

Opportunities in the US housing market

Stuart Johnson
North Dakota Developments LLC

Agenda



- ❑ Brief Overview of the US property investment market
- ❑ What viable options are there for individual UK Property Investors to get involved in the US in a controlled manner?
- ❑ How modern technology is creating opportunities in the US property market

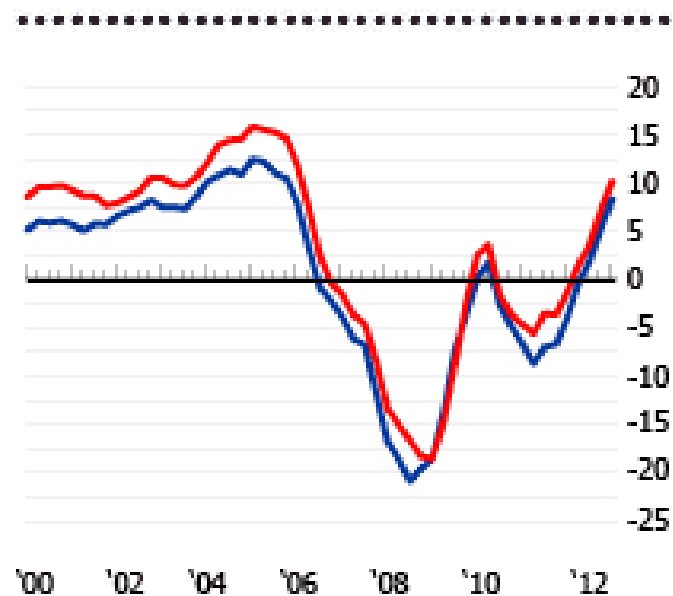


The US Property Market

- ☐ Price
- ☐ Affordability
- ☐ Interest Rates
- ☐ Rental demand

The US Property Market

House Price Change, Annual (%)



■ Nominal

■ Real

Source: Federal Housing Finance Agency

□ Historically low prices during financial crisis

□ Strong price recovery across many US regions

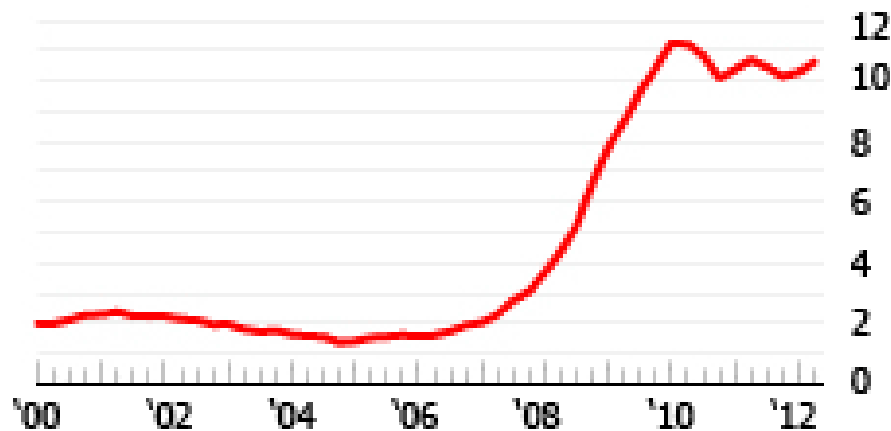
□ Excellent capital profits

□ How sustainable is current price growth?



The US Property Market

Residential Real Estate Delinquency Rate (%)



Source: Federal Reserve System

❑ Massive rise in foreclosures post financial crisis

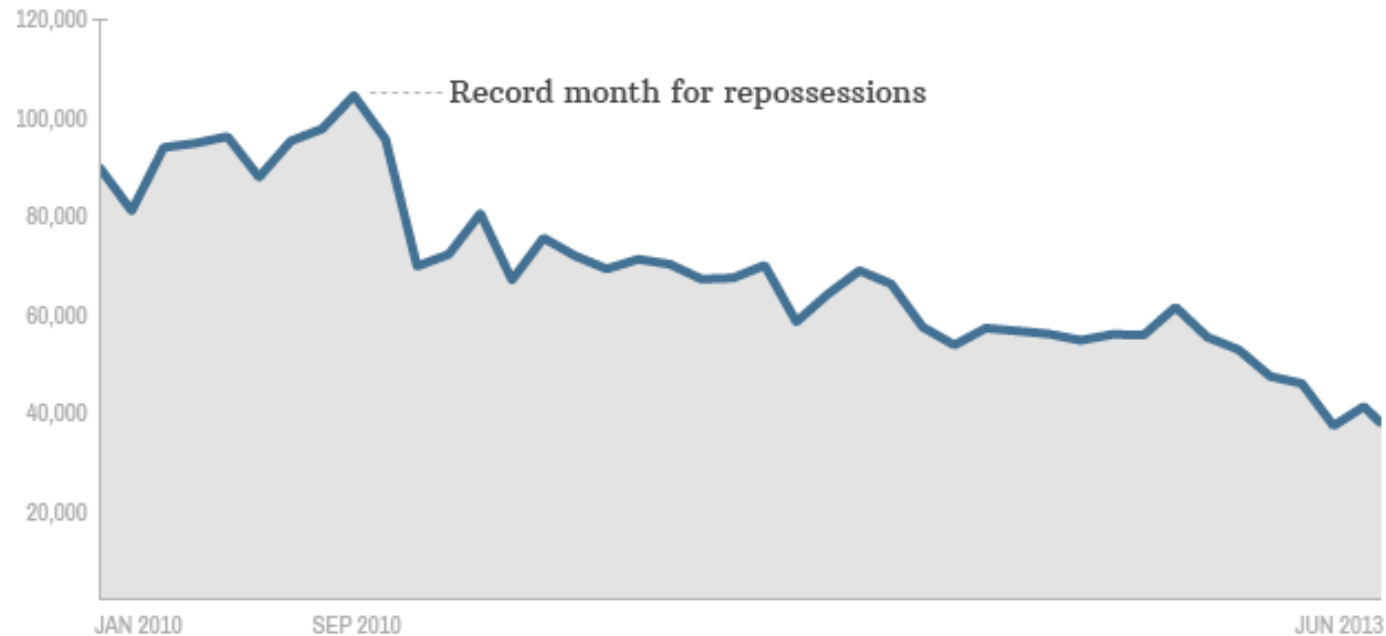
❑ Now stabilising...

❑ ...but there is still an affordability issue in many states



The US Property Market

Foreclosures completed



"The long national foreclosure nightmare is nearing its end, with foreclosure filings hitting their lowest level since before the housing bust."

CNNMoney

SOURCE: REALTYTRAC

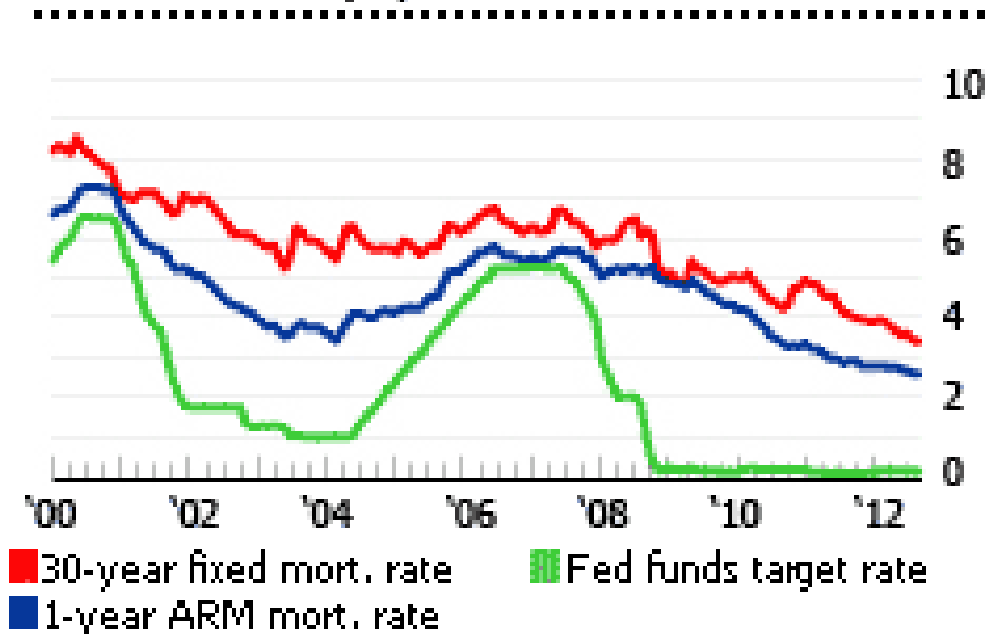


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The US Property Market

Interest Rate (%)



Source: Freddie Mac, US Fed

Affordability for homeowners and investors...if you can get a mortgage

What the experts are saying

...on pricing

“U.S. home prices will remain positive until year-end as demand gets a boost from moderate job growth and record-low affordability rates.”

“...the United States is on top of international real estate trends with inflation adjusted home prices rising 8% year-on-year...”

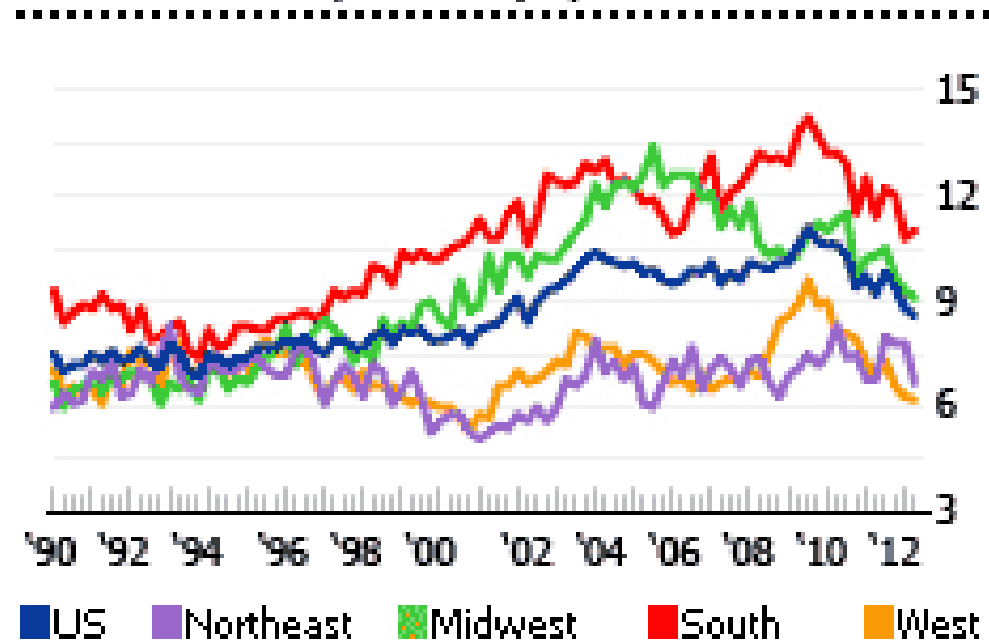
“The economic and monetary conditions in the U.S. led by rising consumer confidence will contribute to considerable pent-up demand for housing following the multi-year downturn.”

Scotiabank Global Economist, Adrienne Warren
“Global Real Estate Trends.”



The US Property Market

Rental Vacancy Rates (%)



Source: US Census Bureau

- ☐ Continually improving rental rates and reducing vacancy rates
- ☐ Not a clear cut picture when looking nationally and regionally
- ☐ Large variation in rental yields
- ☐ Data masks and ever burgeoning demand for rental accommodation

What the experts are saying

...on rental demand:

“U.S. homeownership rate declined to 18-year low at about 65% and is still to decline to 60% from a high of 70%” - economists surveyed by Financial Times.

“The U.S. commerce department has estimated that for each percentage point decline in home ownership, there has been a shift of approximately 1.1 million households to the rental market”

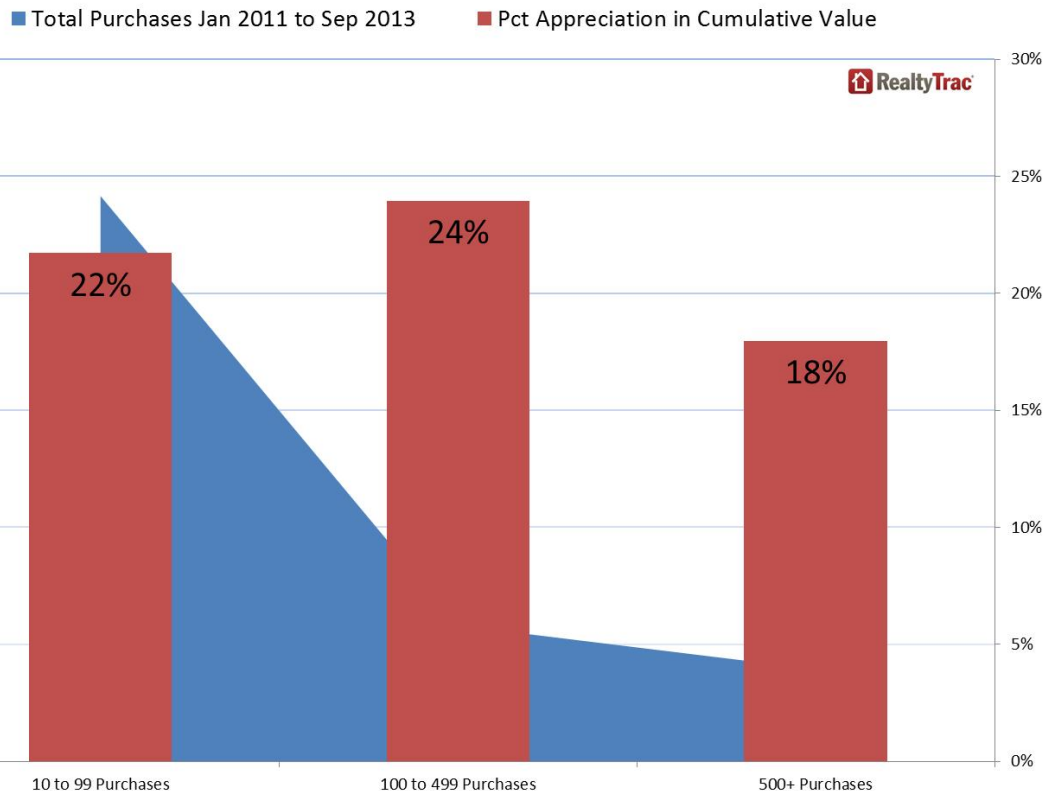
“The construction of multifamily apartments had risen by 353% since the housing market dip, while single-family homes rose 78%,” quoted data from the U.S. commerce department.

“Majority of U.S. home owners, whose property are still under water, are now renting”.

Financial Times / Ft.com

What the experts are saying

Investor Property Portfolio Appreciation



“Investors purchasing between 10 and 99 properties during 2011 to Sept 2013 have subsequently disposed of 29 percent [of them]”

Forbes

Interested in US Property?

The
Good

- ✓ Strong and stable economy
- ✓ Rising rental demand
- ✓ Low to moderate transaction costs

The
Bad

- X Yields now moderate to poor in strongest capital growth areas
- X Huge country with many variations
- X Pro-tenant rental market

What viable options are there?

❑ Florida

- Single Family Homes and condo apartments
 - New build in Miami,
 - Older stock in Orlando area and SW Florida
- Yields
 - Before – 15% to 25% plus net
 - Now - typically 6% net pa
- BMV opportunities
 - Before - \$30,000 to \$60,000 for decent quality stock
 - Now - \$65,000 to \$150,000+ (BMV??) – cash only



- ❑ Pitfalls - far away, hard to manage, net figures often ambitious, property tax
Price growth?

What viable options are there?

❑ Detroit

- Single Family Homes
 - Central Detroit
- Yields of over 30% net pa ('Section 8' tenants)
- BMV –
 - \$20,000 to \$35,000 “what is the market value??”
- Investment packages, ‘hands-free’, low entry



❑ Pitfalls – lack of real demand, declining population, in reality needs hands on involvement and detailed knowledge, issues with oversupply

What viable options are there?

❑ New York state

- Single and multi-family homes
 - Buffalo & Rochester
- Price \$20-\$30,000
- Yields of 25% to 30% net pa (mixture of Section 8 and quality tenants)
- High Rental Demand low vacancy rates

- ## ❑ Pitfalls – difficult exit – majority rent in Buffalo, far away, hard to manage



What viable options are there?

❑ Other cities commonly promoted to UK investors:

- Kansas
- Cleveland
- Atlanta
- Nashville
- St. Louis



- ✓ Key is to identify a growing city on the back of the US economic recovery – and know local market
- ✓ Focus on yields – don't chase capital growth

What viable options are there?

❑ Property Bonds:

- Fixed returns
- Fixed timeline
- Initial investment returned
- Truly hands- free



- ❑ Pitfalls – put all your trust in the bond issuing company – no direct ownership and no potential for capital growth



Case Study



What other new options are there?

How modern technology is creating opportunities in the US property market

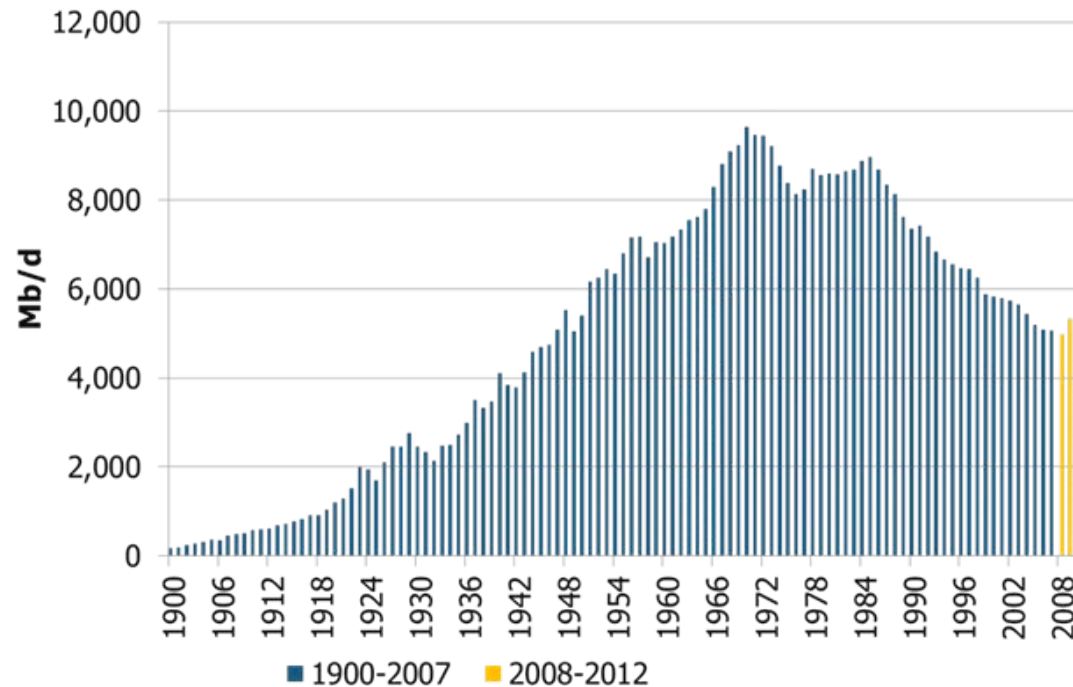
Look at Government, political and economic influences

The Oil & Gas Industry



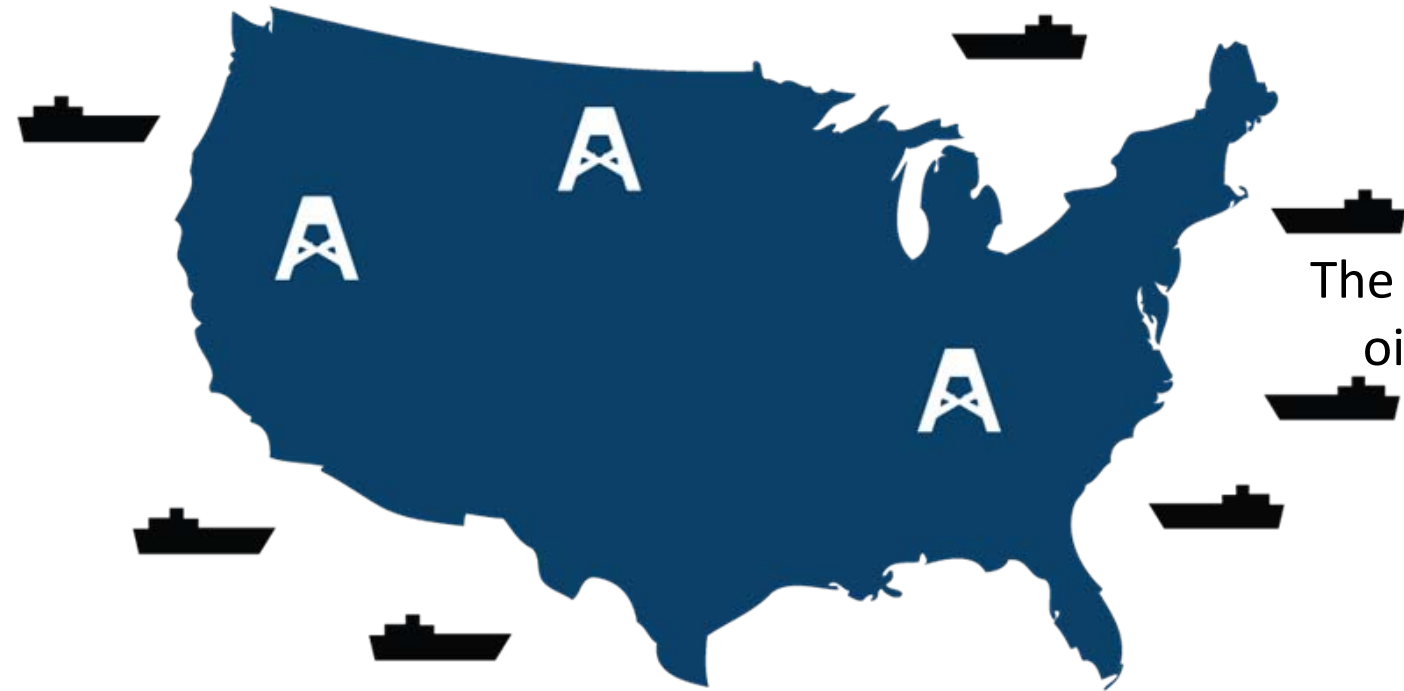
USA was largely self sufficient in oil up to 1949

The Oil & Gas Industry



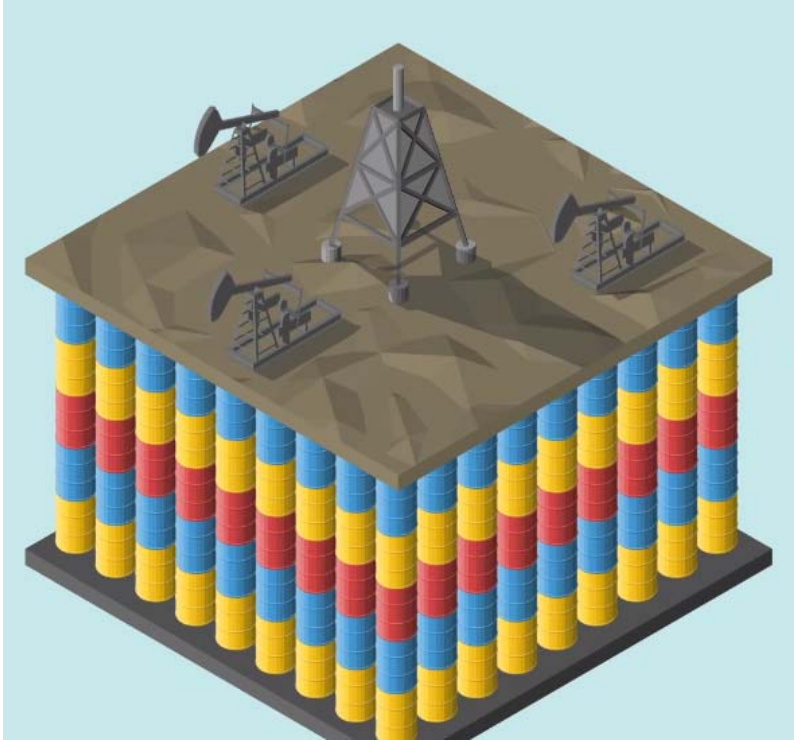
Demand Skyrocketed
Oil Production peaked
...and then declined

The Oil & Gas Industry



The USA became dependent on massive oil and gas imports.

The Oil & Gas Industry

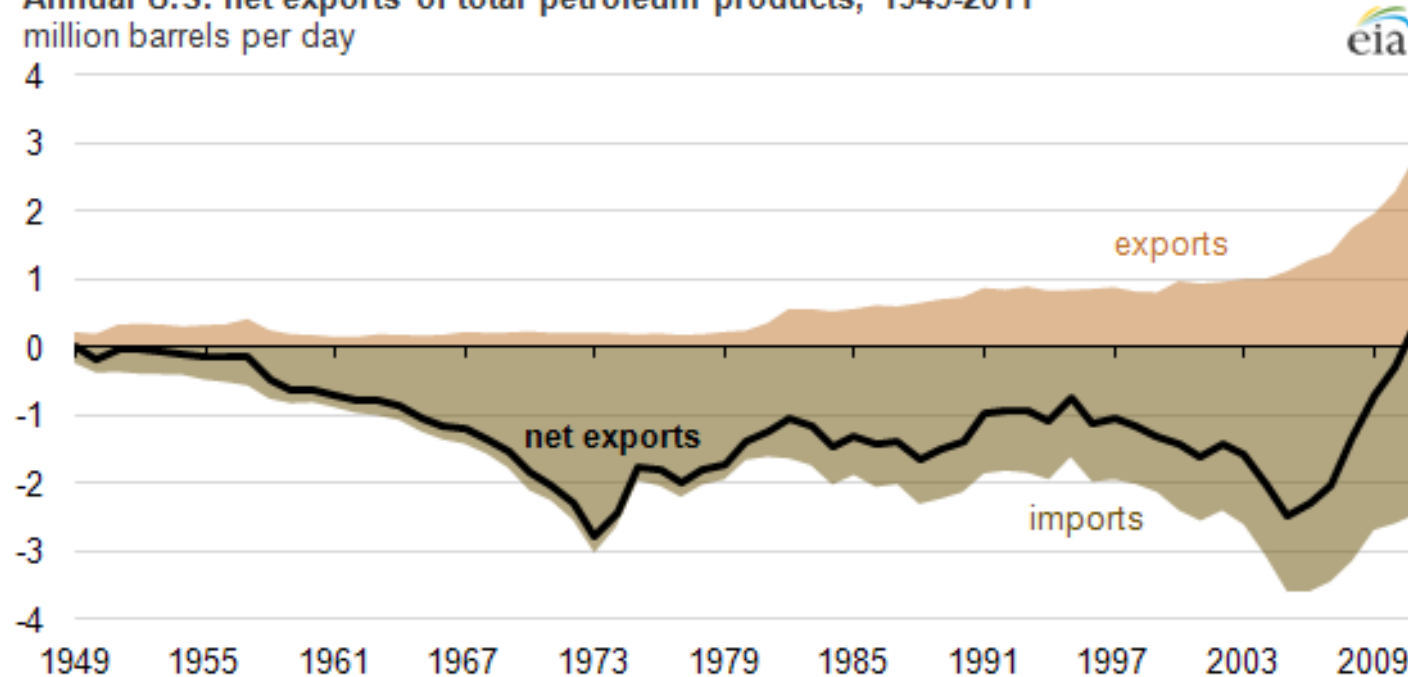


5 years ago, America struck oil again!

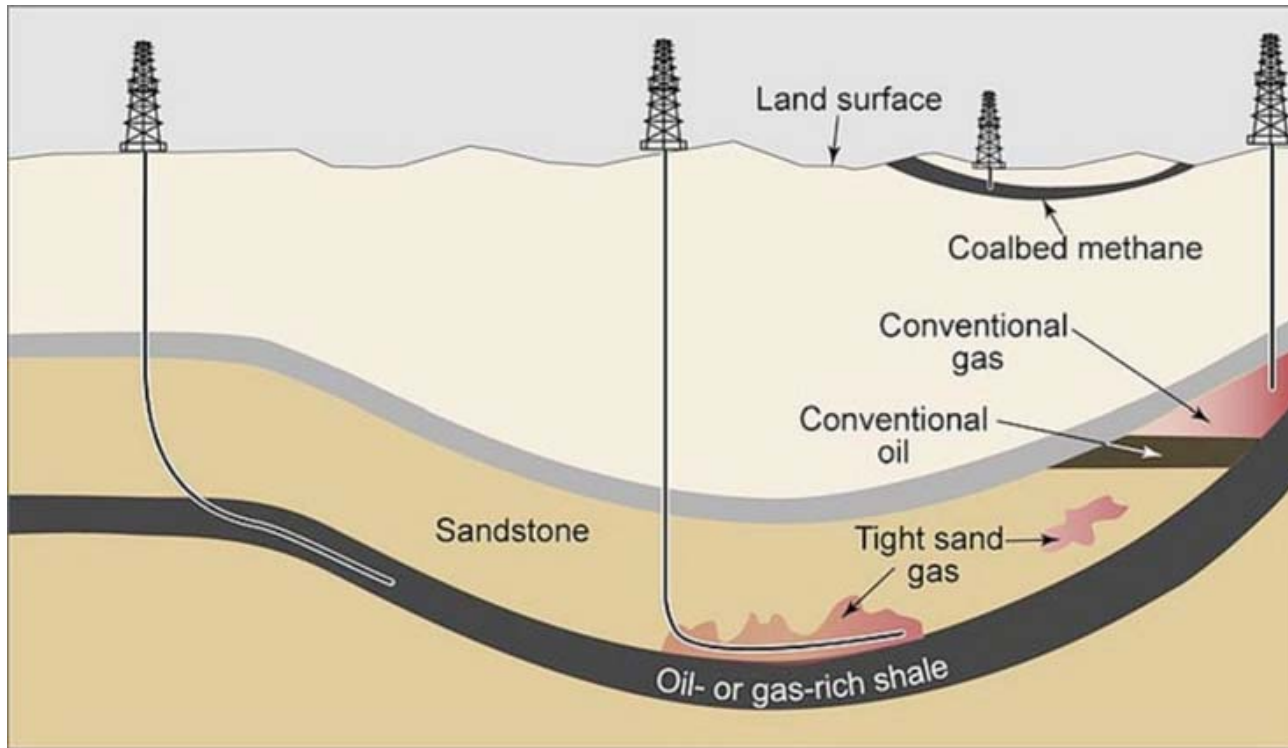
- ☐ US to end some oil imports from as early as next year, due to soaring domestic production levels.
- ☐ US crude oil exports exceeding imports for the first time in 65 years.
- ☐ Global energy demand to rise 35% by 2035 (International Energy Agency)

The Oil & Gas Industry

Annual U.S. net exports of total petroleum products, 1949-2011
million barrels per day



New Technology



Sources: U.S. Energy Information Administration and U.S. Geological Survey.

New drilling techniques

Hydraulic Fracturing

The Oil & Gas Industry



Political, Economic and Commercial Will



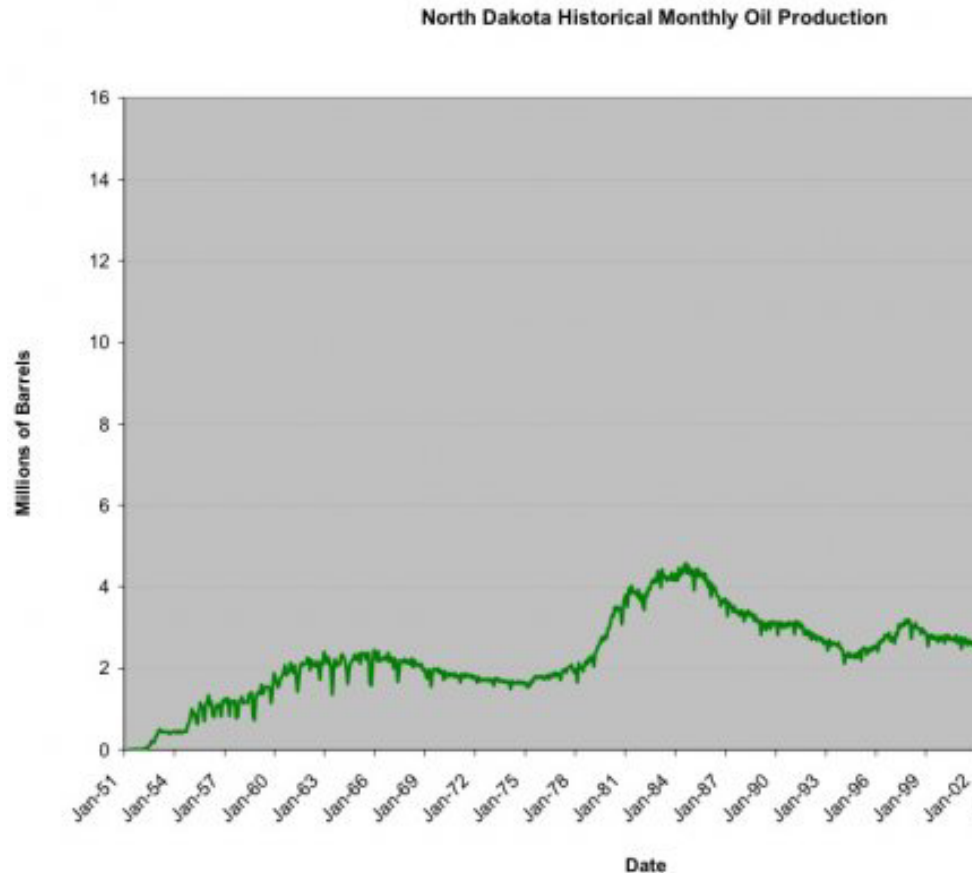
Once Upon a Time in North Dakota...



America's bread basket

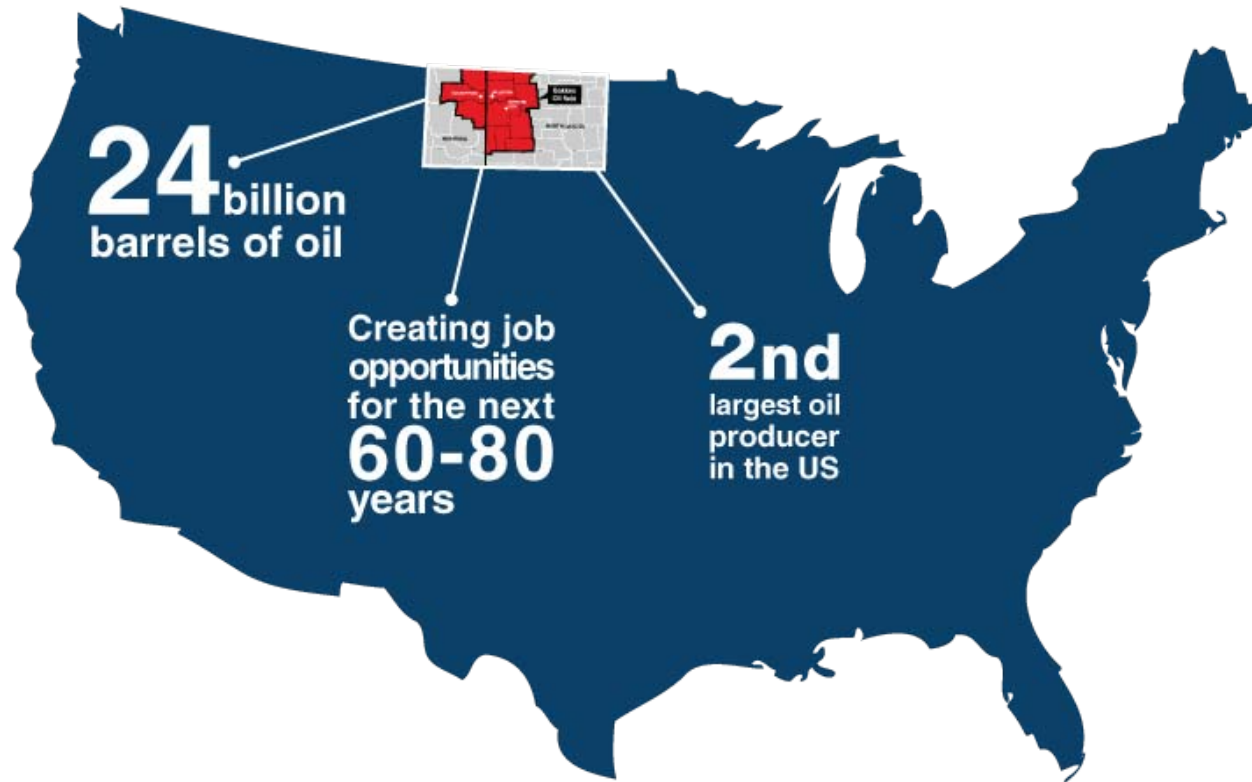
- ❑ Increasing automation
- ❑ Changing global landscape
- ❑ Declining population
- ❑ Declining jobs

Once Upon a Time in North Dakota...

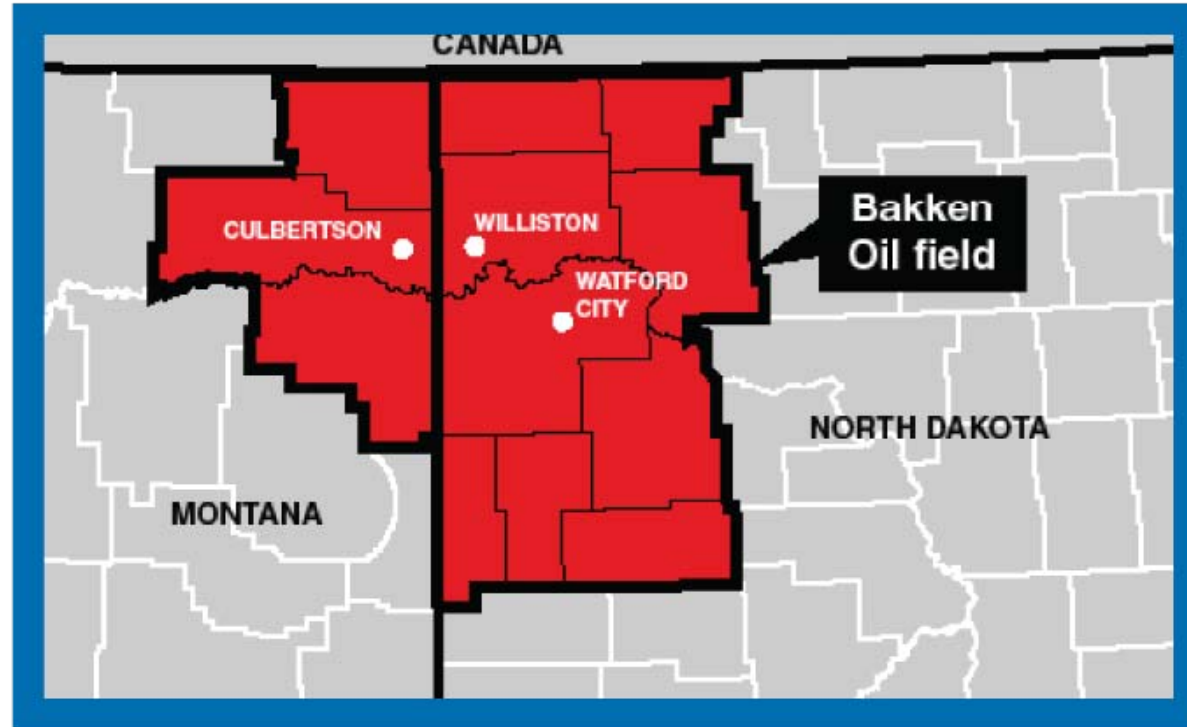


Always oil in North Dakota
...but very little was recoverable

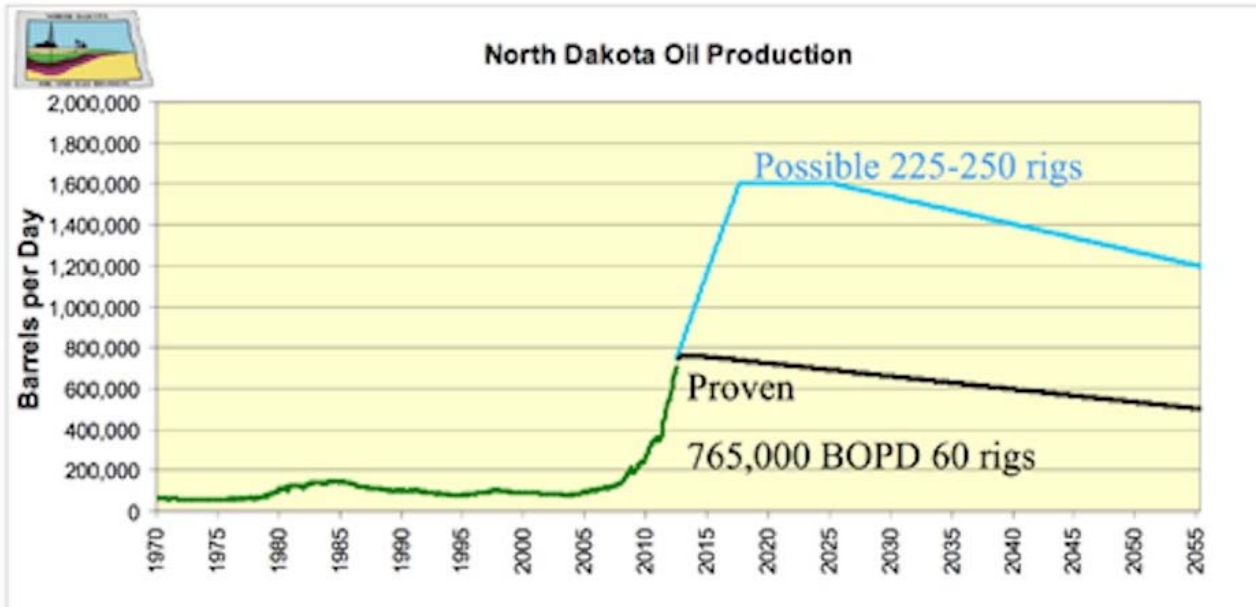
Bakken Formation Region



Bakken Formation Region



Bakken Formation Region



- ❑ The Bakken has become a game-changer for U.S. oil production
- ❑ Accounts for 10% of US oil production
- ❑ New oil wells increasing by 20% in 2013
- ❑ North Dakota oil industry to remain for at least 60 years (Williston EDC)

North Dakota by numbers



Oil companies now believe
the formation contains over

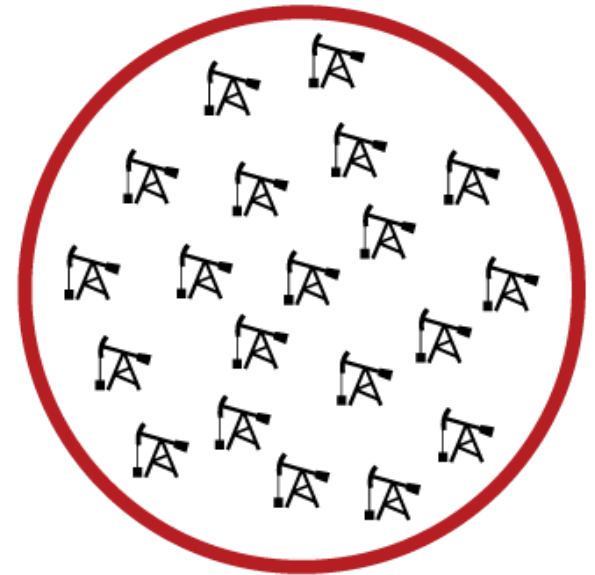
**24 billion
barrels of oil**

That's almost 8x the original estimate



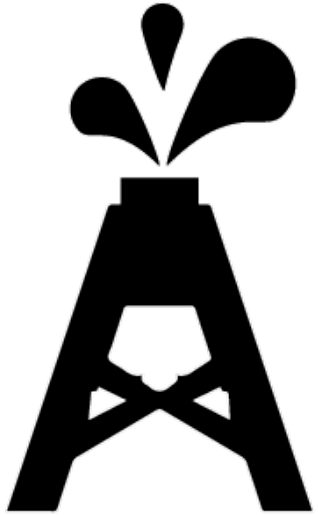
8,000
wells at present

Rising to



50,000
wells in the future

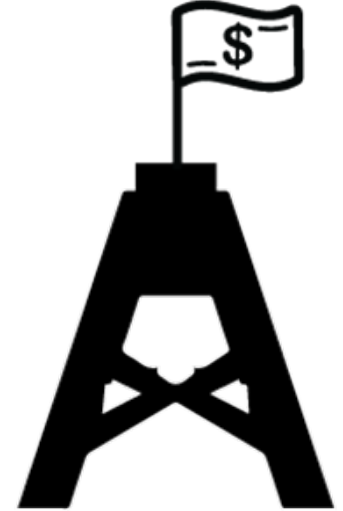
North Dakota by numbers



The average well will
continue to produce oil for
30 years

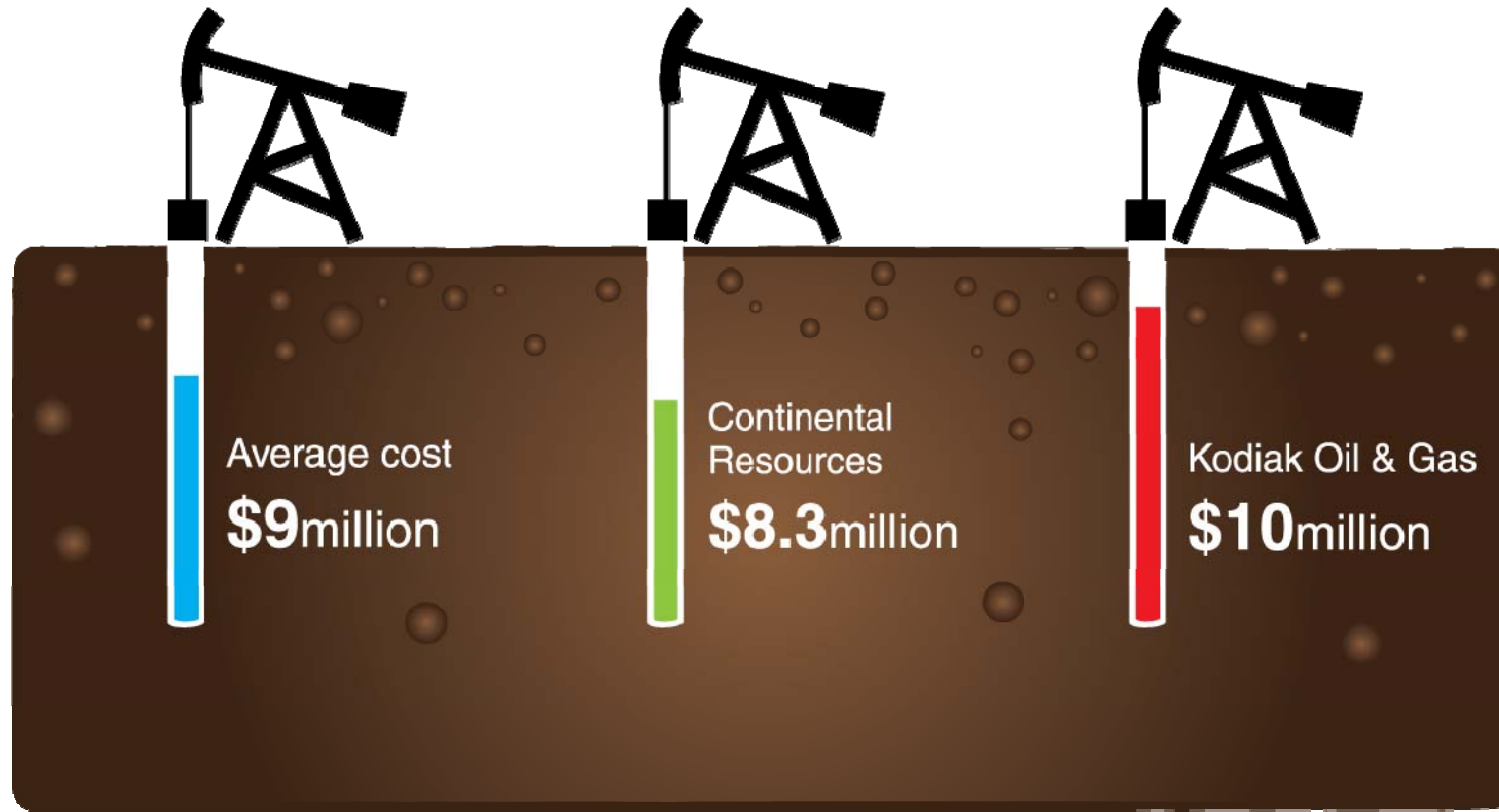


665,000
barrels of oil over 45 years
by EACH oil well

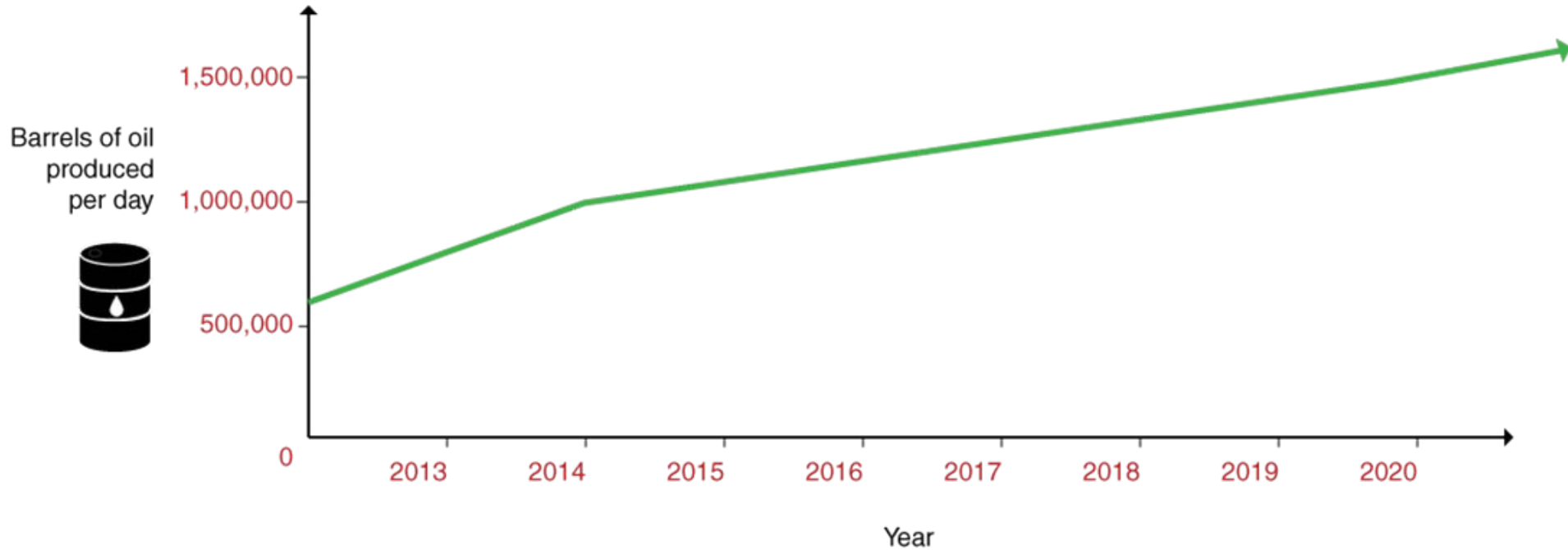


The average well will generate
\$23 million
of profit for the producer over its life

North Dakota by numbers



North Dakota by numbers



North Dakota by numbers

The average Bakken
well will generate over

\$4 million
in taxes



The North Dakota Legacy Trust
has excelled it's target by 63%

That's over \$1 BILLION

The Problem

- ❑ Dire lack of housing and infrastructure
- ❑ Tens of thousands of oil and service sector workers and increasing
- ❑ Over 15,000 without suitable accommodation



What is holding North Dakota housing supply back?

- ❑ Housing growth has not kept pace with demand
- ❑ Such high demand would result in a surge of new housing product:
 - ❑ Housing starts are slowing increasing
 - ❑ Several barriers to entry that create unique issues within the Bakken
- 1. Lengthy and challenging entitlement process
- 2. Lack of infrastructure (roads, water/sewer, electricity)
- 3. Lack of workforce to build new homes
- 4. Difficult to get materials for new construction: virtually all raw materials diverted to oil field

Created the *Perfect Opportunity* to solve a real need – How?

The Opportunity



- We are developing and managing housing for Oil Workers
- Major oil companies: Haliburton, Whiting, Continental Resources
- Using Modular Construction Technology to build Serviced Hotel Developments in the Bakken Region:
 - ☐ Speed of construction
 - ☐ Cost effective
 - ☐ Structurally Sound
 - ☐ High level of amenities and community

The Opportunity



- Independent Market Study
- \$135 to \$160 per night
- Occupancy of 100% in summer and 85% in winter
- Severe lack of supply

Great American Lodge, Watford City

- ❑ Executive Hotel Studios – 195 sq ft
- ❑ \$54,950 (£34,500)
- ❑ Range of management options – including our own
- ❑ Hands-free



- At \$139 per night and 90% occupancy:
 - Revenue: \$45,731
 - Gross Profit: \$22,416
 - Gross yield: 40%
 - Net Income: \$19,791
 - Net yield: 36%



In summary

- ✓ US Property Market is full of exciting opportunities
- ✓ Yield play is still the best strategy
- ✓ Investors buying at the bottom are already making capital gains
- ✓ Choose wisely where and in what you invest in – know the pitfalls and the limitations of your chosen investment type
- ✓ Look for where current economic, political and economic changes are creating waves
- ✓ It is does not have to look pretty to make it a sound investment!
- ✓ The deal of decade comes round once a week!

Thank you

info@NorthDakotaDevelopments.com

www.NorthDakotaDevelopments.com