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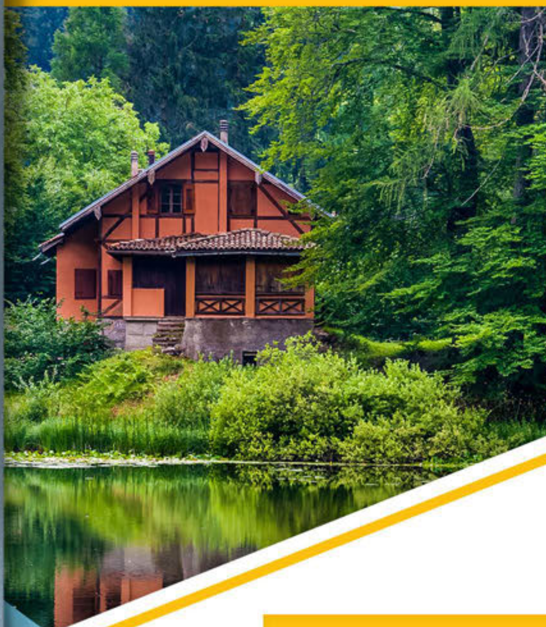

THE NEW EXPERT'S BUYING —GUIDE—

TO BUYING PROPERTY OVERSEAS

THE NEW EXPERT'S BUYING GUIDE TO BUYING PROPERTY OVERSEAS

Published by Live and Invest Overseas™

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My Top 5 Rules For Overseas Property Investing

Over the years, I've come up with various rules for investing in real estate, but I've not actually written them all down in one place… until now. And frankly, I may have forgotten a few.

Also, by way of full disclosure, I've broken all of these rules at one time or another… and the investments made while breaking my own rules have had varying degrees of success. The key is knowing you're breaking the rules and being willing to accept the additional risk for not following them.

I'll number the rules, but they aren't necessarily in any hierarchical order.

Rule #1—Don't invest more than 5% of your net worth in any single real estate deal.

For me, 98% of my investment portfolio has always been held in real estate, so I've used this 5% rule focused on real estate from the beginning. However, I've used it for non-real estate investments as well, including pre-IPO companies, among other investments.

You can make a minimum of 20 investments at 5% or less of your wealth. Therefore, if you're working with US$1 million, that's 20 properties at US$50,000.

Property investments for US$50k aren't easy to come by today unless you use leverage, i.e. get a mortgage. When I was getting started with real estate 30 years ago, I was able to find some US$15k investments, which at the time was still more than 5% of my net worth… so I broke this rule fairly often early on.

However, I broke it knowing that I was putting more of my net worth at risk and therefore, I put more time in on my due diligence and assessed other risk factors more carefully. With a larger percentage of my portfolio at risk, the market, country, and property risk had to be lower.

While a maximum investment amount is prudent and using a percentage of your net worth helps you keep things in perspective when you're getting started, a minimum investment amount also needs to be part of your criteria at some point of your investing career… leading eventually to Rule #2.

Rule #2—Don't invest in too many small investments.

This rule came to mind when I found myself with too much administration with my portfolio, and I was considering a great opportunity that would have required more administration than made sense… for me. The investment was well under my 5% rule… too far under, really.

While the property and the projected returns were exciting, at the end of the day, the hassle factor wasn't worth the effort. It would have been around a US$50k investment that required me setting up a new entity to hold title. It was pre-construction so the time frame before cash started flowing was a few years. And finally, the property wasn't in my then annual travel itinerary, which meant added costs of travel to go check on it if I ever needed to or wanted to.

Having a couple dozen small investments may make sense on paper, but the administration could become a nuisance if nothing else. Annual property taxes, maintaining any holding companies, paying HOA fees… If a property is being rented, these can be handled by the property manager. If not, you'll have to deal with them. Make sure you're prepared for what administration may be required once you invest. The expected returns should be worth the time to deal with whatever you need to do.

To help streamline administration, I came up with Rule #3.

Rule #3—Invest in properties and places you're interested in.

I've passed on great investment opportunities over the years that don't fall into my annual travel circuit. Such an investment were pre-construction condos in Mongolia that targeted international companies that extract minerals to rent to their managers and employees. The prices were great for the properties and the projected net yields were 15% or more per year.

But getting to Mongolia wasn't in the cards before or after any purchase, so I moved on.

The bigger underlying point of this rule, however, has to do with leaving yourself with options. If you invest in a property in a place you'd like to visit, then even if it doesn't work out great in generating a rental yield, you can use it for your own vacations and get some value out of the property.

Plus, I've found over the years, if I buy something I like somewhere I like, there's a group of people out there who will like it as well—making reselling a better possibility as well as keeping it rented.

This rule doesn't always play out. I've invested in several things that I liked a lot, but in the end, the project went under. The investment losses in these cases came from direct investments with developers. One was in Thailand where the project was great, but the market at the time just wasn't ready for it. The developer ended up selling the land, and I got some of my investment back. Fortunately, in that case, I did follow the 5% rule and the investment actually made up less than 5% of my portfolio at the time, meaning the loss didn't hurt that much.

Rule #3 ties into Rule #4.

Rule #4—See it before you buy.

Basically, you should visit the country, city, and the property before you buy. If you're not able to travel for whatever reason, you can do virtual tours, which are a viable option in some cases… especially cases where you've already been to the country (see Rule #3).

The overused term "boots on the ground" is overused because it connotes the overriding premise… go see for yourself.

When I bought a pre-construction condo on the beach of Estepona in Spain in 2000, I had driven the entire Mediterranean coast on that trip. I'd seen a lot of properties (which I'll expand on for Rule #5) and towns. I'd met with many real estate agents and developers. The developer I met with in Estepona had just released phase I of a beach project.

They took me to the site which was literally a beach. They hadn't even put up their sales office yet. There was nothing… and there was everything. The project hadn't put a shovel in the ground, but I was able to see what was in the neighborhood. First of all, the property was actually right on the beach. It wasn't beach-adjacent or ocean view across the road from the beach.

Second, it was close to town which had restaurants, shops, and grocery stores. It was in a location that other people would be interested in living or renting.

Had I simply seen a website advertisement for the project, I wouldn't have been able to get a feel for the place and get a gut instinct for whether it made sense or not to invest.

This particular rule I've broken many times. The investments have ranged from complete losses to unbelievable returns… with a couple investments I own that I still haven't seen.

Breaking this rule is one to do with your eyes wide-open. Many times, I broke it based on a recommendation from a real estate colleague. They have to know what they are doing… and even if they do, it doesn't mean they are right all the time. These investments I've probably had 50% losses and 50% successes.

One investment I made sight unseen, other than some photos sent by the real estate agent (this was well before Zoom… or even Skype), turned out very well. However, in that case I was buying in Buenos Aires and the apartment was in the same building I had just bought another apartment. The floorplan was the same, but the apartment needed renovation. I didn't actually see the apartment until more than a year after it was renovated, as it rented right when the renovation was completed.

That apartment in Buenos Aires worked out because I was following Rule #5.

Rule #5—Be in the market.

Many investors chase the latest marketing piece for a project or chase yields no matter where they are finding them. Being in the market simply means getting to know a market and paying attention to it so you know a good deal when it presents itself.

Chasing yields… like those 15% yields in Mongolia many years ago, can work out or not. However, if you know a market well, then you are better positioned to make a solid investment. This rule ties to rule #3.

While I advocate diversification (that's really the Golden Rule for me), you don't need 20 properties in 20 countries to have diversification. Besides investing in different countries, you can invest in different types of properties—rentals, land, pre-construction, as well as in different areas of any country.

Being in the market in one country, you're more likely to hit upon a great opportunity like I did with that renovation property in Buenos Aires.

Of course, you don't have to "be in the market" forever in the same country. Right now, I'm out of touch with the Buenos Aires market and would have to get up to speed for me to consider myself "in that market."

You can be in the market fairly quickly with some experience. For example, when I bought my apartment in Lagos, Portugal, a few years ago, it was my first trip to Portugal. I did my research beforehand on prices and locations… plus I had a long-time Portuguese friend who arranged for us to view 10 or so properties before making an offer on one. He was able to download his knowledge of the current market situation in a few hours while we were driving from one property to the next.

Fortunately, one of the apartments we saw fit my criteria and was an excellent deal… so I bought.

Breaking rule #5 probably means you're breaking a few other rules as well, but not necessarily. People who buy a condo in Cozumel while on a cruise have their boots on the ground and are probably investing in a place they enjoy spending time. However, they most likely aren't "in the market." They don't know what prices are and whether they are getting a good price or a good investment simply because they haven't done any research.

Rule #5 would be the rule I've broken the least, but again, it's okay to break one of these rules. Just do so knowing what you are doing… and mitigate your risk other ways if you can.

5 Mistakes That Will Ruin Your Overseas Property Investment

Among the new trends we faced during the last couple of years, a country home being snapped up by a foreign buyer "sight unseen" was an all-too-frequent story…

Technology stepped in to bridge the gap like never before. Maybe you embraced this and bought property from a distance. Maybe you were lucky to squeeze in a scouting trip/vacation and did it all in person. Or maybe you stuck to research and making plans for when you could get out there again.

But whether you're buying from a distance or going out into the field, there are certain things you need to be aware of as you consider any investment. Things that can make or break it.

To protect yourself as you size up potential property investments, avoid falling into these common (but easily avoidable) traps…

Mistake #1—Making Capital Appreciation Your Ultimate Goal

Capital appreciation is a beautiful thing when it happens—as it can in many of the markets we talk about here at LIOS. But "buying to flip" for some projected profit shouldn't be the only motivation for going after an investment. Understand the potential for future growth, of course, but remember that trying to predict value growth is speculation. As you weigh up an investment, look at what it can do for you over the time you hold it. In our ever-changing world, focusing on cash flow—and building wealth steadily, year after year—is a safer move.

In researching potential markets, look for a net yield from a rental investment of 5% to 8%. Don't make a purchase unless you believe, based on reliable market data, that you can realistically expect a net return of at least 5%. If a property produces more than 8% net a year, count yourself lucky but understand that the situation won't last. You net more than 8% from a rental only as a result of some market distortion that sooner rather than later will return to the mean. If you're earning net cash flow of 5% to 8% a year from a rental, that investment is solid. If it falls below 5%, it's time to consider your options.

Mistake #2—Underestimating The Importance Of Location

In seeking higher rental yields, many property investors go after the short-term rental market. Before you commit to buying any rental property, be sure to research the location.

It can be helpful to speak with property managers in the area to help identify which neighborhoods receive the highest occupancy. You're looking for a minimum of 70% to 80%.

If possible, spend time in the area. Walk around to see who is renting... and what they're renting. Pay attention to the areas that are most appealing to tourists... but don't ignore those up-and-coming areas that are within reach of amenities. A lower entry price in an area of strong rental opportunity may result in a greater return on investment.

For short-term rentals, walkability is vital. Foreign visitors in big cities typically don't want to drive. They want to stroll to shops, cafés, and restaurants. In major cities, proximity to public transport (especially a metro or tramline) is an advantage.

Ultimately remember that, in this digital age, no matter how attractive your property is inside, you can't hide a poor location. If you're far from amenities, some disgruntled visitor (or 10) will call you out on TripAdvisor.

Mistake #3—Over-Relying On Future Plans

Buying a pre-construction property can be financially rewarding, but you need to go in with your eyes wide open… and, as always, be prepared to do thorough due diligence. If you're buying one of the first lots in a new development, what happens if nobody else buys or builds there? Although you'll pay more coming in later, it's usually best to wait until some community exists. In pre-construction, remember that the future value of your property is based on a community and amenities developing around it.

You can minimize your risk here by ensuring that you work with a trusted developer with a strong track-record.

Mistake #4: Taking Property Title For Granted

One of the trickiest aspects of property investing overseas is verifying that you've got a clean title. In North America, this is something you may take for granted. But overseas, ownership laws vary from one country to the next and can even vary between regions of the same country.

Senior Real Estate Correspondent Lee Harrison cites titling issues as the biggest mistake he's made in two decades of buying overseas property. A couple of years after buying a beautiful riverfront property in Vilcabamba, Ecuador, Lee got around to reading the title document in detail. It was only at that point that he discovered that he hadn't actually bought the property outright, but rather had bought shares of an inheritance from four descendants of the original owner. Lee worked it out in the end, but it could just as easily have gone the wrong way.

A freehold title, sometimes called "fee simple," is the highest form of property title. This is the one you want. Freehold titles provide the only absolute form of property ownership, and, generally, it's the only form of land title that we recommend.

When buying property in Latin America, it's critical that you have a comprehensive title review performed in accordance with the laws of the country you're buying in. You've got to engage a qualified local attorney. A local real estate attorney will be experienced in finding liens and judgments and will know the types of local problems to look for.

Mistake #5: Overlooking Round-Trip Costs

It goes without saying that you'll take time to research the local market and ensure that you're buying in at a competitive price. But when investing with a profit in mind, you need to look beyond the purchase price and also factor in the costs of acquisition and disposal. We like to call these the "round-trip costs" of making an investment, and they go beyond agent commissions and vary dramatically country to country.

The investor-buyer who underestimates or under-plans for the costs of acquisition and of eventually reselling can undermine his investment before he makes it. Depending on the market, the costs of purchasing a piece of real estate in another country can include, in addition to agent commissions: legal fees, notary fees, registration fees, title insurance, and transfer taxes (sometimes called "stamp duty").

Exiting comes at a cost, too. When selling, you may have another agent commission to pay, and you'll likely have additional attorney fees. These are usually minimal, even negligible. The more significant cost associated with exiting a foreign property investment can be the tax hit.

Bottom line: In today's world, there's no excuse for buying "sight unseen." The seeing may be with the help of technology. But the necessary research is all within your power.

Chapter Three

Don't Let Emotion Get The Better Of Your Investment Goals

The emotional side of owning real estate can get in the way of both earning profits as well as taking profits. Case in point (which I process at least twice a year at this point) is my apartment in Medellín, Colombia.

That apartment was a great buy at the time. The lady who owned it, we were told, lived in it since it was built (although when we finally opened the safe in the wall years after our renovation, we found that probably wasn't true, but that's a story for another time). She hadn't updated it since it was completed in the 1970's… so it was perfect for a gut-rehab.

The price was excellent and calculations showed that even after renovation, our total price per square meter would end up less than the going rate for other apartments that didn't need work.

It wasn't located in the prime area for short-term rentals, but this was a blended purchase. The idea was to use it ourselves part of the year and rent it out when we weren't there. That would prove not to materialize—the first lesson to learn when renovating… and investing in general.

The spectrum for pure investment to pure, personal use can be wide, but you'll almost always overspend on anything that you intend to use personally. When the wife says she wants a Belfast style sink, you put in a Belfast style sink even though you know renters won't care and it won't get you any more in nightly rates.

The tug of war during the renovation on what to spend money on and what not to always goes in favor of my wife. While the apartment value was still excellent even with personal upgrades ranging from bathroom fixtures, to the tiles, to the wood floor and, of course, the kitchen sink, what we ended up with was an apartment that was too nice to rent out.

> **"Emotion shouldn't play a role in investing, whether it's real estate or stocks or something else, but we all know it does. It's how we handle that emotion and manage the investment that is important."**

It wasn't that someone wouldn't rent the apartment. We were able to rent it a couple months early on even though the nightly rate was higher than the marketplace rates at the time. The problem came back to personal use and the quality of the finishes.

When we were in the apartment after someone had rented the place for those few months, we noticed a long scratch on the kitchen countertop. Scratches are to be expected with any surface and with rentals. In fact, one property manager early in my career suggested glass tops for the tables in an apartment she was managing for me. That way, you avoid the scratches. That's hard to do with a kitchen counter though.

That single scratch caused us to ditch the idea of renting short-term… and our desire to use the apartment a couple times a year eliminated the option of renting it long-term (which still wouldn't have eliminated the concern over scratches… or worse damage to the leather furniture).

We still own the apartment but haven't been there in a few years. Each time I think about selling the apartment, which even with the currency depreciation over the 15 years we've owned the apartment, would sell for enough pesos for us to have a nice profit in U.S. dollars, I am torn between selling and taking that profit (while eliminating the carrying costs) and the fact that we both love the apartment and the furnishings (many antiques from local dealers, including carved saints).

What started out as a pure investment search when we first went to Medellín more than a decade ago shifted along the spectrum towards personal use as we looked at apartments. I had thought the shift hadn't reached equilibrium when we found the apartment we ended up buying. My wife had other ideas, seeing it as a fun project and a place for us to use regularly. Once it was completed, the pendulum was well past the mid-point leaning towards personal use and then arrived at personal use only.

Now the attachment we both have to the apartment keeps us from taking a profit and moving on.

Emotion shouldn't play a role in investing, whether it's real estate or stocks or something else, but we all know it does. It's how we handle that emotion and manage the investment that is important.

In the case of this apartment in Medellín, emotion has won, but we'll still make money if we ever sell.

At that time, we could have bought an apartment that Kathleen wouldn't have ever wanted to stay in. It was small, had a poor layout, and renovating wouldn't have saved it for her. However, it was in a perfect location to rent, had a great rental history already, and came with a local property manager in place. That apartment was at the pure investment end of the spectrum and had no room to move towards the personal-use end for either of us.

I can only speculate on how it would have turned out compared to the apartment we did buy. Most likely, it would have generated a nice net yield, but probably wouldn't have appreciated as well as our apartment has.

At real estate events, our friend and colleague Lee Harrison puts up a chart showing the changes in projected net rental yields as a spouse gets involved in a property that is meant for both investment and personal use. It's meant as a comedic prop, but he has points on the chart where the projected yields drop precipitously. Those are labeled the Spousal Effect. It's when the spouse decided on the Belfast sink for the kitchen or, in Lee's case, the expensive artwork found in a local gallery.

Many people want to have a second home overseas that they can justify, so they tell themselves that they'll buy something they can rent out when they aren't there. That can and has worked for many people including me. However, the lesson is to make sure you don't let the emotion or the Spousal Effect get the better of you.

If rental yield is your goal, rather than looking for something you'd like as a second home that you can rent out, look for an investment that can generate a good yield that you'd be happy to stay in yourself when you can. That small shift in perspective may help keep you from buying something that years later isn't generating a great yield (or in my case zero yield), but you can't let yourself sell.

When To Sell And Reinvest

A popular topic is "When should I sell a rental property?"

For most people, the answer depends on the situation…

Of course, if you need the capital from the property for something like a medical emergency, the answer is easy.

But if you're looking to reinvest the capital, there's more to consider.

Taking the pure investment approach and ignoring diversification considerations, you start with the math. You need to compare the yield you're getting on the current property to the yield you expect on the property to be purchased… except it's not that simple.

Let's say you're getting a 6% net yield on your current property and the property you're looking at is offering a 7% yield. Based on those numbers, you should sell and buy the new property. Chasing yields, though, is a dangerous investment strategy. You need to look at more numbers.

Start with how much cash your current property is making—not the yield on your original investment or the current value. You're getting annual cash flow from the current property that you need to at least replace with the new investment… hopefully, you increase cash flow with the change.

Let's go with US$10,000 for the annual net cash flow before taxes from your current property that has a value of US$200,000. That's a 5% net yield.

Next, determine how much you'll net from the sale of the property. You already realize you won't get 100% of the sales price into your pocket, but do a full analysis of what you expect to net after all the friction costs—agent fees, attorney fees, escrow fees, inspection fees, and the dreaded capital gains taxes (assuming you're not doing a 1031 like-kind exchange). That's how much you must invest in the next property.

If you sell for full asking price of US$200,000 for a property you paid US$100,000 for, let's use these expenses for simplicity…

- 5% for the real estate agent—US$10,000
- 1% for the attorney—US$2,000
- 20% capital gains tax—US$20,000

That leaves you with US$168,000.

With US$168,000 to buy your next property, you need a 6% net yield just to match the US$10,000 you were earning with the property you just sold… except that you will have friction costs going into the next property… at least if you're buying overseas.

Most countries have transfer taxes, also known as stamp duty in commonwealth countries. These taxes are typically paid by the buyer and range from 1% to as high as 10%. You may have sales tax, as well, if you're buying a new property.

Attorney's fees on the buying side also need to be considered.

Assuming a transfer tax of 5% and 1% again for attorney's fees, you can buy a property for US$158,500. You need a 6.3% net yield on that property to achieve the US$10,000 a year net rental income you were getting with the US$200,000 property you looking to sell.

In other words, you need a 26% higher yield (6.3 divided by 5) on your net proceeds from the sale than you were getting on the original property.

Generally speaking, most properties in the same market get similar yields… or should. You may find an undervalued property in the same market to switch to… or maybe you can find a buyer willing to pay a premium for your property. Otherwise, you're likely looking to a new market for higher yields.

Yield is only one part of the profit equation.

The second part of your analysis is less scientific, and more market-condition based… although the math on the property you're selling could tell you a lot. This is where you consider potential appreciation on both your current property and the new property.

If your current property has appreciated significantly faster than rental income, your net yield calculation based on the current value will show it. When that 8% yield you were getting when you bought the property drops to 3% simply because property values have gone up and rents haven't, it's time to consider selling to buy another property.

Starting with your current yield figures gets you to the amount you need to make the same cash flow, but if the new market's net yield is giving you just enough to make the same cash flow, you want it to have potential for appreciation as well. That's not necessarily easy to predict… and we can leave predicting appreciation in a market for another time.

Much of the time, the sell decision should be easy… as long as you have alternatives for placing the proceeds from the sale. One investor told me about low-cost houses he bought in 2009 after the real estate crash in the United States. The gross yield when he bought was 21% (we didn't dig into the conversation enough to get to net yields). Today, the gross yield is still a respectable 7.2%, but definitely time to sell a few of these properties and diversify the portfolio.

Another reader who wasn't happy with the 2.5% net yields on a property she bought in Colombia sold it after two-and-a-half years for a 50% capital gain. The gain made up for the low yields for two years and she was able to easily replace the cash flow. The sell decision was easy in this case, and the options for replacing the cash flow abundant.

One other factor to consider when analyzing whether or not to sell one property to invest in another is the actual cash on both transactions. Selling the US$200,000 property to net US$168,000, and then find a new property for exactly the US$158,500 used in the example isn't likely.

Don't fixate on finding a new property that matches your cash from the sale. Look for a property that's a good investment. Maybe that means investing less of your proceeds… or maybe it means putting up some additional cash.

Have a new property or market in mind before the property sells. Otherwise, you might feel like the proceeds are burning a hole in your pocket and you end up investing in whatever comes along rather than something that makes sense for your goals and portfolio.

Let's Analyze These Other Scenarios…

Most real estate investments have two profit components to consider: income and appreciation. Income comes in the form of rents and appreciation comes from increased value over time. Generally, one or the other is the main reason to invest… and it is net yields that I've focused on for my investments over the last 10 years or so.

Appreciation will likely come for a rental property, especially the longer you hold it. That means at some point, you should do some analysis on whether or not to sell the property and reinvest the capital or continue on with the same asset.

Over the years, I've had conversations with different investors on this topic in different ways…

A lady had a rental property in Seattle that she wasn't sure what to do with. It was generating a good net cash flow of US$1,500 a month, but she wanted more cash flow in preparation for her retirement. She was chasing dollars, but wasn't sure how to figure out what she should do.

The first question I asked her was how much was the property worth at the moment. That answer would get us her current net yield. She estimated it might sell for US$250,000. Based on that, the US$18,000 a year in net income meant she was getting a 7.2% yield. That's pushing the high-end of my general 5% to 8% net yield expectation (and experience) with residential rental properties.

You can find higher yielding or projected yielding properties at times, but typically, the yields will get pushed down as prices are pushed higher by investors chasing those extraordinary yields. Or, it could be that the risk in that market is so high that the yields have to be high as well.

If you're talking to someone who has owned a property for a while but bragging about high yields, ask him how he's calculating his yields. He might be using the original purchase price from five or ten years ago. You need to use the property's current value and cash flow.

In this scenario, her current 7.2% yield was good.

The next question I asked was how the rental market rates were doing, as well as the home values in the neighborhood of the property. Rents and property prices were stable. Therefore, no immediate concern of bringing in less cash or values changing much and losing equity.

That led to the final part of the initial analysis—the calculation for the yield she'd need to replace that US$1,500 a month.

Real estate has friction costs… transaction costs. Selling one 7.2% net yield investment to buy another 7.2% net yield investment will yield you less monthly income simply because you won't have the same capital to invest after selling the first property.

At a minimum, she was looking at a 5% real estate agent fee on the sales side. On the buy side, she might need to put some money into updating or improving a new property. Capital gains taxes could take a chunk out of investable funds as well, although a 1031 like-kind exchange could eliminate that, but with its own transactional costs.

Sticking with just a 5% agent fee, she'd net US$237,500. To get that same US$18,000 a year she was getting from the original property, she needed an almost 7.6% yield from the new property.

The margin between 7.2% and 7.6% isn't that big, and finding an immediate cash flowing opportunity at 7.6% wasn't likely at the time.

With no other factors at play, the recommendation was to hold the property.

On the other hand, the Portugal apartment I bought in 2015 (that I've mentioned in these pages a fair amount) was throwing off a better 8% net yield in the first couple of years, dropping to around 6% the last year I owned it.

It wasn't the drop to 6% that triggered my sell decision, but the fact that the apartment had more than doubled in value. That meant my actual net yield on the current value of the apartment was around 3%.

Of course, transaction costs were less than the value of the apartment in cash in my pocket, and even after real estate agent commissions, attorney fees, and capital gains taxes in Portugal, the net proceeds needed to only earn about 3.5% for me to get the same annual cash as I was from the apartment.

Selling and looking for another investment was the obvious decision there.

Sometimes the decision isn't as obvious as it was in either of these cases… especially if you still want to own property in the same market in which you're selling. Fortunately for investors, other markets are always available.

Prices in Lagos were up across the board when I sold in Portugal. Maybe I could have found another property that would have given enough yield to beat the cash flow I was getting from the apartment I sold, but I wasn't tied to the Lagos market or the Algarve market or the Portugal market.

The key for me was finding more cash flow from the same capital… which I eventually did.

Review Your Portfolio Frequently

In most markets, rents and purchase prices don't move up and down in sync. You'll have to analyze at some point whether your capital would be better off deployed elsewhere. Besides looking at your current yield based on the current value of the property, consider whether or not there is any more short-term appreciation potential in the market (there wasn't at the time I sold, in my opinion, in Lagos).

Take a look at transaction costs and what you'll net on a sale.

Take a look at the transaction costs to get into the next property (transfer taxes on the purchase of a property are the big hit).

The hassle factor may play a role in your decision as well. Sometimes just holding on to a property is easier even if you might make a slightly higher return elsewhere.

The flip side of selling to chase a better yield is holding on too long to a good yield as property prices fall… losing you value on the asset even while you're bringing in good cash flow.

You don't want to be caught unaware of a market downturn any more than you want to miss out on capturing capital appreciation that is putting pressure on your true net yields.

Even though I focus on the income side for most of my investments right now, it doesn't mean the asset value side should be ignored.

At the end of the day, real estate is a long-term investment, but one that you should review once a year to make sure you know which direction a market is going.

Chapter Five

Cash Flow Is King

The cliché is "cash is king," but really, it's cash flow that's critical to most aspects of life—including real estate investing. Cash flow was my focus when I bought my first property back in 1995… that three-flat building in Chicago.

I put together a fancy spreadsheet to analyze buildings that I was looking at to see how the cash flow would workout. With the help of the spreadsheet, it was clear to me quickly that two-flat buildings didn't pan out. The price difference wasn't low enough from a three-flat building to make up for the income loss on that third unit.

"The lesson learned from the global real estate recession by all real estate investors, both seasoned and newly arrived chasing the never ending high annual appreciation, was that cash and cash flow were still king."

My focus became three-flat only buildings despite many two-flat buildings I had found being nicer and needing less work.

I had specific cash flow requisites that I'd probably tell anyone who brought those same numbers to me today that they were too restrictive. My goal was to find a building where the current rents on the two units I wasn't going to live in, plus the amount of rent I was paying where I was currently renting, would cover the mortgage payment calculated in my spreadsheet.

In fact, my parameters were so tight that it wasn't easy to find a building that met them along with location, size of unit, reasonable condition, etc. However, I did, and it paid off. With rent increases as the tenants that came with the building turned over, I was close to covering the mortgage on the building from just their rent within six months.

Cash flow was good… and then came the capital appreciation. When I sold the building a couple years later for almost twice what I paid for it, the profit from the high leverage I had from the original mortgage was tremendous. I saw the potential of leveraged appreciation as I started investing overseas and bought a pre-construction condo in Spain.

As I expanded my real estate portfolio, I kept a mix of cash flow and capital appreciation properties. That helped me weather the 2008–2009 global real estate crisis. Also, not having any highly leveraged properties at that point.

The lesson learned from the global real estate recession by all real estate investors, both seasoned and newly arrived chasing the never ending high annual appreciation, was that cash and cash flow were still king. The recession knocked out all the amateur investors from the market and the remaining investors reverted to the fundamentals… cash flow.

Property prices fell as much as 70% in some markets. Most of those markets were ones where the cash flow from rental, whether long-term or short-term, didn't support the prices that were being paid. Ireland and Spain were two such markets.

Additionally, highly leveraged markets were among the locations that saw the biggest drops. Again, you can put Ireland and Spain in that category helping clobber prices.

After the initial shock, I was buying again by 2010 properties that had cash flow that supported their prices in markets that weren't continuing to (or in some cases didn't really) fall. Medellín, Colombia, was one such market where prices were good but increasing, and rental yields were good to excellent at that time.

The pandemic created a new crisis in real estate, but one that played out differently than the broad global crisis of 2008–2009. People moved from cities to the suburbs and from the suburbs to the country. Or they bought a country property as part of their new backup plan should the pandemic surge again or a new pandemic arrive.

As the saying goes, we tend to plan for the last war. However, war changes from one to the next as does one crisis to the next.

The next pandemic may not come for another 100 years. Still, people feel like the global economy is making permanent shifts. People will work from home even more now than before. People will choose open spaces over a city. That is, at least, the theory.

Real estate prices are bubbling in many U.S. markets thanks to the surge in demand for rural properties and extremely low interest rates. I see people chasing the capital appreciation. While it's impossible to know whether markets will continue to run up in the countrysides of the world, one thing I do know as an investor is that cash flow usually comes out on top.

It came out on top for me when I bought my first property. It came out on top after the 2008–2009 recession. It kept coming in for my rental properties that were positioned to be short-term and long-term rentals.

From other lesson learned essays, you may remember my stories of people who weren't diversified with their portfolios. They had cash flow until the cash flow stopped… due to a local economic hiccup in most cases rather than a global one.

Short-term rentals took a hit during the pandemic. Best practice is to look for properties with multiple cash flow options—short-term rentals that attract both an international market and a local market that could also be rented out on the long term.

Where might one find such a property at a good price?

I'm thinking tourist cities where people have moved out to the countryside.

Unfortunately, finding deals out of the pandemic required more work than the last global real estate recession. Nevertheless, focus on cash flow and rarely can you go wrong. It's a lesson many have to learn over and over again.

Chapter Six

The Many Faces Of The "Path Of Progress"

When looking at real estate, one thing to consider is the path of progress. I've invested in the path at various stages of "progress" over the years and made some money… and I've invested in the path of progress only to find out the progress didn't get far enough along down the path. Progress interruptus.

Some interpretations of investing in the path of progress are that you have to be out ahead of big infrastructure projects. That's just one path… new infrastructure.

Certainly, a new airport or highway that makes an area more accessible can open up opportunities for real estate development. This can happen in a big way like the development of Cancún almost 50 years ago with new roads and an airport getting things rolling. Cancún was the starting point of a path of progress that continues south to this day.

> **"When I was in the States recently, I saw many empty and abandoned single stores and strip malls in rural Illinois. Progress had passed by these properties and they now wait for the next wave."**

It can also happen in a small way, such as a short extension of road getting paved—which is underway with the road renovation down the western side of the Azuero peninsula in Panama. The pavement is scheduled to extend 10 to 15 kilometers south on a road accessing an area that, right now, has a terrible dirt road and no bridge over a large river. Properties on the other side of the river should see some appreciation with the better access.

The difficulty with investing in the path of progress, like it is when investing in real estate at any time, is timing your investment. Buy too early and you can end up waiting longer than expected to see the market's effects on prices. Buy too late and you could miss out on the bulk of the appreciation created by the progress.

On the flip side, timing your selling can be just as important… especially if you're speculating with land.

I remember seeing a vacant lot for sale in Phoenix, Arizona, when I was growing up. It was in a good part of town near a busy corner. It was for sale for years… could still be for sale for all I know. This was well before I even had a thought about buying or investing in real estate, but it struck me odd that the plot hadn't been bought and developed.

Analyzing this memory over the years… and after seeing many other such plots around the world in good locations, what I've come to conclude is that the owner of the land either bought late in the path of progress and paid too much for the property or held on for too long and the path of progress passed him by, literally, and no one was interested in developing in that area any more.

I think the parcel in Phoenix fell into the latter category.

By holding on too long you can miss out on the momentum created by the improvements of the path of progress and find yourself sitting on a property that few have an interest in.

This can happen beyond a path-of-progress play, as well. It's happening in real time in several markets thanks to several factors. Retail and office properties are being vacated with no one to fill them. It will take something new to make them valuable again.

Maybe that's some new infrastructure opening up the area broader or some new trend or idea that the property can be used for.

Loss of a commercial tenant was always my first thought every time I've looked at triple net lease retail properties in the United States.

Another memory of a property in Phoenix from decades ago is a large local hardware store that went out of business. This was well before Home Depot, so it wasn't them. The store sat empty for years, meaning the building owner had no revenue for years.

When I was in the States recently, I saw many empty and abandoned single stores and strip malls in rural Illinois. Progress had passed by these properties and they now wait for the next wave.

In cities, residential property can see regentrification as its path of progress for higher values. Find a market where this is happening and you can make great money renovating and flipping or holding on to the renovation as a rental.

The process of regentrification can be slow, so it has similar timing issues like infrastructure as a path of progress. In fact, the process can stall altogether if not enough renovation and improvement happens in a neighborhood. My wife saw this in Baltimore growing up. Back then, the mayor was selling US$1 townhouses if you committed to investing in renovating the properties.

Unfortunately, not enough people committed fast enough and the early investors didn't really see the profits they were hoping for as the neighborhood fell back into shambles.

Mayors in Italy have put up houses in their town for sale for 1 euro if people commit to renovating them. These aren't investment opportunities. They are lifestyle opportunities. Italy has a falling population that is falling even faster in rural areas and small towns. Unless the town is on some tourist route, like routes being created for bicycle tours, the properties are simply cheap properties, not something you're likely to make money on… or even be able to resell to get your money out.

Paths of progress can take many forms. Whether it's infrastructure, regentrification, or government incentives, you need to still analyze the market. Understand what is going to push the market long-term once the initial progress has played out.

What will draw people to the location once the new road is completed? How long will people be interested in that location? How soon will attention move to the next spot in the path?

And think through when you might sell and move on. You don't want to be the guy in Phoenix wishing you hadn't priced yourself out of the market and end up holding a property you can't easily sell simply because interest has moved beyond your well-timed buy.

Chapter Seven

Why A Guidebook Is Key For A Successful Short-Term Rental

While staying in several apartment rentals over the course of a few months, I was reminded of how different a guest's experience can be based on just a few small things.

When you have a short-term rental, tenants need to be able to get up to speed on the apartment and the neighborhood quickly to maximize their fun-time if they are on vacation or their productivity if they are traveling on business. Spending time trying to figure out how the internet works or where to put the trash is a distraction for them.

> **"One simple thing owners and property managers can do that we learned early on in our short-term ownership career is to have a guidebook for the apartment."**

In the most recent apartment rental in the States that I stayed in, for example, the internet in the apartment wasn't working. I couldn't find the SSID. I reset the box several times to no avail. Finally, I contacted the property manager.

One of her first suggestions was to just connect to the open internet from the hotel next door. Of course, I'd thought of that, but besides the security concerns of being on an open network, the speed of that connection was slow. After explaining those issues, she said she'd call the internet company. She had to come the next morning to exchange the internet box.

The bottom line was that the property manager had no clue about the internet in the apartment or how to connect to it… and whether it was working or not.

We were able to connect with the new box. However, the new box caused a new problem. It seems cable is so last century, so the TV had Roku, which requires internet. One more thing a tenant doesn't want to spend time on… reconnecting the TV to its connection.

Internet is paramount for renters in today's world, but other things, no matter how small, can detract from their stay. For example, functioning appliances and how they work, where to put the trash, a full complement of dishes and silverware, and basic supplies like toilet paper.

Over the years, each of those has been an issue in various short-term rentals we've stayed in. Washing machines in other countries can be particularly problematic. In Europe, the variety of machines is vast and info on the machines is in the local language. Trash locations in buildings can be obvious or well hidden. Utensils like spoons can disappear over time with tenants accidentally throwing them out or otherwise losing them.

Your property manager should be checking inventory regularly, if not after every tenant, to make sure all is in order with your apartment. Unfortunately, many don't.

In today's day and age of Airbnb, many short-term property managers leave everything up to the cleaning crew. Our rental in Portugal was handled this way. Tenants leave by 10 a.m., the cleaners come in, and new tenants arrive in the afternoon. A lock box is used for tenants to get and leave keys, which means they can have no interaction with the property manager, which in turn means they get no introduction to the apartment or how anything works.

For low priced vacation rentals attracting budget travelers, that can be okay. Let's call it a two-star level of property and service. However, three- and four-star priced properties are being operated this way as well.

One simple thing owners and property managers can do that we learned early on in our short-term ownership career is to have a guidebook for the apartment.

You've seen these in hotels. The book that explains things like laundry and room service along with the gym opening hours and other things someone needs to know about their hotel stay. A binder for the apartment with information about how to operate the washing machine, how to turn on the TV, and how to connect to the internet comes in handy.

We've also included maps to the nearest shops and restaurants, the nearest metro stops for apartments in a city with a subway system, and where to find the garbage bins. In the binder for our apartment in Paris, our property manager included instructions for all the appliances, including the heat which can be complicated in France, the washing machine which needs certain cleaning things done every few loads, and the dishwasher.

In addition to the binder info on the appliances, our property manager also put labels on the pertinent buttons and dials of each machine to both help tenants easily use them and to keep them from doing something that would damage the machines.

While Airbnb has helped many people fill their short-term rental more easily, you can boost your occupancy rates over time with repeat guests. Many tourists go to the same place every year and when they find a place they like to stay they'll go back year after year. Making your apartment stand out in the renter's mind as a place they want to return to is important, so make it easy for them to enjoy their stay rather than spending time figuring out how to do things in the apartment.

In the Airbnb age, making your apartment easy to stay in can also help with good ratings.

The other small things that you need to make sure your property manager is paying attention to are making sure lightbulbs are changed when they burn out… and that there are lightbulbs in the apartment so the tenant can change them if they go out during their stay.

The property manager should keep up with minor repairs. Again, they should be checking the apartment after every rental, but most don't do that these days. You need to get them to check the apartment regularly and fix things like loose hinges on cabinets and shower doors that come off the rollers.

Your apartment can be nicely furnished and completely charming, but the functional problems will be enough to keep your tenants from coming back or giving you a high rating.

The issues I draw out here are all problems we encountered in the recent rental in the States we stayed in. While the property manager was accessible and helpful, none of those issues were something I was going to spend time asking to get fixed during my stay. Your property manager needs to be proactive to keep an apartment up to standards.

To keep your good ratings online and attract repeat business, start with making sure you or your property manager puts together a guidebook for your apartment and then require your property manager to do a walk through of the apartment to check for maintenance items that need to be addressed.

One good way to discover the small issues with your rental apartment is to stay there yourself once a year and live like your tenants would live while in your apartment. If you do that, update your binder with anything new you learn during your stay.

How To Keep Up With Your Portfolio And Administration Management

With so many opportunities presenting themselves right now, I'm reminded that portfolio and administration management are key to helping keep one's real estate investments profitable and manageable.

You've read before about my general portfolio. I've invested in more than two dozen countries over the years, and at its peak, the portfolio held properties in 15 or more countries at the same time. I've tried to consolidate over the last eight years or so. Still, some properties that probably shouldn't be in the portfolio remain… and conversely, I've passed on great opportunities because they didn't fit into my consolidation plan.

It's easy to get caught up in chasing great deals—high yield projections and pre-construction discounts—and I'm all for diversification of countries and currencies in one's portfolio. But it should be managed to help keep the cost and time of administering everything under control.

"Turn-key investments can help mitigate the administration time for your portfolio. Those are the types of opportunities I've personally focused on in recent years and what the GPA team prefers to bring to the table."

Turn-key investments can help mitigate the administration time for your portfolio. Those are the types of opportunities I've personally focused on in recent years and what the *GPA* team prefers to bring to the table.

Land is a good option for low administration as well, but in many markets, it will require having someone local check in on the property regularly to make sure you don't have any squatters who have moved in. This has happened to some neighbors in Panama a couple years ago, for example.

American owners of a beachfront property hadn't been down to Panama in many years. Their attorney (yes, their attorney) decided to systematically bring in squatters and start selling parcels of their land. The locals "buying" parcels weren't getting title, as the land was rights of possession to begin with. That meant the locals didn't have any documents that they owned the land, but unless and until the actual owner came down and took action, they started accruing rights.

Had it been titled land, the issue wouldn't have been as urgent, but still critical. So be careful with holding land somewhere you're not visiting regularly.

One other way to minimize your long-term portfolio management is to buy pre-construction projects and flip them before they are completed… or just at completion. I've stayed away from most pre-construction opportunities since the global real estate collapse that started in 2008. Certainly, some pre-construction deals made sense in the last 15-plus years, but between trying to build up more cash flow and being gun shy of pre-construction due to the collapse in so many markets, I've been mostly focused on yield generating properties.

That said, a well-placed and timed pre-construction purchase shouldn't be in your portfolio long enough to become an administrative headache. Figure two to four years at the most depending on when you buy and when construction starts. Most construction timelines should be two years or less from when they break ground. It can take a year, maybe two, from project launch to ground breaking. If you assume a flat market when the building is done, it could take, say, 12 months to flip. In an active market, you might resell before completion, but don't count on it.

I generally recommend against holding too many rental properties in the same market—short-term or long-term, especially if you have any debt on the properties, which is harder overseas. The stories I've heard from U.S. investors who owned 10 to 50 rentals in a single U.S. city only to lose everything because the market turned on them and they were highly leveraged have been too many.

Consolidation doesn't necessarily mean holding all your investment properties in one country and certainly not one city overseas. Of course, if you only have enough capital to have one or two properties overseas, then you'll have to start somewhere.

Consolidation also doesn't mean holding all the same types of properties. A portfolio of only pre-construction properties, especially in a single market, isn't any different than having all short-term rentals in just one city.

Diversifying across types of properties as well as locations can help diffuse the admin time. Along with land, pre-construction properties don't take us as much management time as a rental. Even with a good rental manager you'll end up spending time reviewing the monthly reports and approving repairs (or should until you get to a trust level with your rental manager).

What does a portfolio with good diversification and a reasonable amount of administration requirements look like? Honestly, I'm not sure, and it depends on an individual's capacity for administration.

One colleague's rental portfolio includes two to four short-term rental properties in four different markets. Those markets are spread across the globe—Panama, Colombia, Philippines, and Russia. That may be too much distance for most people but he has good rental managers and has the ability to travel to each (except Russia) at least once a year, as he's retired.

Another colleague has a bunch of rentals in the United States and pre-construction/rentals in Panama. The U.S. properties are in a couple locations with good management in place. They manage the Panama properties themselves. For me, that's too much exposure to Panama, but they are comfortable with just being in two countries.

My properties in 11 countries are manageable since much of it is land, turn-key agriculture, and rentals under construction. While manageable, one key question I pose right now before looking further at any opportunity is whether or not the country is on my regular travel schedule, and if I already own property in that country.

My annual travel schedule is broader than most peoples, but it also changes. I used to go to Argentina often, but I haven't been down there in maybe eight years. Fortunately, the apartments I owned there were sold before I stopped going regularly.

When considering what to put in your portfolio, ask yourself in your due diligence process whether or not you'll be able to go to the country at least once a year… and whether or not you're interested in going to the country at all. If you can't or won't go to the country, then you might consider moving to the next opportunity. At a minimum you'll want to only consider turn-key investments.

Keep your portfolio manageable as you put it together. You may skip some great deals, but you'll also save yourself some headaches down the road.

Currency Risks And Rewards When Buying Property Overseas

One big and important difference between buying real estate for cash flow in the United States and buying real estate for cash flow overseas is that often the cash flows in a different currency.

This is a potential upside and also a potential risk.

In 2015, Kathleen and I went shopping for a rental apartment on Portugal's Algarve coast. After eight years of economic crisis, this country was at a bottom and we perceived turning the corner. After exploring several beach towns and villages, we focused on Lagos, where we toured six properties and liked one in particular for its location, undervalued price, and motivated seller.

> "If timing is on your side, a fluctuating currency exchange rate can boost your total home currency return. If not, it can erode it."

Our math, based on data from the real estate agent and our own market research, projected a net annual return of 8%. Our general net yield expectation from a rental anywhere is 5% to 8%. We made an offer and proceeded with the purchase.

Other apartments we looked at in Lagos projected as good or better net rental yields and came with similarly appealing price tags. We chose the apartment we did because we agreed we would be happy owning it even if it didn't rent well or at all. When you're buying, rental projections are just that. You don't know what your yield will be until you begin earning it.

The apartment we bought was in the center of the town, on a winding, cobblestoned, pedestrian-only street, with easy access to shops and restaurants, and it had a rooftop terrace with an ocean view. We could use the place for personal vacations, we told ourselves as we stood on the roof looking out at the sea, in addition to or even instead of renting it out. And we did. During the four years we owned the property, we visited four times.

During those stays, we withdrew some of the euro cash accumulated from apartment rent paid into our Portugal bank account and used that money to cover our expenses. It was like a series of free holidays in a 15th-century town on the sunny Adriatic. In addition to vacation mad money, the rental cash flow covered all expenses associated with the apartment and left us with a nice-sized and steadily growing euro nest egg.

The rental return met our 8% projection the first year and hit our 5% to 8% mark each of the four years we owned it, based on the original purchase price.

The problem, if you want to call it that, was that markets across Portugal, including in Lagos, appreciated quickly after this country turned its crisis corner. During a visit to Lagos four years after our purchase, a friend in the local real estate industry suggested we think about selling our apartment.

"I'm certain you could get more than twice what you paid," he told us.

We didn't believe him, but two other local agents concurred. Calculated on the much higher valuation, our net rental return was less than 3%.

At that yield, we're sellers rather than buyers.

All real estate in the Algarve appreciated over the four years we owned our Lagos apartment, but our apartment more than doubled in value. Part of the reason was the location and the type of property. It worked as a rental, but it was also comfortable for full-time living.

In addition, the place had a charm factor that set it apart. It wasn't one of the cookie-cutter beach resort condos you find along this coast. That je ne sais quoi element was part of the reason we bought in the first place.

It's not a data point you can enter into your spreadsheet when shopping, but it is something to remember when comparing properties for potential purchase. Building a portfolio of cash-flowing properties overseas is a chance to make money and build wealth, yes, but it's also a chance to improve your lifestyle. Remember that—sometimes even prioritize that—when making investment choices.

The exchange rate between the euro and the U.S. dollar didn't move much over the four years we owned the property in Portugal, but it could have.

This is another reason it's better to buy in places where you want not only to make money but also to spend time. We were happy to spend the euros we were earning locally, meaning we were insulated against potential currency downside. It didn't matter to us if the euro lost ground on the dollar, because we weren't converting our euros into dollars. We were spending and accumulating them in euroland.

Likewise, when we sold that apartment, we kept the proceeds in euro, ready for a next EU investment.

The Currency Factor

That said, when investing in real estate that trades hands in something other than your base currency, you need to be prepared for the potential consequences. If timing is on your side, a fluctuating currency exchange rate can boost your total home currency return. If not, it can erode it.

We have had both experiences over the 30 years we've been investing in real estate overseas.

We invested once in a hard money loan with (that is, we lent money to) a developer in Australia who was offering an annualized return of 12% for an 18-month term. When we made the investment, the U.S. dollar was strong against the Aussie dollar. Over the course of the 18 months that we held the investment, the U.S. dollar weakened. As a result, after the loan had been repaid, our total return in U.S. dollar terms was 12% plus an additional 30% thanks to the currency movement. Nice surprise upside, right?

On the other hand, when we invested in Medellín, Colombia, in 2011, the Colombian peso was at an historic high against the U.S. dollar. Today, the situation is reversed. While our apartment in that city is worth more than three times what we paid for it in peso terms, it's worth about twice as much in dollar terms.

That matters, though, only if we sell and convert the resulting pesos into dollars. We have no need to sell and so continue watching the property's value appreciate while waiting for the peso to rebound.

Market values move up and down. Currency exchange rates fluctuate in cycles. Cash flow carries you through. Meaning cash flow math is the key to success.

However, This Is Not Only About The Money

When investing for cash flow overseas, you want to make buy decisions based on the cash flow math, but you also want to remember the big picture. This is an investment strategy, yes, but, more important, it's a lifestyle. So, before you begin considering where or what to buy, ask yourself what you want your life to look like.

That's the place to start. What life objectives are you hoping to achieve? For the best outcome, you want to marry those with your investment goals.

Fundamentally, the real advantage of this strategy is diversification, of your portfolio and assets but also of your life, your retirement, and your legacy.

We are living at a time that presents the opportunity to take the investor's profit agenda, combine it with the live-better-for-less agenda of the retiree, and transfer it overseas.

You have a chance right now to use overseas real estate as both an investment vehicle and a program for a new and better life, both immediately and longer term in retirement. Overseas real estate amounts to the surest strategy for creating and preserving legacy wealth while simultaneously reinventing your life and rescuing your retirement.

Many options exist for where to buy to make money while also making a new life, and, thanks to our Age of the Internet, it is possible today to seize these opportunities easily and cost-effectively to build a new life while staying in real-time touch with family, friends, business concerns, and investment portfolios from the old one.

The best case is when you are able to find a piece of real estate in a place where you want to spend time, short term on vacation and long term in retirement, that also holds out the potential for cash flow and an investment return. This perfect storm of objectives should be your ultimate goal.

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