynamism of a boomtown, combined with political openness. It is one of the fastest-growing Asian economies, indeed the IMF estimates that Mongolia will be the fourth-fastest-growing economy in the world, in real terms, over the next five years. Mongolia's GDP growth was 10.6% in 2004, 5.5% in 2005, 8.6% in 2006, and 9% in 2007.

This explosion of wealth in Ulaanbataar has come largely because of exploitation of Mongolia's newfound mineral resources. The richness of the possibilities is only now becoming apparent. Following the discovery of gold and large mineral deposits, and juxtaposed with high copper prices and a growing world shortage of key minerals, Mongolia is the beneficiary of a simple fact: the faster the world grows, the more it needs minerals, and the more it looks to Mongolia.

Foreign Direct Investment (FDI) has grown at an explosive rate. FDI is up from US$25m in 1997, to no less than US$344m in 2006. A large proportion of Mongolia's FDI has been channeled into the construction and mining industries, which are currently experiencing rapid growth.

The world's leading mining companies are setting up in Mongolia, and their executives demand western-level amenities. An estimated 50,000 expatriates will be relocating to Mongolia over the coming 5 years.

Sponsored by:



APIP

ASIA PACIFIC INVESTMENT PARTNERS

TOMORROW'S EMERGING MARKETS TODAY

FDI is pouring in from companies like Ivanhoe and Rio Tinto. The most important recent development has been the government signature of the landmark Oyu Tolgoi agreement, which opens up the world's largest untapped copper and gold reserves to foreign investment, making the terms clear and transparent. The Oyu Tolgoi mine is estimated to have over $500 billion worth of copper and gold reserves. New investments in Oyu Tolgoi, coupled with the revenues from mining its deposits, are expected to push Mongolia's economy into rapid expansion.

Gold and copper are only the beginning of the mining story. Mongolia is estimated to have coal reserves of 125 billion metric tons, a significant portion of which is in the Tavan Tolgoi mine in the southern Gobi (source: Altan San Securities). China buys up to 22 million tons of coal per month, so Mongolia has a major long-term customer on its doorstep.

It is important to note that Mongolia has a quite different political and business environment from the rest of Central Asia. Unlike some of its neighbors, Mongolia has a genuinely competitive political system, with a free press and open elections. According to the World Bank, Mongolia ranks in the top third of countries in terms of ease of doing business - above Spain and Poland, and much higher than any of the BRIC countries. The risks, therefore, are much reduced. The country's economic growth is built on firm political foundations, there being a national consensus on objectives.

An obvious way that foreign investors who are not affiliated with the mining/ commodities sector can take advantage of the high earnings and capital gains in Mongolia is through the property sector. A combination of factors makes it an ideal time to invest in Mongolian luxury real estate. First, after a pause coinciding with the global economic crisis, Ulanbaataar is under-built. Second, Mongolia's ongoing boom is producing an increasingly affluent upper class that demands luxury. Finally, with over half the capital still living in traditional felt housing and even more in soviet block-housing, there simply isn't enough quality real estate to meet supply.

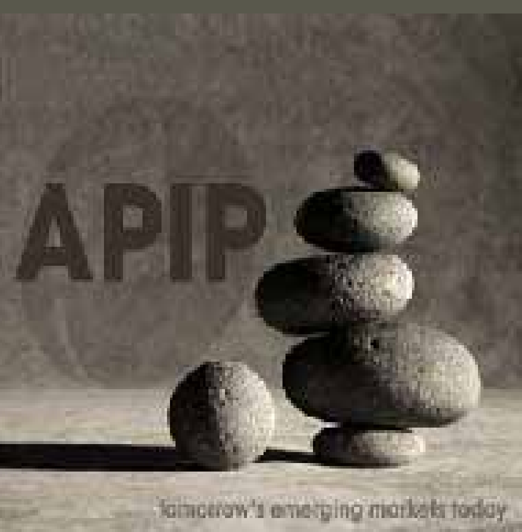
Good quality property has high yields and has shown outstanding capital gains. The quality of local building sometimes leaves much to be desired, however, so it is important to select a high-quality developer.

Happily, an international-standard developer recognized to have the highest construction standards and which has longest experience of the Mongolian market is now launching a new high-end mixed-use development, the Olympic Residence. Located in the heart of Ulaanbaatar, the Olympic Residence will redefine the levels of luxury for the city's residents.

The Olympic Residence is the fifth mixed-use development from Mongolian Properties. It features 116 luxury apartments and penthouses, and three floors of retail units. A Scandinavian-influenced architectural design gives the Olympic Residence clean lines and efficient use of space, with views surpassing any other development in the city.

The location of the Olympic Residence is arguably one of the best in Ulaanbaatar, sandwiched between two major hotels (the Hilton Hotel and the Shangri La Hotel - both under construction) in the heart of the embassy district, overlooking the Central Park. The area is the town's up-and-coming high-end area, centrally located near the parliament building, and 400 meters away from the capital's first Louis Vuitton store.

Visit the rich information available about the Olympic Residence and about Mongolia on the Mongolian Properties' website.



For more advice, please contact:
Asia Pacific Investment Partners

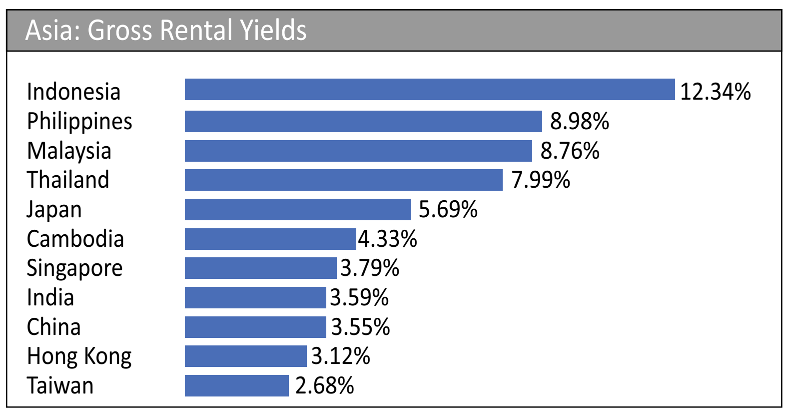
www.apipcorp.com
(+852) 8121 9947
olympic@apipcorp.com

Asia

Asia is not a particularly easy continent for foreigners to buy property in. A legacy of post-colonial laws mean that many Asian countries restrict purchases by foreigners, particularly as regards buying land.

Both Hong Kong and Singapore are however completely open, anyone can buy here. But their residential markets are very highly priced (approximately US$15,000 per sq. mt. in Hong Kong, and US$11,300 per sq. mt. for Singapore).

Properties in both cities have poor rental yields, at 3.8% for high-end properties in Singapore, and 3.1% for Hong Kong. Such prices cannot, in the nature of things, have very much upside potential.



Looking at Asia does not yield a plethora of investment ideas, because each choice has a downside, either in terms of yields, or in terms of costs and taxes. With a slightly sinking feeling, we make the following recommendations:

- **Malaysia. Kuala Lumpur** is relatively low cost, has good yields, and low transaction costs. Capital gains taxes are low but income taxes are high. The worry is high capital flight, which indicates that something is amiss in Malaysia's economic environment.

Possibles:

Thailand. Apartment owners earn good yields, and there are low transaction costs. Costs are on the high side, but not unreasonable. Taxes are a little high.

Disadvantages of some apparently attractive locations in Asia:

- **Jakarta, Indonesia** has superb yields, however it has wholly unacceptable round-trip costs (26%), and quite high rental income taxes.
- **Manila, Philippines**. Good yields, but high round-trip costs (18%) and high income taxes if you are a non-resident foreigner playing by the rules (25%). Petty bureaucracy irritating, too.

Asia

Malaysia
Thailand

Malaysia

Our rating: recommended

Malaysia has long been a picture of macro-economic stability and strong GDP growth over many years, despite submerged ethnic tensions. This strong growth is likely to continue.

Quick property facts:

- Good rental yields in Kuala Lumpur, at around 8.8%.
- Prices around US$1,424 per sq.mt.
- Low round-trip buy-sell costs at around 5.5%
- No capital gains taxes low, at 5.2%
- However, effective income tax rates are high, at around 22.42%

Malaysia is a relatively small economy, and exports represent as much as 120% of GDP, so the global slump took a heavy toll. GDP fell by -3.5% (IMF estimate) during 2009. Growth in 2010 is likely to be positive, variously estimated at 2.5% (IMF), 4.5% (ADB), or 3.7% (Malaysian Institute of Economic Research)

Malaysia chugs along with GDP growth of around 5.5% per annum, except in major global or regional downturns. Budget deficits are small, debt is low, the economy is a picture of stability, though central government debt as a percentage of GDP rose to 48% in June, leading to the country's first debt downgrade since the 1997-98 Asian financial crisis. The banking system seems sound, and international reserves are at a healthy nine months of retained imports

One concern is falling foreign investment flows. In 2008 Malaysia experienced a US$6 billion net outflow of foreign direct investment. Capital outflows continued in IH 2009, with direct investments outflows exceeding inflows by 4.9 billion ringgit (US$1.4 billion) in IH 2009. Portfolio flows IH were negative by 22.1 billion ringgit (US$6.1 billion); other investments negative by 27 billion ringgit (US$7.9 billion).

Malaysia Transaction Costs		Who Pays?
Stamp Duty	1% - 3%	buyer
Lawyer/Solicitor's Fees	0.4% - 1%	buyer
Other Fees	MYR180 (US$49)	buyer
Real Estate Agent's Fees	2% - 2.75%	seller
Costs paid by buyer	1.40% - 4.00%	
Costs paid by seller	2.00% - 2.75%	
ROUNDTRIP TRANSACTION COSTS	3.40% - 6.75%	

Racial tensions are always a worry. In April 2009 Najib Razak replaced Abdullah Badawi as prime minister, making promising noises about liberal change. However he then criticized a Malaysian High Court decision giving the Catholic Herald newspaper the right to use the word Allah to represent God in its Malay-language edition. In the ensuing reaction at least 11 churches and a Sikh temple were fire-bombed. The perception was that UMNO had fomented the unrest to re-assert its Malay and Islamic identity, having won only 51% of Malay votes in the 2008 national election.

Yet in Malaysia, this sort of simmering tension is business as usual. Meanwhile ex-prime minister Anwar Ibrahim is on trial for sodomy - another sign of business as usual.

In terms of property investment, Malaysia has obvious attractions. Whether the capital outflows are a significant sign of economic trouble ahead, is not yet clear. On balance, we would tend to bet that the Malaysian government will get things together, reduce the disincentives to business, and deliver higher economic growth.

Malaysia Taxes		
Tax on Rental Income (effective rate):		
Monthly Income	US$1,500	US$6,000
Tax Rate	22.40%	25.10%
Capital gains - tax rate:		
There is no tax on income made from selling property		
Residents:		
Residents are taxed only on their Malaysian-sourced income at progressive rates, from 1% to 28%.		

Thailand

Our rating: possible

The Thai property market has been seriously affected by political turmoil during the last couple of years. Residential property prices in Thailand dropped further in 2009, and can be expected to further drop in 2010, after the recent riots.

House prices in Thailand reached their highest point in 1992 (adjusted for inflation), and have not done well since then, in real terms. Real house prices in Thailand as of Q2 2009 were 34.2% below their 1992 peak - not a great record.

Quick property facts:

- Rental yields are good in Bangkok, at 8%
- Prices per square metre, at US$2,450 are a little high
- Transaction costs (round-trip) are reasonable, at around 7%
- Taxes are quite high

Tourists and investors have been shying away from Thailand due to persistent political uncertainty surrounding the conflict between Prime Minister Thaksin Shinawatra and has peasant and poor supporters (the 'red shirts') and the traditional political elite, represented by the Royal Family and the Democrats and their political allies. Since the restoration of democracy in December 2007, political tension between pro and anti-Thaksin group has worsened, culminating in the long street demonstrations of 2010, when the 'redshirts' occupied large areas of Bangkok.

A significant number of demonstrators were killed when the army attempted to clear the area, and at time of writing it was not obvious whether the disorder would die down..

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Thailand – Transaction Costs		Who Pays?
Legal Fees	THB20,000 - 30,000	buyer
Real Estate Agent's Commission	3% - 5%	seller
Withholding Tax	1%	seller
Stamp Duty	0.50%	seller
Specific Business Tax	0.11%	seller
Transfer Tax	0.01%	seller
Costs paid by buyer	0.2% - 0.5%	
Costs paid by seller	4.62% - 6.62%	
ROUNDTRIP TRANSACTION COSTS	4.82% - 7.12%	

The rural majority, who benefited immensely from Thaksin's pro-poor programs, remain loyal to him. This led to electoral victories for Thaksin's allies in Parliament, which the traditional elite were unable to tolerate, resulting in a military coup and then the restoration of democracy. Anti -Thaksin groups include many students, blue-collar workers, the urban elite, royalists and military-connected elements, who disliked the corruption and the populist programs of Thaksin and his cronies.

Thailand is attractive largely because, although this sort of turmoil has been seen many times before, such turmoil has a history of not slowing Thailand's development.

We would put Thailand in the 'Lebanon' category, i.e., in the group of countries where the upward momentum of the property market has been, and will be, delayed by civil disorder. Yet Thailand remains extremely attractive as a regional manufacturing base, attractive to foreigners as a ourist location, and as a convenient regional business centre.

There is little doubt that the uncertainty is hitting the economy. However when the civil disorder in fundamentally competitive countries abates, their property markets tend to do very well.

Thailand is not yet 'there', but the situation bears watching.

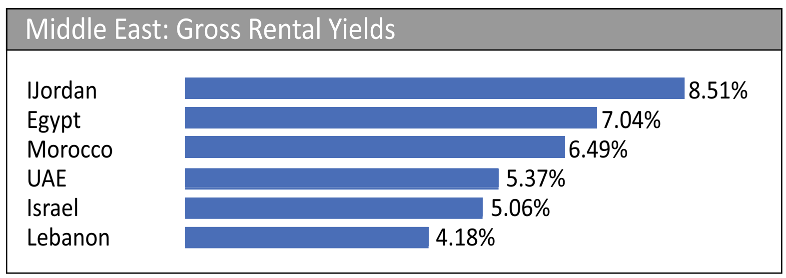
Thailand – Taxes			
Tax on Rental Income (effective rate):			
Monthly Income	US$1,500	US$6,000	US$12,000
Tax Rate	6.30%	12.70%	15.80%
Capital gains - tax rate:			
Gains derived from the sale of immovable property are taxed at standard income tax rates.			
Residents:			
Residents are taxed on their worldwide income			

The Middle East

We have been watching the Lebanese property boom with interest. Over the last five years, interrupted by a destructive Israeli bombing attack and an outbreak of internal fighting, residential property in Lebanon has experienced a boom.

In the second quarter of 2009, the average residential property price in the Beirut Central District (BCD) soared 40.7% That this should happen in a country with such tensions and facing such dangers, seems surprising.

Lebanon is now overvalued, in our opinion. But the boom illustrates the importance of valuation, above other factors. Lebanese property was undervalued - so when peace returned, it rapidly appreciated. Are there other undervalued Arab capitals?



In our opinion, there are two undervalued Arab capitals. Both Egypt and Jordan caught the ill-wind of the international crisis last year.

- High-end property in Cairo was hit particularly hard. However yields are good, especially in the expatriate area of Maadi. A recent Jones Lang LaSalle report pointed out that Cairo is the natural hub for the Middle East, in terms of costs, communications, and (for all its chaos and pollution) livability.
- Amman's property market players seem in utter despair. However Jordan is very attractive in terms of square metre costs, yields, and taxes - though transaction costs are high.

A third possible investment destination is Morocco, which is attracting enormous tourist interest for its beaches and the charm of its historic cities.

The Middle East

Egypt
Jordan
Morocco

Egypt

Our rating: recommended

For foreigners, Egypt is not the easiest place to buy property, which may require some legal fenangling. But the yields are good, the per square metre prices are low, and the taxes are low.

Quick property facts:

- Rental yields of 7%
- Prices low, at US$856 per square metre
- Round trip costs high at 12.1%
- Capital gains taxes zero, rental income taxes maximum 10%

Despite Egypt's obvious pluses (see above), investment here is a bet on the end-game. President Hosni Mubarak is an ageing and increasingly unpopular dictator. There is resentment at the regime's collusion with the US. The covert plan to put in his son, who i s already in charge of the ruling National Democratic Party (NDP)'s powerful Policies Secretariat, as his father's successor, is unacceptable to most people.

Egypt Transaction Costs		Who Pays?
Registration Fee	EGP500 - EGP2,000	buyer
Legal Fees	3%	buyer
Real Estate Agent's Fee	2.75% - 3.30%	seller
Transfer Tax	2.50%	seller
Capital Gains Tax	2.50%	seller
Costs paid by buyer	3.10% - 4.00%	
Costs paid by seller	7.75% - 8.30%	
ROUNDTRIP TRANSACTION COSTS	10.85% - 12.30%	

The Middle East

Egypt
Jordan
Morocco

Egypt
Taxes

Tax on Rental Income (effective rate):

Monthly Income	US$1,500	US$6,000	US$12,000
Tax Rate	10.00%	10.00%	10.00%

Capital gains - tax rate:
There is no capital gains tax.

Residents:
Residents are taxed on their worldwide income at progressive rates, from 10% to 20%

The government of Prime Minister Ahmed Nazif, who took over in 2004, has been reformist, reducing personal and corporate tax rates, cutting energy subsidies, and privatized enterprises. The stock market has boomed, and GDP grew about 7% each year since 2006. Despite these achievements, the living standards of the average Egyptian have not improved, and the government has had to continue providing subsidies for basic necessities. Inflation exploded in 2009 to 24% at its August 2008 peak, but then fell back to below 10% in June 2009 as world food prices moderated.

2009's GDP growth was 4.7%, and in 2010 4.8% growth is expected. Reserve coverage remains comfortable at 6½ months of imports of goods and services.

It is a mixed picture - some positive elements, and some negative.

The Middle East

Egypt
Jordan
Morocco

Jordan

Our rating: recommended

Quick property facts:

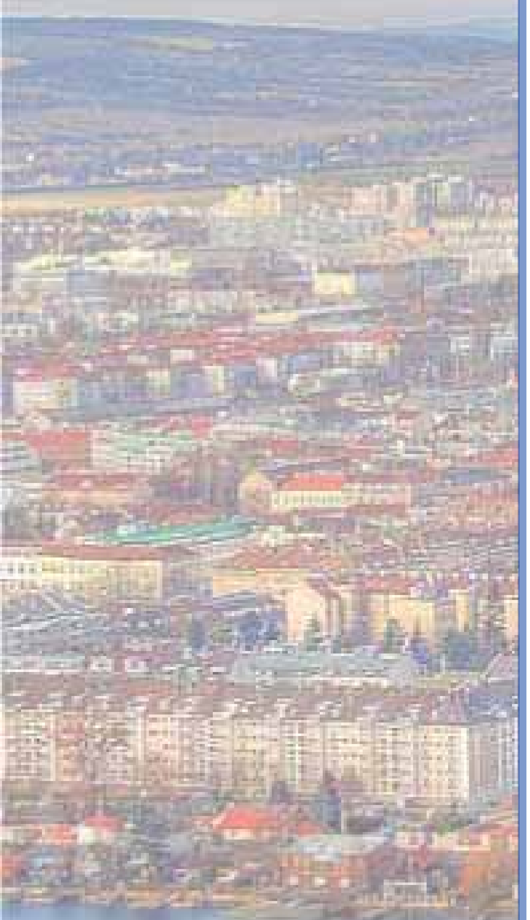
- Rental yields of 7%
- Price per square metre US$1,138
- Round trip costs very high, at 15.25%
- Capital gains taxes zero, rental income taxes maximum 10%

Jordan's economy has been transformed in the last fifteen years. After a devastating banking and exchange rate crisis in 1993 which halved the standard of living of the average Jordanian, the economy has been turned from a state-controlled economy, with highly regulated trade, to a deregulated liberal economy with a fast growing export sector, and with a reputation as a place where business can be done. The present King Abdullah, who ascended to the throne in 1999, is said to be a key proponent of these changes.

Jordan Transaction Costs		Who Pays?
Stamp Duty	0.60%	buyer
Transfer Duty	6%	buyer
	4%	seller
Real Estate Agent's Fee	2% (+ 16% GST)	
2% (+ 16% GST)	buyer	
seller		
Costs paid by buyer	8.92%	
Costs paid by seller	6.32%	
ROUNDTRIP TRANSACTION COSTS	15.24%	

The Middle East

Egypt
Jordan
Morocco



Jordan

Taxes

Tax on Rental Income (effective rate):

Monthly Income	US$1,500	US$6,000	US$12,000
Tax Rate	nil	1.90%	5.00%

Capital gains - effective tax rate:
Gains on the sale of real property are not taxed.

Residents:
The income of resident individuals is taxed at progressive rates

House prices have fallen 15% to 20% in Jordan since the beginning of 2008. An oversupply of luxury properties has been one factor (demand is much stronger at the lower end). Real estate transactions were around 11% lower from January to October 2009 than during the same period in 2008, when Jordan was highly affected by the housing crisis in the Gulf.

Real GDP is believed to have risen only 3% in 2009 and is likely to grow 4% in 2010, according to the IMF, after growing an annual average of 8.3% from 2004 to 2008.

Government officials and businessmen are however optimistic, because during the recent global crisis "no major companies that collapsed, no factories filed bankruptcy and Jordan will follow the overall global trend improvement," says Zaki Ayyubi, Director General of Jordan Chamber of Industry.

Foreigners can buy housing and land in Jordan, but must not sell within five years. In the past, permission procedures were generally lengthy, but approval can now be obtained in just 10 days.

The Middle East

Egypt
Jordan
Morocco

Morocco

Our rating: recommended

Unlike most countries in the Middle East, Morocco has long encouraged foreigners to purchase and invest in property in the Kingdom. Foreign citizens can freely buy, rent and invest in land and real estate in Morocco (except agricultural land).

Quick property facts:

- Rental yields of 6.5%
- Prices per square metre: US$2,161
- Round trip costs high at 12.1%
- Capital gains taxes high

Morocco's economy has been doing well. King Mohammed VI, who succeeded in 1999, is a dynamic monarch who has brought substantial reform to Morocco, and some national reconciliation following the torture which marked the early years of his father's rule. The economy grew at an impressive 5.6% in 2008. GDP is believed to have risen 5% in 2009, and the IMF forecasts 3.2% growth n 2010.

Morocco's sustained economic growth has led to a drop in unemployment, from 11.4% in 2003, to 9.6% in 2008. In urban areas, the unemployment decline during this period was more pronounced, from 19.3% to 14.7%. In Q2 2009, unemployment was at its lowest level yet, at 8%, before rising to 9.8% in Q3.

Inflation management has greatly improved, with inflation averaging 1.38% during the period of 1999 - 2005, down from 6.2% from 1990 to 1995.

Morocco Transaction Costs		Who Pays?
Real Estate Agent's fee	2.50%	buyer
Registration Duties	2.50%	buyer
Legal Fees	1% - 5% (plus 10% VAT)	buyer
Notary Fee and stamp duty	1.00% - 1.50%	buyer
Land Registry Fee	1.00%	buyer
Notary Tax	0.50%	buyer
Costs paid by buyer	8.60% - 13.50%	
Costs paid by seller	nil	
ROUNDTRIP TRANSACTION COSTS	8.60% - 13.50%	

The Middle East

Egypt
Jordan
Morocco

Morocco

Taxes

Tax on Rental Income (effective rate):
Rental income tax is obtained by taking 40% off the gross rental income. The tax rate rapidly progresses from 15% to 42%, so that the top rate of tax is actually 25.2% of gross income.

Capital gains - effective tax rate:
Gains on the sale of real property are not taxed.

Residents:
The income of resident individuals is taxed at progressive rates

Central to the government's plan of boosting real estate and tourism investment is Vision 2010, the ambitious plan laid down in 2001 by Morocco's King Mohammed VI, aimed to increase tourist arrivals to around 10 million.

The massive tourist/residential development program, Vision 2010 - of which the coastal part has come to be known as 'Plan Azur' - aims to bring 10 million visitors a year to Morocco by 2010 and build 6 new coastal resorts, 250,000 hotel beds, including 180,000 located in or around the cities.

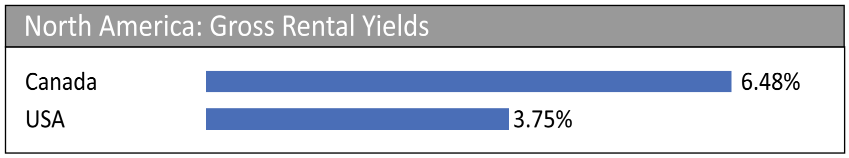
In mid-February 2007, a study called "Arab Reform and Foreign Aid: Lessons from Morocco" concluded that Morocco provides a valuable lesson in political and economic reform - that top-down reforms can be highly effective, if skillfully and determinedly carried out, and that aid donors should lean towards countries where evidence of such commitment is to be found. The study was published by the Center for Strategic and International Studies based in Georgetown University.

Tourism almost invariably brings increased interest in property buying - and will likely have a large impact both on Morocco's economy, and on property prices.

North America

The United States

For the first time since the crisis, we recommending the US, believing that the US cycle is bottoming. However we view talk of a 'rush to buy' as hype. Property recoveries tend to be slow and hesitant. People are still walking away from their mortgages.



We recommend buying in locations worst hit by the downturn:

- Florida
- Las Vegas
- Western New York
- Los Angeles

These are locations where price falls have been large. They're easy to track using Zillow's Zillow Home Value Index, which allows you to compare 1,5 or 10-year price fluctuations of homes in US metros or regions, either based on Zestimates, i.e, guesses by site visitors, or on Zillow listings, or based on actual sales prices. Lots of other metrics too - homes sold with price cuts, amount of price cuts, homes foreclosed, etc.

There's no necessary correlation between a large drop in values and real value, but some states and cities just are more volatile, and as the recovery beds in, more likely to see an upside. Since 2000, the area traditionally defined as the Sun Belt - Arizona, California, Florida and Nevada - has experienced the largest run-up in prices and, subsequently, has been hit the hardest in the downturn.

North America

S&P Case Shiller indices suggest that national home prices have been rising in the US since April 2009, having entered their three-year decline in January 2007. US house prices are now generally back at 2003 levels.

New home sales are up. Existing home sales are up. But housing starts are not up, and are still at their lowest levels for 30 years, below the lows of the early '80s and early '90s recessions.

Those interested in the New York data would do well to sift through Corcoran's high quality reports on the residential markets of Manhattan, Brooklyn, and the Hamptons. Anecdotal reports suggest that as banker's bonuses are back, so too i s the luxury market.

Conclusion: a bias for the developing world

Our recommendations may seem surprising, with their large number of third world names, and their large number of 'opportunistic' suggestions, like Hungary, Thailand, and Jordan. The U.S. is the only developed economy on our 'recommended' list (and only some parts of the U.S.) But in our view these recommendations reflect reality. We do not believe that 'developed' countries are necessarily safer investments than third world cuontries. The last two years have disabused everyone of that notion. The third world may seem to have major issues - kidnappings, or social unrest - but these are often seen locally as minor commotions.

What matters, in our opinion, is that that property investments should pay well, and in many developing countries they stand a chance of doing so, whereas in the developed world, the housing boom is played out, and is now going into reverse. Do you want a return on your income of 9% and possible rapid capital gains, in a fast-growing country? Or do you want 3% returns and no likelihood of capital gains, but a 'safe' i.e. Western, environment?

True, many developing countries have tax disadvantages and high transactions costs - but some do not. These issues have to be carefully weighed. Fast growth is not a panacea. Everything should fit together, and usually not everything quite does. We believe we have identified countries where many pieces of the puzzled fit - enough to permit further exploration of the opportunities.

HOW WE RATE COUNTRIES' PROPERTY INVESTMENT POTENTIAL

The Global Property Guide's mission is to conduct impartial research into residential property markets, with a view to investment returns, on the basis of the well-known principles of 'fundamental investing' which, as applied to the residential property markets, may be summarized thus:

- We believe that gross rental yields, like P/Es on stocks, are good indicators of whether house prices are fair value (even if people are not 'buying for yield').
- High transaction costs, high income taxes, high capital gains taxes, are all strong negatives, lowering the prices which are appropriate. High local interest rates, too.
- Strong GDP growth is a very important factor pushing house prices up. However, it is hard to forecast. Even the OECD forecasts only stretch 2 years out.
- Governance matters. Inefficient and corrupt governments hamper GDP growth. Watch for negative news stories, high inflation, and balance of payments problems. Where there is good government, we prefer to know this will continue, i.e., are reassured if there is a visible successor government/president of good quality.
- Attractive countries with beaches, historical monuments, and peace and order tend to do well, long-term.

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Mongolia:

One of the world's fastest growing economies

To the surprise of many, Mongolia will sit on the short list of the world's fastest growing economies during the next decade.

This is a story of mineral wealth, and of its impact on a small and (till recently) relatively undeveloped economy. It also reflects good luck and skill. Mongolia is democracy (not untroubled); there is press freedom; there is a vigorous free enterprise economy; there are large amounts of foreign direct investment (FDI); there is enormous foreign interest; and there are many multilaterals actively advising the government on infrastructure development.

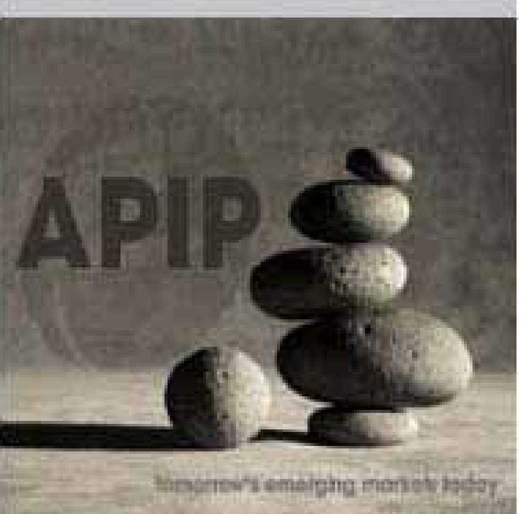
Mongolia is "a country on the point of transformation", according to Rencap, the Russian investment bank. Renaissance Capital, in a recent research report, has drawn attention to the sheer scale of the development, the inrush of capital, has predicted that the number of expatriates in Mongolian will increase from under 5,000 to 50,000 in the next 5 years.

Mongolia is a country on the move - but the journey is not without hiccups.

Mongolia in 2009

Unfortunately, Mongolia was one of the economies hardest hit by the global economic downturn:

- GDP fell by 4% in 2009
- Inflation ran at 30% by end-2008, and mid-20% in 2009
- Copper prices fell from $8,000/ton in mid-2008, to $3,400/ton early 2009
- Major consumer nations, including China, severely curtailed imports
- Mongolia's previously healthy fiscal balance moved into deficit
- Prices of cashmere, the primary source of income for the majority of Mongolia's rural inhabitants, fell by two-thirds
- The construction sector froze
- Though Mongolian banks had limited direct exposure to foreign financial markets, the financial sector moved into shutdown mode.



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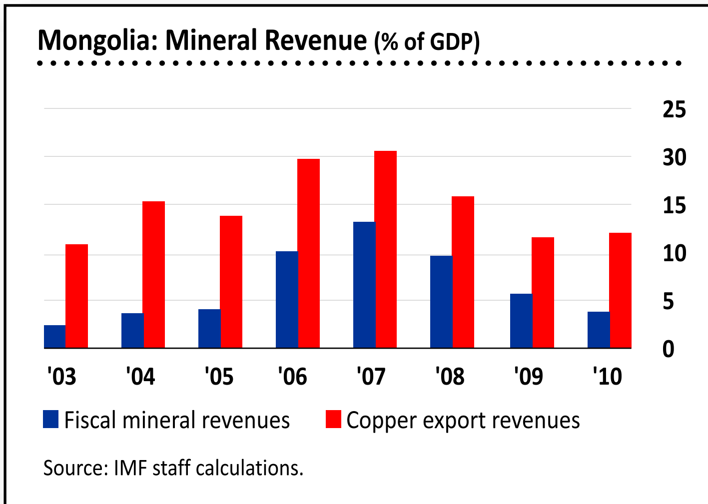
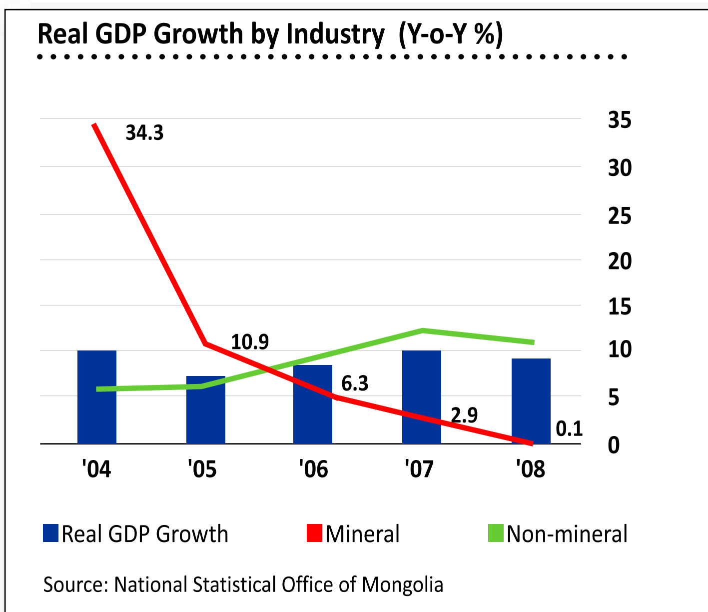
The sharp shocks suffered by Mongolia centred on what were until now key economic drivers: commodity exports (rather than development); Ulaanbaatar -centred construction and services; and animal/cashmere husbandry. These led the pre-2008 development charge, and suffered most.

The first chart illustrates the dip in mineral income.

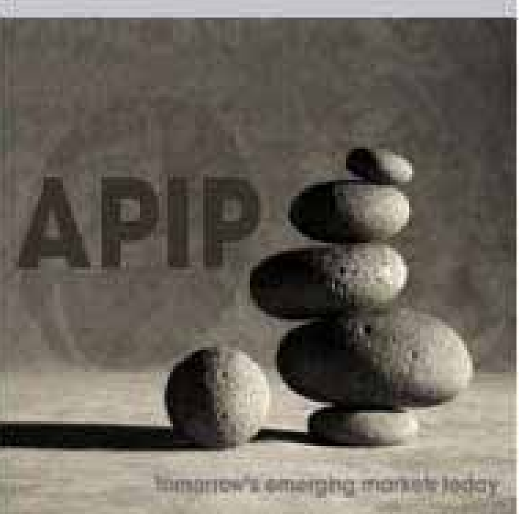


Source: IMF staff calculations.

However the second graph shows a different picture, charting the rise of a broader economic base (which tends to be eclipsed by the minerals numbers) that has held up comparatively well.



Source: National Statistical Office of Mongolia



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Mongolia in 2010

The Oyu Tolgoi JV agreement, signed end-2009, between the Mongolian government and Ivanhoe-RTZ will bring investment worth $4-5 billion over the next nine years. This will have a huge impact, as a "wall of money" descends on Mongolia ($768 million has been earmarked as the construction budget for 2010). There are also other important agreements such as Tavan Tolgoi (due early 2010), and other subsidiary contracts

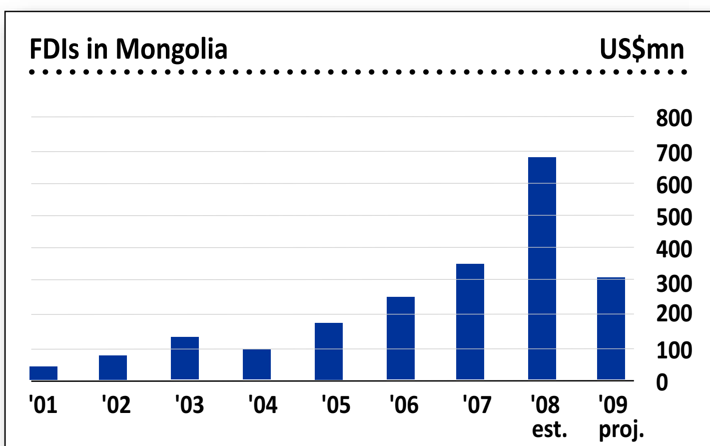
Mongolia's economy is about 25% smaller than Moldova's, yet:.

- Mongolia's copper, coal, gold and uranium reserves surpass those of Kazakhstan, Russia and Australia.
- Mongolia's molybdenum reserves are world-class.
- There are potentially large oil resources. Much of Mongolia's mineral base still remains under-surveyed.

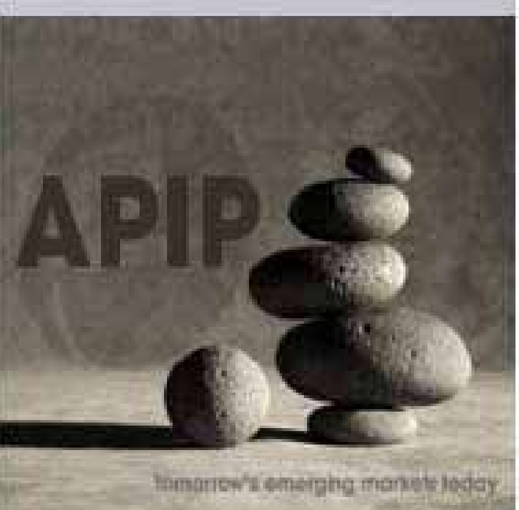
The scale of development of Mongolia's mineral wealth may propel the country to a decade and more of double-digit expansion. This growth must inevitably drive:

- consumer sector demand
- real estate

Foreign direct investment (FDI) drives Mongolia.



Source: World Bank, IMF, UNCTAD, ADB



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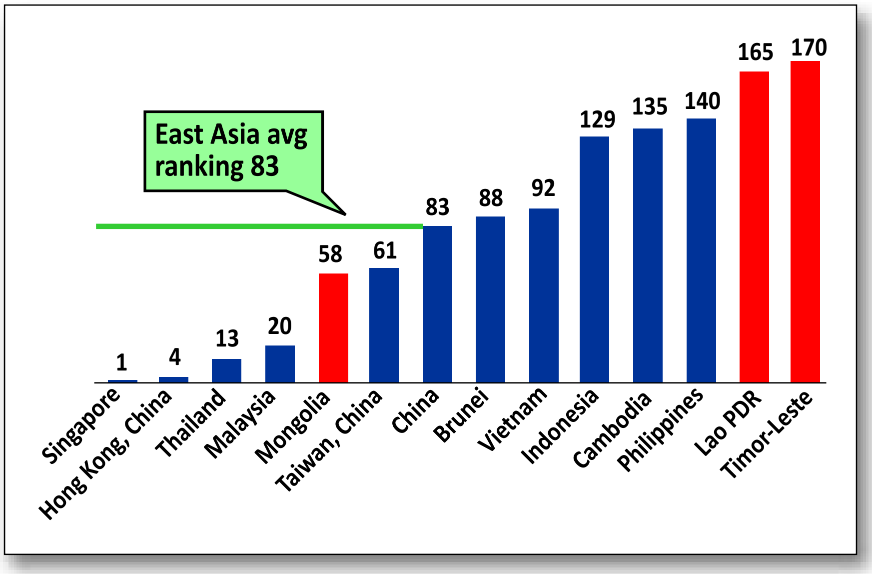
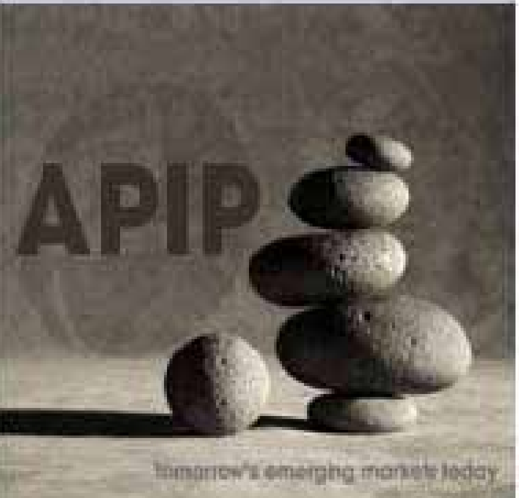
However it is the secondary "mining support tail" which will grow alongside mining, which will generate many of the most attractive new investment opportunities - accommodation, financing provision, transport, real estate, IT and technology upgrade and training, retail, infrastructure and logistics, HR/personnel provision.

Ease of doing business in Mongolia

What sets Mongolia apart from most of its peers is its institutional structures. It has a genuinely competitive and open business and political system, with a free press and open elections. It has a culture of enterprise.

Globally, Mongolia ranks in the top third of countries in terms of ease of doing business - above e.g. Spain and Poland, and much higher than any of the BRIC countries. At the end of 2009, the IFC (along with the World Bank) rated Mongolia in an Asian context for "ease of doing business":





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Commodities 2010: prices will rise - but not to 2008 levels

Mongolia is highly sensitive to commodity price fluctuations, as about 50% of FDI goes to Mongolia's mining sector.

Economists at the International Monetary Fund expect a 2.5% rebound in global economic growth in 2010, increasing demand and elevating prices for energy products, metals, industrial commodities and construction materials.

Mongolia has seen the Tugrig appreciate by some 5% against the Yuan in 4Q 2009. Allowing currency appreciation has given the Mongolian central bank flexibility to tighten monetary policy.

Where does this leave Mongolia?

Anticipating the future is always a fraught exercise, but nonetheless there are plausible benchmarks:

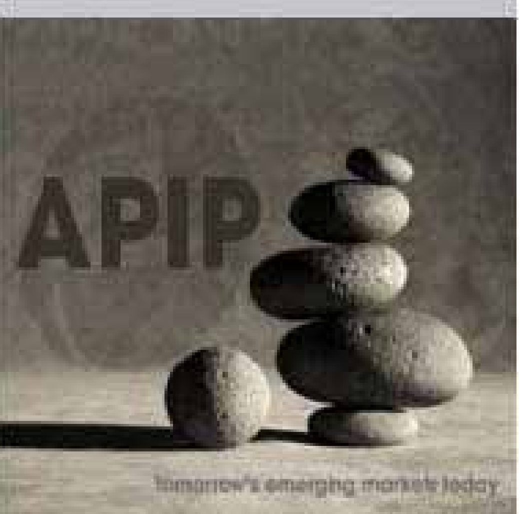
- The commodities boom of 2005-07 provides an analogy for what awaits Mongolia - rapid growth.
- All political parties in Mongolia agree that the way forward lies not in deploying resources on social spending programmes, but targeting the SME economy, supporting business, and promoting growth
- The Government and the whole range of international monetary agencies working in Mongolia (e.g. IFC, WB, IDB, EBRD, ADB, IMF) are aware of how relatively unprepared the country's infrastructure is.

Only 67% of population has access to power (electricity), and only 35% to water. Only 3.5% of the roads are paved, and the existing ones need capital repair. The railway network does not match growing export?import cargo flows. Mongolia's infrastructure needs US$8bn over the next decade.

The multilaterals' intention is to prevent the expansion stalling through lack of means, by putting the infrastructure in place - water, sanitation, electricity and heating supplies, road construction and railway transport.

The "big unknowns" for the 2010 are:

- Can the Chinese economy continue to hold up its leading pace?
- Will Asia "decouple" from the Western economies?
- The bursting of what virtually all commentators see as the unstable and problematic regional asset bubble.



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Plainly, any real estate bubble deflation will impact overall lending, liquidity, and psychology. Some banks (especially Chinese) may suffer write downs. But then what? Will that deter Mongolia's main investors? No - most are well-collateralized corporate players in minerals, or non-real estate consumer-retail SMEs.

Conclusion: Mongolia's future

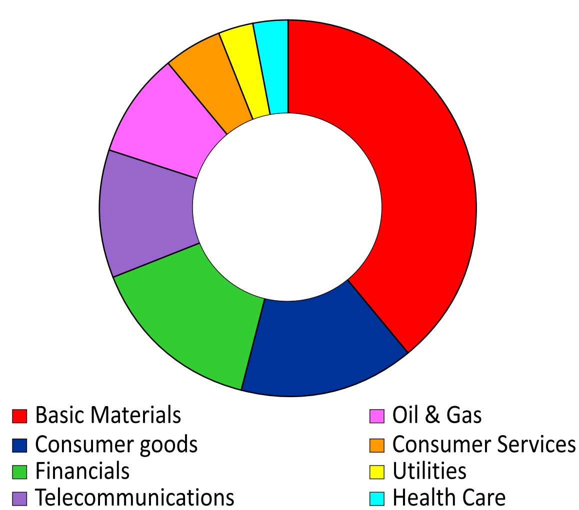
Mongolia will face substantial economic dislocation in coming years. Despite the challenges, Mongolia's transformation now appears unstoppable. According to official estimates, over the next five years:

- Coal production will double
- Gold production will treble
- Copper output will quadruple.

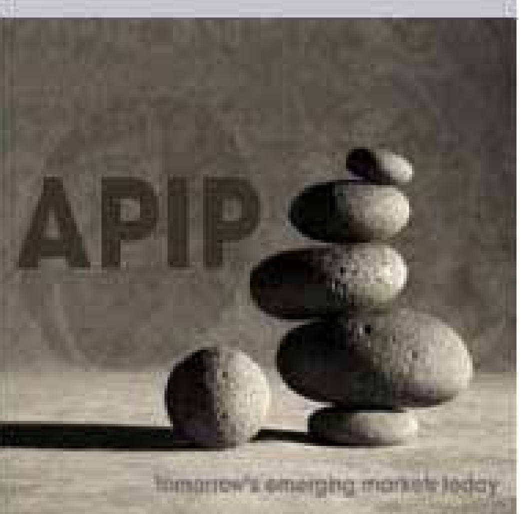
The Government intends to establish three major state-owned holding companies (minerals, power, infrastructure) and raise significant amounts of capital by offering their shares in international and domestic stock markets. These privatisations will provide additional spurt to the local market and to capital inflows.

Mongolia's economy is diversified, giving it a multi-based appeal for investors.

Marketcap breakdown of Top 20 companies by industry (as of 31.08.09)



Sources: MSE, Eurasia Capital Mongolia



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Opportunities in the property sector

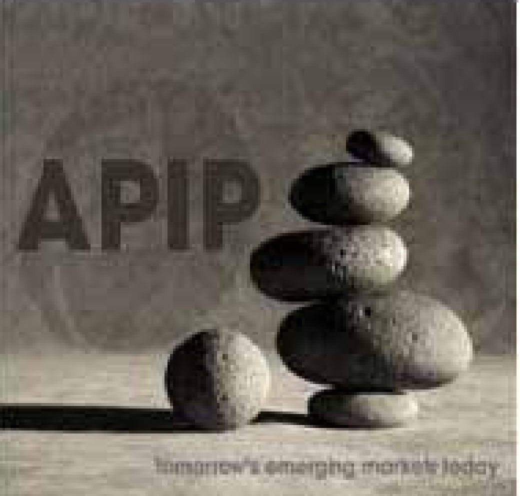
Property prices in Ulaanbaatar have risen historically at more than 25% per year post 2002. The recession pulled them back to early 2007 levels.
The effects of the global financial crisis on the Mongolian real estate market were very visible. Numerous cranes throughout the city ceased moving and buildings stood unfinished throughout 2008 and 2009.
Yet now there is a severe shortage of modern residences, a lack of urban infrastructure, a lack of alternate local domestic investment sectors for the new middle class, and an influx of international expatriates.

The large increase in the expatriate population means there will be a substantial increase in demand for quality real estate in the capital city.

Many of the centrally located office spaces like Monnis and Central Tower are quickly filling up.

Warehouse space is in increasing demand. Unfortunately, at the moment supply does not match the needs of businesses.

As 2010 arrives and a new chapter opens in Mongolia, the international investor community has many promising new investment opportunities.



For more advice, please contact:

Asia Pacific Investment Partners

Room 303, 3rd Floor,
St. George's Building,
2 Ice House Street,
Central, Hong Kong
www.apipcorp.com
(+852) 8121 9947
olympic@apipcorp.com