



**Part 1.:**  
HOME INVESTMENTS

# THE FIRST DO-IT-YOURSELF APARTMENT EVALUATION BOOK

With the help of 33 practical real estate evaluation checklists and MORE THAN 1000 housing inspection criterion you will learn exactly what apartment is for you and what an investment you will make.

**Roland Nemes**

 Publio

# **The First do-it-yourself Apartment evaluation book**

Roland Nemes

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## **Information**

The information and assessments on this site reflect the authors' private opinion. The writings in this book do not provide investment analysis or any investment advice. When making any investment decision, the appropriateness of a given investment can only be determined by the investor's person and by an evaluation tailored to the subject of the investment, which this book does not undertake or is not suitable for. For each investment decision, you should therefore be informed in detail and consult with a personal investment adviser if necessary.

# Introduction

Dear Reader,

Thank you for having honored me with your interest and bought my book. The purpose of my book is to provide assistance called to life by the dazzling real estate market nowadays. We meet more and more people who want to buy real estate or want to invest their earnings in real estate. This has worked well in the past and can work today as well. As the market has entered a somewhat more mature phase, a more thorough consideration is needed. In this, I would like to help the reader with my book.

I hope that my thoughts were worth considering and that the checklists I have provided will prove as helpful in the future.

## ***Who has this book been written for?***

In brief:

To everyone who thinks about investing in residential real estate and wants to buy a cash generating real estate.

To anyone who wants to know whether they buy real estate at a good price and in good time.

To everyone who wants to perform a successful investment.

To everyone who searches for the real estate of their dreams themselves.

Slightly longer:

I wrote my book primarily for investment-purposed real estate buyers interested in the real estate market, but I would recommend it to anyone who wants to make a good decision when buying and selling real estate. The book can be especially useful for anyone who is active in the real estate market, such as sellers, buyers, investors, tenants and lessors, intermediaries and operators. Last but not least, I would recommend it to anyone who is looking for a real estate for oneself and prefers living in a real estate that meets their goals.

## ***What is this book about?***

In brief:

The purpose of the book is to help and motivate the reader to buy a good property at a good price, in good time and completely fit for their purpose. The main intent of the book is to help the

reader in not only buying good property, but also to make a good investment.

This book is a practical tutorial, a shorter textbook that is written for prospective buyers and investors. It is conducive to analysis, thinking and deliberate decision-making and it can be used for every purchase of real estate. Through four chapters, it guides the reader step-by-step through the process of thinking and maturing phases before buying a property.

Slightly longer:

The book is about investing in real estate and is the first part of a series, which includes a detailed analysis of residential property and investment in housing. I wanted to write a pragmatic, easy-to-use book that can be used by anyone, at any time, regardless of time and space. Now or even after 20 years it can be opened and used perfectly.

It includes practical examples, specific case studies, checklists that can be used by anyone to help the one with an investmental intent in making a correct decision. Once having completed the checklists after careful consideration, the reader will have an overview on the strengths and weaknesses of the property. Based on these, we can simply evaluate the property and decide whether it is suitable for our investment goal or not.

The book consists of four major chapters.

All four chapters are about how the aspects listed in each one affect the prices of properties. If we want to buy a good real estate at a good time then we need to look at all the aspects listed in each of the four chapters. There is no one without the other, or it will lead us to an erroneous path. It can only be talked about a real long-term real estate boom if all aspects of the four chapters are judged as favorable. If only the conditions listed in one or the other chapter are met, then we can only talk about shorter real estate market upswings. The recognition of these trends and the encouragement of the consequent good investor behavior is the main intent of the book.

The first chapter helps to assess the overall investment environment.

In the second chapter, local trends driving the real estate market and issues of timing have been under scrutiny.

The third chapter gives a useful hand to the reader in choosing the wider and immediate environment of the residential property and the actual real estate itself.

While the fourth chapter is about the risks surrounding our investment, investment strategy and the events that determine our real estate market today.

My book primarily helps the reader during the thinking and analytical phase before the real estate purchase, but it can also be excellently used by real estate sellers who want to know the strong or weak points of their real estate to help them determine the ideal price or advertisement.

The book includes thoughts and pragmatic checklists that help the one planning to invest in property in finding the right decision.

The ideas contained can be considered before the investment process and can be individually tailored to the property you want to purchase or sell based on the detailed checklists described in the book. Purchase or sale of a real estate is a serious and deliberate decision, so a thorough assessment is required for a successful purchase or sale. If the investment is successful, it is a wonderful feeling, but if it does not succeed, it can unfortunately create unpleasant years for the investor. In this, I would like to help the reader.

## ***Use of the book. How can you benefit from this book?***

The book reads well in both printed and e-book layout.

For the first reading, it seems brief and a little less readable, but this is specifically its intent. Its checklists can be used and customized at any time by anyone. I would like to highly emphasize the customization, since every real estate investment is different and for everyone who buys or sells, hires or leases, different aspects are important. The checklists of the book contain the factors and considerations to be assessed by the investor in detail. Individual considerations can be weighted based on individual assessment. After scoring and weighting the checklists, we obtain a result that shows the properties of the property under the given test criteria and whether it meets our investment objective. The property obtains a kind of a rating, which makes it classifiable. Based on the results of the list, it is recommended to write a short summary, which will provide you with a clear picture of the strengths and weaknesses of the real estate's analyzed scope. Because of the tailor-made classification of the property to be invested in, we will receive the following table.

The property was given the following classification for the x, y assessment criteria:

Class 1 - EXCELLENT over 70%
Class 2 - GOOD 60% to 70%
Class 3 - MODERATE between 50% and 60%
Class 4 - WEAK between 30% and 50%
Class 5 - VERY POOR below 30%

## ***Thoughts on real estate market analysis and checklists***

The real estate market is an extremely complicated and complex industry. If you want to enter this wonderful world as an investor or a buyer, you should be prepared. If someone is not prepared enough, one may easily be surprised, which unfortunately can determine the life, standard of living and happiness of the certain person for a long time. With my book and checklists included, I would like to promote thorough pre-purchase preparation. I hope that while reading and the active use of the book, every reader will find the real estate for them and act boldly when action is needed.

Let me wish you many and successful assessments and even more successful investments!

Yours faithfully,

Roland Nemes

# 1. The real estate market and investment environment

In this chapter, I would like to clarify the general investment environment, which basically determines the success of a real estate investment. I would like to describe my thoughts and experiences on the individual economic contexts that affect the real estate market trends.

At the end of the chapter, the reader can find a simple checklist, by completing which on their own value assessment they can determine whether the given time or the given investment environment is suitable for the planned real estate investment.

As a first question, it is suitable to ask what the general economic and other factors are that drive the real estate market.

In my opinion, consideration of the following aspects is essential before a real estate investment.

## ***1.1. Real estate market and the presence or absence of capital, money***

The oxygen in the real estate market is money. Let us think about this as a fundamental statement and try to assess whether there is any money on that real estate market or not before investing. If there is money, which is perceptibly flowing to the given market, then we have the opportunity to make a good deal. If there is no sensible money and it is not expected to happen in the near future, then we should avoid the given real estate market.

I consider the following ideas to be examined:

Developments in world economy and central bank rates

Local interest rates and their expected change

Capital inflow into the real estate market

Financing environment, lending willingness of banks

Profitability of other investment opportunities

Residential psychology with regard to real estate

Existence of state subsidies

Government's tax policy

### **1.1.1. Developments in world economy and central bank rates**

Perhaps it may sound strange at first, but if we want to be successful investors in any country, it is important to know the basic world economic relations. One of those basic issues is the interest rate policy of the world's central banks. The interest rate policy of the world's banks has an impact on the real estate market, similar to the stock exchanges. Here I would like to divide the thought into two parts.

It is important to know the policy of the central banks of the major powers of the world economy, and it is important to know the interest rate policy of the central bank of the local real estate market. The two things are partially related to one another and from one's evolution, it can be deduced to the other. Among the major global economic powers, I follow the activities of the following.

FED: United States Central Bank

Chinese Central Bank

ECB: European Central Bank

BOJ: Japanese Central Bank

The interest rate policy of these four central banks is decisive for the development of the world economy. Briefly and in general terms, if these three central banks keep interest rates low and thus stimulate the growth of the global economy, the real estate sector is favored by the flare of credit channels and the growth of the economy.

While the interest rate policy of the central banks of certain local governments partly adjusts their interest rate policy in accordance with the policies of these three world economic powers and of course, to promote the interests of its country. The rule of thumb is that the low central bank base rates stimulate the economy and indirectly the real estate market.

Before investing, we should put the following simple questions and complete the following checklist.

Is the base rate of the central banks of the world's major economic powers favorable or not?

Can there be a trend identified a trend in interest rate movement?

What is to be expected in the near future? An interest rate increase or reduction?

How long shall this interest policy last?

Where do we currently stand at the time of our investment?

If we have thought about the above five basic things and put our thoughts on paper, we have obtained a simple picture of what the interest policy of the world and local central banks is like and what is to be expected in the future.

Now comes the point.

From the above, we can deduce the expected interest rate policy of the local central bank and in this context, we can estimate the current state of affairs and the likely future situation of the financing environment in the local, invested area of our investment.

Before an international real estate investment, let us put the following questions to ourselves and look at current and future interest rate developments.

Are Fed, ECB, Chinese Central Bank and BOJ leading central bank rates favorable or not?

Can there be a trend identified in interest rate movement?

What is to be expected in the near future? An interest rate increase or reduction?

How long shall this interest policy last?

Where do we currently stand at the time of our investment?

If we get to know the interest rate policy of the four major central banks, we get an immediate picture of current trends in the world, we can roughly define what the expected financing environment is, where we are at the moment of our investment and what is expected regarding interest rates in the near future. Let us do some reading on the topic and put on paper what the expected interest rates are in the next 5 to 10 years. If the interest rates are permanently low, then, subject to other conditions, we can surely count on the presence of one of the determining factors that stimulate the real estate market, namely money.

### **1.1.2. Local interest rates and their expected change**

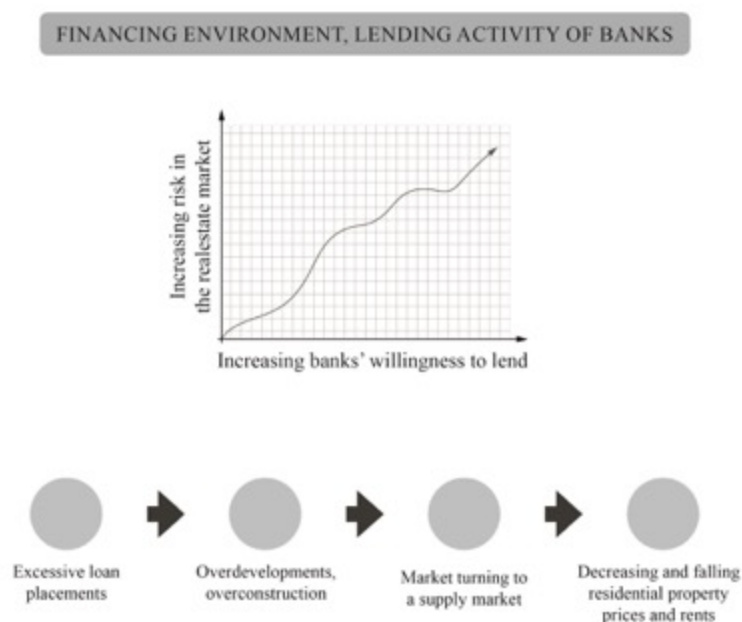
The rule is relatively simple. If loan interests are persistently low, it is generally favorable for the real estate market. However, if they are high or begin to rise, then it is generally not favorable. The reason for this is that if loan interest rates are persistently low, funding becomes cheap and a large number of people are reluctant to invest money on real estate instead of low interest rates, which generates demand on the real estate market.

As a property investor, our job is to find the period when the interest rates are the lowest and we shall try to borrow a long-term fixed-rate loan to finance our investments. At low interest rates, our investment is more profitable, since cash flow is positive. (Revenues from our real estates are higher than our expenditures + installments.) If the interest rates drop to a very low level and remain there permanently, we should use foreign capital for our investments (bank loan). The general rate of return on investment and the interest rate policy of the local central banks will shift people from other investment opportunities to the real estate market.

### 1.1.3. Financing environment, lending willingness of banks

Banks' willingness to lend is also an important factor in the real estate market. If banks are easy to grant loans, it is beneficial for real estate investors, but if it is difficult to get credit, it is usually not favorable, since it reduces the demand.

In particular, lending becoming excessive for years has not been favorable to the real estate market, since sooner or later it will lead to a bubble, which, once it has bursted, will cause major damage to the real estate market. In such a stretched period of time, when lending has grown in an unbelievable extent for years, the population becomes overly indebted, an appropriate investor behavior is to sell existing real estate stock at a high price. (Exceptions can be made of properties with excellent fundamentals, which should be retained throughout the cycles.)



### 1.1.4. Capital inflow direction to the real estate market

Before reading this subsection, consider the following questions:

Does the capital flow towards the real estate market or not?

Do banks give credit easily or not?

What are the financing conditions? Are those favorable or not?

Are there any improvements or none?

What are the bigger market participants investing in?

Is investment in real estate popular?

Based on the evaluation of the above, we get an idea of what the general trend of money flow is, whether capital flows into the real estate market or not. There are times when money held at a bank cannot yield returns since interest rates are so low or broker scandals are scourging the owners of capital. In such cases, the public tends to turn to safe-judged real estate investments with secure yields, creating a positive flow of capital. If capital flows to real estate, one of the important prerequisites for real estate investment is fulfilled. As the capital flow becomes stronger and the number of real estates remains unchanged, prices will go upwards. We are expected to find a tenant, we can sell our property and so on. As a real estate investor, our task is to find the investment period when money starts to flow to the real estate market. You can still make good purchases at this time. When money is flowing into the real estate market for years, we can only invest at higher prices, which will deteriorate our expected returns. There are, of course, real estate markets where cash inflows last for many years, even decades. Such countries are usually richer countries with a stable economic background, for example some markets in Norway or Germany. In these markets, prices have risen for decades and fall only slightly in recession periods. Investing in these areas is safe, but comes along with a lower yield.

### **1.1.5. Profitability of other investment opportunities**

Before investing in a real estate market investment, it is worth exploring other market investment opportunities. Other market investment opportunities - including but not limited to - are the following.

Shares

Bonds

Government securities

Commodities

Investment funds, bank deposits, other products

Other real economy investments.

To be examined regarding the above other instruments

What results could be achieved in the past?

Where do the exchange rates currently stand?

What is the prevailing trend?

Expectedly, how profitable will each asset be in the future?

It can be stated in general, that if any other investment was performing well in the past, investors are willing to invest more in their products due to going with the flow. However, if in some scandal or crisis many people have caused them damage or have over the past period very low returns been

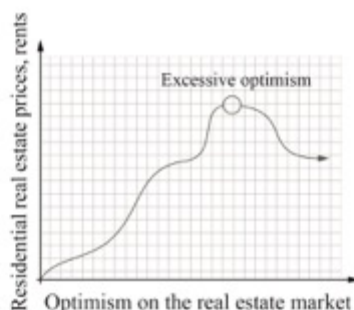
produced, then due to market players' yields eagerness, money is expected to turn to safer property. Perhaps one of the best examples of this is the low held bank interest rate. Interest rates held low for long-term encourage people to withdraw their money from the bank, to invest those into other investment assets.

### 1.1.6. Residential psychology with regard to real estate

There is a strong going with the flow in people and investors as well. If people are starting to talk about real estate investment returns, secure revenues, and low bank interest rates with each other, then sooner or later everyone will want to become involved in the process and demand for real estate arises, boosting prices and rents upwards. This is a psychological phenomenon creating a stable demand for real estate.

As an investor, our task is to notice this psychological phenomenon and act on time. However, if the process becomes overwhelming and we are continuously hearing about how good real estate investments are, and everyone wants to buy one, it's time to get out of stock or postpone our purchases since the prices have already gone too high. This is especially true if the banks' lending has been breaking records for years and the population is extremely indebted.

#### PSYCHOLOGY WITH REGARD TO REAL ESTATE



### 1.1.7. Existence of state subsidies

The various state subsidies encourage people to buy, which is a demand for the real estate market, thus stimulating the real estate market. At the same time, with the help of state subsidies, it is possible to encourage real estate developers who will strengthen their supply side with their development.

As we experience this, we shall interpret it as a positive sign.

It is important to know whether encouraging the population or real estate companies' encouragement is stronger. If the population responds faster to stimulation, then the market becomes driven by demand, while real estate developers can only enter the market with their new homes only after a certain period of time, so the strengthening of the supply side can appear later in

time.

Our task is to obtain timely information on various state subsidies, to estimate the demand and the needs of the subsidies in accordance with the information in advance, and to accumulate the right tools in time.

### **1.1.8. Tax policy of the government**

The government's current tax policy can have a major impact on the real estate market.

By providing various tax incentives and subsidies, it can stimulate certain sectors of the economy that may invest in the real estate market with their investments.

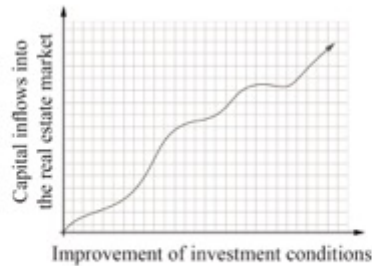
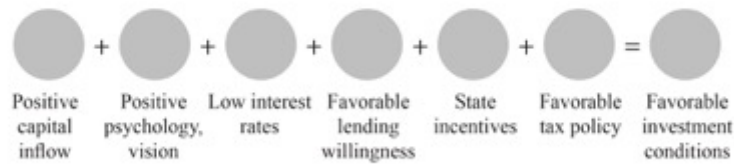
As an example, when a government decides to provide large-scale tax incentives to different investors or to start promoting a certain industry in the given industry or regions, the real estate market is expected to boom. An example of this is the city of Kecskemét, a small Eastern European city in Hungary. Years ago, the government provided substantial tax incentives to the Mercedes car factory, which brought its production to Kecskemét, which was a major intervention in the local area. A significant amount of new jobs were created, which, in addition to the unchanged number of real estate assets, had a significant price increase effect. Real estate prices and rents have also started to rise sharply. The same phenomenon was observed in several metropolitan cities in Mexico, where large American car factories settled.

From an investor side, both possibilities provided excellent opportunities. If we were able to get information on time and acted wise, we did a superb job of investing in real estate.

Our task is to know the tax policy, plans and directions of development of the country and the government, and we have to act if we have a good opportunity. In the above two cases, investing in real estate property aimed at increasing rental value in time was a rewarding investor behavior.

The importance of the presence of capital and money is illustrated in the figure below.

THE PRESENCE OF CAPITAL AND MONEY



Let us complete the simple checklist below, based on our own assessment, let us rate each aspect from 1-5, then calculate at the bottom of the table in what percentage money stimulating the real estate market is present at the time of our investment.

Checklist

Subject of the assessment: The presence of money and capital on the real estate market

Date of assessment:

Address of the property:

Type of the property:

Investment objective:

Investment timespan:

\* Use of the table

Use: favorable assessment = 5 points

Negative assessment assessment= 1 point

Maximum points each= 5 points

Assessment aspects

Scores to be awarded

Excellent 5	Good 4	Satisfactory 3
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Money and capital presence on the real estate market

Developments in the world economy and major central bank base rates

- 1 Where do we currently stand at the time of our investment? Are interest rates high or low?  
2 Have interest rates been rising or falling in recent years? Can a trend be identified in interest rate movement?  
3 What is to be expected in the near future? Interest rate increase or reduction?  
4 How long shall this interest policy last?

#### Local interest rates and their expected change

- 5 Where do we currently stand at the time of our investment? Are interest rates high or low?  
6 Have interest rates increased or decreased in recent years? Can a trend be identified in interest rate movement?  
7 What is to be expected in the near future? Interest rate increase or reduction?  
8 How long shall this interest policy last?

#### Capital inflow into the real estate market

- 9 Does the capital flow towards the real estate market or not?  
10 Is the real estate market lively or not? Have many new residential developments have been launched over the past period?

#### Financing environment, lending willingness of banks

- 11 Do banks give credit to the population easily or not?  
12 Do banks provide loans easily to real estate developers or not?  
13 What are the financing conditions? Are they favorable or not?  
13 Are there any improvements or none?

#### Profitability of other investment opportunities

- 14 What were the yields on bank deposits in recent years? Was it a good or bad yield?  
15 What were the yields on shares in recent years? Was it a good or bad yield?  
16 What were the yields on bonds in recent years? Was it a good or bad yield?

#### Residential psychology with regard to real estate

- 17 Was there any banking or other financial institutional bankruptcy recently?  
18 Were there any more serious downturns or collapse in the stock market recently?  
19 Is investment in real estate popular among the population?  
20 What are the bigger market participants investing in?

#### Existence of state subsidies

- 21 Is there any kind of public incentive measure that stimulates the real estate market or increases demand for real estate?  
22 If so, how long is it about to last? For a longer or shorter time?

23 Is another similar measure expected to be introduced in the future?

Government's tax policy

24 Is there any kind of public incentive measure introduced that stimulates the real estate market or increases demand for real estate?

25 What are the tax laws for holding and renting real estate like?

25 Are they favorable or not?

26 Is there any tax relief or exacerbation expected in the near future in connection with property tenure, or renting?

Total score:

Maximum reachable score:

Final result in %:

Summary:

Comments after the assessment:

Strengths:

Weaknesses:

### **1.1.9. When there is no money on the real estate market:**

When there is observably no money on the real estate market, two options offer themselves. In one case, we trust in the future, while in the other case, we evaluate the future even more negatively. If we trust in the future, our main task is to select, plan and offer favorable conditions for buying property on the supply market. While if we ourselves are pessimistic about the near future, we should wait. In some very rare cases, it is possible to make good real estate investments even when there is no money on the real estate market.

If there is no money flow into the real estate market, there are no developments, it is difficult to find a tenant, the economy faces recession, a bad general belief exists in real estate investments. However, if the fundamentals of the targeted investment area are excellent and the economic situation is expected to improve in the near future, then this is the situation when you can earn a lot of money on the real estate market. In such cases, prices are depressed, mood is cloudy, lending does not work, populations and credit institutions are pessimistic, tenants disappear, yields are falling, vacancy rates increase, the number of transactions decreases and the selling period is prolonged. This is the situation where the real estate investor has to buy. You have to buy using all existing tools, buy and accumulate. In fact, this is the investment strategy that brings the highest yield. As the clouds begin to disappear from the sky, the economy is stabilizing and banks are

starting to get a bit optimistic about lending, property prices start to flourish from the previous lows and one can achieve yields in a very short time that previously seemed unimaginable.

In such a case, real estate investor behavior around the bottom is purchasing and accumulation. By the end of the bottom, holding, raising rents, shortening of the lease periods, and continuous increasing of the rental fee until the end of the cycle. In this case, the investor turns the value increase of cheap real estate purchased and constantly increased rents to profit. This is my favorite investment strategy. Of course, we have to explore very carefully in which stage of the pessimistic period we are and how long it may take. Such periods may last for many years, and may not even recover in some real estate markets. An excellent example of how this strategy works, is the recession period of the Hungarian capital in Eastern Europe, the real estate market in Budapest from 2008 (after the global economic crisis) - until the end of 2013, which is close to 5 years. Those who dared to buy here have achieved a remarkable yield since the markets started to recover from 2014 and from 2015 prices have started to increase. This growth is still ongoing.

## ***1.2. Housing market and economy, housing market and GDP***

The general condition of the economy is basically determining the operation of the real estate market. In short, if the economy works well, the real estate market is healthy and ready for investments, but if there is a problem with the economy, then this is not beneficial to the real estate market either. As an investor, our task is to recognize any economic trend and to invest according to trends by appropriate timing.

In our investments we should look at the following economic relationships and indicators:

The state of the world economy, whether there is boom or recession

Economics and interest rate policy of economic powers

The country's economic and development orientation

Investments in recent and near future

The current state of the economy, the economic situation of the country

Inflation within the country

Currency stability

GDP developments in recent years, balance of payments

GDP's expected future developments

GDP per capita per region

Unemployment changes in the past

Future development prospects for unemployment

The rate of indebtedness

Competitiveness of the region

Existence of skilled workforce

The average salary within the country

Average rent amount in the area

What is the general trend among the population? Do people prefer to buy or rent real estate?

Scarcity or abundance of workforce and resources

Richness in raw material and their prices

Strengthening and weakening of local markets and industries

Banking situation in the country

### **1.2.1. The overall state of the world economy: Economic policy of economic powers:**

I intend to deliberately deal with these two points at the same time, since these two are closely related.

The state of the world economy has a decisive influence on global real estate markets. If there is a boom, it basically favors the real estate market, while the recession is generally not favorable. However, what is favorable to the real estate market is not always good for real estate investors, especially those wishing to invest in residential property. In later chapters I will explain why, but for the time being it is enough to know that in case of a boom lasting for years we are already late. Prices on the real estate market are high while available yields are low. Also, an appropriate investment property strategy exists for the time of the boom, but I recommend it to investors who prefer security with a lower return and risk. So far, in this chapter, I just want to emphasize that as a real estate investor we need to find the timing point when the economy turns from recession to a boom. If we find this point, we can already talk about half success. Successful real estate investment is, of course, far from being so easy, but its method will be explained in later chapters. Successful real estate investment depends on many things ...

### **1.2.2. The country's economic and development orientation, development of investments**

As an investor, it is important to know the ideas and development directions of the country in our investment area regarding the development of the economy. What are the decisive industries, which industries are supported, what segments are prioritized, and what economic sectors and industries is cash likely to flow to? E.g. Does the country support tourism or rather the heavy industry, or

maybe export? It is also important to know what volume and number of new job-creating investments have recently arrived to the country and what is to be expected in the near future regarding this? Of course, new investments stimulate the economy and create jobs, which indirectly has a positive impact on the real estate market. While the lack of investment has negative impacts on the economy.

### **1.2.3. The housing market and the economy:**

We need to know the current state of the economy so that we can measure what is expected in the near future. We have to consider two simple things. Is there a boom or recession, or is the economy currently stagnating? How long has the trend been going on and how long is it expected to continue?

Naturally, a boom generally favors the real estate market together with real estate prices, while the recession does not. Therefore, when you are in a boom, you should buy and sell during a recession. Now then, that investment policy is wrong! During a boom, you should not buy because prices are already high and the expected yield on our investment will be moderate. It is much better to buy at a time of recession, when the prices are low. Here I would like to invite the reader to note that the real estate market is of course not that simple. There are smaller recessions and there are long, deep recessions. Indeed, there are some hopelessly running recessions as well. There are smaller or shorter booms, and there are well-established, stable, long-lasting, strong prosperities. Recognizing these are not easy, and many other aspects need to be examined to see clear. I consider the following investment policy as appropriate. (Of course, with the simultaneous and combined effects of other aspects.)

End of boom → Beginning of recession → sale or holding (it is worth holding excellent fundamentals of real estate)

Mid-recession period → waiting, planning

End of recession period, signs of a turn → acquisition, accumulation

Start of boom → accumulation

The middle of boom → holding

End of boom → timely sale at high prices (except for excellent fundamentals of real estate. Selling or holding these is subject to discretion)

There are very near-hopeless recessions that last for a long time, even decades → This property market should, in my opinion, be avoided

There are long-established, well-established conjunctures → In this environment, we can also buy in the middle of the boom, as prices and rents are expected to rise for a long time. Such countries are, in general, real estate markets of countries with a healthy demographic background and economically very strong fundamentals.

## **1.2.4. Housing and inflation:**

Moderately rising, healthy inflation generally favors the real estate market. A healthy, moderate inflation is especially helpful for the real estate market. What does that mean in practice?

Regarding second hand apartments: Rising inflation increases construction costs, leading to growing prices for newly built real estate. So if the prices of newly built real estates are rising, this is usually dragging the prices of second hand properties, as the cost of renovations and building material's prices are also rising. In an inflationary environment, it may be a good strategy to keep current second hand properties, raise rents and reduce the necessary renovations. The right attitude is to raise rents, to an extent exceeding inflation. In an inflation environment, the prices of second hand property may increase.

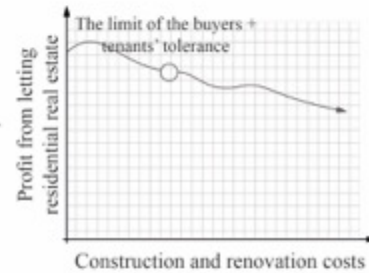
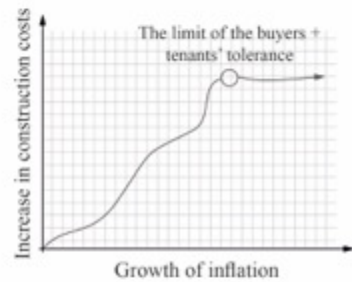
Regarding newly built real estates: an excellent strategy may be to find a loan structure that fixes interest rates in advance for a long period of time, so that the real estate developer realizes profit through the rising inflation, the subsequent price increase and the pre-set interest rates. Of course, interest rates must be low.

Booming construction and renovation costs are a shockingly high risk to the investor or real estate developer. In an inflation environment, it is proposed to increase the anticipated sales price by the anticipated rate of inflation.

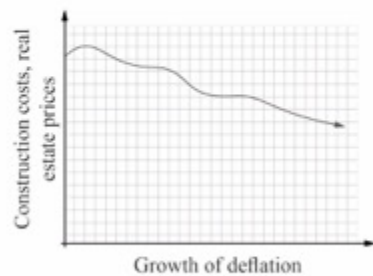
In case of deflation, the real estate market operates in reverse. Prices are stagnating or falling. In the event of deflation, the real estate investor should think about how long the deflation period may last and whether there will be a way out of it. A deflationary period may last for several years and even for decades.

In such circumstances, it is recommended to invest only in real estate with the best fundamentals with a low purchase price. If the future is assessed positively because of good fundamentals or for other reasons, it may be a good strategy to target low-cost accumulation or low-solvency buyer groups. Reshaping one real estate to two or more, and rent them at a lower price can be a viable strategy also in a deflationary environment. However, purchasing during the deflationary period requires very high levels of preparedness, so I do not recommend it to less experienced investors.

## INFLATION



## DEFLATION



### 1.2.5. Currency stability

The stability of a country's currency is an important factor during the investment period.

When investing in a foreign country, it is especially important to examine the exchange rate developments between the two countries. With a successful cross currency exchange rate conversion, extra profit can be achieved without almost any invested extra energy.

If, on the other hand, we did not evaluate the currency risk properly, then the opposite is true and our profit will be reduced by the exchange rate loss.

Therefore, as an investor, our job is to look for investment opportunities where the real estate market is facing a boom and the development of the currency between the two countries is also favorable.

## **1.2.6. Housing market and GDP**

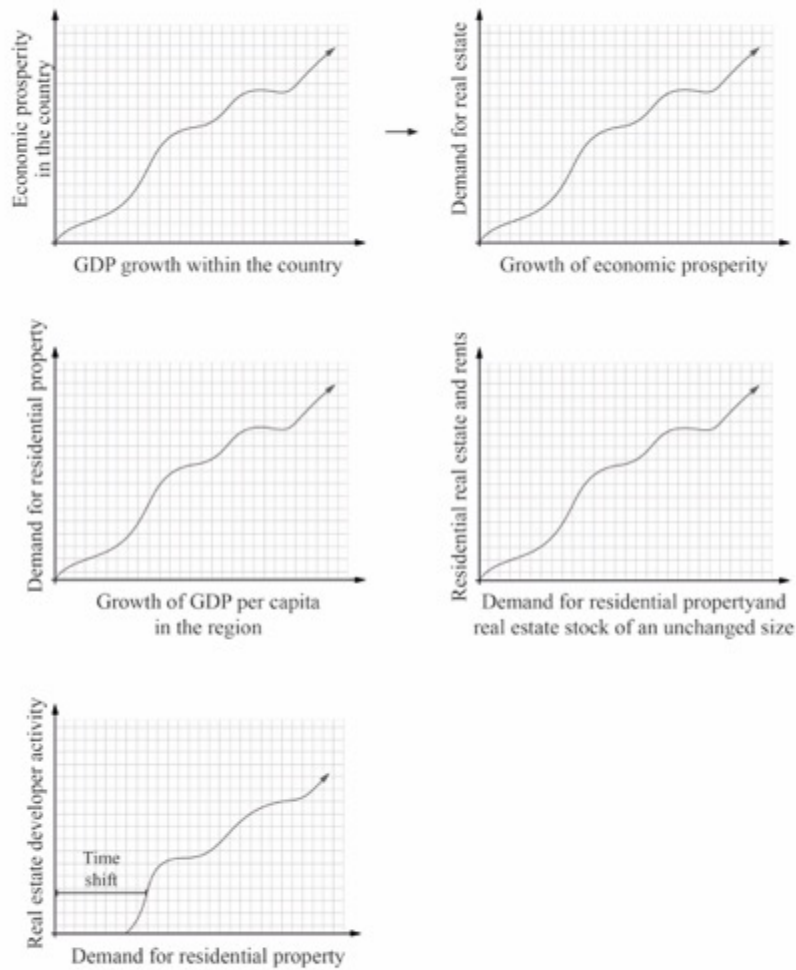
GDP is a very important indicator. According to many, it is one of the most important measurements of the economy and also of the development of the real estate market.

From the development of the country's GDP we can infer to the state of the economy. If the economy is going well, it is also expected that the real estate market will go well. If people's living standards increase, they spend more and more, move to better housing, are willing to borrow a loan, which they spend on homes, etc.

Separately I would mention that I do not only analyze the GDP of the country being selected as an investment region, but also the trends of neighboring countries and leading world powers. There is a simple reason for this. If the leading or surrounding economies run well, they will sooner or later create savings that can land on the real estate market, which generates additional extra demand in addition to local demand.

Our task is to find the moment when GDP did not start booming in the country, but local developments and economic policy developments are encouraging and a sustained increase in GDP is expected over the coming years. At this point, you can still buy at a good price. If, however, GDP is showing years of growth, we need to be more circumspect about the situation, and look at how long the boom can take, and where we currently stand in the rising real estate market cycle. Of course, the real estate market of countries with stable GDP growth can cause less surprises and the risk is also lower, but the expected profit is more modest.

## HOUSING MARKET AND GDP



### 1.2.7. GDP per capita per region

As an investor, it is not sufficient to look at GDP growth in a given country as it is very general and varies considerably across the country. This difference may be very significant. There may be a double or triple difference within a country. So before looking for an investment place, we need to know exactly the value of the GDP per capita of the targeted region. In general, it can be stated that the more industrialized regions and the capital, respectively the major cities with larger trades have in general higher per capita GDP, while in the less developed, declining regions, this value is lower. For residential real estate and especially housing investments, it is recommended to look for regions with a high GDP per capita and even within to look for more industrialized cities, as here it is easier to find a tenant and our investment has more secure fundamentals even for longer term.

If we come to a region where local government leadership is committed to long-term economic development policy and has been trying for years to do so, as well as other conditions are favorable,

it is worth investing in the local real estate market, of course, before the long-term boom starts. At this time, the environment has not yet recognized the situation and the prices of the apartments are low, but as soon as the situation changes, prices will explode in the first few years so we can easily miss it.

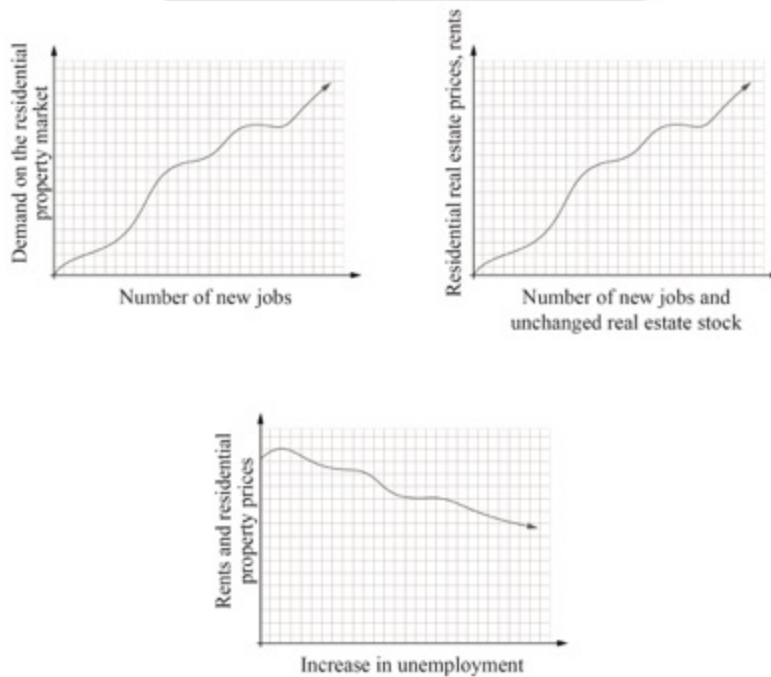
### **1.2.8. The evolution of unemployment, number of workplaces**

The development of unemployment is also an important indicator of the economy and indirectly of the real estate market.

Simply, we could say that if unemployment is low, it has a favorable effect on real estate investment, while if it is consistently high, it is not beneficial, since if people do not have a job, they do not have any income. And if not having enough income, they cannot rent or buy real estate, etc. It is important to mention here that unemployment indices within the country vary widely. In general, it can be stated that in more industrialized regions and capitals, unemployment is generally more favorable than in the less developed regions. Consequently, real estate investment is also less risky. However, in some cases, a large investment or plant installation can greatly affect the local real estate market. With the establishment of the investment, jobs are created and the labor force needs real estates, so the phenomenon already mentioned is happening. The extraordinary demand that suddenly came to an unchanged number of real estate is driving up prices. This has happened in the following small settlements - e.g. Győr, Audi factory installation, Paks construction of the nuclear power plant or Kecskemét, Mercedes factory settlement. However, it is important to consider how far we can count on the prosperity of established industrial activity. If we invest too late or are investing too long, in the event of an economic downturn, the factory will be relocated or closed and the value of our investment can drastically decrease or even become worthless. Thus, such real estate investments are considered risky and require extra caution.

The correlations between the number of jobs and the demand for unemployment and residential property are depicted in the chart below.

### NUMBER OF JOBS, UNEMPLOYMENT



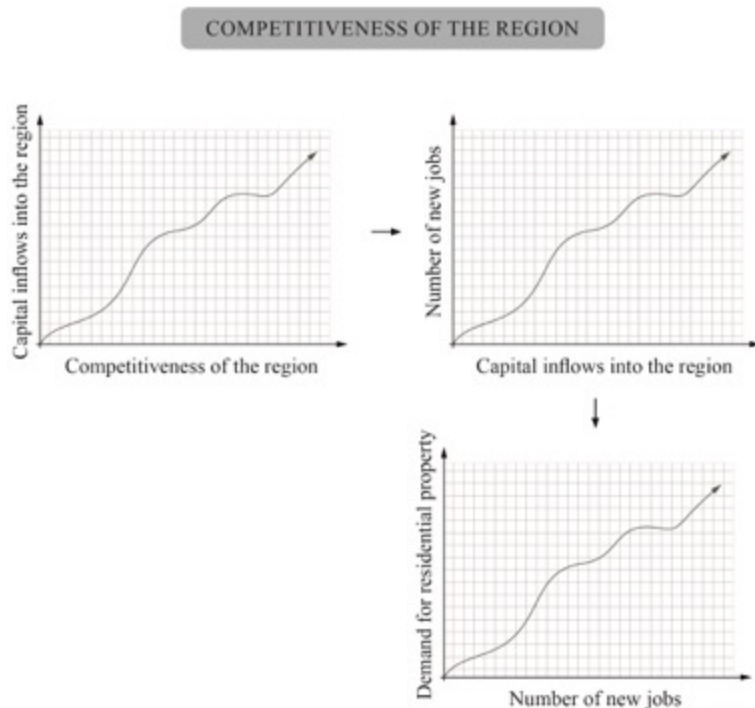
### 1.2.9. The level of indebtedness

It is worth keeping an eye on indebtedness. This applies to both the indebtedness of the state as well as to the indebtedness of the population. If the indebtedness of the population is too high, it is usually not favorable for investments in the real estate market, since if a large proportion of the population is a credit debtor, it will prefer to pay off its own installment and will not be able to invest in other properties or rent at a high price. And if the state's indebtedness is too high and the media constantly emphasizes the risk of a bankruptcy occurring at any time, it is not beneficial to foreign and domestic investors because they are afraid to invest in that area as any potential insolvency within the investment horizon does not mean any good regarding returns on investment. So there is no investor confidence either, which is unfavorable to real estate investments.

Therefore, as an investor, we need to look for the period when lending starts to rise in that country. So, shortly, in the initial period of the big credit boom, the right behavior is the buying and holding, accumulation and selling when the lending boom is at its end when prices have already gone up. It is worth to sell the property 1-2 years in advance because the fall will suddenly occur and you can get rid of the property only at low prices. Of course, exceptionally well-located properties with excellent fundamentals can also be exceptions here. Generally, also there some price drop occurs, but it is not nearly as bad as in the case of the worse real estate, and the prices also build up sooner up so that they can rise even higher.

### 1.2.10. The region's competitiveness

This aspect is more important for industrial real estate investments, but it is not negligible to take into account for residential real estate either. The more competitive the region is, the more money can flow to local markets. The more money flows into a region, the more investment or jobs will be created that will be beneficiary for the real estate market. The following charts illustrate the interrelations of competitiveness of the region and the inflow of capital investments.



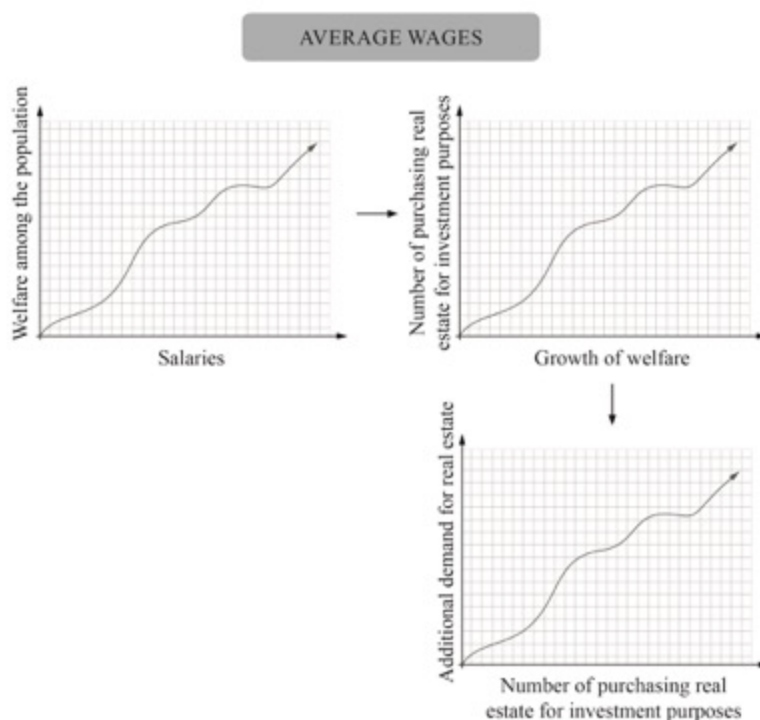
### 1.2.11. Availability of skilled workforce

It is also an important aspect of rather industrial property investments, but also the way the region's competitiveness absorbs foreign capital in that region. Where there is a sufficient number of skilled workers, it is worth investing in a factory and making capital investments that will sooner or later interfere with the real estate market. This has been happening for many years in some parts of Mexico, where the major American automotive plants have relocated their production. Of course, the local real estate market has also felt its positive outcomes. Regions, where there is not sufficient skilled labor or are not competitive will not attract capital investors thinking for long-term.

### 1.2.12. The average salary within the country

It is worth examining the level of salaries for the country and within the country, within the given region as well. Where salaries are higher, generally, higher rents can be requested and property prices stand higher. As an investor, it is mainly worth examining the tendencies. Are wages rising or not? Are they stagnating or maybe decreasing? Where there is a rise in wages, real estate prices and rents are likely to rise as well. In case of stagnating or falling wages, it is just the reverse. The

interrelations between wages and the real estate market are shown in the charts below.



### 1.2.13. Average rents in the area

An evaluation of the average rents is important because we can get an idea of how much citizens are ready to pay for residential property in the area and calculate the maximum amount we should pay for the property if we want to achieve x return on our investment. This is called a revenue-generating, ability-based property valuation. Rents vary considerably between regions, between cities per district or even streets. Thus, the average data provided by the statistical offices should never be given credit to. What is further usually being examined in a city is the average wage / average rent proportion. If wages are relatively high and rents are moderate, then the real estate market is likely to boom and rents are expected to rise in the near future. Since each property is different, I personally consider this kind of test method very superficial and in my opinion, it does not give a clear picture to the investor.

### 1.2.14. What is the general trend among the population - are people buying or renting real estate?

It is worthwhile to examine this question, as we need to know the general trend in our investment area. In Western Europe, people prefer to rent apartments, while in Eastern Europe ownership is fashionable. Accordingly, we can shape our strategy. (Is our goal achieving value gains or rather

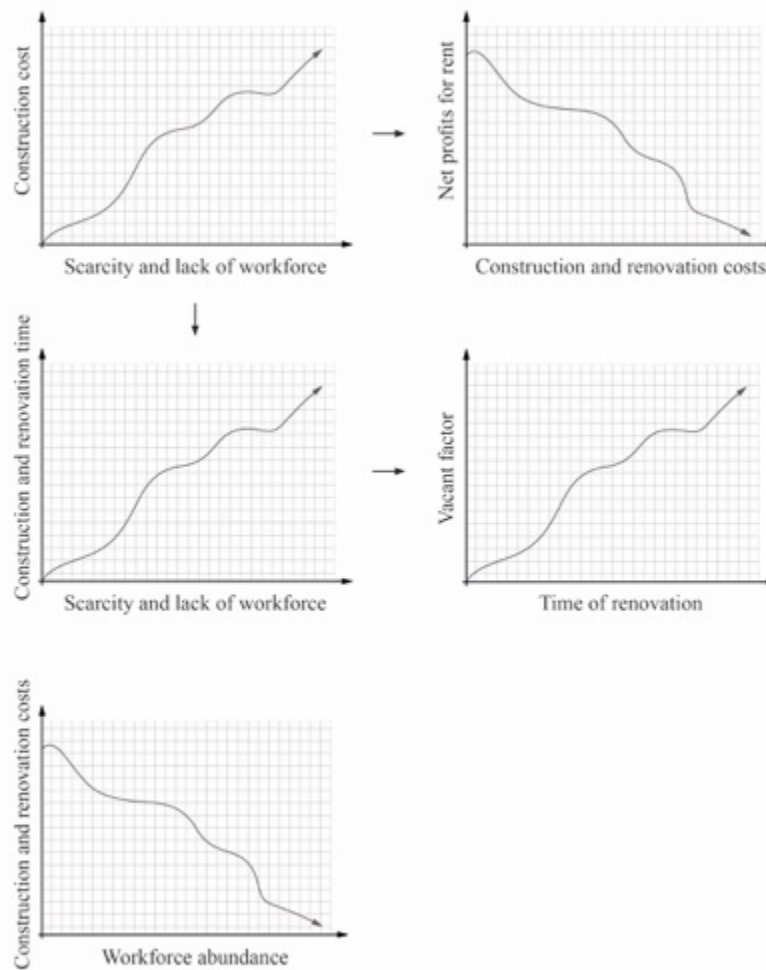
reaching a return on rents?)

### **1.2.15 The scarcity or abundance of workforce and resources**

This problem does not seem to be so important at first, but I consider it a very important factor. Why do I? For many reasons: it is a problem if there is not sufficient workforce on the market. One problem is that if there is not enough workforce on the market, you have to solve the task from the resources available, which is often much more costly and time-consuming than planned. E.g. If we have a property which, after we have purchased we want to renovate within the planned budget and by the planned deadline. The lack of workforce in the construction industry means that we cannot find a contractor who would do the job, or if we find it, they are willing to complete the work with a substantial additional charge. Because of the shortage, there is an over-demand for professionals, which significantly increases the wage cost and worsens the profitability of our investment. Another problem: if we even find a specialist, he cannot start working on time because its capacities are booked prematurely by others, resulting in a delay in our investment. For this reason, the investment horizon is delayed, the real estate starts to generate money later and profitability drops. So, as a real estate investor, we have to start requesting for preliminary quotes in the negotiation phase, prepare plans by drafts, work ahead of time, otherwise we may have to face being unable to keep the planned deadline. Preliminary involvement of professionals is also important in order to be aware of the issues raised by them, so that we may include their comments in our purchase offer, count with the problems, etc.

The impact of the scarcity of labor and resources on the real estate market can be seen in the charts below.

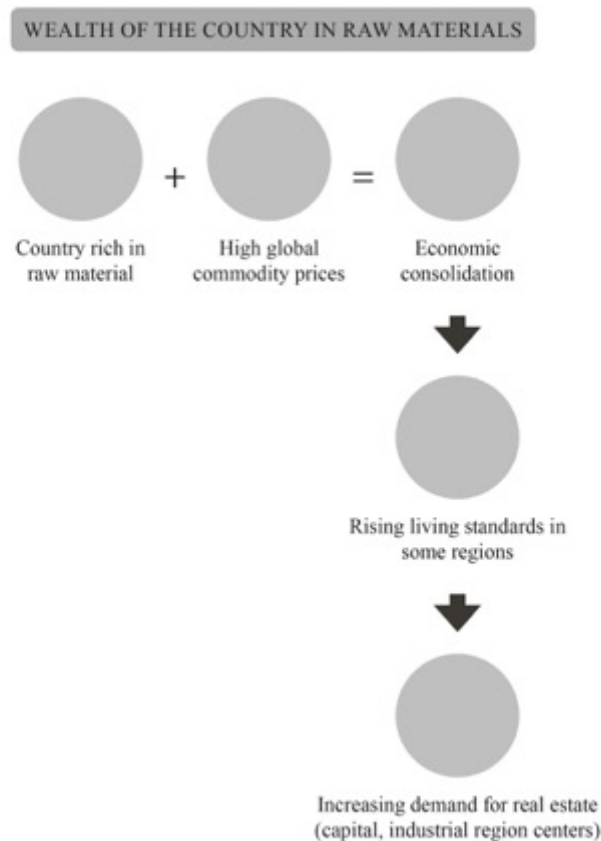
### SCARCITY OF WORKFORCE AND RESOURCES



### 1.2.16. The country's raw material richness, raw material prices, decisive sectors

If a country is rich in certain raw materials and the world market price of that certain raw material is rising steadily due to a boom, the country where the raw material is usually enriched. In addition, if the country gets richer, we can be sure that its real estate market is starting to flourish. We experienced such a phenomenon in Russia from the beginning of 2000 to the year 2008, when the price of oil has steadily and sharply risen. The oil-rich Russian economy has also found itself and has begun to grow massively. The real estate market has been revived (mainly in the capital and some larger cities). The same can be said of Norway where it happened that oil was found in previous years and the country began to suddenly become very rich. Needless to say, the real estate market has been rising ever since. Nevertheless, I would also like to mention Australia, which benefited from the economic prosperity of close-lying China. In understanding the relationship between commodity prices and residential properties in countries rich in raw materials, the figures

below provide assistance.



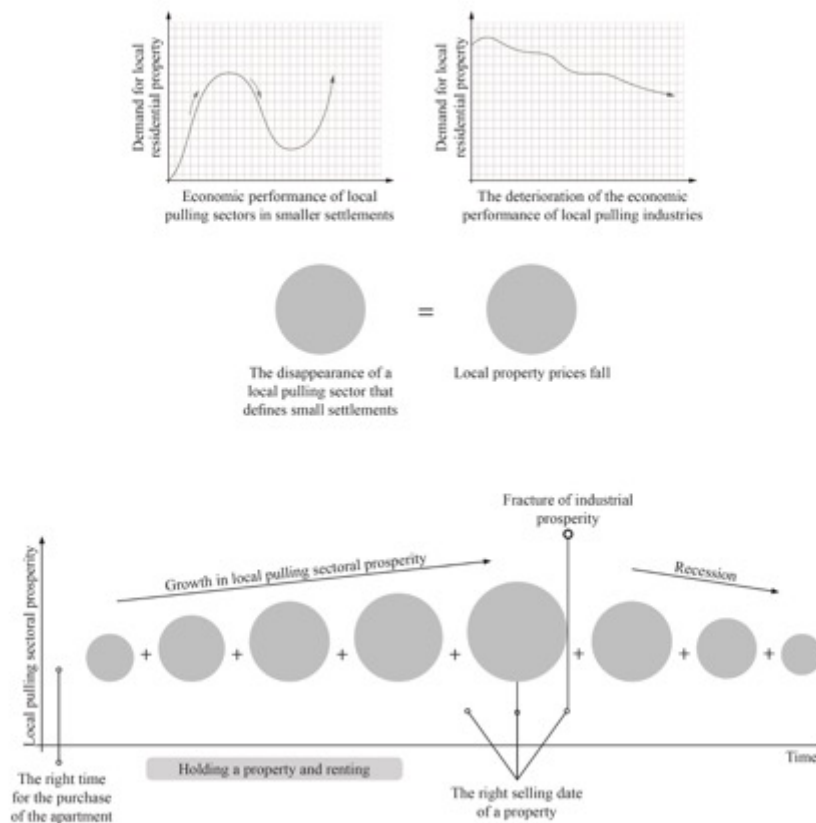
### 1.2.17. Local markets, industry rise and weakening

In some countries, some industries may become stronger due to different foreign investments. When we find that huge overseas multinational companies are investing steadily and growingly in a given region, it is likely that the industrial and residential real estate market will also boom. I have already described my experience in previous sections. If, however, the same industries begin to decline or simply disappear, real estates in this area may also be depreciated. That is why it is very important that we can roughly estimate whether a particular industry is booming, demand on the world market for the products produced is long term or the industry is declining.

An example of this are the rusty areas in the American cities, the heavy industrial facilities. With the decline and displacement of the heavy industry, workplaces have disappeared and real estates built due to workplaces have been left empty, vanished, and devalued. Prices of the same properties flourished during the boom.

The diagrams below show the relationship between local decisive sectors and local real estate prices.

## LOCAL PULLING SECTORS



### 1.2.18. Situation of the banking sector in the country

The banking sector's position and lending ability are essential to the emergence of a longer-term boom. If there is a strong and healthy banking sector in a country, people, investors and investients get credit, which helps the economy and together with it, the real estate market.

We should examine whether the credit market is expanding or shrinking. What are the basic terms and conditions of borrowing? Do banks easily or difficultly lend? What is the state's attitude towards banks? Are there different development subsidies?

It is making it difficult for investors, that banks are reluctant to lend during the recession. Generally, they prefer to lend in the course of the economic cycle, which is understandable, but unfortunately, disadvantageous from the investor side. However, when we see an expanding credit market, we have to look at it as a positive sign, while excessive, unwavering lending is an extremely unfavorable sign. Usually, it indicates the end of a certain upward trend. Like the equity market, when people are constantly talking about real estate investments and banks are lending to everyone, we can be sure that the good times are coming to an end and we need to prepare for the sale of our cheaply purchased properties. The old investment rule also here works in the same way. Buy at gunfire, sell at harp melody.

Completing and scoring the following checklist will help you in the general evaluation of the

economic situation:

Excellent	Good	Satisfactory	Unfavorable	Poor
5	4	3	2	1

### Housing market and economic situation

- 1 What is the current state of the world economy, is there a boom or recession?
- 2 How long has the trend been going on and how long is it expected to continue?
- 3 What is the status of the economy of the economic powers like?
- 4 What is the interest rate policy of the economic powers? Is it favorable to the real estate market?
- 5 Is there a positive trend for the real estate market, since how long does it last and how long is it expected to last?
- 6 What is the country's local economic and development orientation?
- 7 What is the current state of the local economy, the economic situation of the country?
- 8 Is there a positive trend for the real estate market, since how long does it last and how long is it expected to last?
- 9 What is the interest rate policy of the local country? Is it favorable to the real estate market?
- 10 What is the degree of inflation in the countries of the economic powers? Ascending? Descending? Balanced?
- 11 What is the trend of inflation of the economic powers? Is it favorable to the real estate market?
- 12 What is the current inflation rate within a given country? Is it favorable to the real estate market?
- 13 What is the trend of inflation within a given country?
- 14 What is the stability of the local currency?
- 15 What is the objective of local government in relation to the exchange rate? Weakening or strengthening?
- 16 What was the development of the GDP in the given country like in recent years?
- 17 What is the prospect of GDP in the given country in the future?
- 18 What is the GDP per capita per region in the country?
- 19 What is the GDP per capita in the region planned to be invested in?
- 20 What is the given country's balance of payments? Does it show an excess or a deficit?

- 21 How was the recent development of unemployment in the given country?
- 22 What is the expected unemployment trend in the future?
- 23 What is unemployment like in the targeted investment region, city?
- 24 What is the level of indebtedness of the country?
- 25 What is the competitiveness of the region of the planned investment?
- 26 What is the availability of skilled workforce in the targeted investment area? Is there a shortage of labor or labor force abundance?
- 27 What are the average salaries within the country?
- 28 What are the average salaries within the area, region designated for investment?
- 29 Are wages rising or falling within the area?
- 30 What is the average rent rate within the area?
- 31 What is the average rent rate in the district?
- 32 What is the general trend among the population - are people rather buying or renting real estate?
- 33 What is the psychological attitude of the population to buying and investing in real estate?
- 34 What is the wealth of the country's raw material, what are the prices of the local raw materials on the world market?
- 35 What are the local markets and industries? Are they getting stronger or weaker?
- 36 What is the stock of pre-orders in the real economy sector? Planned capacity expansion? Confidence index?
- 37 What is the position of the banking sector in the country? Are they willing to lend to the real estate market?
- 38 Is the credit stock of banks to the real estate market rising or falling?
- 39 What are the banks' expectations for the near future? Increase or decrease?
- 40 What is the local government's economic policy for the housing market? Favorable or unfavorable?
- 41 Is there a sustainable, credible economic policy for that country?
- 42 Do foreign capital investments arrive into the country?

Total score:

Maximum reachable score:

Final result in %:

Summary:

Comments after the assessment:

Strengths:

Weaknesses:

### ***1.3. Analyzing demographic elements***

During a real estate investment, we should be aware of the demographic indicators of the investment location. Demographic trends in certain areas may also affect the real estate market in a positive and negative way. In any case, I suggest the following points to be considered:

The population increases or decreases within the area

Average age within the country, changes in the population pyramid

Aging society or youthful society

Migration balance

Whether immigration or emigration is decisive

Level of urbanization

Income distribution within the region

Proportion of the educated population

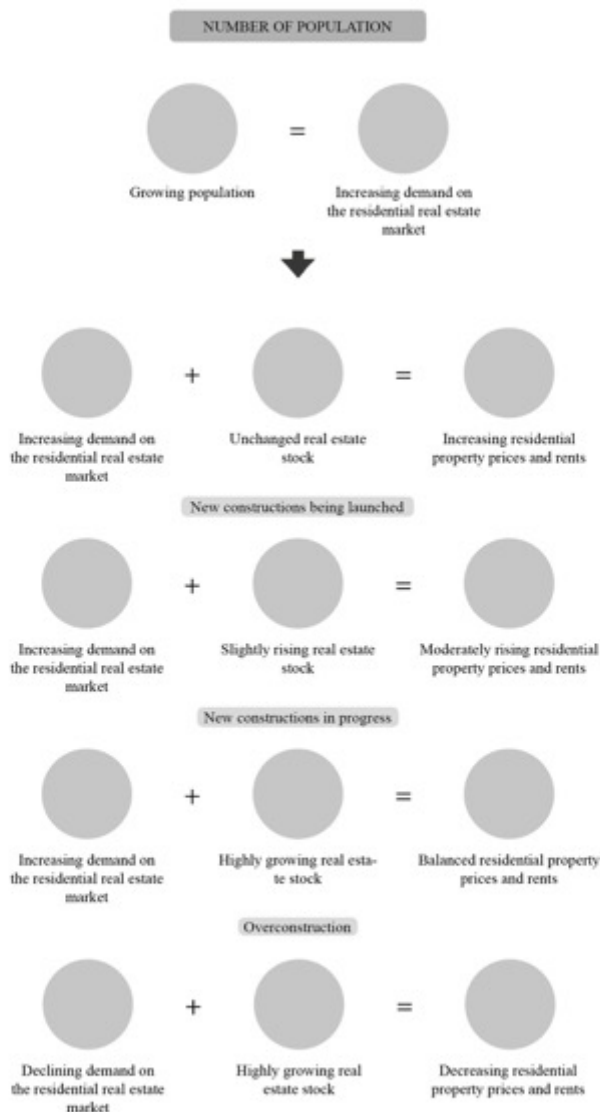
Geographic flexibility and mobility of society

#### **1.3.1. The number of inhabitants is growing or decreasing**

This measure is worth to be looked at nationwide, broken down also into a given area. Generally, there are significant differences in the two indicators. In general, it can be stated that regarding the real estate market it is positive if the number of inhabitants is growing. An increasing number of inhabitants in a country or within a region usually increases demand for residential real estate. If housing demand is rising and the number of residential real estate assets remains unchanged, residential real estate prices and rents generally increase. However, if it falls, it is extremely unfavorable as demand for real estate is declining. It is often the case that in some countries the population has been decreasing for several years, however, it is increasing in certain regions within the country. The reason for this is the migration within the country, the change of residence,

urbanization, which I will address later. As an investor, our job is to look at whether the population grows or decreases in the envisaged settlement.

The correlation between demography and residential property prices are well illustrated in the figures below.



### 1.3.2. The average age within the population, population pyramid

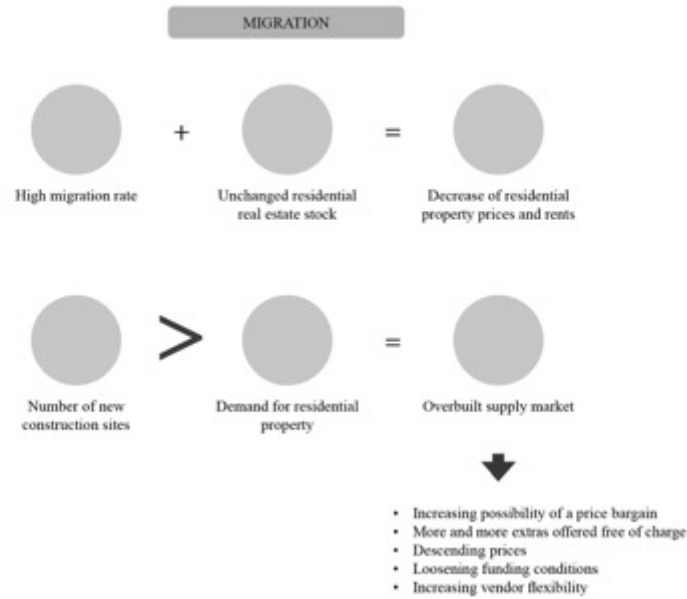
If the composition of the population is healthy, then this is favorable for the real estate market. A youthful society provides a great opportunity to develop and rent residential real estate, while aging society is not beneficial, as if society grows older and lessens, demand for real estate is decreasing, in addition, the aging society is less mobile, less likely to move or build, etc. We can experience such a phenomenon in Japan, where the several decade-long soaring of the real estate market bursted in 1990 and since then it has not found itself. Perhaps nowadays, with the Japanese economy's re-

advancing, some regions are beginning to find themselves again. Apart from several factors, one of the reasons was an aging society.

### **1.3.3. Migration balance, immigration and emigration**

The migration balance within a given region shows whether immigrants or emigrants are excess in a given settlement. A positive immigration balance - hence, if more people immigrate than those who leave the area - is favorable for the real estate market. Since if more people arrive, more property is needed, prices and rents will increase depending on demand and supply.

In areas or settlements where emigration is high, we are not expected to conduct a good business. Indeed, some areas become simply devastated and real estates virtually completely depleted. A typical example is the relocation from rural to urban areas where, in depopulated rural settlements, vacant residential properties, irrespective of their technical condition, are slowly depreciated as lack of their demand. The correlation between the interregional migration and the residential property prices are illustrated in the figures below:



### 1.3.4. Urbanization

Urbanization is a very important aspect for a real estate investor. During this phenomenon people's masses move from country to city in large volumes and for a long period.

In the settlements and regions where a high degree of urbanization can be noticed, we will definitely meet a lively real estate market. Prices and rents are rising. The right attitude is buying, holding and stacking. In such cases, we have a very important task. You have to imagine how long the process can last, and what will become decisive within that area is supply or demand. (Real estate developers build in such location at a high pace.) It has happened in many places in the world that, due to massive relocation from rural to urban areas, prices have been rising in some regions for years.

### **1.3.5. Income distribution within the region:**

Before investing in a given area, it is important to know the distribution of incomes in the given region. In a number of countries, there are large differences between people's income within each region, so it does matter where and for how much we buy real estate. A common investor mistake when we estimate a property only on the basis of its cost. For example, the cost of building a single-family house is unlikely to differ greatly, but in some regions their market price can be quite different, regardless that it has been built for the same amount. A typical example of this is a rural family home and a family house in the capital's popular district. The price of the two buildings varies considerably, although their constructional costs was the same. (Of course, land prices are also different.). In some parts of the country, incomes may vary significantly. Knowing the average income of each area is essential for the real estate investor. Of course, in areas of higher income, rental rates tend to be higher, while in regions of lower income they are lower. The average income within the region roughly determines the expected rental rates of those residential properties, from which we can calculate the amount of money we shall not exceed to buy a real estate.

### **1.3.6. The proportion of the educated population**

Educational indicators of a region provide useful information on the composition of people living in the area. An investment style appropriate for schooling is the right attitude. If educational indicators are high within a region, it is generally a good sign of our investment's orientation. As a rule of thumb, we can accept that high schooling is usually coupled with higher income. Higher income usually results in higher property prices and higher rental rates.

### **1.3.7. Geographic flexibility and mobility of society**

At this point, we need to be aware of how mobile people are in the area. Whether they easily change their place of residence or less. In areas where renting is the dominant mode of housing, there is more mobility than where ownership is decisive. Where mobility is decisive, purchase and management of real estate for rent may be a good strategy.

Completing the checklist below will help you in the demographic assessment of the region:

#### **Checklist**

Subject of the assessment: Housing market and demography

Date of assessment:

Address of the property:

Type of the property:

Investment objective:

Investment timespan:

\* Use of the table

Use: favorable assessment = 5 points

Negative assessment = 1 point

Maximum scores = 5 points

Assessment aspects

Scores to be awarded

Excellent	Good	Satisfactory	Unfavorable
5	4	3	2

Housing market and demography

- 1 Is the population growing or decreasing in the country?
- 2 Is the population growing or decreasing in the area of investment?
- 3 Is the population growing or decreasing in the city targeted for investment?
- 4 Is the population growing or decreasing in the city borough targeted for investment?
- 5 What is the average age within the country? Is it low or high?
- 6 What is the average age within the area/ city of investment? Is it low or high?
- 7 Is the society aging or youthful in the country?
- 8 Is the migration balance positive or negative in the country? Are there more immigrants or emigrants?
- 9 Is immigration or emigration dominant in the area designated for investment?
- 10 Can an urbanization process be observed in the area designated for investment?
- 11 What is the income distribution like within the region? What are the average wages in the country? Are they high or low? What is income distribution like within the region? What are the average wages like in the designated part of the country/town? Are they high or low?
- 13 How was the trend and dynamics of wages in the recent period? Ascending? Stagnating? Descending?
- 14 What is the expected trend of wages in the near future? Ascending? Stagnating? Descending?
- 15 What is the proportion of the educated population in the targeted investment area?
- 16 How flexible is society geographically? How typical is mobility?

Total scores:

Maximum reachable score:

Final result in %:

Summary:

Comments after the assessment:

Strengths:

Weaknesses:

## ***1.4. Investigating the geopolitical and geographical situation***

Before investing in a country or region - as a first step in our investment - we need to know exactly the geopolitical and geographical situation of the particular country or region. The geopolitical and geographical situation are two features that, approaching from a distance, determine the fundamentals of real estate investments.

The following aspects always need to be considered, particularly, in case of purchase of a foreign real estate.

Whether there is peace or war in the particular area

The location of the country in the geopolitical field

The geographic location of the country,

The situation of neighboring countries, connection to key markets

Political stability and risks within the country

The status of ownership and legal certainty within the country

Do terrorist attacks hit the area

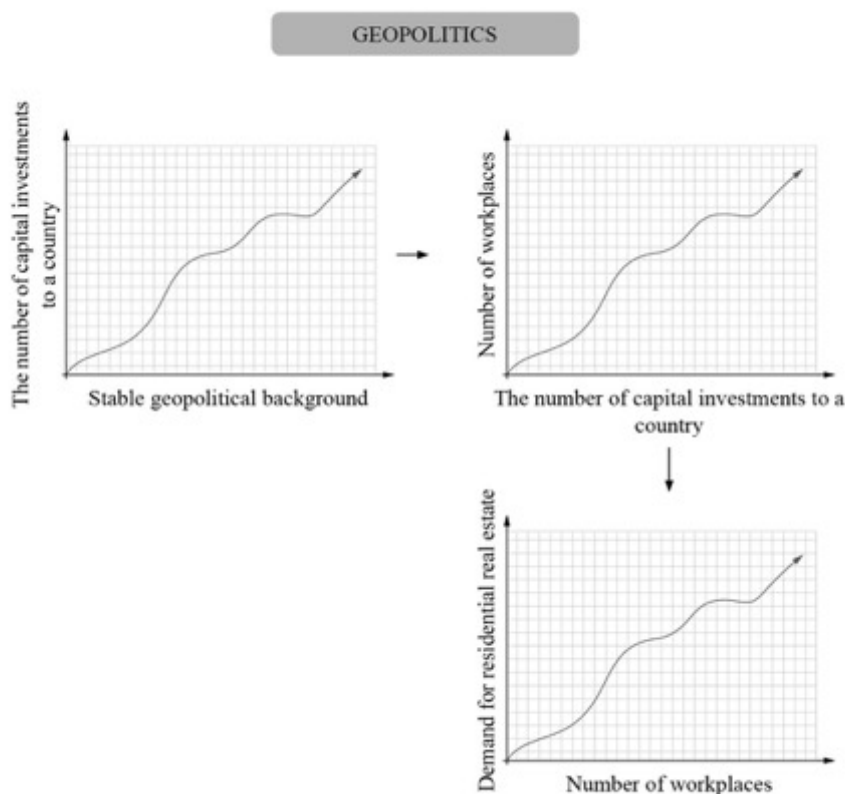
### **1.4.1 Peace or war:**

The fact whether there is peace or war in a particular country or region, of course, determines the investor's attitude towards investing. One of the ground rules, which at first seems obvious, is that in an area where war is going on, it is not worth investing. Of course, there are exceptions to this, but this is a recommended area for highly risk-tolerant investors, in other words speculative. We do not recommend this to average real estate investors. Interestingly, however, there may be a situation within a country that the war zone only affects one part of the country, while in the rest of the country there is peace and even real estate prices are rising. The reason for this is the strange phenomenon of moving people from the war zone into safe, job-offering cities, which creates massive demand and raises rents. Of course, people hope in peace, so they will not leave the country. If the

conflict had a positive outcome over time, prices would probably continue to rise. However, in the countries affected by the war, the value of the local currency may also decline dramatically and may be permanently falling, which erodes the value of our investment. As we have said, we do not recommend investing in such zones. We consider it a high-risk speculation that is associated with high yield or massive loss.

### 1.4.2. The location of the country in the geopolitical field:

Before investing in real estate, it is definitely advisable to look at where the country is located in the geopolitical field. What is its political orientation, which countries are its allies, are there any enemies or explicit friends? Of course, usually investments comes from countries with whom the particular country has good relations. If there is a hostile relationship with one of the great powers, this does not, of course, have a positive future for the local real estate market. Basically, it can be stated that a stable geopolitical background provides a stable basis for real estate investments and is profitable in the long run. The relationship between geopolitics and incoming capital investments is illustrated in the charts below.



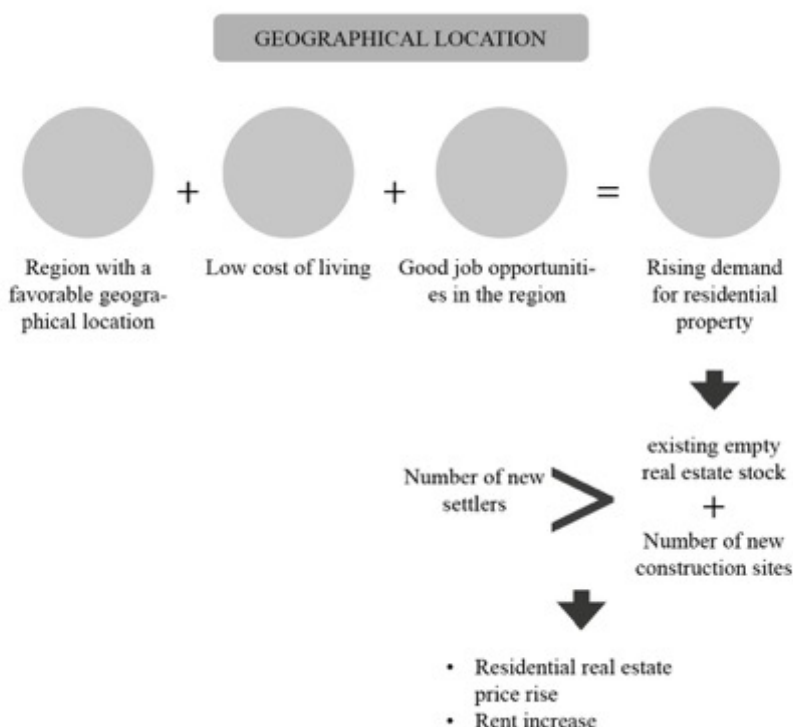
### 1.4.3. Geographical location of the country:

Who are the country's neighbors? What kind of relationship does it have with them? Is there a

historical debate between countries? What is the geographic location of the country? Does it have sea, mountain? Its climate? Altitude above sea level? Is it habitable, is it livable? How many hours of sunshine does it have? Is the weather dry or wet? Is it a territory affected by natural disasters?

The above questions all fundamentally affect whether a country can be attractive for housing there, whether people are willing to move there or not. If we find a region where people are willing to move and there are job opportunities, we can certainly make a long-term, successful investment. An excellent example of this is Malaga in Andalusia, Spain or the French Riviera. However, I could also mention the big cities in the northern part of Italy. At these places, people can at the same time swim in the sea, sunbathe, or if they prefer to ski or hike in the mountains. If job opportunities are provided and the cost of living is bearable, the fundamentals of the investment are appropriate. Particular mention should be made of the areas where the viability is very good, the cost of living is low, but there are less job opportunities. In this case, there is also an excellent opportunity for the real estate investor. In this case, the wealthier but elder pensioners are willing to move to these areas. See Western European or Scandinavian pensioners settling in Thailand, France or Spain for their senior years. Of course, real estate investors here have the responsibility to find a suitable property to meet these needs.

So, briefly summarizing: favorable geographic conditions = good investment opportunities focusing on certain target groups. For example, investing in property for pensioners targeting holiday or long term settlements in areas with good geographic conditions and low living cost (where there is no heating cost, local food, fruits, vegetables, etc. are cheaper) can be a good decision. Favorable geographic conditions + job opportunities = excellent investment opportunities. For example: French Riviera, certain areas of Northern Italy. Favorable conditions + good job opportunities + growing population = excellent long-term investment opportunities.

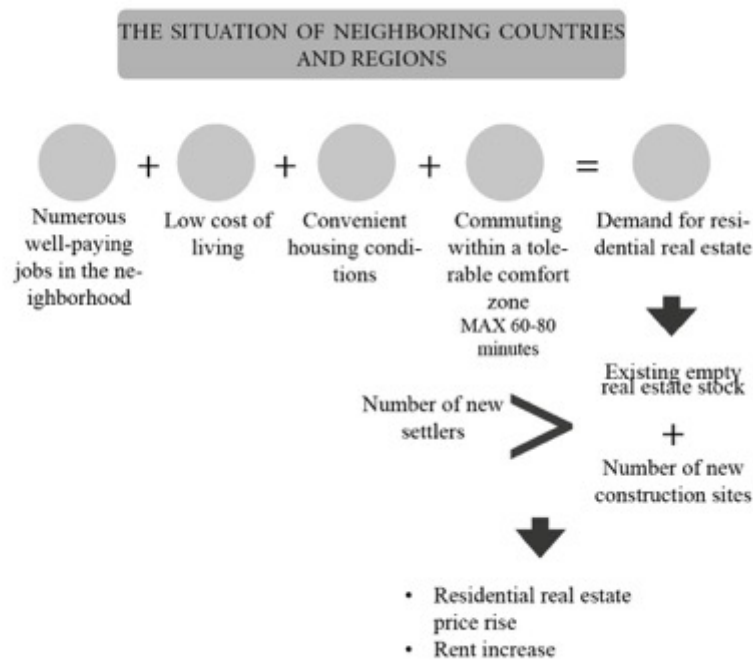


#### 1.4.4. The situation of neighboring countries and regions

The economic situation of neighboring countries may be of interest for a real estate investor for

several reasons.

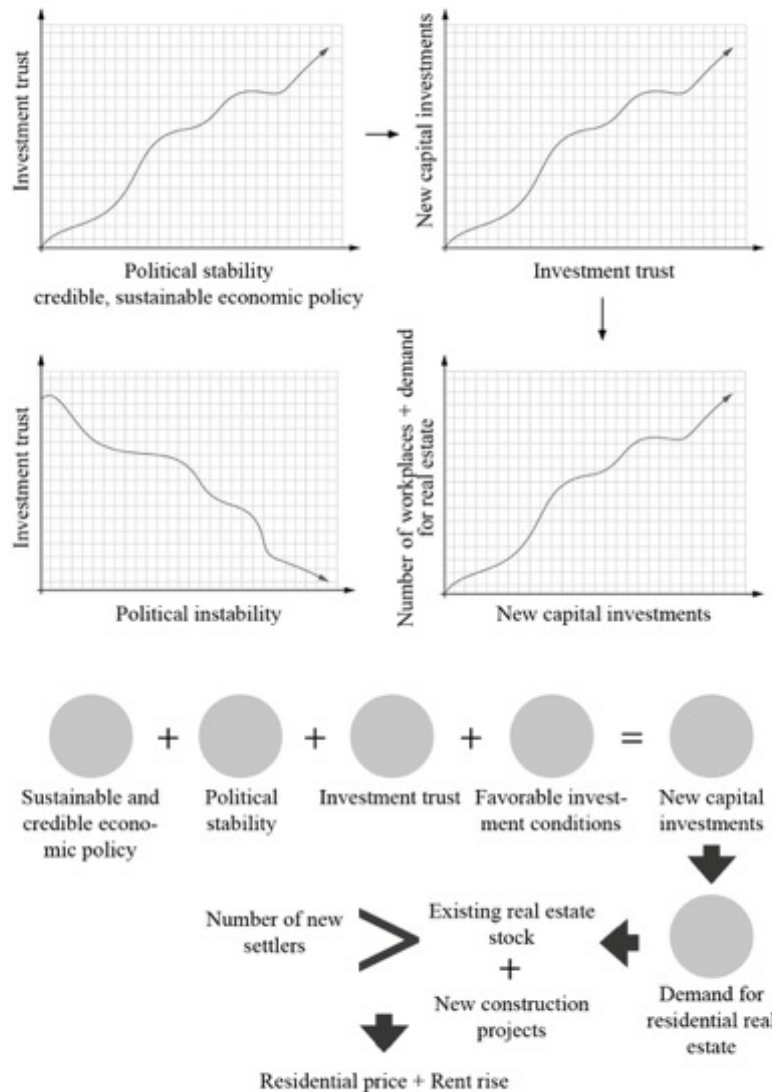
If the neighboring country or region is economically underdeveloped or economically more advanced, it offers an excellent investment opportunity for a clever real estate investor. In settlements along the border - where a more underdeveloped region is geographically close (within a comfortable commute distance) to a highly developed region, the real estate market is usually flourishing. The direction of immigration is positive in cross-border settlements because people get cheaper property and at the same time, with some they can bring home, to the neighboring country, a substantially higher salary. Because of this, many people are moving to these regions, creating demand for local residential property and increasing prices.



### 1.4.5. Political risks within the country

Political stability in the country is an essential aspect of a long-term investment. Often changing governments can take various favorable and unfavorable measures, which is a major risk factor for the investor. Such changes may occur in tax policy, the provision or withdrawal of state aids, in launching or stopping various government programs. Examples include various rental housing programs, government measures to promote residential property development. In extreme cases, there may be regimes that question the fundamental investor confidence within the country and can cause the instability of the local currency, which, of course, poses a significant risk. While stable, predictable, strong-handed political power creates a long-term predictable future and security for the investor.

POLITICAL RISKS



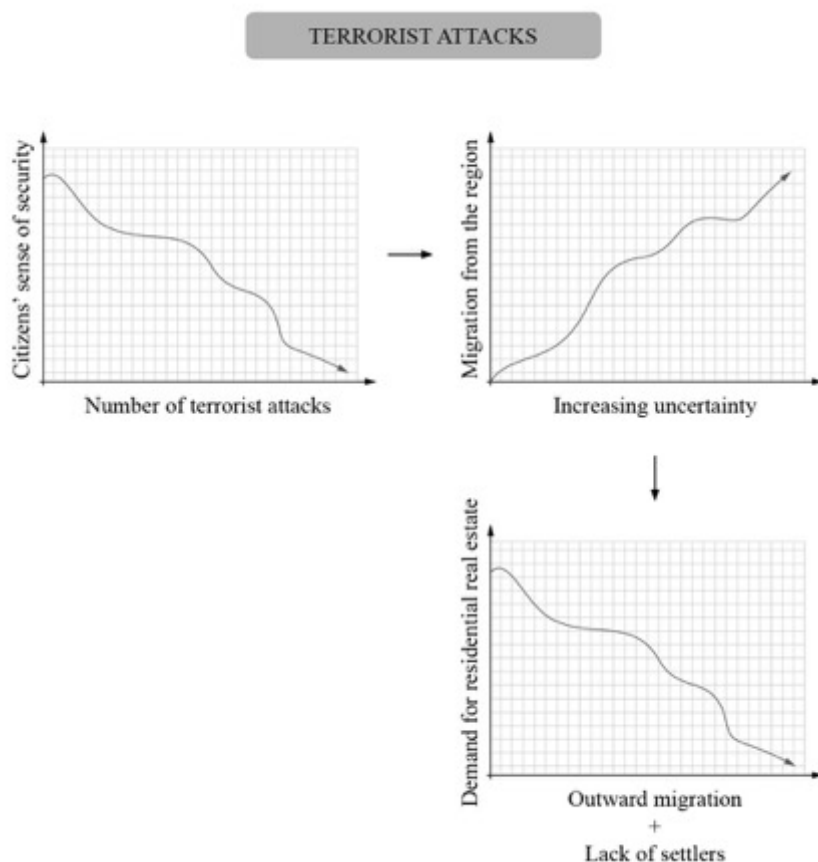
### 1.4.6. The status of ownership and legal certainty within the country

As mentioned above, as a foreigner, it is worth investing in real estate markets in countries where legal certainty is strong and protection of property rights is ensured. Of course, besides many others, the simplicity of property acquisition and the knowledge of relevant taxes and legislation are also important.

### 1.4.7. Terrorist attacks hit the area

Unfortunately, as a new element, we have to deal with the growing number of terrorist attacks that we are experiencing in recent times. Of course, it is especially harmful to the local real estate market if local residents do not feel safe. As a result of too frequent or regularly recurring terrorist

attacks, sooner or later migration may begin, which reduces demand, increases supply and hence it is unfavorable for our investment. It is commonly noticed that one cannot find a tenant for a long time in urban areas hit by bomb attacks because people are simply afraid to move to that area. At the same time, if we expect that due to various police and government measures public security will be improved in the future and fears are temporary, then it may be worthwhile to enter the prosperous markets at a reduced price. For example, I would mention Paris or Brussels, where recently there have been more terrorist attacks that provoked a minor shock on the real estate market (mainly for retail or tourism properties) but the real estate market continues to function well as a result of people's faith and the security measures taken. The same does not apply to holiday areas where blasts have often occurred and tourism has fallen. Here the yields and prices of tourist properties began to fall. (I would like to elaborate on this in another book.)



To have clarity about the geopolitical and geographical position of our investment area, complete and classify the following simple checklist on the basis of our available information.

**Checklist:**

Subject of the assessment: Geopolitical and geographical situation

Date of assessment:

Address of the property:

Type of the property:

Investment objective:

Investment horizon:

\* Use of the table

Favorable assessment = 5 points

Good assessment = 4 points

Mean assessment = 3 points

Unfavorable assessment = 2 points

Poor assessment = 1 point

Maximum score each= 5 points

Assessment aspects	Score					Extra weighting	Total score	Maximum score
	5	4	3	2	1			
1								
2								
3								
4								
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Total score:

Maximum reachable score:

Final result in %:

Summary:

Comments after the assessment:

Strengths:

Weaknesses: