

# World's Up-And-Coming Real Estate Markets

Matt Woolsey, 04.02.08, 12:01 AM ET

Although the worldwide real estate market is softening as credit reservoirs dry, some spots are poised for growth.

To find them, we looked at economic expansion, inflation rates, strength of individual property rights and access to lending in emerging markets, to examine housing conditions in capital cities and business centers. These markets are not expected to explode in value in the next six to 12 months, but in the next five years, they will likely have proved to be worthy investments.

Take [Tel Aviv](#). Israel's real estate market struggled in the late '90s and early 2000s as the country grappled with deflation. As late as 2006, market weakness had pushed prices down 4%, according to Knight Frank, a London-based real estate research company. But last year prices climbed 2%. That is expected to continue, given the country's robust 5.1% 2007 growth in gross domestic product and a 3.8% projection for this year, according to the International Monetary Fund.

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Or consider [Kuala Lumpur](#), the capital of Malaysia and one of the biggest winners in global trade, where economic growth has kept up with neighboring Southeast Asian countries but where inflation and consumer prices are becoming some of area's lowest. That means more money in the economy, and a bigger share of it in people's pockets. Home prices in some spots in Kuala Lumpur are going for 50% to 70% above initial asking price, according to Knight Frank, and builders are rushing to keep up with demand.

### The Methodology

We defined emerging countries as those transitioning from developing to advanced. Brazil, Russia, India and China (often abbreviated to BRIC) are the most commonly cited examples. We relied on Morgan Stanley Capital International's list of emerging markets, the most commonly used, in forming our top 10.

We discounted developing markets, as they are often highly volatile. For example, investors salivated over the Baltic states in 2006, when, according to Knight Frank, home sales prices in Latvia and Estonia appreciated at 66% and 24%, respectively. In 2007, prices swung the other way, depreciating 7% and 14%. Knight Frank Research Director Liam Bailey calls this an "astonishing reversal of fortune" and cites "uncertain employment conditions, rising interest rates and household indebtedness" as reasons for the turnaround.

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To compile our list, we turned to data on individual property rights and access to loans from the World Economic Forum's 2007 "Global Competitiveness Report" and the World Bank Group's 2007 "Doing Business" study, provided by the Institute for Liberty and Democracy (ILD), a Lima, Peru-based research organization that focuses on the economic benefits of property rights in emerging and developing markets.

The strength of individual property rights is an important real estate investment driver. In China, where land is state owned and leased, there isn't as much incentive for some to invest. Consider 2002, when the Chinese government wanted to expand the Yangshan deep-water port near Shanghai. The authorities simply demolished residents' homes and sent those who protested off to labor camps.

This isn't to say that luxury properties in Shanghai or Beijing won't appreciate; in fact, high-end homes have done well in wealthier enclaves like these. But it's difficult for a market to gain broad-based stability if only a sliver of it prospers. Besides, the wealthy in developing countries are not always spared the burden of a rights-limited government. In Romania, Dominic von Hapsburg would like nothing more than to sell his [\\$100 million-plus castle](#), but the government has pre-emptively invalidated its sale, claiming it as a state asset.

In an emerging market, perhaps more important than property rights is access to capital. If people can't find lenders, the market breaks down because no one, except those with deep cash reserves, can buy property. When a housing market stagnates and capital becomes tight, you get a situation like South Florida, where hundreds of thousands of homes sit empty on the market and lower the values of surrounding homes.

"Ease of loan access speaks to the strength of capital markets in a given country," says Satya Thallam, a fellow at ILD. "But it also tells you how much transparency there is ... how much transactions cost, how hard it is to get a bank manager on the phone, how many palms you have to grease. It's as crucial as any direct measure."

Lastly, we mixed in growth and inflation figures from the International Monetary Fund. Economic growth is among the single biggest drivers of real estate value growth, and the rate at which inflation increases drastically alters the value of an investment. Take Kiev, Ukraine or Moscow as examples. Both have seen double-digit inflation averages over the last three years and in projections for 2008. When home prices go up accordingly, for investors, it's not much of a win.

But in markets like [Santiago, Chile](#), or [Aman, Jordan](#), where inflation hasn't been as out of pace with growth, economic expansion represents a greater value in the real estate market because it speaks to what people can afford in the loan market. If inflation isn't driving up consumer prices, then residents have more money in the bank at the end of every month, which means they can afford to pay for and command better housing.

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