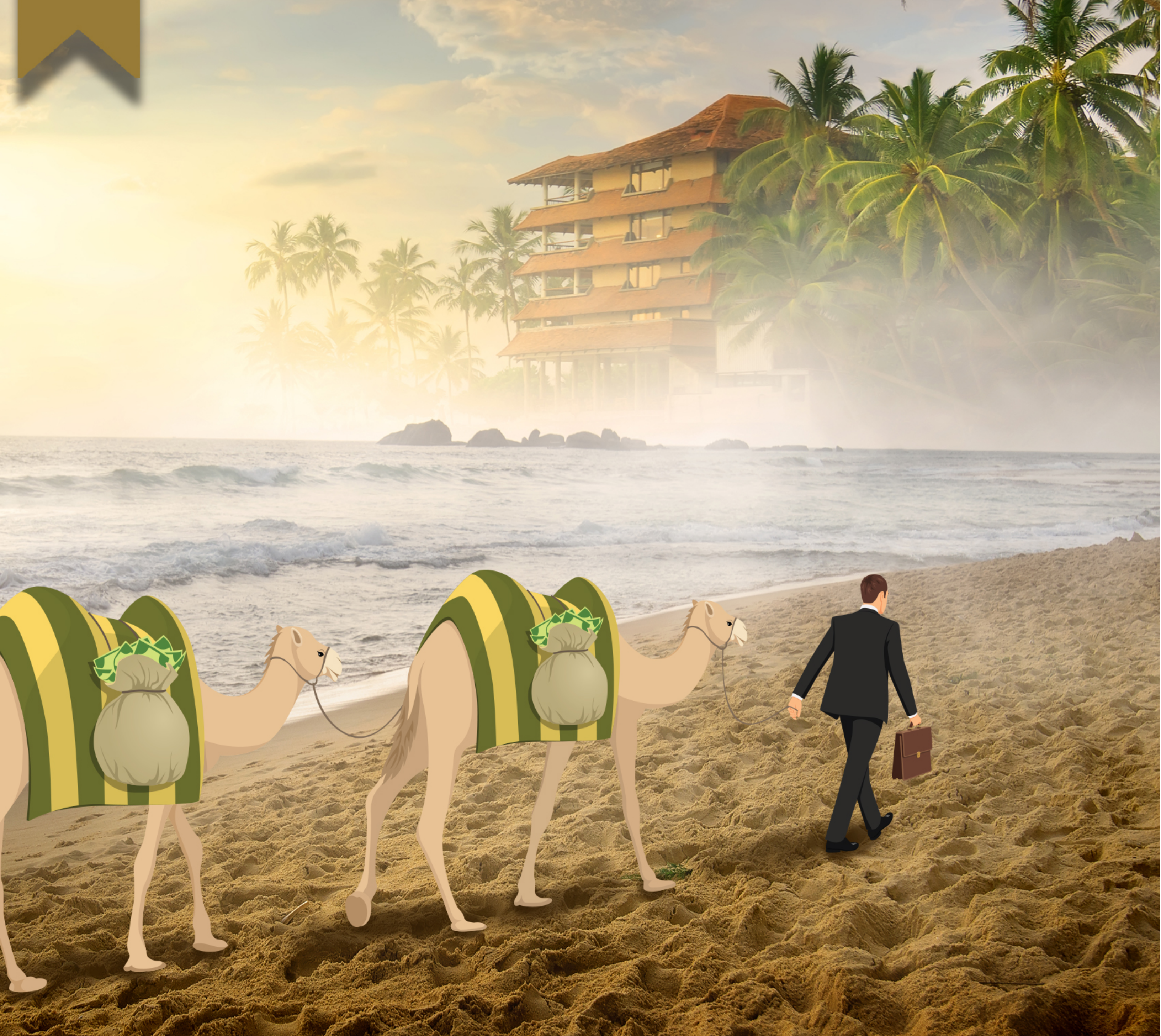
Live and Invest OVERSEAS

Expert's Guide To Buying Property Overseas

An Insider's Handbook For Profits Abroad...



A Publication of Live and Invest Overseas
www.LiveandInvestOverseas.com

GLOBAL PROPERTY ADVISOR

If you have queries relating to your subscription, get in touch at:
CustomerService@theglobalpropertyadvisor.com

For editorial comments and contributions, reach us at:
Editorial@theglobalpropertyadvisor.com

Live and Invest Overseas, as the publisher of *Global Property Advisor*, provides a service for useful and reliable information. While the service strives to provide content of the highest accuracy and reliability, we cannot guarantee all information provided is so, nor is Live and Invest Overseas responsible for any typos or errors.

Your satisfaction as a *Global Property Advisor (GPA)* member is of the utmost importance to us.

GPA, its agents, and other sponsoring groups do not, at any time, provide individual, personalized investment advice. Information provided by Live and Invest Overseas and its agents is of a general nature and not tailored to your specific situation nor should any statement be considered as such.

Be advised that Employees, the Principals, as well as Live and Invest Overseas may be invested in specific markets, companies, or real estate opportunities covered in the material. Live and Invest Overseas may also have marketing agreements and/or receive advertising fees, commissions, or other compensation from companies, developers, or individuals with investments, products, or services covered in our publications.

Any investments recommended in this letter should be made only after consulting with your investment advisor and only after completing your own due diligence including reviewing the prospectus or financial statements of any company.

This email was sent to provide you with a publication you have purchased from Live and Invest Overseas. Please note that if you unsubscribe using the link below, you will not receive future updates for this subscription service.

Please contact customerservice@theglobalpropertyadvisor.com for any questions or requests.

Table Of Contents

4 **Introduction**

4 Building Your Ideal Global Property Investment Portfolio

7 **Questions To Ask Before Your Purchase**

7 Five Things You Need To Know Before You Start Your Due Diligence

9 Three Things You Must Know To Make Money On An Overseas Property Purchase

11 What To Ask When Buying Property Overseas

15 How To Evaluate HOA's Before Deciding On Your Overseas Property Purchase

17 Telltale Signs You're Buying Real Estate In The Path of Progress

19 Assessing Your Risks As A Global Property Investor... And How To Deal With Them

24 **Money Talks**

24 Gross Versus Net Yield... What's The Bottom Line? (And How To Prepare Your Own Rental Scenarios)

29 Hard Money Loans: Why Real Estate Developers Use Them... And Why You Should Consider Becoming A Lender

33 This Is One Tax I Can Get On Board With

35 Leveraging Your Overseas Property Purchase

37 How To Transfer Money Overseas For Your Global Property Investments

42 **Know How To Hold**

42 Don't Let Structures Kill The Investment

46 **When Buying-To-Let...**

46 Three Websites You Should Be Using To Market Your Overseas Rental

49 Furnishing Your Rental Properties For Profit

52 Landlord Beware: Subsidized Housing Tenants May Be More Than You Bargained For

55 **Your Exit Strategy**

55 Avoid Making Mistakes When Securing Real Estate Agent To Sell Your Property

56 **Buying In Specific Countries**

56 **Latin America**

56 How To Buy And Hold Real Estate In Colombia

59 How To Buy And Hold Real Estate In The Dominican Republic

63 The Benefits Of Seller Financing In The Dominican Republic

65 How To Buy And Hold Real Estate In Mexico

69 **Europe**

69 How To Buy And Hold Real Estate In Italy

Building Your Ideal Global Property Investment

Investment professionals in the United States are all trained on financial products. As a result, the investment and retirement portfolios that most of them recommend include paper investments only, in three categories—stocks, bonds, and cash.

Depending on your age and your risk tolerance, most financial advisors will tell you to put some percentage of your investment portfolio into stocks (riskier and longer-term), another percentage into bonds (lower risk and medium-term), and the balance into cash (zero risk and short-term).

Some advisors focus on specific industries or domestic versus international offerings. Some throw metals into the mix.

Real estate is rarely, if ever, seen in an investment portfolio pie chart.

It's not because investment advisors as a rule think that real estate is a bad investment. They just aren't in the business of selling real estate. They have financial investments to sell you... so that's what they're going to recommend you use to build your portfolio. If you want some real estate exposure, they'll suggest a REIT.

That approach has never made sense to me, including when I was studying it in graduate school. Historically, many of the world's richest people have had real estate to thank for their wealth. That fact alone should be enough to make the case that it's counter-intuitive to exclude real estate from your investment portfolio.

Real estate has always been my preferred investment class, and my investment portfolio has the reverse problem of the portfolios most financial advisors create—it's heavy real estate. That is, more than 90% of my investment portfolio is invested in property in some form. The rest is in cash and metals. The few stocks that I have owned over the years haven't done well, and mutual funds are simply fee-generation mechanisms for the managers in my view. Few beat the market over any period of time.

I'm not recommending that you put all your investment eggs in real estate. What I am saying is that real estate is key to any diversified investment portfolio. Further, whatever real estate assets you invest in should be diversified, as well, including and especially by country.

Real estate diversification comes in three parts—the location of the property (I'm referring to market, not street address), the currency the property is valued in, and the property type.

Those first two will be the ongoing topics of our conversation in these pages each month. In each issue of Global Property Advisor, my team and I will introduce you to the best current opportunities for diversifying your real estate investment portfolio according to market (which, in turn, means diversification for political regime, current administration, economy, market cycle, population demographics, infrastructure development, and so on) and currency.

Note here that, in some countries with their own currencies, real estate is priced and trades in U.S. dollars. Nicaragua is an example. Note, too, that, while I believe currency diversification is key to any well-strategized portfolio, it's also a risk, as it exposes you to currency fluctuations... which can move in your favor or out of it.

Right now, if you're an investor with U.S. dollars in your pocket, you're riding high. The U.S. dollar is soaring against currencies worldwide, including in some of the markets I think make greatest sense for the property investor. Colombia is a top example. U.S. dollar investors have the chance to buy into this market today for the same prices, in U.S. dollar terms, as five years ago. It's your second bite at this apple.

In addition to market and currency diversification, we will be working hard to make sure that our recommendations to you cover all the asset bases. By asset diversification, I don't mean investing in a two-bedroom rental and a three-bedroom rental in different neighborhoods of the same city. You need to look at different types of real estate.

As my pie chart above shows, broadly speaking, your options break down as follows:

- Rental property, short or long term, residential or commercial
- Land... for land banking or development
- Agriculture
- Indirect investment

Over the months and issues to come, we'll look closely at each of these asset types. I'll draw out the pluses and the minuses of each, while also directing you to the best current markets for each kind of buy. While you should see some appreciation on a rental investment to help boost your overall returns, your main expectation for return on investment in this case is the net yield from rental cash flow. Non-agricultural land, on the other hand, doesn't generate a rental yield. In this case, you're looking for all of your return from the appreciation of the property.

Land banking can have tremendous upside if you buy right, but one big benefit of owning land is that it has little downside if you buy right. It is a store of wealth with minimal carrying costs (usually nothing more than property taxes). You may want to keep the land cleared, and you might have an HOA fee is the land is part of a development. Otherwise, little is required out-of-pocket to hold a piece of land as long as you want to hold it.

The point of an agricultural investment is a cash return, annually from crops or productive trees (fruit or nut) or every 12 to 25 years in the case of a timber plantation.

You don't have to be a farmer to make money from agricultural land today. This is a breakthrough reality of our times for us global property investors, and turnkey agricultural offerings will be a constant focus in these pages.

The final asset category on my list—"Indirect Investment"—refers to any property investment where you don't own the real estate directly. This could be the REIT that your financial investment advisor suggested or it could be an investment in a company that develops real estate or a hard money loan. This is when an investor lends cash to a real estate entrepreneur (a developer or someone who does renovation projects, for example). You lend the money for a short term at an interest rate that is much higher than would be typical for a bank loan. The developer is willing to pay the higher rate of interest because getting a bank loan would be too complicated or simply is not an option. You as the investor get the property (or a piece of the property, in the case of a big development) as collateral.

The risk with these options is that you don't directly own or control the asset (the property).

Some types of real estate can cross category lines. Pre-construction refers to an investment in a piece of real estate that is under construction or planned for construction. It could be a short- or long-term rental, residential or commercial, or maybe a condo hotel. The advantage to buying this early is a reduced price, meaning you should expect good appreciation during the construction period. A pre-construction investment can be flipped to an end buyer when the building is close to completion or you can take possession of the unit and turn it into a rental yourself.

Renovation projects offer the same choices in the end—to flip or to rent. The upside appreciation potential of a renovation should translate to enough return to make the project worthwhile. Sometimes, though, even in a case of great appreciation, you find that you could get a great ongoing return on your investment by renting the property out.

The downside to renovations is the hard work and direct effort required on the investor's part to make the project successful.

Building An Ideal Portfolio

Don't worry. You don't have to invest in all of these sub-categories to realize a reasonably diversified property portfolio.

I offer these categories as a guide. An ideal portfolio might include them all, according to the percentages I laid out in my pie chart above.

However, few of us are going to build The Ideal Portfolio... and you don't need to try. What you need to do at this point, as you set out to build not The Ideal Portfolio but the portfolio that is ideal for you, is to pin down the following:

- Your budget... how much money do you have available to put into your real estate portfolio
- Your level of risk tolerance
- Your diversification objectives (currency, country, category)

You may want or be able to invest in but one or two properties to get started. That's ok. That's the idea. Let my Model Portfolio, detailed below, be your guide as you work through all the decisions you'll need to make as you consider each of the property investment options and opportunities my team and I will be introducing you to in the weeks and months to come.

Don't get too bogged down in the percentages. They should be fluid.

And don't be impatient. It'll take time to create a broadly diversified international real estate portfolio. I've been at it for 20 years, and my portfolio remains a work in process. And considering new opportunities remains a big part of the appeal and the fun.

Questions To Ask Before Your Purchase

5 Things You Need To Know Before You Start Your Due Diligence

I'm subscribed to several real estate newsletters and advisory services—I'm sure, as a global property investor, you are as well—so my inbox is flooded with new investment offers daily.

It's a lot of deals to sift through but it's a good exercise and it allows me to see what's going out there in the world of real estate. Plus, it gives me a chance to, superficially, at least, analyze the merit of the investment on offer with the information that I'm given.

The back and forth email threads between myself and my mentors Lief Simon and Lee Harrison, discussing some of these deals, layering in their unfiltered judgement, is quite entertaining... But it's necessary to weed out the offers that don't make sense and/or to be able to formulate some initial questions to the ones that you find worthy of your time.

I wouldn't call this performing due diligence, however. That would come after. At this point, you're simply evaluating the investment on the surface. It's the approach that venture capitalist would take when they're pitched...

They'll review the executive summary. If it makes sense they'll request a business plan and ask questions about the overall operation. Then, if everything checks out they'll move on to the due diligence.

As a real estate investor, you'll review the email letter or advertisement, which gives you a brief overview of the investment (the executive summary). You'll request an information package or brochure and ask questions about the returns. Then you'll perform your due diligence.

I'd like to add that your decision to proceed will depend on your investment objectives and preferences too.

In the due diligence stage, you're more or less verifying and backing up what's been covered in the investment overview and information package along with making sure that everything is on the up and up administratively and legally.

Here's the five main things that you need to know about any property investment before you start the due diligence process...

- How you're going to make money?
- How much money you're going to make?
- When you're going to start seeing returns?
- What's the real cost of the investment?
- Are there any contingencies in place to protect my investment?

How You're Going To Make Money?

As an investor, of course, this is the most important thing to figure out. The answer will vary depending on the investment type and the business model. The way you're going to make money should be fairly straightforward. The more complicated the business model the more risk involved.

If you're investing in a rental property, you want to know who are your target renters (expats, retirees, locals, tourists). How will these renters be sourced? How will your rent be collected?

With an agricultural investment, you need to know who you'll be selling your harvest to. Will you be selling to the local market or internationally? Does the operator have buyers in place? Is there a distribution plan?

With a lot investment in a new development, you'll be getting the bulk of your returns from capital appreciation. That means that things need to be happening at the development that'll increase the value of the land. Is there infrastructure in place like electricity, high-speed internet, paved streets, sewage, or drainage? What are the planned amenities and have any been completed? How many lot owners have built homes?

For indirect investments, where you don't own the real estate directly, you'll usually be making your money in the form of interest payments. An interest-only private mortgage loan, for instance, you'll get monthly interest payments throughout the term period (typically 3 to 5 years), with the balance to be in lump-sum at the end of the loan term. With a hard money loan, the developer will rely on the sales of the units in order to pay you back so they'll need to have marketing and sales plan in place.

How Much Money You're Going To Make?

After you understand how you're going to make money, then you want to know how much can you make.

So, for rental properties, you'll need find out how much you can charge for rent? For short-term rentals, you'll need to get an idea of the occupancy levels in the area. The developer should have rental projections within the information package, particularly, if they're marketing the investment has a rental.

You'll need to know how much you'll be able to sell your fruit or timber for once it's harvested... and to how much you'll be able to sell. The farm manager or operator should be able to show you current prices and trends plus what to expect in the future.

It'll get a little tricky to figure out how much you'll make investing in a lot in a new developer that's in a region that's relatively undeveloped. That said, the developer should be able to provide you with pricing trends or data in the area. If the development is in a market where several projects are being developed at different stages, they´ll be able to provide you with some somewhat reliable data.

You'll get between 8% to 11% annually from a private mortgage. You should expect to earn at least 15% with a hard money loan investment and, in some cases, developers will pay you up to 40%.

What's The Real Cost Of The Investment?

For the most part, the deals that you'll receive in your inbox will give you the minimum investment amount or the starting price and that's it.

Developers are notorious for not including the cost for furniture and appliances in their promotional brochures so you'll need to ask. Get an idea about the closing costs that you'll be responsible for (taxes, broker's fees, attorney, notary).

What about the ongoing costs such as HOA fees, property & rental management, and utilities?

In the case of a lot purchase, you'll want to know how much will it cost you to get a home constructed. Is there a local supplier for your building materials? How much is labor?

With agricultural investments, you'll need to find out if there are administrative fees that you'll need to pay on top of the minimum investment. Usually, administrative fees will be rolled into the price of the agricultural investment, but I've seen agriculture investments marketed at one price then the developer hits the buyer with an additional US$2,000 to US$3,000 fee.

For all your overseas investments I'd recommend that you get familiar with the local tax code. Is rental income taxed? How much? In the event that you'd like to exit your investment how will your capital gains be taxed.

Are There Any Contingencies In Place To Protect My Investment?

It's not always possible but whenever you can you'd like to have some assurances, strategies, and/or contingencies in place to protect your investment. If the developer is requesting that you pay a deposit or reservation fee, I'd confirm if it's refundable.

Typically, you'll have up to 30 days to decide whether you're going to proceed with the purchase or not and they'll refund your money.

For pre-construction projects, where the developer is relying on pre-sales to fund the construction, you'd want to know what will happen with your down payment if the construction does not proceed. Many of the fractional investments that I've recommended will hold your down payment in a third-party trust and the money is not released until the developer begins construction. Further, if the developer does not begin construction by a certain date your down payment is refunded.

With a lot investment in new project, it's important that lot owners have building deadlines or the community will never develop. Further, the community should have some architectural guidelines in place.

For an agricultural investment, you'll want to find out what type of strategies (irrigation, pesticides, or soil enrichment) the farm operator is utilizing to protect your crops.

Diversification is important with agricultural investments as well. Are there multiple markets for your crop? For example, Mangos or its by-products, rather, are used in the cosmetics and pharmaceutical industries. It can be consumed whole, dried, or in juice form.

With a hard money loan or private mortgage investment, your money will be secured by a hard asset, whether it's land, a condo unit, or private residence. I've seen developers even offer investors a buy-back option where they can exit the investment at any point.

Again, your decision to proceed with the due diligence will depend on your personal investment objectives and preferences. By honing in on these five things, you'll be able to quickly filter out offers that don't make sense for you and focus your time on the deals that do.

Three Things You Must Know To Make Money On An Overseas Property Purchase

You don't make money when you sell a piece of real estate but when you buy it.

That is, before making any property purchase anywhere, you want to feel comfortable about three things:

- First, that you're getting a good value. What's a good value? This comes down to location, style, quality, and size...
- Second, that you're buying into a market where you expect values to increase over time...
- Third, that you have a clear idea of your exit strategy. If the exit strategy is to sell (at any point, near or long term), then you need a clear understanding, before making the purchase, of who your future buyer will be... and of how big that potential buying pool might be.

You know that location is important when making a property purchase. However, you want to balance location against cost. Buying the most expensive piece of property in a great area can put you at a disadvantage when it comes time to sell. You'll be competing with lower-priced competition. I recommend instead that you look for properties that are priced below the median for the area where you're investing. That should help support value appreciation while also helping you to appeal to a broader market when it comes time to resell.

Style And Use Are Important, Too

In addition to location, the style of a piece of property is also important. The trouble is that style is a matter of taste, and, unfortunately, you don't know what taste your future buyer might have. This is why investing in a uniquely designed custom home is a crapshoot if your exit strategy is to resell. The house may have a great location, sitting right on the ocean, for example; however, if the style is unusual, you could have a hard time reselling.

I looked at a house for sale in Panama recently with a great location on the ocean. However, it was a custom house that the owner built for his family. The design was L.A. chic, with poor use of space. While the design and style worked for the owner, it probably wouldn't work for many other people. I wasn't surprised to hear that the guy has been having a hard time finding a buyer.

I remember another house I saw a couple of years ago on the coast of Nicaragua. It had been designed as a vacation house, so the architect hadn't put much thought into making the space useful from a full-time living perspective. In this case, though, the owner was able to resell to someone shopping specifically for a vacation home on the beach.

You also want to take into account the quality of a property. If you're buying a local-style house that you intend to rent and eventually resell on the local market, the quality of construction and of the finishings and fixtures doesn't need to be anything more than what locals expect. However, if you're buying with the expectation of renting or reselling to an expat buyer, then you want to buy something built and finished to expat standards.

One development I know in Belize has targeted foreign buyers but built very inexpensively. This means pricing is attractive. The development has been able to sell on that point, but the quality isn't what expats are looking for. Buyers who have tried to resell haven't had an easy time of it. Prices are too rich for locals, but the finished product isn't of the standard foreigners demand.

Size Always Matters

Size is important, as well. You may find a great deal on a five-bedroom property in the market where you want to invest, but how much demand, for rental or for resale, would a five-bedroom house command? And a 6,000-square-foot penthouse might be the deal of the century because the owner had to reduce the price to find a buyer... because, again, how big a market is there anywhere for 6,000-square-foot penthouse apartments?

Depending on the market and who you think your potential pool of future buyers might be, you are generally better off with more standard-sized properties of one, two, or three bedrooms. In a retirement or resort destination, two-bedroom condos might be most sellable. On the other hand, they're likely also be the most common property type, which can work against you.

Rental supply and demand should play an important role in your purchase decision when investing in a rental property. You want something you'll be able to resell easily but also something that will generate a good rental return. In Paris, for example (a rental market I like despite, as many readers have written to inquire, recent events), the bulk of the short-term rental supply is studio and one-bedroom apartments. While those are the apartment sizes in greatest demand for rental, two-bedroom units have more flexibility and less competition. You can rent a two-bedroom unit to someone who only needs one bedroom, but it's hard to rent a one-bedroom apartment to someone who has a need for two.

Understand Your Future Buyer

Never buy a piece of real estate anywhere for any purpose that you intend to resell at any time without understanding where you'll source your eventual buyer. Generally, you're buying for one of these future buyer pools—another investor, a second home buyer (typically a non-local), an expat buying a primary home (for retirement, for example), and local residents. Best case is when you're able to buy a property that could conceivably find a buyer among more than one of these pools.

Another investor is going to care about upside potential. This is the case regardless of property type (rental property, agricultural investment, or raw land for future development, etc.). The investor pool is generally the smallest and can be fickle when it comes to location and type of property.

Second home buyers don't need a second (or in some cases a third or a fourth) house. That is, they're buying out of pure desire. Priorities for the second home buyer are location, ease of access, and property style and size. They want a good deal but aren't buying based on the numbers… though an investment upside can help a second home buyer rationalize a purchase he wants to make anyway.

The expat looking to move or retire overseas can be a good market, but this buyer can be budget-conscious. If you want to target this pool for future resale, buying below the median price in the area where you buy becomes even more important.

Locals aren't generally looking to buy to live in gated communities or resort areas. When buying in an area where locals are part of your future buyers' pool, consider access to public transportation, parking, and nearby amenities such as restaurants and grocery stores.

Few markets attract all four types of buyers, but when you find one that does, you'll have an easier time selling, even in a down cycle. Examples of markets where you could potentially access all four buying pools are big, brand-name cities, including Paris, Buenos Aires, Medellín, and Barcelona.

Case Study: Algarve

During a recent search for a rental investment in Algarve, Portugal, one of the properties I viewed was in a nice development with good amenities at the beach. The size of the properties fit the market (vacation rentals); most of the apartments were two bedroom. Current occupancy rates were strong and picking up as the Algarve market continues to recover from the global crisis. Current net rental yields were in the 8% range.

However, I knew as soon as we pulled into the complex that I wasn't going to buy the apartment the agent was bringing me to see because the complex had dozens of buildings and hundreds of apartments, all more or less the same as the one I was viewing.

The entire complex had been built for vacationers, meaning competition for rentals would be great. If demand fell even slightly, I'd be competing with hundreds of apartments to keep up my occupancy figures.

The entire complex had been built for vacationers, meaning competition for rentals would be great. If demand fell even slightly, I'd be competing with hundreds of apartments to keep up my occupancy figures.

What To Ask When Buying Property Overseas

I've been buying real estate investments around the world for more than 20 years. In fact, my wife Kathleen and I today own real estate in 14 countries. As one would expect, we've learned new things from every investment and every experience… and I'm sure that as we continue building our real estate portfolio we will learn a lot more.

The fact of the matter is, buying real estate overseas is nothing like purchasing real estate in North America. So it's best to go into this process with realistic expectations.

Here are some of the major differences that you should expect when buying real estate overseas:

- Language Barrier
  - Chances are that you will more than likely encounter a language barrier in the country where you are planning to make your purchase.
- No Multiple Listing Services (MLS)
  - Unfortunately, there's usually no multiple listing service in overseas markets, which significantly slows down the property search process.
- Price Padding (Or Gringo Pricing)
  - When there's no MLS system in place, you will experience inflated pricing.

However, you can counter this with some in-the-trenches market research.

- Different Buying Process And Property Laws
  - The buying process and property laws will be different in every country, which is why you should familiarize yourself with them before you buy to make sure all bases are covered. Plus, it is highly recommended that you work with an experienced local attorney.

Aside from all of that, once you've identified a property that you are interested in, then there's a lot of questions that you should ask before actually making a deal. Again, in the case of overseas property purchases, the due diligence process is considerably different and there are specific questions that need to be asked... and, more importantly, specific things that you should know before making any final purchase decisions.

Here, I've compiled a list of what I think are the most important things that you should inquire about before considering any overseas property investment.

Permits, Licenses, And Other Legal Issues

When it comes to new projects and developments, having the necessary approvals, permits, and licenses is critical as their absence can lead to huge issues later on down the line. With that said, as a buyer, it is important that you ask the developer about the status of development permits, construction permits, applicable licensing, and approvals.

It is also important to note that the necessary approvals, permits, and licensing generally come in stages. That is, there will be cases where the developer is in the process of getting the necessary permits, licensing, and approvals. Unfortunately, this process can take time.

Nevertheless, the developer should be able to provide you with some type of documentation that they are in the process of getting all of the required permissions and documentation.

Some questions that you should ask regarding permits, licensing, and approvals include:

- What is the overall status of all required permits, licenses, and approvals? If in progress, when do you expect to have them all in place?
- Is the development zoned for residential development?
- Has the development master plan been approved by the appropriate authorities?
- Has the development's infrastructure plans and design been approved by the appropriate government authorities?
- What individual building permits and licenses will I need to build my home?
- Can the lots be titled at this point? If so, can they be titled in my name?
- If the developer is unable to secure all of the necessary permits, licenses, and approvals will the buyer be able to cancel the purchase contract and be refunded all monies paid?

Project Funding And Developer's Financial Health

It is also important to learn about how the developer is funding the project and their current financial situation. Both of these factors will affect whether a project will be completed or not.

A couple questions that you should ask regarding project funding and the developer's current financial situation include:

- Where is the money coming from to develop the project? Is it from investors or sales?
- How much more money will it take to complete the project?
- How much cash do you have invested in the land, design, permits, infrastructure implementation to date, and any construction? In other words, does the developer have any "skin in the game"?
- Are there any liens on the property or land (taxes, government, or debt)?
- What other projects does the developer have in progress that could require additional capital?

The Developer's Level Of Experience

The developer's level of experience is something that I definitely take into account when deciding whether or not to invest in a development or project overseas. Essentially, I want to know if the developer has some type of track record.

There will be some cases where you will find that a project or development is being done by first-time developers. And while this is certainly a concern, it is not a deal breaker. In instances like this, I would delve deeper into the backgrounds of the principals involved in the development.

Some specific questions that you should ask developers regarding their level of experience include:

- What are the names of some of the other projects or developments that your development company is part of? Are these other projects similar to the current project in question?
- What is the current status of these projects? Are residents living there? If so, what is the current feedback from the residents?
- If this is your first development, are you working with an experienced partner(s)?
- If you are a first-time developer (or principal), what developments or projects have you personally been involved in and at what capacity? What is the current status of these projects?

The Location Of The Property

One of the key factors to consider before investing in property overseas is the location of the property. For one, the location of the property will have a huge influence on potential rental yields and, ultimately, capital appreciation.

Some of the things that you should look at with regard to location of property include:

- Accessibility to an airport, including drive time from the airport to the property. Also are there direct flights from major international cities?
- Is there access to major medical care? If so, how far is it from the property?
- Is there access to major shopping centers, pharmacies, banking, and entertainment?
- How is the city infrastructure, including reliable Internet and telecommunications access, electricity access, roads, and public transportation?
- Is the property situated in the path of progress? Are there any infrastructure improvements planned such as a new airport, new hospital, new highway, or a new train station? Or has the government targeted the area for economic development?
- Is the area safe and secure? Does the property have 24-hour security?
- Is the property located near the beach, in the mountains, or in the city?
- What is the weather like? How long is the dry season (and rainy season)?
- How suited is the location for the target market (vacationers, retirees, second home, or primary residence)?

The Market

In terms of the market, you are referring to the type of residents that the development or project is geared to. For example, a development can be geared towards active retirees who enjoy golf. Or the development could be targeting only expats from North America. On the other hand, the developer could be seeking out local residents looking for second homes in addition to foreign buyers.

Essentially, you need to find out what the developer's ultimate vision is for the project or development. That is, who is the ideal resident and the type of community they are aiming for. In addition to the location of the property, understanding the market will help you optimize rental yields and develop an exit strategy.

A couple of questions that you could ask the developer to understand the market include:

- Who is the market for this development or product?

- How do you market the development to potential buyers?
- What is the overall demographic of your current buyers or residents (retirees, expats, professionals, mid-level executives, etc.)?
- Are there similar developments in the area? Who is the competition? In other words, is this development unique to this market in this area?

Construction, Design, And Infrastructure?

Other critical details to pay attention to when purchasing property overseas, specifically, lots in a new development, is building standards and guidelines, architectural design, and the level of infrastructure. These details will not only give you better insight on the overall development, but a better understanding of additional building costs you may have to incur.

Some specific questions that you should ask the developer with regard to construction, design, and infrastructure include:

- Are there any building requirements (specifically for lots)? Is there a deadline to begin construction on my home?
- What architectural and building guidelines are in place and enforceable?
- Are there any turnkey home options available? If so, what is included? If not, who can oversee the construction of my home? Do you have a list of recommended builders?
- What type of infrastructure is in place? Does the current infrastructure include high-speed Internet, a fiber optic network, underground electricity, paved streets, sidewalks, and storm drainage systems? Is there a central sewage system?
- Is there enough fresh water and water pressure? Is the house plumbed with hot water?
- Are there any planned amenities for use by owners and visitors?

Additional Costs Associated With Property Purchase

Another key component that you should look at is the additional costs associated with the property purchase. Firstly, you need to understand the purchase process and general transactional costs. Furthermore, it is also recommended that you familiarize yourself with local standards when buying property. For example, in some places when you buy new or resale properties, they do not come with lighting fixtures.

Depending on the market, some of the additional costs associated with an overseas property purchase could include:

- Legal fees
- Notary fees
- Power of attorney costs
- Registration fees
- Transfer taxes
- Stamp duty
- Title insurance
- Title deed

Again, it is highly recommended that you familiarize yourself with the local market to get a general idea of the costs that you will incur with your property purchase. In addition to that, you should work closely with a local attorney who is experienced with the purchase process.

The Rental Income Potential

If you are purchasing a property for rental purposes, then it is a good idea to understand the rental income potential. Generally, a developer will be able give you a baseline of what to expect as far as rental yields are concerned, but it is recommended that you do some independent market research utilizing rental sites like Airbnb and VRBO, along with intel from local real estate agencies.

Furthermore, your rental income potential will be impacted by the location of your property and the market. It is also important that you gauge the local competition in your area like hotels, B&B's, and other rental properties on the market. On top of that, you will need to get an idea of your monthly expenses associated with renting the property. Some specific questions to ask the developer regarding rental income potential include:

- Is there a turnkey rental program in place? What is the rental management fee associated with the program?
- If there is no turnkey rental program in place, can you recommend any reputable property managers? If so, what are their typical property and rental management fees?
- What is the expected occupancy rate?
- What are the expected average rental rates for this property (nightly or monthly)?
- s the property best suited for long-term or short-term rental?
- How much should I expect to pay in utilities (electricity, gas, cable, phone, etc...) monthly?
- What are the expected HOA fees?
- Is there income tax on rental income?
- What are the expected property taxes?

Exit Strategy And Resale Market

If your plan is to invest in a property overseas with the intention of flipping for a profit in the future, then you need to understand the resale market in order to properly plan your exit strategy.

First and foremost, the appreciation in the value of your property will depend primarily on its location, market, and the overall progress of the development in which it is situated.

All things considered, if you've done your due diligence with regard to the location of your property, the market, and the overall project, then you can reasonably expect your property to increase in value over time. In addition to normal appreciation, your property could increase in value due to a change in the currency.

With regard to exit strategy and the resale market some questions that you should ask the developer include:

- Should I decide to sell my property does the developer have a resale program in place? If so, what sales commissions should I expect?
- Is there a local residential market for my property?
- Are there any capital gains taxes due on the resale? If so, is there any way to alleviate capital gains tax? For example, in Turkey there is no capital gains tax due if you hold your property at least five years before reselling.
- Are there any restrictions on transferring funds out of the country after you have received the proceeds from the sale of your property?

Lastly, I'll add that while you can gather most of this information over the phone, via email, and from the Internet, the best way to perform due diligence of an overseas property purchase is to be there on the ground. Of course, you can get the ball rolling by asking questions over the phone and through email, but in order to get the best intel you need to be on the ground.

Most developers offer some type of property tour, in which potential buyers can see the property for themselves. In some cases, the developer will credit the cost of the tour to your property purchase. With that said, I definitely encourage you to take advantage of property tours in order to learn more about the property that you are interested in.

How To Evaluate HOA's Before Deciding On Your Overseas Property Purchase

The cost of holding real estate overseas can be as important a factor to bear in mind when considering a property as the initial cost of buying.

While property taxes, HOA fees, and other carrying costs are typically lower than for comparable properties in the United States, you still want to consider them in total before making any purchase.

This is especially true if you're an investor purchasing real estate for rental income.

For investors looking for rental yields, understanding the projected rental occupancy levels and rental rates is important, but you've got to be able to reasonably project your overall expenses (utilities, HOA fees, property taxes, taxes on rental income), as well. This is a non-optional part of your overall due diligence checklist; the last thing you want to do is purchase a rental property overseas that'll have you shelling out more cash than you're bringing in.

In the United States, property taxes are usually the biggest cost of carrying a piece of real estate, but not all countries impose property taxes. For example, you'll have no property tax as an owner in Croatia, Ireland, or Buenos Aires. In some countries, like Panama, you could take advantage of property tax exemptions ranging from 5 to 20 years on new construction projects. In other parts of the world, property taxes are negligible, maybe US$100 or US$200 per year.

Your monthly utility expenses will depend on where you purchase your property. In a place with a temperate climate like Medellín, Colombia, your utility expenses would be insignificant, as you don't have to pay for either heating or cooling. On the other hand, in Panama City you'd have to factor in the cost of year-round air conditioning.

One of the most important carrying costs to factor into your monthly expenses is the Home Owner's Association (HOA) fee. In some places, unlike the United States, this can be your biggest carrying cost and make up a huge chunk of your overall monthly budget. I've seen HOA fees as high as US$1,000 per month for condo unit in ultra-luxury buildings in Playa del Carmen. That said, having a strong HOA in place is essential to preserving the overall value of your investment; the building or community that you're buying into has to be maintained.

But evaluating monthly HOA fees is not as straightforward as property taxes or utility expenses. There are several factors to consider in addition to the actual fee when reviewing the HOA for a specific project...

HOA Fees For Pre-Construction Projects

When you buy in the pre-construction stage, the best the developer can do is give you an estimate of what the monthly HOA fee will be. Once everything is built and has to be maintained, the actual cost is what it is. If you don't want to live in a building or community that deteriorates around you, you and your neighbors have no choice but to pay your share each month.

While no one wants to pay more than necessary for HOA fees, you also don't want to be lured in by under-projected fees, only to have them go up substantially once the developer turns over maintenance to the owners.

Again, the costs will be what they are. If projected HOA fees don't cover them, one of two things will result: The property will slowly deteriorate, or owners will be required to meet regular capital calls beyond the HOA amounts.

Unfortunately, not knowing exactly what your monthly HOA fee will be is one of the risks that you take purchasing in pre-construction.

What To Look For In Existing Buildings Or Developments

If you're buying into an existing building or development, then you first need to assess the overall property condition. Look at the paint, general appearance, the pools, the grounds, elevators, common areas, roads, and facilities. If the property is not in good condition, see it as a huge, red flag... and proceed with caution. A quality, well-managed property or building is never in a rundown condition, period.

You should also make sure that the HOA is well funded by reviewing their financial statements.

Has the HOA management created a reserve or contingency fund? Look at what they spend each year on maintenance and how much cash they have in the bank. Do the expenditures match the level of visible amenities and maintenance?

If you see a low bank balance and a minimal amount having been spent on maintenance annually, a couple of things could be going on... If you see evidence of this, you should think about what your future exposure could be as an owner.

It could be that the HOA fees do not adequately cover the cost of monthly maintenance, which means that the fees are too low. Maybe you've got some owners that are not paying their monthly HOA dues. Or there might've been a major repair that had to be done that depleted the reserve or contingency fund.

In addition to monthly HOA fees, you'll sometimes have additional capital calls—also known as a special assessment—to cover extraordinary repairs or improvements, which is why a reserve fund is important. Specifically, when buying into older buildings or developments (10 years or older), ask about deferred maintenance that will need to be caught up in the next couple of years.

You don't want to be hit with a special assessment for repairs or maintenance during your first year of ownership. With a new building or community, you won't have to worry too much about a special assessment anytime soon.

If you do identify deferred maintenance that might lead to a special assessment early in your ownership, you can use this as a negotiating point when you make your offer.

Other Things To Look For When Reviewing HOA's

First, establish whether HOA fees are charged as a fixed amount or on a per-square-meter basis.

In Latin America, it's not uncommon for HOA fees to be charged on a per-square-meter basis. For example, we had a reader looking to buy in a new golf community in Panama... That is, until he discovered that the HOA fees were being projected at US$2 per square meter. The HOA fee for the house he was considering buying, therefore, would amount to US$1,700 a month.

Also, try to compare the fees to similar buildings or developments in the area to make sure that they're not too excessive but are sufficient. On the other hand, be concerned if you find that the fees are unusually low—these will result in surprise assessments down the road.

Telltale Signs You're Buying Real Estate In The Path of Progress

In my office, on the wall alongside my desk, I have a map of the Caribbean that includes the north coast of South America and much of Central America. The cumulative lengths of coastline represented amount to well over 12,000 miles. Looking at it all, you have to wonder...

What makes one 20-meter stretch of this stuff worth millions... while another can be worthless? The explanations are varied—sandy beach versus rocky coves versus cliff tops... ease of access... infrastructure and services (electricity, water, a town)... politics and economics (not a lot of demand in Venezuela or Haiti right now)...

But one of the biggest value changers is perception. A trendy spot, beach or otherwise, can become trendy just because people begin to perceive it that way. Maybe a celebrity buys in a small town or a movie is filmed nearby or a reality show is shot on location... triggering the marketplace to believe there's something cool or interesting about a place they'd previously never heard of.

The trouble from an investor's point of view is that trendy is transient.

Manzanillo, Mexico, became hot after the movie "10" was filmed there (remember Bo Derek?). The movie brought great interest to an otherwise obscure stretch of Mexico's Pacific coastline, but the attention was fleeting.

Some jet-setters and A-listers built big houses overlooking the ocean, but the place didn't catch on long-term. A decade later, those big houses were crumbling, and Manzanillo had reverted to its nowhere status.

Another film, "The Night of the Iguana," is credited with launching another stretch of Mexico's Pacific coast, Puerto Vallarta. In the decades since Taylor and Burton introduced Americans to PV and the sexy, sultry Bay of Banderas, this region has grown into a well-established tourist and expat destination. What's the difference? Why did Manzanillo flash then fizzle, while Puerto Vallarta has evolved and developed into one of the world's most solid long-term coastal investment choices? Access and infrastructure. What's conventionally referred to as "progress." And what constitutes, I believe, one of the most important indicators a property investor can look for.

The Caribbean coast of Panama is another interesting example. Lots of beautiful, pristine miles of white sand here, but hardly any of it developed. Why? Access and infrastructure. In this case, historically, sorely lacking.

Most all coastal development investment in Panama to date has been focused on the country's Pacific coast. Historically, most of the Caribbean coast has been largely inaccessible. Now, though, the path of this country's progress is beginning to expand to include some spots on its Caribbean coast.

Specifically, the Caribbean coast around Colón and Portobelo is being targeted for potential development... the realization of which is supported by an expanded and paved highway between Colón and Panama City. Speculators are moving in.

What's the point? I don't recommend trend investing. Trying to identify the next trendy hot spot ahead of the crowd and then timing your exit before prices fall again, as they often do, is too much work and too much risk.

Don't try to invest ahead of a trend. Invest ahead of the path of progress. Look to the edges of the established markets... and for the directions the natural extensions of places where people are currently spending time and buying property will likely lead.

Look at Panama today, and you notice the extension of historic and current focus to include particular spots on the Caribbean. In Mexico, Puerto Vallarta is extending up the coast to Nueva Vallarta... Cancún and Playa del Carmen south to Tulum...

In Belize, I see path of progress opportunities both on Ambergris Caye and in the country's inland Cayo District.

Fact is, I could be wrong about it all... or the anticipated progress could take longer than I'd originally projected. It's important that you recognize that the expected windfall from your path of progress investment may take several years or even decades to materialize.

On one of my first scouting trips to Mexico's Riviera Maya, about 15 years ago, I visited Playa del Carmen. Even back then, Playa del Carmen was a growing tourist destination, and property values were appreciating almost in real time. As my guide for this trip walked me down 5th Avenue he pointed to a corner building.

"You see that place," he told me. "That building sold last week. "The sellers," he explained, "were three retired ladies from Texas who bought the building seven years ago. They paid US$150,000," he continued, "each putting in US$50,000.

"And they just sold it," he told me, "for more than US$1 million."

Those retired ladies made more than seven times their money in seven years.
Bottom line is path of progress investing is a long-term proposition... So, if you're someone looking for immediate returns (less than five years), then this is not for you.

For those of you interested in taking a chance on a path of progress investment, I've put together a list of 14 things that you should be looking for so that you can make an educated and informed decision.

This type of investment isn't easy and will, in most cases, require you to get on the ground to investigate, but this list will get you going in the right direction...

Essential Path-Of-Progress Play Checklist:

1. Accessibility to an airport, including drive time from the airport to the property. Are there direct flights from major international cities? If there's no airport nearby, is there a plan to build one?
2. Is there access to major medical care? Are there any hospitals being built in the region?
3. Are there nearby amenities—is there access to major shopping centers, pharmacies, banking, and entertainment?
4. What is the state of the regional infrastructure? Is the internet and telecommunications access reliable? Electricity? Are the roads and highways up-to-date?
5. Are there any infrastructure improvements planned, such as new highway or road expansion?
6. Is the government targeting the area for economic or tourism development?
7. How far is the area from the nearest major city or town?
8. Does the area have any tourist attractions? Ancient ruins, colonial city, or virgin beaches?
9. Is the area near an economic hub like a major port or industrial center?
10. What's the current make-up of the population (locals, expats, or retirees)?
11. What are the current population growth trends? Baby boomer versus Generation Xer's.
12. Is there an expanding middle-class? This, typically, correlates with the increased demand in housing.
13. Are any large tracts of land being purchased by major developers?
14. Are property prices increasing in the area?

I've been buying and profiting from real estate investments around the world for more than 20 years. I've built a sizable portfolio. I've had home-run successes and full-on failures. And I've learned from every investment and every experience, which is why I'm able to put together a list such this so you won't make the mistakes I made along the way.

I'm not promising that all of your path of progress investments will pan out if you use this list, but you'll be able to analyze an investment in order to make an informed and educated investment decision.

Assessing Your Risks As A Global Property Investor... And How To Deal With Them

Investing in foreign property, you face five types of risk:

- Market Risk
- Transactional Risk
- Environmental Risk
- Different Investment Category Risk
- Investment Risk

While all of these risks should be considered when evaluating any potential property purchase, some will take precedence over the others depending on the specifics of the investment.

Market Risk

One of the most important factors that you have to take into account when investing in property overseas is the location of the investment. In other words, you need to evaluate the risks associated with investing in a particular country or region. The risks of investing in a foreign market include political risk, economic risk, and currency exchange rate risk.

Where To Find Reliable Country Information

Investors can use the CIA World Factbook and The Economist Intelligence Unit to find out about the political and economic climate within a particular country. Another resource is the U.S. Department Of The State website.

Use these as a starting point for making your assessment... and remember that sometimes the U.S. government has their own agenda.

Political risk is a danger that will affect your investment due to political instability in a country. Risks include: the passage of legislation that is unfavorable to foreign investments; the transfer of political power from one political party to another; or a sudden overthrow of the current government (a coup d'état). Political instability may also arise from foreign or international policies including military conflict or economic sanctions.

Then there's the economic risk, which is almost always affected by the level of political stability in a country. The health of a country's economy will definitely have an impact on your global property investments, especially if the returns on your investment are heavily dependent on the local market.

If you are invested in non-U.S.-dollar market, then you are also exposed to currency exchange risk. That is, if the currency in which you are holding your investment depreciates in value, so does your investment. This will come into play when you are ready to exit your investment.

It is important to point out that the longer the investment horizon, the more critical it is to assess the market risks.

Transactional Risk

As a global property investor you will be faced with transactional risk. That is, you've found a property investment that you like and now you want to close the deal. However, the buying and closing process, including titling and the transferring of funds, will be different from purchasing property in North America... and different again in every country that you decide to invest in.

One thing that North Americans take for granted, for example, is that property has clean title.

Depending on the country, titles and ownership can get complicated, and property ownership laws vary from one country to the next. While freehold title is the norm in the United States and Canada, you will encounter different variations of property ownership (or non-ownership) in other parts of the world that you must be aware of.

If you are not educated on the ownership laws of a country, you run the risk of purchasing a property to which you do not have full ownership rights. Then there's the actual sales contract. If you're buying property overseas the contracts will most likely be in a foreign language. This off-the-bat difference can put you at a disadvantage when finalizing an international property deal. On top of that, you also have to consider whether or not the sales contract is enforceable by the courts in the jurisdiction in which you are purchasing your property. For example, can the seller just back out of the deal after the contract is signed, without any legal recourse for the buyer?

Different Types Of Property Ownership

Freehold Title

A freehold title, sometimes called "fee simple," is the highest form of property title. Originally from English law, the term means you have absolute title to land, free of any other claims against the title, and that you can sell it or pass it on by will or inheritance. It's the norm in the United States and Canada.

Leasehold Title

Leasehold title is something you'll still see in the U.K. and Ireland, but also Thailand, for example. It's an alternative when foreigners can't hold freehold title to land, but they can obtain leasehold title. Some U.K. leaseholds can be for 999 years and the leasehold title holder pays an annual lease payment to the "owner" of the land which is sometimes the government. Other places you can obtain a shorter leasehold period that is renewable one or more times... sometimes indefinitely. Leasehold title is generally as safe at freehold title, but you'll want to understand the specifics in the country in which you are buying before signing any purchase agreements.

Rights And Shares

Rights and shares is common in Latin American titles, and it should throw up a red flag. What this means is that you're buying someone's "rights" to the property (or their share of the property), rather than the entire property as a whole. Buying property this way can work for you if you're sure that you have all the rights—including from all of the heirs. In that case, you should be able to convert the rights and shares to a normal title.

Concession

A concession title means that you have documented use of the land, typically for a specified period of time. You generally have the right to occupy the land, improve it, build on it, and, in many cases, pass it on to your heirs. But you don't own the property outright or unconditionally. Most often, concession titles are granted by governments for coastal land. Essentially, it's a form of lease, but different from leasehold title in that it is for a set period of time and your rights are limited... especially when it comes to selling the concession.

Rights Of Possession (ROP)

Rights of possession is another way of holding a property in Latin America, but it's not title. When you hold rights of possession, you have been granted the right to occupy or use the property, but you don't own it. You can resell the rights of possession, but, again, the buyer would not be buying title to the property... only the right to use or occupy it. This is the riskiest way to acquire property because, one more time, you're not in fact acquiring the property... only the right to use it.

Possessory Title (Or Adverse Possession)

A possessory title is one that's granted on ROP property retroactive to the occupancy. In many countries, if you've occupied the land long enough, you eventually can petition for the rights to title it. Adverse possession is usually defined as "a method of gaining legal title to real property by the actual, open, hostile, and continuous possession of it to the exclusion of its true owner for the period prescribed by governing law."

The ease in which you are able to transfer money in or out of the country that you are investing in also plays a part. Typically, it is easier to move money to or from developed countries with established banking and foreign-exchange transfer systems. Generally, it is more complicated and, usually, more expensive—not to mention extremely risky—to transfer money into developing countries where banking and foreign-exchange transfer systems are not fully established.

There are many countries that have anti-money laundering laws in place that restrict movement of money internationally unless specific procedures are followed. This will come into play should you exit your investment and you want to send the proceeds back to your home country in your home country's currency. Understanding the specific anti-money laundering laws and procedures in any country that you invest in will ensure that you can get your money out with no problems.

Environmental Risk

Environmental risk is another component that you have to take into account when investing overseas. This is especially true when it comes to rental property or agricultural investments that are dependent on environmental factors for their profitability. Environmental risk would include natural disasters, climate, and beach erosion.

You should have a good idea as to what type of natural disasters are prevalent in the country or region in which you are investing. For example, when investing in agriculture you should be concerned with whether droughts or wildfires exist within the area of farm. If you were investing in a beachfront rental property, then you should be concerned with hurricanes and typhoons.

The overall climate will also play a factor in specific investments, particularly for agriculture. While mango trees thrive in sub-tropical climates with warmer temperatures, grapevines flourish in Mediterranean-type climates with cooler temperatures. If a crop's optimal climate condition drastically changes, then that will affect overall production and harvest, thus affecting your potential yields.

If you are investing in beachfront property, it is critical that you are aware of any coastal erosion issues in the area. Beach erosion is a serious threat to any oceanfront property, it would decimate the resale value. Worst case scenario, your property could literally fall into the ocean.

Risk Levels Of Different Investment Categories

In our "Building Your Ideal Global Property Investment Portfolio" report, we highlighted four investment categories: rental property, land, agriculture, and indirect. We drilled down from there to suggest specific investments within these categories (short-term rental, raw land, timber, and hard money loans, for example), while detailing the level of risk associated with each. Typically, rental property and agriculture are the lower risk property investments, while land and indirect investments like a hard money loan are higher risk.

In a nutshell, this is how they would rank from the lowest to highest in terms of risk:
Rental Property < Agriculture < Land < Indirect

That said, a typically low risk investment can be high risk, while a usually high risk investment can be low risk, depending on the situation. A rental property investment can be considered high risk if it's in the pre-construction stage, for example. On the other hand, a hard money loan on a construction project that is 90% complete and is collateralized by a condo unit can be considered low risk.

Investment Risk

All things considered, as a global real estate investor you will still need to evaluate each real estate investment as if you were investing directly into any type of business. In other words, you will need to take into consideration factors including: the business model (or vision), investment horizon, market, experience of development team, exit strategy, and progress of the project to get a reliable gauge of the risk involved in the investment.

When reviewing the business model of a real estate investment the general idea is to understand how the investment is going to generate income or yield. The way you earn from your investment should be fairly straightforward. In fact, the more complicated the business model the more risk involved. For instance, with an agricultural investment you should see your returns from the sales of your harvest. With a lot investment in a new development, you are getting the bulk of your returns from capital appreciation. You're earning rental income from a condo-hotel (short-term rental) investment.

Furthermore, you need to have an idea of the investment horizon. That is, how long will it take to recoup your initial investment? Generally speaking, the longer it takes to recoup your initial investment, the riskier the investment. However, the exception to this would be an agricultural investment such as timber.

Skin In The Game

When evaluating an investment risk, you should also find out whether the developer has skin in the game. In other words, has the developer invested its own money in their project? Or are they dependent solely on sales to fund the development of the project.

You will also have to evaluate the market that your investment is targeting. For example, if you are going to invest in a turnkey agricultural plantation that grows a specific crop, you want to know if there's a growing demand for that crop. If you are going to make an investment in a short-term rental condo unit in a specific region, then you want to know how strong short-term rental market is in that area. Plus, you want to know if there is a resale market in the event that you want to exit your investment.

To that end, another factor that you need to take into account is how easy it is to exit your investment. In other words, how easy is it for you to convert your investment back into cash. Is the developer willing to buy you out in the event that you want to get out of your investment?

You should also consider assessing the level of experience that the development team has that is behind the project. If the developer does not have any experience or an established track record, then there's a higher level of risk associated with the investment.

Additionally, you should also have an idea of the project's progress. Typically, a project that's in its early stages of the development or in its preconstruction phase has a higher investment risk. On the other hand, if a project is in its late stages of development or construction is nearing completion, the investment risk is much lower.

How To Mitigate Your Risk

There are a couple of things that you can do to mitigate your risks as an international property investor.

For one, before investing in any property or project overseas you should visit the property personally. I am a huge proponent of buying what you see. And the only way you can do that is by getting boots on the ground.

Additionally, you should hire a real estate local attorney who has experience working with foreigners. While you may be familiar with the buying process and property laws in a particular country, hiring an experienced local attorney will assure that all bases are covered when it comes to contracts and legal documents.

Along with the assistance of your attorney, you should conduct your due diligence on the investment. In fact, many of the questions that you should ask during the due diligence process should be based around the typical risks associated with the specific investment.

Risk Versus Reward

There will be situations where you have a high risk investment where the potential reward is worth the increased perceived risk. In these cases, you may want to act on this investment despite it falling out of your normal risk tolerance. In fact, if you have a large enough portfolio, you may set aside a portion of it specifically for high risk, low capital investments.

Additionally, in order to reduce your risk exposure and initial cash outlay, you should try use leverage whenever you can. There are a few countries where there is property financing available for foreigners. That said, if you are able to finance your property purchase, then you should take advantage of that. Be on the look out for investments with streamlined systems and operations that provide for hassle-free turnkey income. For instance, a condo-hotel investment that is managed by a world-class hotel operator or a turnkey agricultural plantation that is operated by a largescale farm operator.

Risk Analysis Case Studies

Many of the investments that I have recommended to readers over the past few months are listed in our Portfolio Recommendations section.

I want to go over some of these investments, the risks that exist, and how they have been mitigated...

Quetzal Turnkey Condos

We recommended the Quetzal Condo units situated in the master-planned community of Bahia Principe along Mexico's Riviera Maya in December 2015. This one-of-a-kind investment presents virtually no risks. The units have been fully constructed, it's located in a tourist hotspot, and the developer has a professional managed rental program making the units completely turnkey.

Puerto Madero Urban Development

We recommended the Puerto Madero urban development project based in Cartagena in June 2015. This investment type—raw land for development—is considered high risk. But the developer behind the project has a successful track record, with over 34 development projects under his belt. Plus, the developer has skin in the game—he's financed 50% of the project himself.

The developer further mitigated the risk of investment by offering a buy back option. That is, you can exit the investment at any point. Further, investment returns of up to 30% annually more than make up for the risk.

My Fair Lady Mango Plantation

In February 2014 we began recommending a mango plantation investment located in Panama. The major risk associated with this investment is climate change and limited rain for its crops. However, the developer mitigated this risk by digging 15 wells and building 5 reservoirs as water storage for irrigation, should additional water supply be needed.

Mangos are the most consumed fruit in the world and in huge demand in markets like the United States. On top of that, the developer has buyers already in place for the first harvest of mangos. Plus, the investment is completely turnkey.

Vista Encantada Hard Money Loan

We recommended the Vista Encantada condo building investment on the Pacific Coast of Mexico in November 2015. Essentially, the investment is a hard money loan, one of the riskiest types of investments. However, the investment is for the completion of a condo building that was 95% complete. And the developer has a positive track record with previous investors.

The developer further mitigated the risk of the investment by offering a condo unit as collateral against the investment. Then the developer is offering a 45% return on your investment.

Money Talks

Gross Versus Net Yield... What's The Bottom Line? (And How To Prepare Your Own Rental Scenarios)

"Ten's your gross, three's your net."

That's what the infamous boxing promoter Don King told boxer Larry Holmes, after one of his fights in the television film, "Don King: Only In America."

Holmes was expecting to get US$10,000, the amount that King promised him, but instead was only given US$3,000.

Why?

Holmes had expenses and fees that had to be paid out from his purse. In boxing, a percentage of the boxer's purse goes to his trainer, cut man, manager, promoter, and even the state's athletic commission who sanctions the fight.

Wouldn't it had been better if King had just made it clear upfront to Larry Holmes what he'd take home after all his expenses had been paid?

The perception of King would be much different if he had.

Don King's approach, unfortunately, is what international developers tend to use to sell real estate to investors looking for rental properties.

A couple of weeks back I received an email from a company promoting an apartment unit in Greece saying that you could get a gross return of 18%, no mention of the net.

Yep... a gross of 18% could never turn into a net of 4% after monthly expenses and fees...

I've had developers tell me that if you use the net ROI number, then the investor might not buy... My response: That's the point.

I'd rather have a happy investor who has an idea of what they're getting into versus an investor feeling like they've been duped.

That's why when I'm evaluating properties for rental cash flow, it's important—for me at least, and it should be for you—to know what's the bottom line.

Screw the gross. What's my net ROI?

After all my monthly expenses are paid how much free cash flow will I be able to bank month after month?

The rental properties that we feature in Global Property Advisor will almost always be accompanied by rental scenarios that highlight the expected net yields.

That way, you'll be able to realistically gauge whether the investment make sense for you and meets your desired return on investment, whether it's 5% or 10%.

While we provide rental scenarios for projects we recommend, for real estate that you're looking at on your own, you'll need to understand how to prepare your own. It'll help you make the numbers make sense (or not).

This should be part of your due diligence, in addition to the other things that you should be looking for when buying property overseas.

Rental scenarios are simply projections based off of reasonable assumptions from historical data. Sometimes you'll actually hit these numbers; other times you won't. That said, projections and rental scenarios are still a very important part of the buying process. It's your guide to evaluating your investment so that you can make an educated decision, saving you both time and cash.

Here's four things that you'll need to know to in order to prepare your own rental scenarios...

- Total net cash investment
- Projected rental rate
- Projected occupancy
- Monthly expenses and fees

Total Net Cash Investment

The first thing that you'll want to get pinned down is your total net cash investment. In other words, on top of the purchase price (less any applicable discounts) how much cash do you need to put in to make your property rentable?

You'll notice that your projected returns in most of the brochures you receive from developers are based solely on the purchase price—that's it... so your numbers are Enron-like right out the gate.

Developers typically won't include the cost of furnishing your unit—including appliances—into the yield projections they present, and that's a number that needs to be factored into the equation.

For example, a developer will tell you that an apartment costs only US$200,000 and you could get US$20,000 net income, a 10% net ROI. But, if you add in the US$25,000 that you'll spend on furnishing and appliances on top of the purchase price (a total investment of US$225,000), your net yield drops to 8.8%.

Some developers will include major appliances (stove, oven, refrigerator, and washer/dryer) with the units, while others don't.

In Europe, some developers sell their units as shells, meaning that you'll have to invest in tiling, flooring, kitchen installation (including countertops, sinks, and cabinetry), lighting, plus furnishing and appliances.

If you're buying a shell or a home that needs upgrades or rehabbing, then you'll need to have an idea about the cost of labor (contractors, architects, etc.…) along with permits and licensing.

As part of your due diligence, you should always ask what's included in the purchase price.

In some cases, the developer will offer turnkey furniture and/or appliance packages, but in the event that they don't, you'll need to do a little research to figure out costs. Start off by asking the broker or sales person you're working with (who will almost always respond with, "It depends"). Visit the local hardware, furniture, and electronic stores to price things out.

Another thing you could include in your net cash investment number would be your closing costs (taxes, broker's fees, attorney fee, notary).

Projected Rental Rate

Once you've got your net cash investment figured out, then you want to look at the rental revenue side.

What type of rental rates will your unit be able to command on a daily, weekly, and monthly basis?

Most of the properties that we feature are for short-term rental plays, for which we use daily rental rates.

However, you'll find in some markets that weekly or monthly rentals could make more sense. In the Abruzzo region of Italy, for instance, vacationers from northern Europe will typically rent units for a week or more. In Mexico, snowbirds from Canada will rent out condo units for up to six months. In Panama City, a hub for international business where lots of young professionals are arriving from all over the globe to live and work, long-term rental is probably your best play.

It's important that you determine the best rental strategy in the market where you're buying your property. With that sorted out, you can then figure out how much you can charge for rent.

You'll be able to find out market rental rates from the developer or agent that you're working with, but I suggest you do your own research, as well.

Look at online, local real estate portals, classified websites like Craigslist, local newspapers, and the local websites of agents in the city to get an idea of how much you can get for long-term rentals.

For daily and weekly rental rates, check out sites like Airbnb or VRBO to see what folks with comparable properties in the market are renting their units for. Also, look at what hotels in your market are charging per night. Take into account that, in some markets, you'll have a peak or high season. When demand is sky-high, you'll be able to increase—even double—your rental rates.

As rental rates can vary from month to month, use a 12-month average for your rental rate when determining your rental scenarios. In the example below, the 12-month average rental rate is US$133, with an average daily rate of US$180 in the peak months.

	Projected Daily Rental Rates	
Month	Avg. Daily Rate	
January	$ 100	
February	$ 100	
March	$ 120	
April	$ 140	
May	$ 160	
June	**$ 180**	
July	**$ 180**	June, July, August are the peak months.
August	**$ 180**	
September	$ 140	
October	$ 100	
November	$ 100	
December	$ 100	
Average Rental Rate	$ 133	

Projected Occupancy

After you've got your average rental rate, you'll want to come up with the projected occupancy.

Again, the developer or agent that you're working with will be able to help you out with this number. You'll find that most overseas real estate agents provide some type of property or rental management service, so they'll have the historical rental data from the rental units that they manage.

It's also a good idea to do some independent research. A good source for historical hotel occupancy data is from the government tourism authority and national hotel association websites. You'll also be able to get occupancy levels from Airdna an analytics website that provides up-to-date rental market data to property investors who rent their units on Airbnb. Here's a snapshot of the data provided by Airdna on the Santo Domingo rental market.

Sometimes you'll find that a particular rental market is in its infancy and not yet established, or you're targeting a new segment (business travelers or medical tourists) where it's not easy to gauge projected occupancy, as the historical data is just not there. In these cases, you'll have to rely on the data that you do have and use your judgment.

Developers starting a project in a newer market or targeting a new rental segment will likely have done preliminary research to determine the project's viability... and they'll have the data to back up their findings. If they're not able to provide you with any research or hard data from a feasibility study, I suggest you back off of that project.

With your projected occupancy and daily rental rates in hand, you'll be able to calculate your projected gross monthly revenue figures.

The example below shows the projected rental income if you were able to get 50%, 60%, or 70% occupancy—out of a 365-day calendar year—at a daily rental rate of US$100.

Paseo Del Mar								
86 square meters (926 square feet)								
Purchase Price	$ 99,000							
Furniture	$ 10,000							
Net Cash Investment	$ 109,000							
Ocupancy Rate			**50%**		**60%**			**70%**
Daily Rental Income	$	100	$ 3,042		$ 3,042			$ 3,042
Vacancy Factor		50%	$ 1,521	40%	$ 1,217	30%		$ 913
Net Monthly Cash Flow			$ 1,521		$ 1,825			$ 2,129
Gross Annual Rental Income			$ 18,250		$ 21,900			$ 25,550

Monthly Expenses And Fees

Now that you've determined your net cash investment amount and your projected gross rental revenue (gross rental revenue divided into net cash investment equals gross ROI), you'll want to understand the monthly expenses and fees so that you can get to your net rental income and your net ROI—the bottom line.

Your biggest expense, especially for short-term rental properties, will be rental and property management fees. For larger developments with turnkey rental programs— where everything from marketing to receiving your guests is taken care of on your behalf—you'll be charged a percentage, usually between 25% to 35%, of your gross rental income. If you're using an independent agent to manage your property, expect to be charged a flat monthly rate between US$75 to US$200, plus a percentage of your gross rental, usually, between 20% to 35%.

The monthly HOA fees (which, in some markets, are paid on a quarterly basis) are pretty straightforward. In markets like Playa del Carmen, to name one example, the HOA fees could be as high as US$1,000 per month, depending on the amenities.

While expenses like your projected rental/property management and HOA fee will be more or less clear cut, your expected monthly utilities (electricity, gas, water, internet, and cable) will be all over the place.

You'll find that the developers and agents will be leery about giving estimates but, at least, try to get them to give you a range. Seek out other local property owners and find out what they're paying for utilities.

After you've figured out your projected total expenses, you'll be able to calculate your net income, and, thus, your net ROI. See what a full rental scenario looks like in the following example:

Paseo Del Mar						
86 square meters (926 square feet)						
Purchase Price	$ 99,000					
Furniture	$ 10,000					
Net Cash Investment	$ 109,000					
Ocupancy Rate		**50%**		**60%**		**70%**
Daily Rental Income	$ 100	$ 3,042		$ 3,042		$ 3,042
Vacancy Factor	50%	$ 1,521	40%	$ 1,217	30%	$ 913
Net Monthly Cash Flow		$ 1,521		$ 1,825		$ 2,129
Gross Annual Rental Income		$ 18,250		$ 21,900		$ 25,550
Expenses						
Rental Management	30%	$ 456		$ 548		$ 639
HOA		$ 170		$ 170		$ 170
Utilities		$ 250		$ 250		$ 250
Total Expenses		$ 876		$ 968		$ 1,059
NET MONTHLY INCOME		$ 645		$ 858		$ 1,070
Net Annual Income		$ 7,735		$ 10,290		$ 12,845
Value	$ 109,000					
Gross Rental Yield		**16.74%**		20.09%		23.44%
Net Rental Yield		**7.10%**		9.44%		11.78%

Global Property Advisor Rental Scenario Explained

You'll notice in the sample rental scenario on next page that closing costs and taxes are not included.

This is because many different factors affect the amount that you'll pay in closing costs and taxes, and it'll be different for every investor.

Each individual investor's tax obligation will depend on their residency status, special tax incentives, plus the holding and/or operating entity being used, among other things. Plus, tax codes are constantly changing.

You'll want to include your estimated closing costs and tax liability in your own rental scenarios. Taxes due on closing should be included in the total net cash investment amount. Add your annual property taxes—broken down into monthly increments—into the expense section.

Rental income tax should be deducted after net rental income, leaving you with net rental income after tax. In some countries, the tax on rental income could get a little tricky. Consult with a real estate attorney or local tax expert to help you with this.

Hard Money Loans: Why Real Estate Developers Use Them... And Why You Should Consider Becoming A Lender

Last month we introduced a group of our readers to the Vista Encantada condo investment opportunity—and immediately the hate emails started to roll in... Folks were implying that we were presenting our readers with a scam... I even had to field a couple phone calls from skeptical readers who wanted know more about the project and its principals.

Here's a general overview of the investment offer that was presented:

The developer is constructing a 32-unit condo tower that's 95% complete. He needs to raise an additional US$150,000 to complete the tower. He offers investors the opportunity to invest a minimum of US$50,000 in exchange for a return of 45% plus the principal within 12 to 48 months. The returns will be paid out from the sales of the condo units of which US$3.8 million in inventory remains. On top of that, the developer further mitigates your risk by offering a condo unit against your investment.

Essentially, the investment offer is a hard money loan, which is an alternative financing option often used by real estate developers and investors to raise capital for commercial real estate projects. These types of offers are typically reserved for venture capital funds and private money lender groups.

I get it. On the surface the investment opportunity looks too good to be true... And, in all honesty, it should... That's precisely why we recommend that investors perform their own due diligence and get on the ground to see the investment firsthand before making a decision.

And, bottom line (as I suggested to some of the individuals that I spoke with over the phone), if you're still not comfortable with the investment after performing your due diligence and visiting the project, then you should not invest.

Vista Encantada – Rental Scenario I

One-Bedroom Condo

73 square meters (787 square feet)

	Year 1	Year 2	Year 3
Projected Occupancy	**40%**	**50%**	**65%**
Net Annual Rental income	US$10,364	US$13,576	US$18,394
Net Annual Rental Yield	**6.69%**	**8.76%**	**11.87%**

**Rental Income is based on an average nightly rental rate of US$110.*
**Yields calculations include rental & property management fees, HOA, utilities, and one-time furniture investment.*

Breaking Down The Numbers

Purchase Price	$155,000					
Furniture Package	$14,000					
GPA Furniture Discount	$(14,000)					
Net Cash Investment	$155,000					
		Year 1		**Year 2**		**Year 3**
Occupancy Rate		**40%**		**50%**		**65%**
Daily Rental Income	$110	$3,346		$3,346		$3,346
Vacancy Factor	60%	$2,008	50%	$1,673	35%	$1,171
Net Monthly Cash Flow		$1,338		$1,673		$2,175
Gross Anual Rental Income		**$16,060**		**$20,075**		**$26,098**
Expenses						
Rental Management	20%	$268		$335		$435
HOA		$100		$100		$100
Utilities		$107		$107		$107
Total Expenses		$475		$542		$642
NET MONTHLY INCOME		$864		$1,131		$1,553
Net Annual Income		$10,364		**$13,576**		**$18,394**
Value	$155,000					
Gross Rental Yield		**10.36%**		**12.95%**		**16.84%**
Net Rental Yield		**6.69%**		**8.76%**		**11.87%**

Why Do Real Estate Developers And Investors Use Hard Money?

One reader asked, “Why doesn’t the developer just get the loan from a traditional bank?”

Fair enough.

It pretty much boils down to two factors: speed and simplicity. When a real estate developer or investor has a deal on the table that they need to close on quickly, they don’t have the time go through all the red tape associated with securing a conventional bank loan. The loan process can take several months with a traditional bank, while a hard money lender can fund a deal in as little as seven days.

In addition to that, hard money lenders do not require as much documentation as a bank. While a bank tends to focus more on the personal credit history and assets of the individual principals behind a real estate project, a hard money lender is more concerned with the underlying asset that will be used as collateral against the loan. Ultimately, the repayment of the hard money loan will come from the income and value generated from the real estate, not from the individuals behind the project. That’s not to say that hard money lenders don’t review the backgrounds of the principals or developer, it’s just not their main focus.

A hard money loan is an asset-based loan through which the borrower receives funds secured by real estate property (the underlying asset). Typically, hard money lenders are interested in commercial property such as multi-family apartment buildings, office buildings, industrial parks, warehouses, and mixed-used properties. They also provide loans for the construction of commercial buildings and the development of raw land into a master-planned community or a shopping center, for instance. Another key point regarding hard money loans is that they have higher interest rates, usually between 10% and 20% (or up to 45% in the case of the Vista Encantada deal), and the financing terms are much shorter than a conventional bank loan, between one and five years.

Why would a developer accept a loan at 45% interest that needs to be paid back in four years?

Again. Speed and simplicity. Plus, the developer recognizes that they can generate huge profits from their project that will offset the higher interest rates associated with the loan.

People assume that hard money loans are for developers with poor credit or under financial stress... But hard money loans are simply another financing option for developers and investors to raise capital. Many real estate developers and investors with excellent credit, strong financials, and access to bank financing will utilize hard money loans.

Who Are The Hard Money Lenders And Why You Should Consider Becoming One?

Typically, hard money loans are funded by small private investment groups, hedge funds, and venture capital firms. Hard money lending opportunities are out there for private individual investors, but you’d have to be actively seeking them out That is, you’d have to become part of angel investing network, join commercial real estate investment newsletters, or, if you’re really bent on finding deals, you could place classified ads on real estate- and entrepreneurial-based print publications or websites.

Also, depending on the amount of capital you’ve got available to invest, you may have to buy into an existing investment group (fund) or put together one of your own. If you were to join an existing investment group the buy-in amount would be between US$50,000 and US$100,000, at least. And you’ll probably need be an accredited investor.

Why you should consider hard money lending as a real estate investment alternative?

For one, you can generate above-average returns (between 10% to 20% or up to 45% on international projects) on your investment, essentially hands free. You invest your funds and the developer takes care of the rest. On top of that, your cash isn't tied up for a long period of time; the typical term for these types of loans is less than three years.

And while hard money loans are higher risk investments, they are secured by a hard asset: real estate. So if the developer defaults on the loan, you can foreclose on the property.

Hard money investing also gives you an opportunity to earn yields from real estate without a huge capital outlay, additional expenses, and the administrative hassle of a rental property.

Lastly, should you want to exit your investment, you've got plenty of note investors out there that would be willing to take over your position—especially for notes that are secured by real estate.

Things To Consider Before Investing In A Hard Money Loan

With hard money loans, just like any other real estate investment, there's a couple of things that you should pay attention to in the due diligence stages of the investment.

Firstly, you need to know if the developer has full control and/or ownership of the land or real estate asset that they are using as collateral. That is, you should confirm that the developer is the title holder for the land. You also need to verify that the developer has all the necessary permits, zoning, and licenses in place in order to proceed with the project.

Then you need to gauge the actual viability of the project. What market (retirees, tourist, young professionals, corporations, big-box retailers, etc...) is the developer targeting with this project? Is the project commercial or residential? Where's it located? Is the location ideal for their target market? What will the average price point or rental rates be? Are those price points or rates competitive in the region? How will they market the project? What is the exit strategy? How are you going to paid back?

All of the points mentioned above will be addressed in an executive summary, business plan or investor prospectus which the developer will present to you. You should get an idea of the developer's track record. How many projects have they completed? If they've done a residential condo project, have they been able to sell the units? If they've got a portfolio of multi-family apartment buildings, what are their average occupancy levels? If it is a commercial center, have they been able to secure corporate tenants?

It boils down to this: You need to know if the developer will succeed in executing the development portion of the project (construction or renovation) and, equally as important, if they'll be able to make the sales. Knowing this will allow you to reasonably project the future value of the project and its overall revenue potential—which will determine if they are able to produce the level of returns that they are promising you. Plus, it gives you a good gauge of the value of the asset that's being collateralized.

If the developer has done previous hard money loan deals, then you can and should find out their track record with previous investors. For example, with regards to Vista Encantada, one of our readers invested US$1.3 million in the condo tower project. To date they've been paid back US$1.73 million—that's a 33% ROI.

Once you've done your due diligence you should be able to assess the risks involved with the investment and be able to determine whether the level of returns (the potential reward) is worth the perceived risk. Lastly, you should get an idea of the tax implications on the interest income that you've earned on these loans. For tax implications in the specific country that you're investing in, you'd need to get in touch with local tax or real estate attorney on the ground.

As far as U.S. citizens are concerned, according to the IRS, interest income earned is taxed as ordinary income. So if you are in the 33% tax bracket, your interest income will be taxed at that rate. However, if you were to set up a corporation or LLC that's in the business of lending money, then your interest income received is considered business income. And the expenses that you've incurred administrating the loan would be considered a business expense, thus reducing your overall tax burden.

The Bottom Line

While hard money loans are higher risk, they are an investment that you should consider adding to your real estate portfolio—so long as the entry point is low enough and the potential reward outweighs the level of risk associated with the investment.

Unfortunately, at the moment, the Vista Encantada hard money offer is no longer available as the investment has been fully funded. The developer is planning to offer a similar investment offer for its second planned condo tower some time in 2017, but right now they are focusing on final stages of construction of the first tower.

That said, we have another investment offer that's very similar to a hard money loan, but it's not secured by a real estate asset. Instead, the developer offers investors a buyback option. The project is an urban development project based in Cartagena, Colombia, and the developer behind the project has a successful track record, with over 34 development projects under the belt. Plus, they have skin in the game as they've financed 50% of the project themselves. The minimum investment for the project is US$50,000 with a projected annual yields of 30%.

This Is One Tax I Can Get On Board With

As a general rule, none of us (myself included) likes paying taxes.

Income taxes go to the government, which spends the money on who knows what… mostly giving it away to people who aren't productive enough to earn their own.

In the United States, sales taxes go to the respective states charging them, which then use the money for state-specific expenses. In most of the rest of the world, sales taxes go into the national coffers… which brings us back where we started, to the realm of who knows what the money is actually spent on. Property taxes, on the other hand, are meant to be used to cover the costs of specific infrastructure and services. In the United States and Canada, they are collected at the county level. In France and other countries, they are collected by the municipality. Some countries collect property taxes at the national level, meaning the money goes, again, into the general fund.

However they're collected, the idea is that property taxes are used to pay for things like roads, schools, and police. In places like Belize where those services are limited, so, too, are the property taxes. Friends there talk about property taxes in terms of the number of dollars you might have in your pocket at any given time (that is, 5 or 10) rather than thousands of dollars per year.

Over the years, I've had experience with many different property tax regimes. I've come to compare them to homeowner association (HOA) fees that gated communities and condo buildings charge. No one likes paying HOA fees any more than anyone likes paying taxes.

In Praise Of HOA Fees

However, I've developed a different perspective on property taxes… the perspective I have for HOA fees. I've learned that HOA fees are critical to maintaining the value of the associated property. And I see property taxes in the same way.

A popular beach community in Panama doesn't have an enforceable HOA, yet their streets aren't public streets. The government isn't responsible to maintain or repair the roads... and no HOA fees means no funds for the community to repair them itself.

Some people in this community have built million-dollar homes that they now have to travel seriously rutted and potholed roads... the kind of roads you might expect to find in the poorest neighborhoods of Haiti... to access. They can't really use their beach houses themselves... and they can't rent them out either.

Homeowners on certain streets of this private community have begun working together to pay personally for repairs to their specific stretches of road. What choice do they have?

Citywide Capital Call

The city of Medellín has, at strategic points during its history, including about a year ago, issued special assessments, something like a capital call. HOAs do this sometimes for big expenses like replacing an elevator, but I'd never known a city to make such a cash call until I received the notice from Medellín. The city has a separate department that issues these capital calls when it's decided they're necessary and then manages the specific project that the special assessment is meant to fund. While the work is ongoing, they send out e-letter updates to all property owners who've been made to contribute.

When I received the first bill for this assessment, my initial reaction was irritation. Another tax bill!

Then I went online to the relevant website where it was outlined what the money was to be used for. Reading the plan, I embraced the idea. This kind of taxation makes sense to me... just as HOA fees make sense to me. In Medellín, I was being asked to pay a specific amount to accomplish a specific project, the benefit of which my family and I would enjoy directly.

OK... I can go along with that.

The city handled the payments well. Each property owner is required to make a small monthly payment over 10 years. Specifically, in my case, I'm paying US$30 a month.

Still, of course, many city residents were up in arms. Not too many years ago, I probably would have been among that group. But, again, my views on this have evolved with experience.

Now when I receive a property tax or HOA bill, I think through the amenities and services these fees are funding... and, as I did in the case of the citywide assessment in Medellín, I happily write the check. The benefits far outweigh the tax.
When I'm not happy to write the check, I'll think about selling the property.

Keep It Active

That's another benefit of property taxes. They help to keep real estate productive.

In fact, some countries impose higher taxes on "inactive" property. Belize, for example, imposes a special 5% property tax for land parcels that are more than 300 acres if at least 30% of the land isn't being farmed. Alternatively, the tax doesn't apply if improvements have been made that are at least 1.5 times the value of the land. It's called a speculation tax and is meant to keep people from buying land solely to hold onto it to flip after a certain level of appreciation has been achieved.

France imposes two property taxes. The homeowner pays the actual property tax and the person living in the property pays a "resident" tax. This is a great distinction for anyone who owns a rental property in this country. As the property owner, you shouldn't mind investing in the local infrastructure; as I've been saying, this helps to maintain the value of the property.

Meantime, the person living in the place pays for services like schools, police, street cleaning, etc. Live in your own property, and you pay both. Makes sense.

While government use of taxes collected can and should always be questioned, speaking as a very active property investor, property taxes are one tax I've come to get on board with. Without the infrastructure and services the property taxes pay for, the value of my investment would erode.

If you don't want to pay property taxes, don't own property. You could always rent (at least outside France!). We property investors need renters... who cover our property taxes and earn us a nice additional yield besides.

Leveraging Your Overseas Property Purchase + 10 Countries Where Bank Financing Is Available To Non-Residents

When making an overseas property purchase, you should try to use leverage whenever you can, allowing you to reduce your risk exposure and initial cash outlay. That is, instead of putting the bulk of your funds into a single purchase, you can invest in multiple property investments... thus diversifying your portfolio and spreading your risks. On top of that, leverage allows you to increase your cash-on- cash returns—a metric often used by real estate investors that only measures the return on cash actually invested.

Financing Options

As an overseas property investor you've got a couple of options for financing your property purchase, including:

- Developer financing
- Seller financing
- Home equity loan
- 401K loan
- Bank financing

Developer Financing

In the early stages of an overseas property development, developers often offer some kind of financing. Interest rates can be from 5% to 15%—in some cases 0% interest is offered—and the term up to 10 years. You will also find that developer financing requires less in the way of a down payment, even (in rare cases) zero down.

Seller Financing

If you are buying from an individual property owner, you can negotiate terms with the seller. The ability to get seller financing primarily depends on two factors: How long the property has been on the market, and if the seller is strapped for cash. As far as the terms, the seller normally requires 50% down at closing, and the remaining 50% due at regular intervals over three to five years. The interest rate typically mirrors the current rates being charged by the local banks, but it could be higher. However, the interest rate is negotiable.

Home Equity Loan

Taking out a home equity line of credit (HELOC) on your North American property is another way to finance your overseas property purchase. And the interest rate on a HELOC will be significantly lower than what you'd get in most foreign countries. Plus, in this case, you are a cash buyer. That is, you'll be able to take advantage of any cash discounts and be in a better position to negotiate with the seller or developer.

401K Loan

Borrowing from your 401K is another financing option. And, unlike with a regular loan, you'd be paying the interest to yourself. However, the IRS limits the amount that you can borrow to US$50,000. If that's all you need, this is a good option.

Bank Financing

In many countries it isn't possible for a foreigner to borrow money from a local bank for the purchase of real estate. From the bank's point of view, a foreigner is a flight risk. You have no real connection to the country and can leave at any time. Banks don't want to take that chance. That said, I've identified 10 countries where bank financing is available for foreigners purchasing real estate including:

- Mexico
- Dominican Republic
- Panama

- Belize
- Costa Rica
- Nicaragua
- Portugal
- France
- Italy
- Spain

You won't find the terms as appealing as they can be back home, though. The loan-to-value ratio will be lower than what you are accustomed to in the States or Canada. Depending on the country and bank, LTVs range anywhere from 50% up to 80%. Financing terms are typically less than 30 years, with interest rates floating rather than fixed. Some banks require life insurance on the loan.

A Closer Look At Foreign Bank Loans...

In Mexico

Mortgages are specifically available for U.S. and Canadian citizens (or residents) for the purchase of real estate, land, and construction. Banks loan up to 80% of the value of the property for up to 20 years, and the interest rate starts at 7.35%. All mortgages are done in Mexican pesos.

In The Dominican Republic

Foreigners can get bank financing for condos, apartments, and single-family homes here. The only exception is land lots. If you have residency in the Dominican Republic, banks finance between 70% and 80% of the property's appraised value for up to 25 years. Without residency, banks typically offer 50% LTV financing. You can also expect higher interest rates, usually between 9% and 10% per year in U.S. dollars, or 12% to 14% in Dominican pesos. Banks can provide financing in U.S. dollars or Dominican pesos.

The major banks that provide financing for foreigners the Dominican Republic are Banreservas, Banco Popular, and Scotiabank.

In Panama

Non-resident property investors in Panama can get financing of up to 70% LTV. The term of the loan could be up to 25 years, depending on the age of the applicant—there's an age restriction for applicants at the age of 75. In other words, in order to qualify for the full 25-year loan term, the applicant would need to be 50 or younger.

The interest rates range from 5% to 7.75%. Banks here also require applicants to purchase a life insurance policy for the amount of the mortgage naming the bank as the beneficiary.

Though there are several banks that provide mortgages for foreigners in Panama, I'd recommend Scotiabank.

In Belize, Costa Rica, and Nicaragua

For investors interested in purchasing property in Belize, Costa Rica, or Nicaragua, Caye International Bank based in Belize can provide you with financing. They provide loans up to 50% of the property value up to 10 years, and the current interest rate is between 11% and 13% fixed for the term of the loan. In order to secure financing through Caye Bank you must establish a personal bank account (minimum of US$500 to open).

Further, to secure the collateral in a jurisdiction such as Costa Rica or Nicaragua the title of the property must be registered in the name of a Belizean IBC. The shares of the company are issued to the bank. Once the loan is paid off the shares of the company are then transferred to the borrower.

In Portugal

Banks here are able to lend up to 75% LTV (or 90% of the transaction value, whichever is the lowest) for up to 30 years. The financing terms are be based on the age of the applicant—the applicant may not exceed 75 years of age at the end of the mortgage contract. At the moment, interest rates are less than 3.5% in Portugal. Loans are only made in euros.

The bank that we recommend for mortgage financing for non-residents in Portugal is Millennium Bank.

In France

Banks offer 80% LTV financing for up to 20 years to foreigners, and mortgage interest rates start at as low as 2.15%. French lenders require that anyone taking out a mortgage take out a mortgage protection insurance policy, which covers the mortgage in the event of death, permanent disability, and temporary incapacity to work.

In Italy

Banks here provide loans of up to 60% of the property's appraised value up to 25 years (up to 40 years in some cases), and interest rates range anywhere from 2.5% to 4%.

In Spain

Here banks can provide 70% LTV financing for up to 30 years, and interest rates start at around 2.5%.

Final Thoughts

Ultimately, the choice to use leveraging when making your overseas property purchase depends on your current financial situation and your investment objectives. That said, I'd recommend that you take advantage of (or at least consider) any opportunity to finance your property purchase. It gives you the ability to reduce your initial capital investment thus minimizing your risk exposure. Plus, with the additional capital you retain, you are able to invest in other property investments, allowing you to further diversify your portfolio.

How To Transfer Money Overseas For Your Global Property Investments

So, you've closed on your first overseas property purchase... Now what?

Well, now you've got to get the money from your U.S. (or Canadian) bank account to the seller's bank account in Colombia, Brazil, Portugal, Italy, Spain... or wherever.

Simple enough, right?

Moving money around the world should be easy in the digital age, but, with all the banking and government rules, requirements, restrictions, and peculiarities, sometimes it isn't.

If you're transferring money from one U.S. bank account to another, all you need is the recipient bank's ABA number and the beneficiary's name and account number (maybe their address, too). Within 24 to 48 hours, your wire is complete. That's it.

You're done.

It's not that simple when it comes to initiating international wire transfers. You've got to deal with intermediary or correspondent banks to facilitate the transfer of funds. Unfortunately, this requires another layer of information, including the recipient bank's account number with the intermediary bank, along with the final beneficiary details.

And if you're sending a wire from one currency to another, there are further complications. If that's the case, you'll likely have to go into a bank branch to initiate the transaction in person. While the process should be straightforward, it's usually not. You'll have to speak with a personal banker or manager, as the typical bank teller in your bank has never sent an international wire transfer. Once your bank manager realizes what you're trying to do, they'll try to talk you out of the transaction altogether.

In fact, they usually don't like to send money overseas, period—regardless of a currency change. One reader wrote in to share her alarming experience: "I went to my bank branch to initiate a wire transfer on Monday. The teller had to call over the branch manager to help with the paperwork.

Once the manager saw I was transferring money to Panama, she told me they wouldn't be able to do the wire transfer. When I asked why not, she said because investing in Panama is too risky."

(Panama uses the U.S. dollar, so currency wasn't even a factor in that equation, the teller simply didn't want to make the transfer overseas.)

Our response: "It's your money, not the bank's or the manager's. What you do with it is none of their business. You don't have to justify your plans to him or anyone else."

But, I digress...

Once your bank finally agrees to initiate your transfer, you'll be hit with a wire transfer fee, usually between US$30 to US$70 per transaction. On top of that, if you're transferring money from your home currency to a foreign currency, you'll get a bad rate, one significantly lower than the accepted interbank rate.

For example, as I write, you should be able to buy a euro for US$1.07 at the current interbank rate. However, a U.S. bank will offer to buy euros at US $1.13. So, if you had to send euros to complete a property purchase in, say, France, it would cost you nearly 6% more than the interbank rate.
But this is all avoidable.

There's a better way to move money from your home country to another country, whether it's for investment, a new home, a new bank account, to pay bills, or to support your cost of living. One that cuts out the administrative hassle and the unnecessary additional costs.

Foreign Exchange Specialists Versus Banks

The biggest factor when moving money abroad, even more so than the transfer fee, is the exchange rate between the two currencies in question... the currency of your home country versus the currency of the new country.

Most folks just wire the funds from their bank account back home to their foreign bank account without ever thinking about the exchange rate they paid for the foreign currency. If that sounds like you, then you're making a big mistake, and it's costing you lots of money.

The best way to transfer money overseas is through foreign exchange specialists, also known as currency specialists, who generally offer better exchange rates on transfers than banks. The difference is usually a few cents, but those pennies add up, especially, if you're sending more than US$10,000.

For example, imagine that you're purchasing a rental property in Europe, and you need to send 200,000 euros to Portugal.

By sending those funds directly from your bank in the United States, it would cost you US$226,000, based on the average U.S. bank's current exchange rate of US$1 to 1.13 euros, plus at least a US$30 international transfer fee.

However, by using the currency specialist strategy instead, the same transaction would only cost you US $216,000—a savings of US$10,000.

How?

Currency specialists use a better and more accurate exchange rate for the foreign currency, in this case US$1 to 1.08 euros instead of the bank's 1.13 rate. Superior exchange rates for bank transactions are just the start of the benefits you reap when using a currency specialist...

Introducing Moneycorp

The currency specialist that we recommend is Moneycorp. With 30-plus years of experience in the industry, over 125,000 active customers, and US$32 billion in traded currency, they've developed an impressive track record.

In my opinion, they offer the best currency specialist service and benefits that you'll find anywhere.

Many of our readers use Moneycorp, and they are extremely satisfied with the service.

Their transfer process is quick, and the service is easy to use. You can make a transfer in five simple steps:
1. Set up your account;
2. Speak to your personal dealer;
3. Secure the best exchange rate over the phone or online;
4. Send your funds to their segregated client account (a U.S. account);
5. Your currency us sent to the account that you specify.

And Moneycorp is more than just a money-saving service. They'll help you develop a clear plan for how to manage your funds among different foreign currencies, and allow you to lock in currency rates. They'll even help you pay your various bills across the world on time. Whether it's for a mortgage payment or a simple utility bill, Moneycorp will treat your smaller transfers with the same level of service as with a large international wire.

Here's what you can expect using Moneycorp's transfer services:
- Enhanced exchange rates. Wide ranges of exchange rates are available every day, with the bulk of the best deals available through Moneycorp... not the banks. As I've shown you already, this can be worth thousands of dollars...
- What you see is what you get. Moneycorp does not charge a transfer fee each time you transfer money overseas. With a bank, you'll get hit with a fee of US$30 to US$70 per transaction, not to mention an extra charge for simply receiving the money...
- One-on-one help. A Moneycorp currency specialist will always be available to assist you. Whether it's a one-off transfer or regular bill payments, they'll guide you every step of the way...
- 24/7 service. Moneycorp offers you an online money transfer service that you can access 24 hours a day, 7 days a week... allowing you to trade from anywhere in the world at any time, day or night...

Can I Use Moneycorp To Simply Transfer Funds?

Moneycorp will benefit those buying or sending funds from U.S. dollars into another currency. In countries like Panama, Belize, and most of Central America, the dollar is prevalent, and almost all property closings are in U.S. dollars, so Moneycorp isn't necessary in most cases.

That said, non-U.S. dollar holders, like Canadians, could utilize Moneycorp for all their transactions, including those in Central America.

Other Moneycorp Services To Take Advantage Of
If you're hunting for a particular rate or deal, or just want to avoid a big loss in the currency market, an account specialist can set up a Moneycorp Rate Watch that can lock in a transaction within seconds once it comes around.

Plus, you're under no obligation to actually trade when your desired rate arises, it's just a shrewd way of staying on top of what is occurring in the currency market in case you are in a position to proceed with a transfer.

In addition to that, they offer spot currency contracts. That is, you can buy currency whenever you want; it's simple and quick. In the event that you or one of your family members are outside the country, you could use this solution to pay bills overseas, transfer money across your accounts, transfer pension or retirement funds to another country, or send money to a family member or colleague.

Say, for example, you're trying to purchase a property overseas, but your funds are tied up. Moneycorp will let you buy now and pay later, with only a small deposit required using a forward currency contract. This allows you to take advantage of favorable currency positions today, liquidity issues notwithstanding.

Moneycorp also provides clients with the ability to do secure limit orders, helping you get the best rate and ensuring that you don't lose out when currencies collapse. With this service, you can secure your target exchange rate with an automated currency purchase. Or you could use this service to get out of old positions when currencies move out of your favor.

The Global Investor's Guide To A 1031 Like-Kind Exchange

As tax season dawns near, many investors are searching for tax-saving strategies. One that is often misunderstood is the 1031 like-kind exchange, a tactic an American can use to defer capital gains taxes on investment real estate profits. Many real estate and tax experts still think that you can't do a like-kind exchange with foreign real estate.

You can.

The question is whether or not you should and how. First, some background. A 1031 like-kind exchange is a section of the U.S. tax code that allows for investment property—real estate or otherwise—to be exchanged for similar investment property. You can exchange a piece of factory equipment for another piece of factory equipment—or you can exchange a commercial building for a residential apartment building (that is, investment real estate for investment real estate).

Of course, generally speaking, things like factory equipment don't appreciate over time, whereas real estate can. Therefore, the ability to exchange an appreciated property for another property and thereby defer capital gains taxes (both on the absolute appreciation and any recaptured depreciation that would have occurred with a sale) can be an excellent tax-planning tool.
U.S. real estate investors are well aware of the benefits of 1031 like-kind exchanges. The real estate industry has evolved around the concept. However, many don't realize they can do an exchange with foreign property.

What Property Qualifies For A Like-Kind Exchange?

Both the relinquished property you sell and the replacement property you buy must meet certain requirements. Property used primarily for personal use, like a primary residence or a second home or vacation home, for example, does not qualify for like-kind exchange treatment.

Both properties must be held for use in a trade or business or for investment. Both properties must be similar enough to qualify as "like-kind." Like-kind property is property of the same nature. Most real estate will be like-kind to other real estate. For example, real property that is improved with a residential rental house is like-kind to vacant land. The catch is that you can't exchange a U.S. property for a foreign one under the 1031 rules. It has to be U.S. for U.S. or foreign for foreign. For example, a farm in New Zealand can be exchanged for a rental house in Argentina, but not for an investment property in the United States.

In other words, you must make your first foreign real estate investment—and then think about like-kind exchanging it for another when you're ready to execute your exit strategy.

How Do You Compute The Basis In The New Property?

It is important that you and your tax representative track the basis correctly to comply with Section 1031 regulations. Gains are deferred in a like-kind exchange, so you must keep track of your basis in the new property you acquired during the exchange.

The basis of property acquired in a Section 1031 exchange is the basis of the property given up with some adjustments. When the replacement property is ultimately sold (not as part of another exchange), the original deferred gain, plus any additional gain realized since the purchase of the replacement property, is subject to tax.

Using the 1031 provision can allow you to:

- Consolidate several smaller properties into one larger investment;
- Shift investment from one area or locale to another to take advantage of local market opportunities;
- Avoid "deferred maintenance" by trading out the older properties into newer ones;
- Diversify your investment portfolio by trading out of a single property into various investments or multiple properties.

The 1031 like-kind exchange is an excellent tax deferral mechanism when selling a U.S. investment property and buying another (or others). However, when considering taking advantage of the U.S. tax deferral when selling foreign property and reinvesting in another foreign property, you have to take into consideration the foreign taxes that may come into play on the gain.

If the foreign property is in a country where you'll pay as much or more in capital gains taxes as you would in the United States, then deferring the U.S. tax through a 1031 like-kind exchange is pointless, as it will cost you more in total tax in the long run. Remember that you can take a tax credit for any tax paid on income that is also taxed in the States.

Therefore, if you pay 20% tax on the gain of the sale of an investment property overseas to the country where the property is located, you can take a credit for that tax on your U.S. tax return. Defer the tax in the United States, and you'll eventually end up paying tax twice on the same gain.

A basic rule of thumb on whether to use a 1031 like-kind exchange when selling foreign real estate investments is as follows:

- No – when the foreign tax is as much or more than the tax in the United States.
- Yes – when no foreign tax is due on the sale of the property (some countries don't charge capital gains taxes on gains from real estate sales: New Zealand, Costa Rica, Argentina, Croatia {real estate held for at least three years in your own name}, France {real estate held for 22 years}).
- Maybe – when some tax is payable in the foreign country, but it is less than what is due in the United States.

In the last case, in which you pay some taxes in the foreign country, but it's less than what you'd owe in the United States, you have to make a determination of whether the tax deferral on the U.S. side is worth losing the credit for the tax paid to the foreign country.

One scenario where it may be worth not taking the credit and deferring the U.S. tax in full is if the replacement property requires all of the net proceeds from the sale of the property, i.e. you don't have extra cash to pay the U.S. tax even with the partial credit.

How The Foreign Tax Credit Would Apply To Real Estate Capital Gains

Case #1

You bought a property in Mexico in 2007 for US$100,000. In 2017, you received an offer you couldn't refuse for US$150,000, giving you a capital gain of US$50,000. The capital gains taxes in Mexico are included in regular income for tax purposes, i.e. there is no fixed capital gains tax rate in Mexico. Assuming your gain is taxed at the highest marginal rate of 35% (which it wouldn't be, but let's go with the easy math for this example), you'd pay US$17,500 to Mexico.

The capital gains tax in Mexico is significantly higher than the tax in the United States, so you should not expect to pay any tax on that gain to the United States. You'll report the sale on your Schedule D of your U.S personal return and deduct or take credit for up to the US$17,500 paid on Form 1116.

Case #2

You sell a property in Panama you've held for eight years, giving you a capital gain of US$50,000. In this case, you'd pay 10% to Panama (US$5,000) and take a credit for that payment on Form 1116 against the 20% tax in the United States (US$10,000), paying a net of 10% to the States for long-term capital gains.

Case #3

You sell a property in a jurisdiction where real estate sales are not taxed, you would end up being on the hook in the U.S. for the 20% capital gains tax.

Executing A 1031 Like-Kind Exchange For Foreign Property

In practice, it's rare for two people to want to swap their properties with each other... especially offshore, where only U.S. persons benefit from this strategy. Instead one of the owners usually wants cash and the other (the gringo) wants to defer taxes on his gain. In this case, you can still qualify for a like-kind exchange by adding a licensed third-party specialist to the deal, called a qualified intermediary or QI.

It's very important to understand that you can't actually touch (that is, take possession of) any proceeds from the sale of the original property. You would have to use a qualified intermediary to hold the proceeds from the sale of the first property for you and then the QI passes the funds along to the seller of the property for which you are exchanging. The bottom line is that for U.S. tax payers, a 1031 like-kind exchange can be a great tool for leveraging the profits from one investment property into another. You simply have to do some analysis to make sure the effort is worthwhile when exchanging foreign for foreign properties.

Know How To Hold

Don't Let Structures Kill The Investment

So often people write us to discuss trusts, corporations, family limited partnerships, and/or other structures designed to protect his or her wealth.

Structures are very important, but structures alone cannot do the job in a one-size-fits-all approach to asset protection. While an international trust may be just what the doctor ordered for protecting a surgeon's life savings, the same structure will do very little to help a commercial real estate developer operating in litigious North America.

The structure is only part of the equation. The investment class is also very important. You need to put both parts of the puzzle together in a coherent fashion to truly protect and grow your wealth. If you select the wrong vehicle for your assets or choose the wrong asset classes for your structure, you can end up simply wasting your time and money.

One consulting client of mine came into our office to ask me some questions about how to structure property investments he's making in Panama and Colombia. This client had been working with attorneys in both of these countries as well as in the country where he set up his LLC, but he wanted to make sure he's fitting all the pieces together as advantageously as possible in the context of his big-picture goals.

"In the context of his big-picture goals" is the critical phrase here. No single entity or set of entities fits every situation. What you find, though, is that whatever advisor you work with has his or her individual experiences and advises based on what he or she is familiar with.

Most Panamanian attorneys, for example, will advise you to put any property purchase into a corporation. Because that's what they do in Panama, both locals and foreigners. Historically, this has been to avoid capital gains tax, which is not imposed on the sale of company shares. You could set up a single-purpose corporation to hold a piece of property, then, when you wanted to sell that piece of property, you were in fact selling the company that owns it... meaning no capital gains tax issue.

Panama changed the relevant tax rule years ago, but people in this country still put real estate they buy into Panama corporations. There are other reasons why using a Panama corporation to hold your Panama real estate can be a good idea, but you should understand them before taking a Panamanian attorney's blind recommendation. Don't let custom dictate how you organize your affairs. Question the reasons why you're being advised to do whatever you're being advised to do, in Panama or anywhere.

Keep It Simple

My overriding recommendation is to keep things as simple as possible. While the client who came in to speak with me could have set up a Panama corporation that his LLC could own (with the Panama corp holding the property), that is more structure than he needs. Putting the property straight into the LLC is sufficient in his case, under his circumstances, and considering his objectives. That gives him asset protection in Panama, which is the real point.

It also reduces his carrying costs, perhaps, this time, to the disappointment of his Panamanian attorney. Attorneys make money both setting up corporations and acting as resident agents for those entities.
If my first advice regarding structures is to keep things simple, my second is to have a plan. As much as possible, have some idea where you expect to invest and in what. This can help save you investing in structures, translations, or other costs you don't need.

A Tip For First-Time Overseas Property Investors

If it is your first property purchase overseas, my advice is just to put the property in your name versus getting bogged down about what structure to set up—especially if it's smaller investment (less than US$50,000).

Over time, as you continue to build your overseas property portfolio, you'll begin to figure out the type of structure that's best for your situation.

An attendee at a conference last year asked me what I thought she should do with her Panamanian corporation.

"Well, why did you set it up in the first place?" I asked.

"All my friends told me I needed a Panamanian corporation," she replied.

So, on her first trip to Panama years ago, she set up a corporation. She had no intended use for it and no understanding, really, of what it might eventually, possibly ever be used for. Not surprisingly, therefore, in the several years she'd held it, she'd never done anything with it. This is after paying to set it up and then paying the annual fees to maintain it.
After talking with this conference-goer about her plans and goals as an offshore investor, my advice was that she walk away from the Panamanian corporation. Just stop paying the annual fees. If she found herself needing a Panamanian corporation sometime down the line, the cost of setting up a new one is only about two years' worth of annual fees. Fortunately, the wasted investment amount in this case wasn't great. I've known people over the years who've had similar stories to do with complicated trusts, which can cost tens of thousands of dollars to set up. For many people, a trust is overkill.

Structures You Can Use To Hold Your Overseas Real Estate

The four main questions that you'll need to ask yourself before deciding to set up a structure to hold your overseas property investments.
1. Are you looking for anonymity?
2. Are you looking for asset protection?
3. Do you need estate planning?
4. Will you be using the property for commercial purposes (hostel, B&B, hotel, restaurant)?

If you answered no to all of these, then setting up a structure may not be beneficial. If you answered yes, a structure may be useful for you

So which structures or combination of structures might be right for you? Let's walk through the options.
- International Trust
- International Business Companies (IBC)
- Foreign Corporation or Offshore Entity

- Family Limited Partnerships (FLP's)
- Individual Retirement Account (IRA)

International Trust

This is the Cadillac of asset protection vehicles, allowing you to select the jurisdiction in which any possible future fight over your assets would occur. Going global allows you to pick jurisdictions that favor grantors, beneficiaries, debtors, defendants, etc., at the expense of all types of future plaintiffs. The international asset protection trust can help your future estate avoid both estate taxes and probate and allow your financial and moral influence to be felt from beyond the grave. An asset protection trust can work exceptionally well with assets that can be "picked up" and moved, including stocks, bonds, precious metals, and titles to foreign real estate, and anything else that can be "titled" offshore.

International Business Companies

An International Business Company (or IBC) is a great vehicle for holding business assets that you intend to put to productive use. This can include real assets such as machinery or foreign real estate or intellectual assets such as patents, trademarks, and/or copyrights, as well as, of course, any type of global business opportunity.

The IBC is not taxed in the jurisdiction where it is formed and may or may not be subject to current taxation in your home country depending on the type of income generated (active versus passive), the nationality of the controlling shareholders, and a number of other factors.

The IBC is generally not a good vehicle for holding passive investments. The U.S. tax code includes a section on Passive Foreign Investment Companies (PFICs), and the relevant rules and regulations can make taxation of these entities held in an IBC worse than if they were held in a domestic vehicle or simply held in your own name. If, on the other hand, you are looking to roll up your sleeves and engage in an active business, the IBC or LLC is the ideal choice.

Foreign Corporation Or Offshore Entity

Many people use a local entity to hold real estate in another country. In fact, in some cases you can be required as a foreigner to hold title to a piece of property in another country.

The easy example is an American buying property in Mexico. A foreigner can't hold title to a piece of property in his own name in Mexico if that property is located within 50 kms of the ocean. In that case, you must (that is, you are required by law) to use a Mexican *fideicomiso*, which is a Mexican trust... an offshore entity be definition.

Other countries impose restrictions on the foreign ownership of real estate that can also require you to use an offshore entity.

Owning property in your own name in another country means that when you pass away, your heirs have to deal with probate in that country. In some cases, this can mean navigating inheritance laws that require assets to be distributed based on local law, which may or may not match your wishes.

Using an offshore entity that is also offshore to where the property is located can eliminate probate in the country where the property is based. If you use an entity from a jurisdiction that allows for direct inheritance of the entity or its shares, you can avoid probate altogether.

For someone who owns multiple properties in multiple countries, using an offshore holding company is simply a practical administrative strategy, nothing more.

A corporation or an LLC can provide asset protection; however, if asset protection is the goal, an offshore trust can be the most effective entity. Frivolous lawsuits are a national pastime in the United States, and the best way to protect your assets and keep them from being vulnerable to attack from some vengeful plaintiff is to move them offshore with the help of an offshore structure.

If you're your using your real estate for commercial activities then the use of an offshore corporation is wise. You incorporate your business overseas for the same reasons you incorporate in the United States—to limit the liability of the shareholders of the company (which brings us back to asset protection).

Another reason to use an offshore entity to hold a piece of real estate overseas is liability. Putting the property in a single-use entity can limit your exposure should a tenant slip in the shower, say, and crack his skull open. It also makes it harder for a claimant in another country to attach the property to any settlement.

Family Limited Partnership

A Family Limited Partnership can be used both domestically and internationally. FLPs are a great way for senior generations to gift various assets over time to the next generation while still maintaining control as the general partner. This strategy works well for domestic real estate, closely held U.S. businesses, and assets that you generally want to "keep in the family." Drawbacks to an FLP include succession challenges to the general partner and the potential asset protection challenges of the general partner. Sometimes the general partner of an FLP can be an offshore IBC designed to protect the partnership from claims against the general partner, or the general partner interest can be placed into a trust.

Individual Retirement Account

An Individual Retirement Account (IRA) generally refers to all types of tax-deferred vehicles, including SEPS, Keoghs, 401(k), and 403(b) plans. These domestic retirement "trusts" can legally own the member interests of foreign LLCs, which in turn can own bank and brokerage accounts as well as virtually any type of business interest, real estate, or investment. The LLC itself can be set up as a "disregarded entity," which minimizes tax and reporting requirements and allows income to pass through to the IRA (which itself is tax-deferred). This can be a tremendously effective vehicle if you're looking to defer significant income for your retirement years.

Foreign real estate, foreign art acquired and held abroad, precious metals, and precious gem stones all have one very important thing in common: They are not reportable to the IRS as a foreign trust, IBC, bank, or brokerage account would be. It is therefore possible to maintain a low profile with these items no matter how the ownership is structured, despite the reporting requirements of IRA Form 8938.

The lack of "present" income is ideal if you're looking to grow your assets offshore in a private and discreet way. Real estate that produces agricultural products, such as avocados or mangos, wood (teak, mahogany), alternative fuels (sugar, coconuts, corn), etc., can also be an excellent way to diversify out of traditional investment classes as well as the dollar and into hard assets that produce non-dollar-denominated income. While the income must be reported (unless in an IRA), this kind of an investment nevertheless can be a great way to protect and grow wealth that can increase in value as the dollar declines vis-a-vis other world currencies, such as the Brazilian real.

Must You Report Your Overseas Real Estate Holdings To The IRS?

Specifically, this is the question: Must an American report foreign real estate he owns on Form 8938? No... and maybe.

Form 8938 applies to foreign financial assets. My simplified definition of a "foreign financial asset" is any asset for which the only way you can show ownership is with a piece of paper. This would include bank and stock brokerage accounts (which are also foreign financial accounts reportable on the FBAR); stock certificates you hold directly (whether they're for a listed company on a foreign exchange or a private company); and things like Perth Mint Certificates (where your ownership of the gold is only indicated on a piece of paper).

Real estate isn't a foreign financial asset. I'm not the only one who thinks this.

The IRS confirms that foreign real estate doesn't have to be reported on Form 8938... as long as the property is held in your own name.

This is a critical point of distinction that I've been making since the form was first created.

One more time, the key is holding the property in your own name. The problem is that you won't always want to hold real estate in your own name in another country. You would, for example, want to hold foreign property in your own name in any country that doesn't charge capital gains tax on real estate held in an individual's name.

Sometimes, though, it will be beneficial for you to hold property overseas in an entity, for either local tax or perhaps inheritance reasons. Holding real estate in a foreign entity (foreign to the country where the real estate is located) can make it possible to avoid local probate. That can be a big deal.

However, hold foreign property in an entity, and you now own a foreign financial asset in the form of that entity. Meet the threshold for Form 8938 reporting, and you'll have to report that entity... and by default that you own real estate... although you might not actually report the specific details of the property. In addition, even if you hold a piece of property in another country, no matter how the title is held, rent it out and you're required, as a U.S. person, to report the rental income. You'd do this on Schedule E, and the information you'd report includes the property's address and purchase price if you're going to depreciate the cost against the revenue.

To Regroup, Clarify, And Answer The Question Specifically...

Really, the only offshore real estate you don't now need to report to the IRS in some fashion is property you hold in your own name and don't generate any income from. That could be a second home you don't rent out or a piece of land you don't farm. If you are a privacy and asset protection devotee, reporting the foreign real estate you own to the IRS will rub you the wrong way. Fair enough. Remember, though, that owning property overseas, whether in your own name or in an entity, is still an excellent asset protection strategy, as it remains difficult for some litigious-minded person in your home country to get at and grab your foreign real estate... even if the IRS knows it exists.

Again, the IRS has addressed this on its FAQ page for Form 8938.

When Buying-To-Let...

Three Websites You Should Be Using To Market Your Overseas Rental Property

– Plus: A Creative Way To Leverage Your Second Home For Personal Travel...

"This property investment is ideal for an investor looking for a second home that generates rental income on autopilot and is fully turnkey..." I say this often and of many of the investment properties that we've previously recommended.

While the turnkey option is great, it does not always translate to higher yields. Because, the fact of the matter is, no one is going to manage your property like you, the owner.

If you're okay with average rental returns, sit back and continue collecting your rental checks. However, if you're looking to maximize your property's rental potential to ensure optimal yields, you'll need to take a more active approach. This does not mean that you need to be directly involved with day-to-day operations. It does mean, though, you need to work with your rental manager to develop a marketing and operational plan, perhaps, checking in on them on a monthly basis to review rental results.

As the property owner, you need to pay attention to how your property is being marketed—this is critical to the success of your rental property. Specifically, you need to be aware of the best marketing channels to effectively promote your property to ensure high occupancy levels in your unit.

Right now, the best and most effective marketing channel for short-term rental is online booking websites. Not only do these platforms allow you to promote your property, they'll also receive payments on your behalf.

I would even say that it's imperative that any rental property owner gets their property listed on every major online booking site.
That said, there are only three booking sites that I recommend: *Airbnb, Flipkey*, and *HomeAway*.

Airbnb

By far, Airbnb is the most popular booking website in the world. It has over 1.5 million listings for 34,000 cities in 191 countries.

Listing a property on *Airbnb* is simple and straightforward. If you are not already a member, you will need to create a profile. Once you've created your profile, you can begin to set up your property listing. You can choose whatever price to rent your property, but *Airbnb* will also suggest a rate based on your property's location and current demand.

As a safety precaution, it's highly recommended that you require ID verification for all your guests. This allows you to properly screen and vet potential guests of your property. *Airbnb* will handle all of the payments from your approved guests, so you will never have to deal directly with money.

While listing your property on *Airbnb* is free, they collect a 3% host service fee on each reservation. Your payment (less the 3% fee) will be sent automatically 24 hours after your guest checks in. Payments are made via *Paypal*, direct deposit, or international wire transfer.

The Importance of "Good" Reviews

Receiving good reviews from your renters on the booking websites your property is listed on is very important. The more positive reviews your property receives, the more visible it will become to potential renters on the website, thus increasing your rental income.

However, if you're just getting started, you, your rental manager, and a couple of people you know should book your property and leave a positive review. While this will cost you a couple of bucks initially, it will pay dividends over the long haul.

Flipkey By TripAdvisor

Flipkey is the online booking arm of *TripAdvisor*, the world's largest travel community. So, when you list your property through *Flipkey*, you'll get exposure to over 350 million TripAdvisor travelers every month. To post your listing, you'll need to sign up for a free account. Once your account is active, you can list your property with its details, features, and amenities. In order to list more than five properties, you'll need to get in touch with *TripAdvisor*s dedicated property-management team.

Once your listing is up, guests can make reservations and submit payment through *TripAdvisor*'s secure payment platform. You will only pay a 3% commission fee for each booking. Once your guest has been checked in, payment will be transferred to either your bank account or, whichever method you prefer.

HomeAway

HomeAway, a subsidiary of Expedia, one of the largest travel website portals, has a network of 50 sites around the world including VRBO. That is, when you list your property with *HomeAway*, it will be visible throughout their entire network, which receives over 44 million visitors a month.

In order to list your property on *HomeAway*, you will first need to create an account. After your account has been created, list your property on the site with a detailed description, including all amenities and up to 24 photos.

HomeAway has two options for listing your property. Homeowners can use the pay-per-booking model or pay an annual flat fee. With the pay-per-booking model, you pay a 10% commission for each booking. The annual flat-fee option could make sense if your unit is renting at a high frequency. The annual flat fee starts at US$349.

Tips To Improve Your Renter's Experience

The key to your rental property receiving good reviews is to make sure your renter's travel experience is as enjoyable and hassle-free as possible. A couple of value-added services, amenities, and extras that you (or your property manager) can provide to, or coordinate for, your renters to improve their experience include:

- Airport pick-up and drop-off;
- Complimentary water, coffee, and tea;
- Personalized gift basket;
- Local cellphone with credit;
- Board games, books, and movies;
- Kitchen with basic appliances and fully stocked with cooking utensils;
- Washer and dryer with detergent;
- Clothing iron with ironing board;
- City tours and excursions.

Of course, the additional cost associated with providing some of these personalized services can be passed on to the renter.

Other Ways To Market Your Rental Property

In addition to marketing your rental property on booking websites, you can promote your property through online classified websites like *Craigslist*.

Depending on what demographic (expats, foreigners, or local) you are targeting, you might want to place ads in local online classifieds in the country where your property is based. If you're targeting North American renters, *Craigslist* is the only classified ad site you should be focused on.

If you own multiple rental properties overseas (and even in your hometown) you should consider creating your own property-rental website. While you may think that creating your own rental portal to promote your own properties is a huge undertaking, it's not as complicated as you'd expect.

Gone are the days when creating a website from scratch meant learning intricate code or hiring an expensive web developer to set up your site. Now all you need is a domain name, a hosting account, *Wordpress*, a *Wordpress* plug-in for rental management, and *Paypal* to collect payments. You'll also probably want to have a custom logo created for your site.

With the exception of logo design, you should be able to handle the setup of the website. However, if you don't want to go through the process of setting up your website, you can hire someone to do it for you through outsourcing sites such as *Elance*, *Upwork*, and *Fiverr*. The total cost to set up your rental website, including logo design and purchase of the *Wordpress* plug-in, should be no more than US$400. The only ongoing costs you will have include your website hosting service (up to US$19 per month) along with paid advertising through online promotional channels like Google *AdWords*, Microsoft *Bing*, and *Facebook* Ads.

What Is *Wordpress* And A *Wordpress* Plug-In?

Wordpress is a free online, open-source website creating tool. It's recognized as the easiest and most powerful blogging and website-content management system in existence today. It's the world's most popular tool for creating and managing websites. In fact, companies like *Bloomberg Professional* and *The New Yorker* created their websites using the *Wordpress* platform.

A *Wordpress* plug-in is software that is added to your *Wordpress* site to extend and expand its functionality. You will determine what plug-in to add based on what type of functionality or features you want your sites to have.

In the case of a rental-property owner, you want your website to be able to accept reservations and payment. The *Wordpress* plug-in that we've identified for this is *HBook*, which enables online reservations on your *Wordpress* site. It also allows you to add availability calendars, table rates, and booking forms. Below are some resources you can use to learn more about *Wordpress*:

Wordpress Lessons At The Official Website

Wordpress Basics Tutorial Video

Leverage Your Second Home For Your Personal Travel

If you love to travel, you can use your second home to save money on hotel accommodations. In lieu of rental income, you can do a home exchange or swap. This tactic is often overlooked, but it's gaining popularity as home-swapping networks like HomeExchange.com and LoveHomeSwap.com become more prevalent.

To do this, simply list your home or apartment on the home-exchange network. Then you, along with other members, will be able to see each other's properties and their locations. Once you've identified a home that you'd like, in a country where you're planning to travel, contact the home owner to see if they're able to make a swap.

For example, say you own a second home in Medellín, Colombia, and you're planning a trip to Paris, France. Search the exchange for a home in Paris that you'd like to stay in. Once you've found a home that you like, contact the owner of the property to see if they are willing to do a swap.

Ideally, you're looking for homeowners who are planning to travel to where your home is located. In this case, you would be searching for Paris property owners planning to travel to Medellín. Once you've both agreed to do the swap, move forward to finalize the specifics and details.

If you own several homes throughout the world, you can really take advantage of the home-exchange strategy—there's no limit to how many homes you can list.

Normally, you'll incur an annual fee to list your home on any exchange network. For HomeExchange.com the annual fee is US$150, while the annual fee starts at US$240 for LoveHomeSwap.com.

Final Thoughts And Recommendations

As an overseas rental property owner, you've got plenty of options to maximize your rental yields. However, it all comes down to what your investment objectives are, and how much time you're willing to dedicate to promoting your rental property. If you're content with letting your rental manager handle everything, that's fine... but I'd recommend that you sit down with them and come up with a marketing and operational plan.

In particular, you and your rental manager should list your property on at least two of the three major rental platforms. If I had to pick two, I would choose *Airbnb* and *Flipkey*.

Lastly, if you own multiple short-term rental properties (over five), you should consider creating your own rental portal. This would allow you to specifically promote and advertise your properties directly through paid advertising platforms such as *Facebook* Ads and *Google* Adwords. Plus, it adds another promotional channel for your properties in addition to all other marketing platforms that you are using. That being said, you need to make sure the additional revenue stream from this method is worth the additional cost and effort.

Furnishing Your Rental Properties For Profit

"We can't really rent out Kathie and Lief's apartment because it's too doggone fancy!"

That's what Rich Holman, our real estate guy in Medellín, Colombia, whose company manages their property there, said when I was talking with him about the city's rental market.

I chuckled because this is exactly what Lief and Kathie joust about during our conferences when talking about their properties overseas—their ongoing battle between property for investment versus lifestyle. Lief just wants to get the property furnished nicely with no frills while Kathie prefers high-end furnishings and décor, antiques, and walls adorned with 18th-century artwork.

Kathie was able to get her way—Lief calls it the "spousal effect"—with their Medellín property, but in retrospect they both admit that they shouldn't have spent as much as they did furnishing the apartment.

While their property has appreciated in value, they're losing out on rental income because, as Rich put it, it's too fancy to be rented out.

It's hard not to overspend and go overboard when furnishing your rental property... and that's where most people go wrong—including Lief and Kathie in the case of their apartment in Colombia.

If your intention is to generate rental income from your overseas property, then your only objectives when it comes to furnishing your unit are to make it rentable to your target renter or clientele and maximize your ROI.

That means you'll need to know your numbers—like projected occupancy, rental rates, and monthly expenses—to determine your budget for furnishing in order to get your desired rate of return.

If you have an apartment priced at US$170,000 that's projected to generate US$15,000 in net rental revenue annually, in order to get a net ROI of at least 8%, your budget for furnishing the unit should not exceed US$17,500.

If you're preparing your rental scenarios as we discussed earlier in this report, then you'll be able to determine what you should spend on furnishing.

You should also keep in mind that furnishing your rental encompasses everything from:

- Indoor and outdoor furniture (sofa, coffee table, bar stools, beds, patio table, lounge chairs);
- décor (rugs, curtains, blinds, paintings, wall paper);
- fixtures (recessed lighting, track lighting, chandeliers, shower heads, faucets);
- finishes (stainless steel, wood);
- flooring (marble, ceramic, parquet);
- electronics (TV, stereo system, lamps, printers);
- large appliances (air-conditioning units, refrigerator, washer & dryer, stove);
- small appliances (toaster, blender, coffee machine, microwave, iron);
- kitchen utensils (pots, pans, corkscrew, cutlery, plates, wine glasses);
- linens (bed sheets, hand towels, facial towels, pillows, bed covers).

As you can see, there's a lot to consider when it comes to furnishing your rental unit.

It's probably more efficient and less costly to go with the developer's furniture package if you've got that option. If you're buying a one-off resale unit directly from the owner, it may be worth it to hire a local interior decorator. The agent that you're working with should be able to give you some leads.

For folks who want to get a little adventurous you can go the DIY route. This is where YouTube vids, HGTV, your Home & Gardens magazine subscription, and the local Ikea rep will come into play. It might turn out to be a little bit more expensive but you'll surely have a much more interesting experience.

No matter how you decide to go about furnishing your unit, you'll want to do it within your budget and in a way that will minimize ongoing operating expenses and increase your overall profitability.

Here are five tips that'll help you do just that...

Tip #1 - Know Your Clientele And Market

Rentals that target a specific clientele will outperform those that don't.
The location of your property will, in most cases, determine the most profitable rental market and type of renter to pursue, but you'll also need to do your own market research.

Once you've pinned down the rental market and your ideal client, furnish your unit to attract those types of renters. For example, if you're targeting business executives looking for extended-stay rentals, you'll want to outfit your unit with high-quality, stainless steel appliances, a desk and workspace, and a good printer.

Tip #2 - Keep It Simple And Make Sure Your Unit Photographs Well

Clients choose accommodations, particular for short-term and extended-stay rentals, based on how a unit appears online. The furniture, décor, and appliances in your rental property have to photograph well.

It's like staging a home for sale.

Bottom line, the more appealing your unit looks, the more bookings you'll receive, which translates into higher occupancy and increased revenue. Plus, as your unit becomes more in-demand you'll be able to command higher rental rates.

As a rule, your unit should be simple, tasteful, have clean lines, not be (or appear) overcrowded, and not have too many things hanging on the walls.

If you're not an expert in interior design, you'd should probably hire one. The additional rental revenue and profits that you'll gain over the long term will more than justify the costs. On top of that, if you're working closely with them, you'll be able to pick up some things (or tips) that you can use for staging or decorating your next rental property.

I know one guy who did just this in Italy. He was restoring a 200-year-old, stone, country house in the village of Palmoli in the Abruzzo region.
He apprenticed and worked side-by-side with the contractors that he hired, learned what he needed to learn, fired the contractors, and then completed the rest of the restoration himself with help from his wife.

Tip #3 - Furnish For The Climate

You must take the local climate into consideration when it comes to furnishing your unit's interior—even more so for the outdoor spaces.

In tropical climates, a sturdy synthetic material that dries well and is mold resistant will serve best, like vinyl or stain-resistant cotton blends for couches. Wood furniture could shrink or crack in dry, winter climates, and it has the tendency to rot, warp, and mold in hot, humid weather conditions. Outdoor metal-based furniture (wrought-iron, steel, and aluminum) is susceptible to rust or corrosion in regions where it rains a lot.

Buying locally-produced goods will ensure that you'll equip your home with furniture best-suited for the climate. For the most part, IKEA furniture is a good option if available. It's typically inexpensive, contemporary in style, and fairly durable. Another good option is ordering custom-built, high-quality furniture, which can be made at reasonable prices in Latin American countries like Colombia or Brazil.

Tip #4 - Have A Maintenance Program

In order to ensure that your furniture and major appliances last, you'll need to have a maintenance program in place to prevent wear and tear.
Otherwise, you're going to end up spending a lot of money on replacing furniture and appliances within your unit, which will eat into your profits.

The program should extend to the unit's exterior, including the landscaping and gardening.

Your property/rental manager should have some type of maintenance checklist in place for the properties they manage. It's a good idea to review it and make suggestions. Before you even hire a property/rental manager, inquire about their staff. More experienced management companies will have a team to handle ongoing maintenance and cleaning.

Maintenance and cleaning should happen after every checkout and, at a minimum, on a weekly basis if your unit's not currently being rented.

Dusting and vacuuming are critical and should be part of the regular cleaning routine. You'll have more dust, dirt, and debris buildup if your unit is located in an area where there's a lot of construction going on. In tropical climates, dust buildup could lead to mold.

Indoor temperature and humidity levels need to be consistent and regulated to preserve your furniture (particularly wood), control mold growth, and prevent condensation. Invest in a dehumidifier if your property is located in an area that's hot and humid, a humidifier if your unit is in a locale that's cold and dry. You'll need a hygrometer to monitor the humidity levels in your unit. The ideal range for relative humidity is between 35% and 50%.

You'll want to have your unit's heating and air conditioning systems checked and cleaned at least twice a year. In Panama, where mini-split air conditioning units are used, property owners typically seek service on a quarterly basis.

Also, pay attention to the washing machine and dryer, dishwasher, refrigerator, stovetop hobs and oven, and water heaters. To prevent exposure from the elements, make sure to regularly check windows and doors for gaps where precipitation can penetrate. This will also help to reduce energy costs for cooling and heating your unit.

When buying furniture and appliances, make sure you understand how to maintain and clean them. For appliances, you could void the warranty if you don't follow the manufacturer's instructions for getting the unit repaired. With furniture, you'll want to know what type of products and chemicals can and cannot be used on them. If you get a wood table—a dining table, for example—consider buying a glass top for it as a preventative measure.

Tip # 5 - Buy Local And Generic

Whenever possible, buy local and generic. It's usually cheaper, plus it'll save you time and money should you have to repair one of your major appliances or buy a replacement part.

It's a good idea to figure out if replacement parts are readily available in the region before you purchase any major appliance. The last thing you want to have to do is replace your US$700 washing machine because a US$50 part is no longer available.

Furnish the kitchen with easily replaceable dishes rather than something with a design. Dishes will get broken, and you won't be able to find that same design again. Basic white, generic dishes may be boring, but you'll be able to find replacements without any problems.

Landlord Beware: Subsidized Housing Tenants May Be More Than You Bargained For

By Samantha Russell

They say it is no use getting older if you don't get wiser. On my 35th birthday a few years ago, I got wise... the hard way! I now no longer rent to Section 8 tenants regardless of all the incentives.

The residential property I own in London is in Zone One—a stone's throw from the West End (the main shopping area in the city center), and even closer to the City (the financial district). I managed the property myself and rented it to a high-flying career type until one day he suddenly could not renew his contract as his mother had become very ill.

Bad timing—I was about to relocate abroad and needed a solid tenant more than ever. I immediately started to look for a new person and although City workers ("suits" as we call them in the U.K.) showed

an interest, I decided to accept a full-time nanny who was on Housing Benefit (HB).
Hear me out; there was method in my madness...

The British System Vs. The U.S. System

"Section 8" is a common name for the Housing Choice Voucher Program, funded by the U.S. Department of Housing and Urban Development. Section 8 allows private landlords to rent to low-income tenants. The tenants pay approximately 28% of the rent and Home Forward pays the remaining balance. Landlords use their own lease agreement and the same screening criteria as they would with any other applicant.

In the U.K. we have a similar program, colloquially called Housing Benefit (HB). The British version is almost identical to Section 8 but there is a difference. Towns and cities are divided up into boroughs in the U.K. Each borough is run by the local council. Some councils always pay HB directly into the account of the landlord. Others always pay it into the account of the tenant unless there are serious mitigating circumstances; for example, the person is an ex-substance addict or has learning difficulties.

The Pros Of An HB Tenant

One universal reason for accepting an HB tenant is the reliability of the money. Private tenants may lose their jobs and in turn have problems paying the rent. This scenario is more common in today's fragile economy, and, at least with the council, you are reassured that you will be paid.

In my case, I had many reasons to take on this particular HB tenant.

1. She passed her credit check–was in full-time employment, had a glowing reference from her boss
2. She worked with children–this means she could produce a certificate showing her clean criminal record
3. She had been living at her previous accommodation for just over a year
4. HB is assured money–the Council never faults on payment. A City worker may be made redundant or may be offered another job abroad and thus want to cancel their tenancy agreement
5. The council had confirmed to me that they would pay her HB
6. The council wanted to pay it into her account–this confirmed, for me, that she was not an ex-substance user or alcoholic, etc.
7. She seemed down-to-earth–some of the suits had made pedantic requests; "I never sleep in anything smaller than a king-size bed and that's a queen so it'll need changing" and "who do I call when the lightbulb needs changing?"

Points four and seven were the biggest swayers in my decision.

Why It Was A Bad Idea

I took the deposit and eagerly awaited the first month's rent at the beginning of June. It arrived... but not in full. Only her contribution hit my account. She was short what the council would chip in. I soon learned that the council pays HB two or three months in arrears on the first payment.

Why had the council not told me this in the first place?

That was my first eye-opener; make sure you have the money to clear the mortgage because you will have a cash flow problem during the first few months.

In September, from my new home on the other side of the Atlantic, I saw that she paid the backlog and that month's rent. She was all up-to-date.

At First It Was A Gentle Splatter

And that was the last penny I saw from her; not, as we say in London, a Lady Godiva more.

I contracted a lawyer at the end of October. I was told that the tenant needed to owe money for a minimum of two consecutive months before legal proceedings could commence. Champing at the bit, I fired my first shot in December.

Then It Really Hit The Fan

My first shot was met with "Proceedings usually take one year." This meant I was working on the presumption that she would be gone six months after her contract would expire; utterly ridiculous!

Why so long? Because the system is complex as well as overloaded, and therefore time consuming.

The tenant was clearly aware of the time frame and consequently calculated that all she needed to pay was four month's rent in order to live in my property for approximately 18 months. She also calculated that if she lived in a borough where the council pays the tenant rather than the landlord, she could get approximately one thousand one hundred pounds in her pocket every month—ideal for buying a coffee in nearby St. Katherine's dock and Tower Bridge.

Beware: There are a few factors that make this con possible and these factors are not going to change any time soon.

1) The Silo Effect

You hear of the silo effect when people discuss the failures of projects, the downfalls of international companies, thwarted revolutions, to name but a few scenarios. The silo effect/silo mentality is a lack of communication within and among departments. It trickles down from the top, normally; it is when each person or each department is out for themselves. They forget the broader picture and overall objective. The silo effect plagues the coldhearted world of corporates and bloodthirsty revolutionaries.

You do not, however, expect to hear the term when talking about your friendly local council... the nice folk that provide you with your free biodegradable rubbish sacks and who run Rhyme Time for kids at the local library.

The silo mentality is one reason why HB tenants can abuse the system. Upon a little investigation, it became apparent that the tenant had probably been pulling the same trick with other councils. However, there is no central system that flagged her up. Each council works silo. When I informed councils of her history, they all thanked me but said they had no file in which to record the information.

She could potentially work her way round the country forever.

2) A Charade

I reported to my particular council that I was not receiving the tenant's money—the money they had agreed to give her on condition that she gave it to me. Not paying the rent with that money was actually a breach of the agreement between her and the council. The council, however, was not interested. I was told that the parties to the tenancy agreement were myself and the tenant; not the council. I understood this perfectly well and was not trying to claim my missing money from the council. I was trying to warn them that the tenant was in breach of agreement with the council.

It fell on deaf ears. They merely confirmed that they were continuing to pay her the money and that their hands were tied.

The civil servants you speak to are going to receive the same salary at the end of the month regardless of whether or not they take on the fight. They are not lawyers. It is not their money that is getting abused. They have no personal interest in the matter. Consequently, the silo mentality comes into play.

In fact, the money that pays the council workers' salaries and the HB to the tenant comes from funds raised through council tax—a tax that landlords pay on their properties. In other words, landlords actually fund the whole charade.

3) Only The Queen Can Rely On Getting Her Piece Of Silver

Under the Housing Act 1988 Section 8, as amended by the Housing Act 1996 Section 151, you grant notice seeking possession of a property let on an Assured Tenancy occupancy. This is just the beginning–you are seeking possession of the property (getting her out, in other words); you are not seeking monies owed. The tenant can then either pay up or chose to ignore it. More steps follow and, due to the long queues to get into Court, she can be removed by bailiffs from the property after about a year.

The debt is still not cleared and only a fool would follow it up. Why?

Firstly, because debtors' prison no longer exists. The only debt for which a prison sentence can be served is a debt against Her Majesty's Revenue and Customs (Her Majesty the Queen with her helpful sidekick, the taxman). The rest of us mere mortals have to settle for a decent bailiff to retrieve goods of value, and in here lies the problem, and indeed the second point.

HB tenants are low-income. They do not have goods of value. You can't get blood out of a stone. I argue it is more likely you would get money out of a suit who had lost his job than you would an HB tenant who is receiving one thousand one hundred pounds of council money per month. And even if it did go wrong with the suit, he would probably have a car or two that you could repossess.

Take Heed

Not all HB tenants are bad people with the intention of cheating the system. However, some are. Due to a silo mentality and no financial responsibility, the system will continue to be cheated and landlords will continue to be exploited.

Bottom line: It isn't worth taking a Section 8 or HB tenant.

Your Exit Strategy

Avoid Making This Mistake When Securing A Real Estate Agent To Sell Your Property

Selling a property in the Unites States is mostly an automated process for most people. They have a friend who knows a real estate agent and they list with that agent's brokerage. Your agency will most likely list your property on the MLS (multiple listing service) unless you tell them not to.

You'll choose between an open listing, which means you can list with additional brokers and/or sell the house yourself; an exclusive agency listing, which means only one listing broker is allowed, but you can still sell the house yourself and not pay a commission to the listing broker; or an exclusive right to sell listing, which means the listing agent gets a commission no matter who sells the house.

While the United States is an efficient market and you can generally rely on your listing agent to work to sell your property and therefore don't need to seek out alternative marketing options, the rest of the world's real estate markets aren't quite so efficient… even the ones that say they have an MLS.

Most MLS systems around the world are not universally used by the local real estate community and most of the times agents don't want to work with each other…they want to keep the full commission for themselves. It makes the markets inefficient for both the sellers as well as the buyers.

In most overseas markets, as the seller, you'll want to keep your options open. You'll likely want to list your property with more than one agency as well as place ads online yourself to make sure you get broad exposure for your property. Therefore, you want to carefully read any listing agreement you sign with a real estate broker.

Someone I recently spoke with either didn't read his listing agreement all the way through or didn't think about the implications of the clause that made the agreement an exclusive right to sell contract.

The listing agent listed the property but didn't do much to market it. So the seller started marketing on his own… and found a buyer on his own. When he wrote to the agent he listed with to say he no longer needed his services because he found a buyer, the agent wrote back to say, “Great, I’ll send you an invoice for the commission.”

The seller was surprised by the response until the agent sent a copy of the signed agreement highlighting the clause that specifically stated that should the seller find a buyer other than through the agent, the agent is still due 50% of the agreed commission.

The seller had to pay the agent who actually found the buyer a full commission fee... and now was facing another 50% of what turned out to be an inflated fee to begin with (some brokers will try to charge higher than standard fees, go figure).

The seller had three options at that point...

- Pay the listing agent his 50%;
- Wait for the listing agreement to expire before completing the sale, which meant losing the current buyer;
- Negotiate with the listing agent to pay something less than what was clearly in the agreement.

Actually a fourth option was available, which was to simply not pay the listing agent and hope he wasn’t able to cause any problems with the closing of the property, i.e., couldn’t somehow block the title transfer to the new owner by placing a lien on the property.

The fourth option was too risky for the seller so they opted to negotiate with the listing agent who ended up taking a fraction of what he was demanding based on the contract.

I advise people regularly and often that they need to do more due diligence rather than less when buying in a market overseas. This applies to both the buy side as well as the sell side.

The majority of real estate agents I’ve found in my 20 years of buying and investing in real estate around the world are passive. They are happy to take a listing and put it on their website... then they wait for a buyer to walk in and make an offer.

Even many of the gringo real estate agents who move overseas and start selling property in another country operate this way.

A friend calls them cash-and-wrap agents. They are order takers.

That’s what the agent that listed this property did yet, when the property was sold by the buyer, he still wanted his cut which, unfortunately, because of the contract the seller signed, he was technically entitled to.

I wouldn’t sign an exclusive right to sell agreement in the States, so definitely don’t sign one in another country. Read any listing agreement thoroughly. Preferably have your real estate attorney read the agreement as well, but don’t rely on them completely. You still need to read the agreement. If it’s in another language, get a translation.

You don’t want to find yourself in the position of having to pay commissions twice because of a clause in a listing agreement you overlooked.

Buying In Specific Countries

How To Buy And Hold Real Estate In Colombia

During my recent scouting trip to Medellín, I was able to sit with Rich Holman, founder of First American Medellín, to better understand the buying process, property laws, and entities in which you can hold your Colombian property.

One of the biggest takeaways from our conversation was this: Property buyers need to identify what their investment objectives and preferences are before they begin to seek out property in Colombia (or any other country for that matter). To put it another way, your realtor needs to know what it is that you are trying to do in order to find properties and investments that make sense for you.

Some specific questions experienced realtors will ask you regarding your investment objectives and preferences (aside from your investment budget) include:

- Why do you want to invest in Colombia (or another country)?
- Are you looking for a home in Colombia (or another country) for investment or lifestyle purposes?
- Are you looking for rental income or capital appreciation (or both)?
- Are you trying to diversify your portfolio outside your home country?
- Are you looking for a second residency?
- Do you prefer the city, beach, or countryside?
- Do you prefer an apartment or house?
- Do you prefer a one-, two-, or three-bedroom unit?
- Are you looking for preconstruction or a fixer-upper that you can flip?

Bottom line, you need to know what it is that you want before you start your property search, or you'll end up wasting your (and the realtor's) time. It is also important to note that having an idea of what you want to do will help your realtor and attorney determine the best way to hold your property.

The Best Way For You To Hold Property In Colombia

Over the last decade, the Colombian government has enacted new legislation that has made it easier and more secure for foreigners to invest in Colombia, particularly, in real estate. Under the old law, foreigners were required to have a visa or Colombian *cédula* in order to buy property in Colombia. Under the new law, foreigners can buy, own, rent, and sell real estate as if they are a citizen, and have the same ownership rights as a Colombian, too.

You can buy and hold Colombian real estate in a couple of ways including:

- In your name;
- In an LLC;
- In a Self-Directed IRA set up in an LLC;
- A Foreign Trust;
- A Foreign Corporation such as a Panama S.A.;
- A Colombian Corporation or S.A.S.

The way that you would hold your property will depend on several factors including your desired level of asset protection and privacy, tax planning, estate planning, residency or visa requirements, and, of course, your overall investment objectives. Another thing that you should consider is the additional costs associated with the setup and administration (attorney fees, accounting fees, annual reporting, and annual taxes) of the holding entity if necessary. In other words, the benefits of holding your property in an entity should justify the added costs.

It's also important to note that in order to qualify for a Colombian resident visa your property will need to be purchased in your name.

All that said, you will need to consult with an attorney to determine the best way to buy and hold your real estate in Colombia.

The Buying And Closing Process

If you're considering purchasing property in Colombia, you should use an established real estate firm that offers bilingual services and is experienced in dealing with foreign buyers. Plus, you will need to retain the services of a licensed real estate attorney to assist you through the buying process including title search, review and preparation of contracts, and the setup of your holding entity. The more established real estate firms usually have an attorney that they recommend.

The buying and closing process involves six stages including:

- Offer and Acceptance
- Terms of Sale Agreement
- Promise of Sales Contract (*Promesa de Compraventa*)
- Sales Contract via Public Deed (*Escritura*)
- Closing and Title Transfer
- Registration

Once you've identified a property that you are interested in purchasing, you will make an offer to the seller. At this point, the offer is simply verbal and non-binding. Once the seller has accepted your offer, your realtor or attorney will prepare a term sheet detailing the terms and conditions of the sale. When you and the seller sign off on the term sheet it will be sent to your attorney for the preparation of the promise of sale contract or promesa de compraventa.

What Should Be Included In The Sales Contract

It is important that you and the seller understand what's included (or excluded) in the purchase price. In Colombia it's not uncommon for the seller to remove anything not directly attached to the property including appliances (stove, dishwasher, laundry machine, or air-conditioning unit), ceiling fans, light fixtures, mirrors, and drapes.

With this in mind, any appliances, fixtures, fittings, and even furniture that you would like to be included in the property purchase should be in the promise of sale contract.

While your attorney has received the term sheet, they will not begin to prepare the promise of sale contract until a title search has been conducted. Once your attorney has determined that the property title is free and clear they will begin to prepare the promise of sale contract. This contract is legally binding for the buyer and seller once signed and will typically require a 10% down payment or deposit.

The Importance Of Registering Your Funds

In order to wire funds into Colombia for your property purchase you will need to open a brokerage account with a registered Colombian brokerage firm. The firm that we recommend is Alianza.

When funds are wired to your brokerage account they'll be registered in what is known as a *formulário* 4 or F4. An F4 registers your funds as a foreign investment which means that proceeds from the sale of your property can be repatriated to your home country tax-free. Plus, if your foreign investment is US$200,000 or above, you qualify you for a Colombian resident visa.

The fees associated with wiring your funds include:

- An attorney's fee to register funds will be between US$110 to US$130;
- A brokerage fee of up to 0.6% of the total amount wired;
- A government mandated banking fee of 0.4% of the amount wired.

In Colombia there's no such thing as escrow but your 10% down payment is protected by a penalty clause or *cláusula* penal in the sales contract, usually between 10% to 20% (or whatever penalty amount is agreed to between the buyer and seller). Basically, the penalty clause states that if you or the seller does not follow through with the terms and conditions of the sales contract, they'll be subject to penalty. For the buyer this will mean loss of their down payment or deposit. For the seller they can be sued by the buyer and have a lien placed against the property for the agreed upon penalty amount.

Once the buyer and seller have signed the promise of sale contract, both parties will be able to execute the official sales contract by means of a public deed (*escritura*) at a local notaria, start the closing process, and transfer title. Closing will usually take place 15 to 45 days after the contract signing. At this point, final payments are settled, property title transferred, and the keys are handed over.

In some cases the seller will advise you to understate the value of your property on the deed in order to reduce your property-tax liability. However, it's in your best interest that the deed shows the property's commercial value or the amount that you paid for the property.

Understating the value of your property will increase your capital gains tax liability in the event that you want to sell the property in the future. For example, if you purchased a property for US$250,000 but your deed shows a value of $150,000, when you decide to sell your property for US$400,000 you'll be paying capital gains tax on gains of US$250,000 versus US$150,000.

In the same scenario, you'd disqualify yourself from receiving a Colombian Residency Visa. The foreign investment threshold for a visa is US$200,000 and above, but your deed shows the value of your investment at US$150,000.

Another key point is buyers do not have to be present during the closing process. In the event that the buyer cannot be present at closing, they can grant power of attorney to a representative of their choice. The closing costs are about 1.35% of the total purchase price, which includes a registration tax and notary fees. Attorney fees will range from US$1,200 to US$2,000.

After closing, your attorney will register the deed at the public registry, and the buyer will receive a clear title in his or her name. The registration process is usually complete within 15 to 20 days.

How To Buy And Hold Real Estate In The Dominican Republic

Buying real estate in the Dominican Republic for investment purposes makes sense for several reasons…

For one, the country is the most popular tourism destination in the Caribbean, beating out popular island destinations like Cuba and Jamaica. The DR was the 6th most visited country in the Americas in 2015, with over 5.6 million visitors—an increase of 8.9% over the previous year. And hotels are maintaining 80%-plus occupancy levels on average.

It's possible to purchase a viable rental property for less US$100,000. That's a fifth of what you'd pay for comparable properties in, say, the Cayman Islands or St. Maarten.

Plus, with the low minimum investment required, high occupancy levels, and the types of rental rates you could charge for your units, you can expect to earn above-average rental yields—for short- and long-term rental.

On top of that, you can leverage your property purchase, as local banks provide mortgages for nonresidents.

For an investor looking to generate short-term (and long-term) rental income from real estate overseas, an investment property in the Dominican Republic would check all the boxes.

Buying And Holding Your Property

The DR does not restrict the purchase and ownership of real estate by foreigners or nonresidents. Here, foreigners enjoy the same property ownership rights as Dominican-born citizens or residents.

That said, property ownership is restricted on the entire coastline, up to 60 meters inland from the high-tide mark (designated as the maritime zone), which is considered public property. Developers will need a special permit to build within this maritime zone.

You can buy and hold real estate in the Dominican Republic in a few ways, including:

- In your name;
- In a self-directed IRA set up in an LLC;
- A foreign corporation or LLC;
- A foreign trust;
- A Dominican LLC or SRL (*sociedad de responsabilidad limitada*);
- A Dominican corporation or S.A. (*sociedad anónima*).

What's the best way to hold your Dominican property?

It depends.

you need to ask yourself four main questions before deciding to set up a structure to hold your overseas property investments:

1. Are you looking for anonymity?
2. Are you looking for asset protection?
3. Do you need estate planning?
4. Will you be using the property for commercial purposes (hostel, B&B, or hotel)?

If you answered no to all of these, then setting up a structure may not be beneficial. If you answered yes, a structure may be useful.

Start: Buying Through A Foreign Trust?

Some developers may refuse to sell to individuals buying through a foreign trust, considering that the additional administration, time, and money involved to complete this transaction is just not worth the hassle.

In terms of estate planning, the DR practices forced heirship, meaning you cannot disinherit your children from property in your name even if you've got a will in place in your home country. The only way around this is by holding the property in an entity.

In that case, you'd think that holding your property in a Dominican corporation or LLC is the best play, but you've got to consider the tax implications. For instance, if you were holding your property in a Dominican entity, your rental income after allowable deductions would be taxed at a flat 27%. On the flipside, if you held your Dominican property in a foreign entity, rental income would be taxed at the individual rate of 10%—foreign entities are treated as individuals.

The additional setup and administration costs of the holding entity must also be taken into account.

Most importantly, you'll want to consult with your attorney and CPA before deciding on what type of entity to hold your property in.

The Buying And Closing Process

Before you begin the property purchase process in the DR, you'll need to find a reputable real estate agent. Unfortunately, the Dominican Republic doesn't provide a regulatory or licensing authority for real estate agents.

For most new construction projects, you'll be able to deal directly with the developer's in-house sales team. You'll even find instances where smaller developers enlist an agency or broker to handle all their sales and have built up a network of selling agents.

You'll also find select agents who have exclusive rights to sell property in specific high-end master-planned communities.

In all cases, whether you're purchasing a resale or new construction unit, you'll need an attorney to perform the preliminary due diligence, provide you with legal advice, prepare necessary documents including contracts, and guide you through the entire buying process.

Additionally, especially in the case of resale units, you'll have to enlist a surveyor to ensure that the property is physically sound, habitable, and in compliance with all of the building regulations, including having the required permits. The attorney that you use should have a surveyor that he normally works with.

The buying process involves seven steps:

- Reservation agreement (if necessary)
- Promise of sale (*promesa de venta*)
- Deed of sale (*contrato de venta*)
- Appraisal of property for tax determination
- Payment of transfer and registry taxes
- Filing of documents at title registry
- Receipt of certificate of title

Once you find a property that you're interested in purchasing, make an offer. Once it's been accepted, you'd either set up a reservation agreement or move straight into the promise of sale.

Typically, if you're dealing with a developer, they'll require you to sign a reservation agreement and put down a deposit (usually between US$3,000 to US$6,000) before they take the unit off the market.

If you're dealing with an individual seller, you'll usually go directly into the promise of sale.

The main goal of the reservation agreement and promise of sale is to allow you (your attorney) time to perform due diligence; it also ensures the seller doesn't try to sell the property to anyone else (usually for the following 30 to 45 days).
If you decide not to go forward with the purchase, you could lose a portion of your deposit. That said, your attorney should include provisions in the promise of sale

or reservation agreement to minimize your exposure, keeping the portion of your deposit you'd lose to a minimum should you back out.

The promise of sale is a formal agreement signed by both parties in the presence of a notary public and is legally binding. It includes all the details regarding the property such as its legal description, the agreed-upon price, amount of deposit paid, payment terms, date of delivery, due diligence required, buyer and seller obligations, penalties for default, and conditional clauses.

In the Dominican Republic, escrow accounts are not used for property purchases. Unfortunately, the seller is in control of any funds that've been paid towards the purchase, so how your funds are handled in the event that any terms are not met should be clear within your promise-of-sale agreement.

If your funds aren't handled as laid out in the agreement, you'd have to take legal action. This is not a common occurrence, but it's something that could happen—which is why you should always try to minimize the amount that you have to put down to reserve.

Purchasing A Pre-Construction Unit?

If you're purchasing a pre-construction unit or property from a developer, you'll want to add specific provisions, clauses, and penalties to the promise-of-sale agreement to protect yourself.

Typically, developers have a standard promise-of-sale agreement prepared by their attorneys for buyers, but chances are high that the terms won't be in your favor.

When buying pre-construction, make sure the following questions are addressed in your promise-of-sale agreement:

- **What happens if the developer does not deliver the unit by the date promised in the agreement? What's the penalty for not delivering on time? As long as your unit is not complete, you're losing potential rental income every month and you should be compensated.**
- **What happens if you've agreed to purchase an 85-square-meter unit in pre-construction, but, after construction, your unit actually measures 81 square meters? If you're paying US$2,500 per square meter, that's a US$10,000 hit.**

Also, while your attorney will review the agreement and request the necessary changes on your behalf, it's still a good idea to review the agreement on your own. In many cases that will mean getting the promise of sale translated from Spanish to English.

Financing Is Possible

Without residency, banks will typically offer 70% LTV financing up to 20 years at 6% to 10% per year, depending on the bank. For residents, you can get a mortgage up to 80% (90%, in some cases) LTV for up to 25 years.

However, one of our preferred real estate professionals has had a lot of success getting seller-financed deals.

For example, she was recently able to secure seller financing for a three-bedroom, US$270k oceanfront home for one of her clients. The financing terms were 50% down with the balance to be paid over five years at 5% interest, which is deferred—the buyer will make monthly payments of US$1,500 with the deferred interest payable at the end of the term.

After the promise of sale has been signed, your attorney and the surveyor will begin the due diligence process on the property.

As part of this process, the seller will provide the buyer or the buyer's attorney with the following documents:

- Certificate of title;
- An official survey of the property;
- Approved construction plan (if it's a house);
- A copy of their *cédula* or passport and that of their spouse (if married);
- A copy of the receipt of the last property-tax payment.

If the seller is a corporation, it'll need to provide you with all the corporate documentation, including bylaws and an assembly act or resolution authorizing the sale. It must also provide proof that they are current with their tax obligations.

Once the preliminary documents are received, your attorney will begin the due diligence on the property. Some of the checks that will be done include:

- Title search including the seller's proof of ownership;
- Existing mortgages or liens;
- Compliance with the tax authorities (outstanding taxes due);
- Survey of property to make sure the measurements match the title;
- Inspection of improvements or changes made to the property;
- Building compliance with regulations including permits;
- Possession and occupancy status (tenants or squatters);
- Verification of severance paid to staff (gardeners or maids);
- Utility payments are up to date;
- Condo association status (outstanding repairs, deferred maintenance, fees owed).

Once the property has passed due diligence and all of the conditions of the promise-of-sale agreement are met, the buyer will send the final payment to the seller.

How To Send Payments For Your Property Purchase In The DR

Sending large transfers for your property purchase from your U.S. or Canadian bank account to your Dominican account (and then transfer to the seller) is not advisable. It can slow down the process because of the additional anti-money-laundering-law paperwork you'll have to deal with.

In order to avoid this, our recommended attorney on the ground advises her clients to transfer payments from their U.S. or Canadian bank account directly to the seller's bank account. In this case, the seller will be responsible for dealing with the additional administration and hassle.

At this point, the deed of sale (*contrato de venta*) is finalized by your attorney then signed by you and the seller in the presence of a notary public. This formal document is binding and is used mainly to convey the property from the seller to the buyer.

The deed of sale, which is authenticated by the notary public or lawyer, is then taken to the to the Internal Revenue Office where a property appraisal request is made. The property's appraised value will determine the amount of registry tax (1% of appraised value) and transfer tax (3% of appraised value) that the buyer needs to be pay.

Before an appraisal is done, the Internal Revenue Office will verify that the seller is up to date on their tax obligations.

The appraisal and final determination of the taxes to be paid could take anywhere from a couple of days to weeks depending on the workload of the property inspectors.

After the appraisal is done and taxes are paid, submit the deed of sale and the current certificate of title (from the seller) along with a certificate from the Internal Revenue Office (showing that the transfer and registry taxes have been paid) to the Title Registry Office in the jurisdiction where the property is located.

At this point, the sale of the property is recorded and a new Certificate of Title is ordered to be issued in the name of the buyer, who's now officially recognized as the owner.

The time that it'll take you to receive your new Certificate of Title will vary from a few days up to a couple of months.

It will depend on your situation, but the entire buying process from offer to receipt of title will take a minimum of 30 to 45 days.

Your total closing costs will be between 5% and 10% of the total purchase price, including all applicable taxes and fees for professional services (attorney, notary, surveyor, and translation of contract). The seller is responsible for the selling agent's commission.

The Benefits Of Seller Financing In The Dominican Republic

Investing in the Dominican Republic is a great idea for many reasons. The warm people, pleasant climate, and economic growth potential is attracting many tourists, investors, and expats to this exciting and diverse country.

Purchasing property in the DR, though, can be challenging due to limited financing. Also, the cost of financing from traditional sources is substantially higher than in the United States or Europe.

In the DR, the process for foreigners to obtain loans can be cumbersome and expensive. Traditional banks have interest rates between 8% to 14%, and the paperwork and approval process are time consuming and costly.

So what is a good, viable option for expats looking to get in on the action in the real estate market in the Dominican Republic?

Think: seller financing...

How Does Seller Financing Work?

Seller financing is easy in the DR because most properties are not bank financed and are owned free and clear by the owner. In addition, many properties do not pay a yearly property tax, and maintenance costs are minimal. Therefore, when you find an owner looking to sell his property, for them to hold the note for 5 to 10 years is not out of the norm.

As a real estate agent in the DR, one of the questions I ask owners when I'm getting the listing is if they would be willing to seller finance. After explaining the process, many sellers–depending on their desire to sell the property–will entertain the idea...

Property owners have many reasons to accept a seller-financed deal. A prominent reason is that it can be a win/win for the seller. A seller who owns his property free and clear and wants to sell may see that lack of bank financing is affecting the number of people who are able to make the purchase. Seller financing opens up the market for potential buyers. Also, the owner will receive an additional amount from the interest added to the price of the property. In addition, if the buyer defaults, the seller would keep the initial payment, plus any paid interest, and then have the property again to resell.

The parties involved in a successful seller-financing transaction always start with a buyer with a desire and capital to purchase a property. Once the buyer identifies a property they are interested in purchasing, the buyer makes a written offer showing that this would not be a cash offer, but a payment of usually 50% down, with the balance spread across equal monthly payments.

After the offer agreement is signed by all parties–agent, buyer, and seller–the buyer would contract an attorney and surveyor to do the due diligence.

The due diligence involves obtaining three certifications:

1. Parcel GPS Confirmation: A surveyor draws up a GPS plot map and does a cursory confirmation of the parcel number and title information, all of which usually costs US$100 to US$150;
2. Parcel Title Review: An attorney makes a request to the Local Land Court to see if any liens, objections, or encumbrances have been registered against the property title, which costs US$200 to US$250;
3. Tax Certification: An attorney requests a review from Impuestos Internas, the DR's equivalent of the IRS, to confirm that no taxes are owed and to perform an appraisal of the property value, if this has not been done in the past. These costs could be included with the Parcel Title Review. Expect to pay around US$200.

The offer agreement usually states that the parties should sign a promissory agreement or act of sale within 30 days of signing the offer agreement. Therefore, 30 days is the time allotted for the due diligence.

The attorney would create the promissory agreement, which would include all the specific terms that will govern the seller finance terms. An example may include 5% interest for 5 or 10 years, depending on the amount. The offer agreement would govern the agreement between the parties until a formal promissory note with an amortization table is prepared. When the promissory note is signed by all parties, the initial funds will be transferred to the owner. The owner will keep the original title until the property is paid in full. A lien against the property may be filed to show the initial 50% payment and to ensure that the owner does not try to resell during the payment period. The taxes, if any are due, would be paid by the buyer along with any maintenance costs. The process would be the same if the buyer had obtained a mortgage from a bank.

There is no prepayment penalty and the buyer takes possession of the house at the time of the initial payment. Therefore, if this is a rental investment, you could have the rental income paying the monthly loan payment. In many cases, if you purchase a property at a good price and have solid rental income, you could pay the monthly installment and have additional rental income from the property.

Seller Financing Personal Experience

My husband and I purchased our property in the DR through seller financing.

Ten years ago we started looking for a lot to build a home in the town of Cabrera on the DR's north coast. During a two-week, we stayed in a small boutique hotel, La Catalina, and we noticed a small "for sale" sign while walking around the neighborhood.

We contacted the owner, a woman from Quebec, Canada, that lived in the small home for the past 15 years. We did not have the entire amount, so we offered 50% and made the payment schedule at 5% interest for five years.

We returned to California and paid it off in three and a half years.

During our time in California, we rented out the property to friends who maintained it. Later, after the amount was paid, the owner conferred with the attorney, who had possession of the original title. When we received the title, we were able to transfer it to our name. Another seller financing deal that I just finished is a great example of a win/win for seller and buyer.

Cabrera, where I currently live and where my office is located, is a small cliffside fishing village. Our area is known for beautiful tracts of land with sea views, which attracts many buyers to purchase lots to build their own homes.

My client, a builder from New York, was looking for such a lot to build on and was interested in an acre with a great ocean view. I showed him a quarter-acre lot that had sold for US$120,000, but was no longer for sale. Later, in discussing his interest in the various lots, he mentioned this lot for US$120,000. I suggested he try to buy the house next door, which had an incredible view and was selling for US$300,000. I knew the owner would be interested in seller financing. My client agreed and we started the negotiation.

The owner of the property lives in Germany and had owned the property for over 15 years. The property was listed for US$349,000 and the buyer offered US$270,000. The seller had the property on the market for a while and, because the house needed some repairs, and he was ready to sell, so he accepted the offer for US$270,000.

The deal was structured so the buyer made an initial payment of US$160,000, with financing for five years at 5%. The payments would normally be US$2000 a month, but we included a deferred-interest clause, so the payments are US$1,500 a month, with a balloon payment at the end of five years. But—the sweet part of the deal—there is no prepayment penalty. The owner plans to pay it off earlier but likes the flexibility of the seller financing option to free up capital. Also, the property already has an agreement for a long-term renter at US$2,500 per month!

Some Things To Consider About Seller Financing

Buyer:
1. Important to do due diligence and ensure the title and owner validity;
2. Buyer should confirm that there are no other liens on the property;

3. Buyer should be sure they can fulfill the obligation, as losing the initial payment and the property may be a quicker process than in other developed countries;

Seller:
1. Seller may need to go through the legal system to reobtain the property in the event of default;
2. Repairs may be needed after default and recoup of the property;
3. Any taxes or maintenance costs should be paid by buyer, but as long as the title is in the name of seller, he/she is legally liable for those costs.

The Dominican Republic is a great place for seller financing. All you need is to come down and start shopping.

How To Buy And Hold Property In Mexico

As you build your global real estate investment portfolio, you will quickly realize that the buying processes and property laws differ from country to country. Plus, depending on the country's property laws and your investment objectives, the entity or structure in which you hold your real estate will vary as well.

For this reason, we recommend that you familiarize yourself with the buying processes and property laws of any country that you are considering for real estate investment. And after you've done all that, we (still) highly recommend that you work with an experienced local attorney on the ground. During my recent real estate scouting trip to Mexico's Riviera Maya, I was able to sit with real estate experts and consult with real estate attorneys to better understand the buying process, property laws, and specific entities in which you can hold Mexican property.

One thing that I was able to take away from these discussions is that the buying process in Mexico is simple and straightforward. That is, if you've done your due diligence and you are represented by experienced real estate professionals along with a licensed attorney that specializes in real estate.

Holding Property In A *Fideicomisio* Versus A Mexican Corporation

Until 1973, foreigners were not able to purchase real estate in Mexico. In 1917 the government declared that all land in Mexico would be "*ejido*," or owned solely by Mexican nationals.

In 1973 Mexico passed the Foreign Investment Law which allowed foreigners to purchase real estate anywhere in Mexico with the exception of property within 100 km of international borders or within 50 km of the coast. However, in 1993 Mexico amended the Foreign Investment Law to allow foreigners to purchase real estate within the restricted areas through a *fideicomiso*.

A *fideicomiso* or bank trust is a trust agreement that you establish with a Mexican bank in order to hold title to a property. It is a 50-year trust agreement and is renewable every 50 years by you or your heirs.

The bank trust can be held by one or more individuals of foreign citizenship or by an entity such as an LLC. It is also important to note that both you (or your entity) and the bank will be named in the title documents. Essentially, holding your property in a *fideicomiso* ensures that you enjoy all the rights and privileges of ownership as a Mexican citizen.

Ejido Land

A large part of Mexican real estate is classified as *ejido*. Ejido land is an area of communal land used for agriculture where a collective group of individuals live and work (farm) on the land as a community.

Land classified as *ejido* is not considered private property and, by law, cannot be owned by foreigners. It is important for foreign buyers to make sure that any real estate that they are considering for purchase is not classified as *ejido*.

Advantages Of Owning Real Estate Through A *Fideicomiso* Or Bank Trust

- Allows the property owner to hold the property in perpetuity.
- One contract can hold more than one property on the same deed.
- You can easily transfer your rights in the *fideicomiso* to another foreign buyer should you decide to sell.
- In the event of your death the trust can be easily passed down to your family or any person by simply naming them in the bylaws of your contract as secondary beneficiaries.
- Your property cannot be taken from you for any reason as long as you use it for residential purposes. The bank trust will act as a safeguard for your property ownership.

Depending on the bank, the initial set up costs for a bank trust range from US$500 to US$1,000. Plus, to maintain the trust there is also an annual fee that is usually around US$500 to US$700.

Important Facts About A Mexican Corporation

- Creating a corporation requires a minimum of two individuals (shareholders), who are at least 18 years of age.
- One of the shareholders will be required to be a managing partner. The managing partner will be required to acquire and maintain a temporary or permanent visa.
- A foreign-owned Mexican corporation can hold direct title ownership to real estate.
- Allows for purchase of properties larger than 2,000 square meters.
- No limit to the number of properties it can own.
- Allows for one or more of the shareholders to legally live and work in Mexico year round.

In addition to the *fideicomiso*, foreigners can own land in the restricted areas through a Mexican corporation. In fact, as a result of the amendment to the Foreign Investment Law, Mexican corporations can be 100% foreign owned. However, a corporation should be considered only if you are purchasing real estate strictly for investment or business. For example, if you are planning to subdivide and develop land then a Mexican corporation would make sense.

Another key point to consider is that with a corporation there are more restrictions and reporting requirements than a *fideicomiso*. For instance, a corporation is required to submit monthly reports on income and expenses to the Mexican Department of Treasury. Plus, this reporting needs to be done by a certified accountant.

Moreover, property held in a corporation is considered commercial, therefore it is subject to additional taxes such as value added tax (VAT). Additionally, commercial property owners pay higher water, electric, and telephone rates. All that said, it is important to have an idea about your investment objectives before setting up a Mexican corporation.

The initial costs to set up a corporation will vary depending on the attorney that you use. However, the minimum fixed capital required to establish a corporation is US$50,000 Mexican pesos (US$2,800). Additionally, the cost for a certified accountant to maintain your corporation will be between US$600 to US$800 per year.

The Buying And Closing Process

Firstly, if you are considering purchasing property in Mexico, then it is critical that you retain the services of a licensed real estate attorney to assist and guide you through the purchase process. Further, the attorney should be involved in reviewing the property's legal status including title search, the review and preparation of contracts, and setting up your trust or corporation.

The buying process involves five stages including:

- Offer and Acceptance
- Promissory Agreement
- Purchase/Sales Agreement
- Closing and Title Transfer

• Delivery of Unit

Once you have decided on a specific property, you will make an official offer to the seller. While Mexican law does recognize verbal agreements, it is best that both the offer and acceptance are made in writing. This ensures that there is no confusion regarding the terms and conditions agreed to by the buyer and seller.

Your offer should be sent in the form of an Offer to Purchase contract. The contract should highlight the main points and terms of the sale including price, payment plans, details on earnest money deposit, and a deadline for the seller to accept the offer. The primary purpose of the Offer to Purchase contract is to propose the execution of a promissory agreement. It is important to note that at this stage all of the details of the property transaction will not be addressed. The actual specifics of the transaction will be dealt with when the promissory agreement is being drafted as more detailed information has been received.

As soon as the seller has accepted the terms of your offer and earnest money has been delivered, then the promissory agreement should be executed.

The promissory agreement or *contrato de promesa* is an agreement entered into by both parties that obligates them to execute a purchase or sales contract at a specific time in the future if certain terms and conditions are met. Essentially, once both parties have all the required permits and documentation to finalize the sale, then they can execute the purchase contract.

However, since it will take time to gather all of the required permits and documentation, it is critical that you have a promissory agreement in place to lock in the basic terms of the offer. Having a promissory agreement in place allows the buyer and seller time to obtain the necessary permits and documents to complete the sale. Plus, it allows time for both parties to work out the terms and conditions for the final purchase contract.

Moreover, under Mexican law both parties are bound by the terms of the promissory agreement. That is, if all the terms and conditions are met to execute the purchase contract, then neither party can back out of the sale. For example, if all of the terms and conditions of the promissory agreement are met by the buyer and the seller decides that they do not want to go forward with the deal, then the buyer can get a judgment and have a judge execute the necessary documents to have the property legally transferred to the buyer.

Once the promissory agreement has been signed and executed, the seller will inform the bank that the buyer has selected to set up their *fideicomiso* or bank trust to initiate the trust application. After this has been done, your attorney will begin the process with the bank of ordering a trust permit from the Ministry of Foreign Affairs.

During the promissory agreement stage, your attorney will be verifying the legal status of the property, including review of the title, confirming that the seller has the right to transfer the title, and reviewing the terms and conditions of the purchase contract. Additionally, with regards to the purchase contract, the attorney will also negotiate clauses to protect your investment.

Furthermore, the attorney will be requesting the required permits and documentation from the seller such as the certificate of no encumbrances, a certificate of no tax liability, a property appraisal and other documentation needed to complete the transaction.

Once these documents and permits have been received, they will be presented to a public notary to verify that all the necessary documents are present to complete the transaction and file at the public registry. If everything is order, the notary, along with your attorney, will work with the bank to have the trust documents drafted and finalized at the notary's office.

At this point, both parties should be able to execute the purchase or sales agreement (*compraventa*), start the closing process, and transfer title of the property to the bank trust or *fideicomiso*.

By this time the bank trust office should have received the trust permit from the Ministry of Foreign Affairs, and your attorney will then be able to start the drafts for the closing deed. Your lawyer, a notary, and a bank trust officer will then review the final draft of the deed to ensure that everything is correct.

Once everything has been verified and all the closing paperwork is ready, you will be notified of an actual date of closing and the final amount of your closing costs. At closing, the final deeds will be signed, final payments settled, and the property title officially transferred to the bank trust.

Special Note: If you are buying through a corporation, then you will not need to go through the process of setting up a bank trust as a corporation can hold direct title ownership to real estate.
After closing and once everything has been signed, the notary will issue a notarized copy of the closing deed. This document will be your first proof of ownership and can be used to change your utility accounts.

How To Verify If A Mexican Attorney Is Licensed

An attorney who is licensed to practice law in Mexico should have a *cédula profesional*. This document is a registered license to practice law in the country and will include the photo of the attorney and their signature. Before hiring an attorney you should ask to see this document and also have the license number included in the retainer agreement.

How To Handle Earnest Money Deposits

Once the seller has accepted your offer, they will require an earnest money deposit. It is recommended that the buyer include a clause or provision in the offer that guarantees their deposit if either a promissory agreement or a final sales agreement isn't executed in a certain amount of time. However, if the seller requires a non-refundable deposit, then the buyer should make sure that it is not more than they are willing to lose.

Either the real estate agent or buyer's attorney will hold the earnest money deposit. In fact, the offer should indicate who received the earnest money in the event that the buyer needs a refund.

Required Buyer Documentation

- Copy of passport
- Driver's license
- Recent utility bill showing their home address along with their name
- Official corporate documentation (applicable if purchasing through a corporation)

Administration And Closing Costs

Some administrative and closing costs involved in a typical real estate transaction in Mexico include:

Item	Amount	Who Pays
Certificates of no encumbrances and no tax lien	US$200-$300	Negotiable
Item	**Amount**	**Who Pays**
Notary fees	US$650-$1,200	Buyer
Public registry filing fee	US$100-$300	Buyer
Appraisal fee	US$300-$500	Negotiable
Acquisition tax	2% purchase price	Buyer
Trust permit fee (50) years	US$1,000	Buyer
Foreign investment registration fee	US$300-$800	Buyer
Attorney's fees	Varies	Buyer*

**The seller may use their own real estate attorney for the transaction, but this cost will be their responsibility.*

Within three months after your closing date, the Public Registry will issue the final deed containing an electronic folio, copy of all certificates, and payment of rights. Unlike the typical closing process that you are probably used to, in which the buyer immediately takes possession of the property at closing, in

Mexico, the delivery of your property and taking of title are two different procedures that can take place on two different dates.

During the delivery process, you will make a personal walk-through of your property to ensure that it is being delivered in satisfactory condition. Once you are satisfied, you will then sign a delivery statement which will constitute the official delivery date of your property.

Another key point is that your attorney can handle the entire purchase process up to the signing of the final deed. That is, you do not need to be present during the purchase process up to the date of close. By granting special power of attorney, your representative will be able to complete every stage of the sale until the signing of the closing deed on your behalf.

How To Buy And Hold Property In Italy

Bureaucracy.

This was the most commonly heard word used by those describing the property buying process in Italy.

Frankly, though, while Italians seem to frown on the highly regulated process, I was put at ease by the lengths that the government has been willing to go to protect buyers—both foreign and domestic.
Here, a notary (nataio), a public officer appointed by the Italian Ministry of Justice, is heavily involved in the real estate buying process, including title search, the drawing up of the final deed, and the registration of the property after closing.

Based on that, you might think, as I did, that Italy is one of the few countries where foreigners might get through the property purchase process unscathed without an attorney.

And you'd be wrong.

The notary acts as a neutral party in the transaction; their only concern is that Italian law is respected. The final deed that's prepared by the notary (usually assisted by the buyer's attorney) is from the preliminary contract details, as agreed between the buyer and the seller. Again, their job is to ensure that everything is legal.

Your attorney would be responsible for conducting the early-stage due diligence on the property, negotiating the best terms and conditions of the preliminary contract, assisting the notary in drafting up the final deed, providing legal advice, and coordinating payment transfers. They'd also act as a check on the notary on your behalf, ensuring that things like property registration have been done correctly.

Foreign Ownership And Potential Restrictions

For the most part, Italy does not restrict the purchase of real estate by foreigners.
However, in some cases, you may encounter what are called pre-emption rights, which could significantly slow down the purchase process (by at least 30 days)... or even kill the entire deal.
Pre-emption rights would apply to agricultural land, property currently with renters, and property with historical or architectural value.

Here's how it'd work in each case:

- Agricultural land – If you were purchasing agricultural land, farmers currently leasing or neighboring farmers would have pre-emption rights over the land. That is, these parties would have to be given a chance to exercise their right to purchase the land.
- Tenanted property – If you were purchasing a property that currently has a tenant, the landlord would have to give the renter the opportunity to purchase the property at the same terms or conditions.
- Property with historical or architectural significance – The state or public authorities will have pre-emption rights over any property that is determined to have historical or architectural value.

While the seller is responsible for handling this part of the process, it is important that you make sure he's complied with this legislation, as this could result in you losing your property on a technicality. The only legal recourse you'd have would be against the seller—and you don't want to have deal with the Italian courts.

Buying And Holding Your Property

You can buy and hold Italian real estate in a few of ways, including:

- In your name;
- In a self-directed IRA set up in an LLC;
- A foreign corporation or LLC;
- A foreign trust;
- An Italian LLC or SRL (società a responsabilità limitata);
- An Italian corporation or SpA (società a azioni);
- An Italian trust.

The way that you'd hold your Italian property depends on your desired level of asset protection and privacy, tax and estate planning, residency and visa requirements, and your investment objectives.

This is also an area where your attorney will play a huge role. If you're planning to use an entity to hold your property, then you have to consider the extra costs associated with the setup and administration of the holding entity. Further, it's important that you consult with your attorney (at home and in Italy) along with your CPA to decide what structure makes sense for you. Get this right the first time and you'll avoid unwanted administrative headaches and tax liabilities in the future.

The Buying And Closing Process

Before you begin the property purchase process in Italy, you'll need to find a registered real estate agent. By law, brokers or agents also known as *mediatores* are required to be registered with the local chamber of commerce and hold a special identification card or *patentino di agente di affari in mediazione*. You should request the *patentino di agente di affari in mediazione* of any person claiming to be a registered agent to verify that they're above board.

It should also be noted that the Italian law requires agents to take out a liability insurance policy for the protection of their clients.

Deal Directly

To get the best prices, you should only deal directly with local Italian agents. Prices tend to be higher buying through foreign English-speaking real estate agents who have Italian-based agencies. You may even find yourself dealing with net pricing, in which the foreign agent has the property listed significantly higher than the seller's asking price.

Keep in mind that many of the local Italian agents speak English, so this should not be an issue.

You'll also need hire a licensed attorney (*avvocato*) to perform preliminary due diligence on the property, provide you with legal advice, and guide you through the process, including negotiations and the preliminary contract. Your attorney's job is the ensure that you don't encounter any surprises during the process.

Your real estate agent will usually have an attorney (sometimes in-house) that they recommend, but I'd suggest that you take a look at other attorneys, as well.

With the help of your attorney, you'll have to select a notary who'll oversee the entire transaction. Additionally, you will have enlist the services of a surveyor or *geometra* to ensure that the property is physically sound, habitable, and meets all of the municipality's building requirements. The attorney that you use should have a *geometra* that he normally works with.

The buying process involves seven steps including:

- Codice fiscale or partita IVA
- Offer and acceptance of purchase proposal (*offerta d´acquisto*)
- Preliminary contract (*compromesso*)
- Preparation of final deed (*rogito*)
- Closing and signing of final deed
- Registration of title deed
- Payment of all applicable taxes

Once you've decided that you're going to purchase property in Italy, you need to obtain a tax number. If you plan to purchase property in your name, you'll need a codice fiscal. If you're purchasing through a corporate entity, then you'll have to get a VAT number or partita IVA.

With this taken care of, should you find a property that you're interested in you'll be able to act quickly, as a tax number is needed to be able to open a bank account, sign contracts, and to establish utilities accounts.

Obtaining A Codice Fiscale

Getting your codice fiscal is simple and it's free. You'll just need to present a photocopy of your passport or national ID, plus a completed form AA4/8 (you can download the form on the Agenzia Entrate or the Italian Revenue Agency here) to the local tax office. The tax agent will process your form and within minutes you'll receive an official document with your codice fiscal number. This document is temporary; you'll ultimately receive a plastic credit-card sized card with your tax number.

You can also authorize someone (your attorney or real estate agent) to take care of this on your behalf.

When you've decided on a property that you're interested in purchasing, then you'd make an offer in the form of a purchase proposal. The purchase proposal is not binding until both parties have signed. The primary goal of the purchase proposal is to allow you (your attorney) time to perform some preliminary due diligence and ensure that the seller does not try to sell the property to anybody else until a certain date.

It is important to note that a small good-faith deposit (or earnest money) may be expected by the seller after the offer has been accepted. If the seller or agent insists on a deposit, for your protection and to maintain leverage in the transaction, you should have the money deposited in an escrow account. Your attorney should be able to arrange this.

This minimizes your exposure and allows you to come back to the negotiating table should you find any issues during the due diligence. Further, if you were to uncover a FUBAR-type scenario, then you'd be able to back out of the deal with your cash in hand.

Purchasing Property In Pre-Development, Under Construction, Or Off-Plan

To protect buyers purchasing real estate sold in pre-development or off-plan, the government requires that the developer have a bank guarantee (*fideiussione*) that covers all payments made by the buyer before completion and delivery. The bank guarantee must provide for the bank to refund the buyer in the event that the developer is unable to deliver due to insolvency.

After the purchase proposal is accepted, your attorney and the *geometra* will begin the due diligence process on the property. Some of the checks that will be done include:

- Title search including the seller's proof of ownership,
- Property registered with the *catasto* or land register (cadastral sheet),
- Existing mortgages or encumbrances,
- Compliance with the tax authorities (outstanding taxes due),
- Building compliance with municipality regulations,
- Occupancy status of property (tenants or farmland lease),
- Pre-emptive or third-party rights over the property (existing tenants, neighboring farmland owners, historic site),
- Condo association status (outstanding repairs, deferred maintenance, fees owed),
- Condition of electrical, heating, and plumbing systems and installation,
- Evaluation of energy requirements (energy certificate).

The seller will need to provide some of the requested documentation relating to the property, and the notary will assist in the process.

Financing Your Property Purchase

It is possible for non-residents to get bank financing for their property purchase from an Italian bank, but it's extremely limited.

During Italy's economic crisis, banks tightened up and all but stopped lending… which, of course, meant the property market stagnated. They are slowly loosening their grip, but it's still difficult for anyone to get bank financing in Italy.

To counter this, in 2014 the Italian government introduced legislation that allows you to rent to buy property (essentially a lease with an option to buy).

A portion of your rent is applied to the down payment, with the full balance to be paid at the conclusion of the contract. This is all negotiable but, by law, the term of deal cannot exceed 10 years.

The rent-to-buy contract is registered with the proper authorities so the property cannot be sold to anyone else. Further, any creditors of the seller will be unable to foreclose or place liens against the property. In this regard, the buyer is totally protected.

As soon as the property has passed the due diligence stage, the notary, with assistance from your attorney, can begin drawing up preliminary contract or *compremesso*. It will include all the details regarding the property, the agreed upon price, closing date, amount of deposit paid, existing mortgages, what's included (furnishings and fixtures), and any other contractual points that need to be addressed or fulfilled.

Once the preliminary contract has been signed by both parties, then a deposit is payable by the buyer of around 10% to 30% of the sale price of the property. The agreement is then registered at the local tax office by your real estate agent or attorney.
At this point, the preliminary contract is legally binding. In the event that the buyer backs out of the deal, he'll lose his deposit to the seller. On the other hand, if the seller reneges on the contract, then he'll have to pay the buyer his deposit times two.

Both parties can avoid these penalties by adding in conditional clauses to the preliminary contract. Essentially, if any of the condition aren't met, then the contract can be voided and both parties can walk away from the deal unharmed. The buyer's deposit is refunded.

The types of conditional clauses that can be added to the preliminary contract can relate to:

- The buyer's inability to secure a mortgage;
- Seller is unable to provide all required documentation to prepare final deed;
- Pre-emptive or third party rights to the property;
- Building permit approvals;
- Planned major infrastructure or development that'll adversely affect the property's value or use;
- Building inspection or survey.

When all of the conditions of the preliminary contract have been met and all of the required documentation has been provided, the notary will begin the preparation of the final deed or *rogito*.

During this time, the buyer should be making sure that their funds are available to finalize the purchase. Additionally, if the buyer does not plan on being present during the closing, then he should designate someone as his power of attorney or *procura*.

If you plan to be present at the closing but are not fluent in Italian, you'll still need a *procura* to act on your behalf. Or, if the notary allows it, you can appoint someone to translate the title deed into English, allowing you to sign the deed. Not all notaries will consent to this, however, so your attorney should confirm with a potential notary if this is a possibility before selecting one.

The close and signing will normally take place in the office of the notary. The buyer (or his *procura*) and seller will sign the deed of sale and the balance plus all applicable taxes and fees (including notary fees and agent commissions) is paid via check or bank transfer. Once the balance has been paid, the property is officially transferred.

Do You Really Need A Italian Bank Account To Complete Your Property Purchase?

It is not necessary to have an Italian bank account to complete your property purchase. Your attorney can hold your funds in an escrow account on your behalf and make payments to the seller as needed.

That said, you'd want to eventually establish a bank account in order to be able to pay utilities and other expenses associated with maintaining your property.

After the completion of the sale, the notary will register a certified copy of the deed with the land registry (*catasto*) and the local tax office. They'll also notify the local police authorities of the sale.

The notary will also pay any taxes that are due, including the registration tax or stamp duty (*imposta di registro*), cadastral and land registry tax (*imposta ipotecaria e imposta catastale*), and a mortgage duty tax, if applicable.

It depends on your situation, but the entire buying process from offer to closing will take 90 days at a minimum.

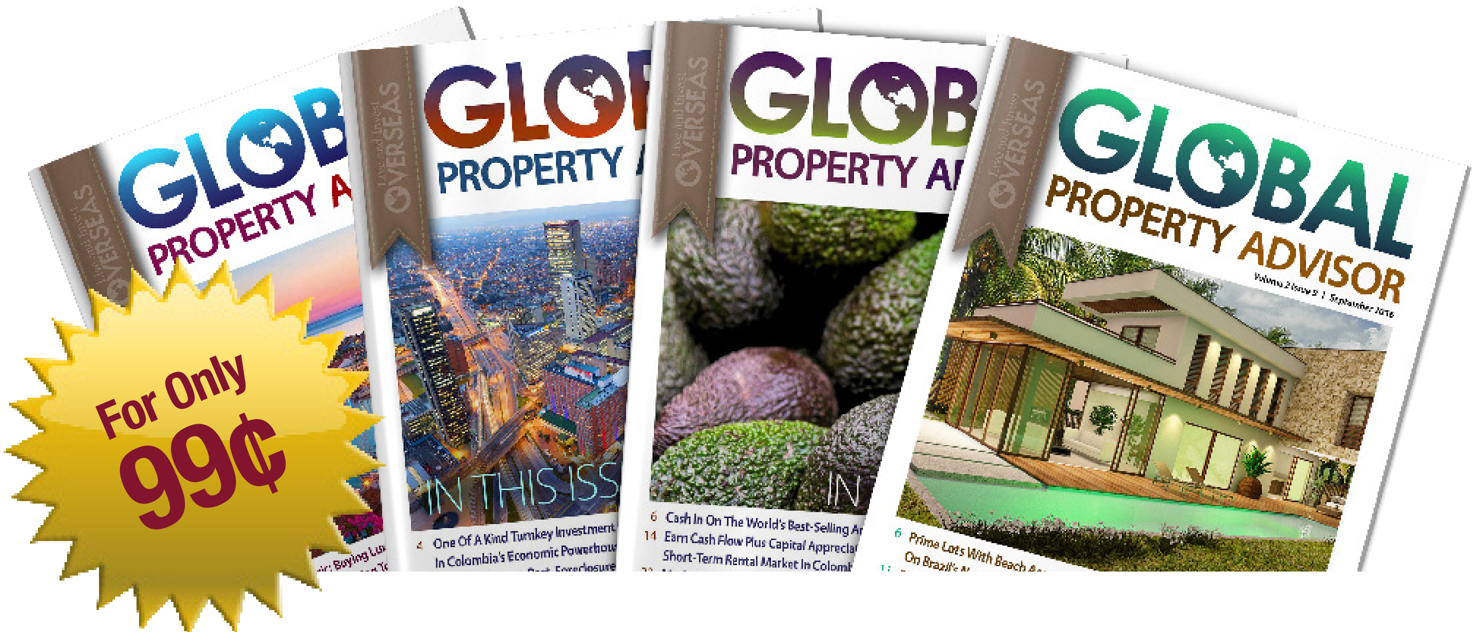
Your total closing costs will be between 8% and 20% of the total purchase price, including all applicable taxes and fees for professional services (real estate agency, notary, attorney, *geometra*, and translator). The bulk of your closing costs are dependent on the type of property and from whom it's purchased. For example, if you bought a home from a developer to be used as a rental property, then you would be subject to a 10% VAT. On the other hand, if the same home to be used as your primary residence would only be subject to a 4% VAT.

Administrative And Closing Costs For Property Purchase In Italy

Item	Amount	Who Pays
Registration Tax	2% to 15% of cadastral value	Buyer
Cadastral Tax	€50 – €200	Buyer
Mortgage Duty	€50 – €200	Split between Buyer and Seller
VAT (IVA)	4% to 22% of purchase price	Buyer
Agent Commission	3% to 8% of purchase price or minimum of €3,000 plus 22% VAT	
Notary Fee	€900 to €2,000 depends on the locale plus 22% VAT	Buyer
Attorney Fee	1% to 2% of purchase price plus 22% VAT	Buyer
Surveyor (*Geometra*)	1% to 2% of purchase price plus costs and 22% VAT	Buyer
Translator	€70 to €120	Buyer

Limited-Time Offer

Become A *Global Property Advisor* Member



This Special Report was first seen by subscribers to *Global Property Advisor*.

A few years ago, we launched *Global Property Advisor* to help folks like you use the dollar's strength to start a fortune-creating investment portfolio... or simply to find the home of your dreams abroad at a huge discount. Already, many thousands of readers have acted on that invitation.

After reading this Special Report (originally published as a *Global Property Advisor* issue), upgrading to *Global Property Advisor* should be a no-brainer... still, we figured a little extra incentive might be called for.

That's why, today, we're offering a limited-time chance to join the membership that boasts our most satisfied members... for less than a buck.

This limited-time, risk-free 30-day trial subscription for 99¢ comes with all the special reports and other free premiums of a regular membership.

You can cancel anytime. The free reports are yours to keep.

What's more, once you become a full-fledged member, our 100% Money Back Guarantee will cover you for an additional 60 days.

Yes… that's how confident we are that you will not only be satisfied with *Global Property Advisor*… you'll absolutely love it.

Check out *Global Property Advisor* now for 30 days for only 99¢.

You're risking less than a buck. Pocket change.

A Publication of Live and Invest Overseas
www.LiveandInvestOverseas.com