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Global



October 2012

# GLOBAL PERSPECTIVES

to local, international & lifestyle real estate

## ► EXPLORING THE UNITED KINGDOM

### London Calling

This issue of *Global Perspectives* takes a closer look at a new breed of British buyers coming into the global real estate marketplace. Their property search is primarily driven by the challenges they currently face in the U.K. market and changes in the global economic climate. Young, financially savvy urban-dwellers who are interested in investing for growth are looking abroad for good returns.

While Brits have long been attracted to Florida (USA), these buyers are interested in enticing opportunities all across the U.S. as well as other countries where real estate prospects have been good. Spain, France, Italy, and Greece are all viable options. In the United States, the search has expanded from Florida to markets like Los Angeles, Las Vegas, and Miami.

Any time buyers cross borders, differences emerge in finding, viewing and purchasing property which play an important role in real estate transactions. U.K. buyers are no exception to this rule. Inside, you'll also learn more about these differences and what this implies for working with British buyers.

The contrasts in agency business models, the roles of agents and other real estate professionals, how properties are marketed and how transactions are closed may surprise you. Likewise, they could certainly surprise British clients who are buying property outside of U.K. borders for the first time. Learn how to prepare British clients for navigating foreign waters. **GP**



Florida has long been a prime spot for British buyers looking to escape their chilly winters. But now snowbirds aren't the only Brits buying in the states. Lately a growing base of buyers has emerged interested in the potentially good returns of investment property. In fact, NAR's most recent *Profile of International Home Buying Activity* found that among international buyers of U.S. property, the U.K. ranked fourth, tied with India.

Past issues of *Global Perspectives* have examined cross-border transactions originating from other countries including China and India. What makes the U.K. different is that middle-class and first-time buyers are also jumping into the game. They see investing in the U.S. market as a way of amassing funds to move up the property ladder in Great Britain.

### Housing stuck in a rut

The U.K. and European Union have suffered economically for several years and are now experiencing a double-dip recession. Property prices in Great Britain peaked in late-2007 then plummeted, finally beginning to rise slightly in 2010 and 2011. Then in the first half of 2012, average values dropped 2 percent.

With its prime properties, London has been the engine of growth for national price averages. Remove London from the equation and the rest of the country shows a bumpy decline, after adjusting for inflation. Recently even London has taken a hit, with July 2012 month-to-month average prices falling 3.6 percent.

The U.K. is a buyers' market, but the buyers just aren't there. Even with mortgage rates hovering between four and five percent on 80 percent loan-to-value mortgages, few buyers are stepping forward.

### Buyers caught in the middle

First-time buyers and the middle class are feeling closed out of the market. Renters have found it difficult to save enough for the 20 percent deposit required by most lenders. A recent survey conducted by rental website [SpareRoom.com](http://SpareRoom.com) found that over 40 percent of renters say they cannot afford to save for a deposit. Those who can save report average savings of about £12,125, just seven percent of the average U.K. purchase price of £165,738.



THE

BRITISH

INVESTMENT

Many first-timers who work in London have decided that the only way to make it to the first rung of the property ladder is to give up on the city. The south-east of London, historically not a popular spot, is gaining traction. Some buyers are moving to less expensive cities in neighboring Kent, Berkshire and Surrey counties, spending more time and money on commuting.

Middle-class homeowners who planned to move up to better housing are also frustrated. Many who were relying on their home's appreciation to help them jump to the next level find their equity decimated. There are few good options for investments expected to yield a generous return to make up for the slack.

## Sights turn to global opportunities

Many younger Brits have grown tired of waiting. "Even if they can't afford to buy in the U.K., they're moving ahead and buying property elsewhere," says Pat Tan, CIPS, GRI, of Your Global Agents team at Coldwell Banker in Sarasota, Florida. "There's tremendous pent-up demand in this market, and it's finding its way to other countries."

Young British investors have decided to invest in properties they never plan to live in. Tan reports that about one third of her sales to U.K. buyers are now purely for investment. They're searching the global market for rental and investment properties that are affordable, a good value and will appreciate.

"The middle class in the U.K. tends to be quite savvy financially and internationally well-traveled," finds John Mike, CIPS, CRS, GRI, of RE/MAX Prestige Realty in West Palm Beach, Florida. "They're not daunted by the complexities and risks of investing in global real estate." He reports that in the last few years they have been buying in France, Spain, the Bahamas, Italy and have become a growing presence in the U.S. beyond Florida.

## What new U.K. buyers look for

Given their savings situation, these new international investors are interested in affordable condominiums, townhouses and in some places single-family homes with good yields and expectations of appreciation in the mid-term. They prefer properties that have depreciated significantly in the economic downturn, yet are in stable markets with low vacancy rates and good yields.

Income-producing properties in the U.K., called buy-to-let, tend to be expensive. They have high carrying costs and mediocre yields that leave little return after borrowing costs. Yields and prices improve outside of major metro areas, but vacancy rates rise due to high unemployment. For a small investor, there's little prospect for either moderate income or growth.

Certain parts of the U.S. market can give them both. Mike says he's seen interest in markets across the U.S. "Chicago, Indianapolis, Denver, Minneapolis—if you've got an affordable investment property that will generate a good return, don't hesitate to bring it to their attention." He adds that good property management is a must since the buyer is so far away.

## Niche markets

Some Brits are interested in very specific types of properties, not ones that will necessarily appreciate greatly but will provide a steady stream of reliable income. Mike knows of a middle-class Brit who came into an inheritance which he wanted to put to work in the U.S. Every six months or so he buys a Section 8 property. They are inexpensive compared to other rental investments, have low carrying costs, have a government guarantee covering part of the rent, and low vacancy rates due to the long list of renters waiting for openings.

Savvy U.K. buyers with more capital are buying shopping centers and apartment buildings in areas with good prospects for

*(continued on page 4)*



## Reaching U.K. consumers

**A Place in the Sun Live** is a U.K.-based expo targeting British residents who are interested in purchasing overseas properties.

**Where:** London or Birmingham, U.K.  
**When:** Held every spring and autumn; next event spring 2013.

More information at [aplaceinthesun.com](http://aplaceinthesun.com)

**OPPLive and The Property Investor Show** is a U.K.-based conference and expo targeting international property professionals who wish to expand their network globally.

**Where:** London, U.K.  
**When:** Held every October

More information at [opp-connect.com](http://opp-connect.com), click on OPPLive in the top navigation bar.

The **National Association of Estate Agents**, which has recently merged with the **Association of International Property Professionals**, is a bilateral partner of NAR. Find more information and find estate agents at [naea.co.uk/](http://naea.co.uk/) or [aipp.org.uk/](http://aipp.org.uk/).



# THE BRITISH INVASION

*(continued from page 3)*

market turnaround. “This type of buyer really crunches the numbers, so you have to be very knowledgeable about carrying costs, potential tax issues, comps and expected returns,” says Mike. “They are particularly keen on top-notch property management.”

## Worldwide competition

Young British investors are adventurous and willing to put their sterling in many places beyond Europe and the U.S., like South Africa, South America and the Middle East. American agents should understand that they are competing internationally for the interest of U.K. buyers. It’s good to find out where else your British buyers are looking. Most typically, it’s in the euro zone:

**Spain** has been attracting British buyers for many years, but the recession changed that. Though average property prices are down over 30 percent from late-2007 peaks, Spain is burdened with a massive oversupply of housing. The unemployment rate hovers near 25 percent and is highest among young workers, who are most likely to rent. Even as the Spanish government considers incentives to attract foreign buyers while prices continue to drop, investors are staying away.

**France** has also been a favorite. Approximately 200,000 Brits own property there. Housing prices have not weakened as they

have throughout the rest of Europe, but pundits expect the market to correct itself in the near future. France’s new President, Francois Hollande, has proposed measures that would almost double rental income and capital gains taxes on foreign-owned property. If passed, foreign buyers’ interest in France may dampen significantly.

**Italy** and **Greece**, also popular with Brits, are plagued with debt problems and high unemployment, hence are much less attractive places to park nest egg money.

## Differences in carrying costs

Though closing fees (called completion fees) in the U.K. and the U.S. are similar at three to five percent of purchase price, ongoing costs of ownership and maintenance tend to be much higher in the U.S. British land owners pay a council tax, similar to property tax in the U.S., for local services. In 2011, the average levy for a property was £1,196.

Since property taxes vary so much across the U.S., a British buyer may be pleasantly—or unpleasantly—surprised. Property insurance can be steep as well, especially in areas where severe weather poses potential threats. Since U.S. homes and yards tend to be larger than those in

the U.K., maintenance fees are another factor U.K. clients will want to consider when calculating carry costs.

## Beyond buy-to-let

There is still substantial interest in the U.S. market from Brits planning to live in their overseas properties, despite the 180-day stay limit.

Vacation homes are currently a bargain in Florida, California, Arizona and Nevada. One property search website reports that Georgia is getting a lot of page visits from viewers in the U.K. Because of the limit on visits, many buyers look for homes that can be rented the rest of the year.

Prime and luxury properties are always in high demand by those with the means. The average price for a prime property across the U.K is about £480,000, or roughly \$750,000. For a prime property in London, the average is £1.34M, or slightly over \$2M.

“Business executives and investors love the U.S. west, and are buying prime residences in Dallas, Los Angeles and Las Vegas,” says Mike. “Of course Manhattan is the most desirable city on the east coast, and Chicago is popular for those considering the Midwest.” Mike adds that U.K. buyers

## Choosing where to buy or let



**Cities with the lowest prices aren’t necessarily the best places to invest. Look for markets where:**

- prices are rising
- employment is growing and unemployment is below the national average of 8.2 percent
- mortgage delinquency rates are low
- vacancy rates are low

Pittsburgh is a good example. Property has appreciated an average 3.3 percent in the last three years. Employment has grown 1.2 percent in the last year and the unemployment rate in June 2012 was 7.0 percent. The 90-day delinquency rate in 2011 was 4.7 percent, compared to 6.9 percent nationally. In the fourth quarter of 2011, Pittsburgh’s 2.2 percent vacancy rate was among the lowest in the country. Other good rental investment markets are Austin, Texas; Denver, Colorado; and Bismarck, North Dakota.

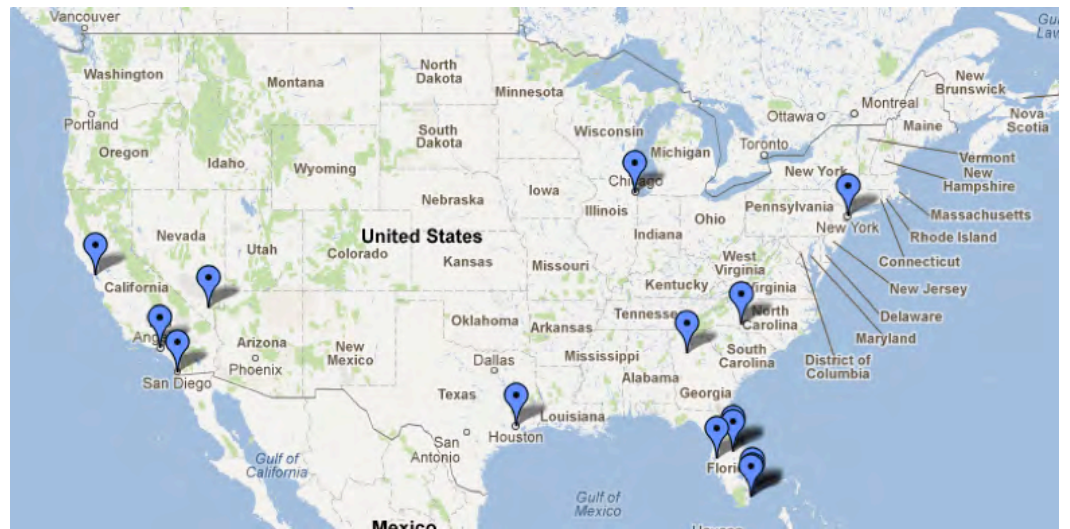
## Where are Global Buyers Searching?

Realtor.com® recently released data regarding the top countries (outside the U.S.) where consumers are most engaged on Realtor.com® and Realtor.com® International. The data highlights the markets within the U.S. that are most popular amongst these global consumers.

**The five top markets for U.K. visitors** were Los Angeles, Orlando, Las Vegas, New York and Miami.

To see top searches originating from 20 different countries, go to [realtor.org/articles/where-are-global-buyers-searching-in-the-united-states](http://realtor.org/articles/where-are-global-buyers-searching-in-the-united-states).

**Top U.S. Cities Searched by Global Buyers**  
(in May 2012)



Source: Omniture Discover

are genuinely impressed by how much they can get for their money in big U.S. cities compared to other world-class locations. Whatever the city, direct flights to London are a must.

For the investor class, gated golf communities are another big draw as holiday homes. Members of exclusive golf clubs in the U.K. will cluster in similar golf communities here, where they can play with members of their clubs from back home.

### Tapping into U.K. buyers

Not surprisingly, reaching the middle class versus wealthy investors requires different tactics. Tan finds advertising in *The Sunday Times* to be effective with entry-level and middle-class buyers. "The trick is to be consistent," says Tan. "By

repeating your ads you'll become a familiar name to readers who scan the classifieds weekly. Repetition gives you credibility." She also recommends running seminars at consumer-g geared property expos like A Place in the Sun. (See sidebar, page 3.)

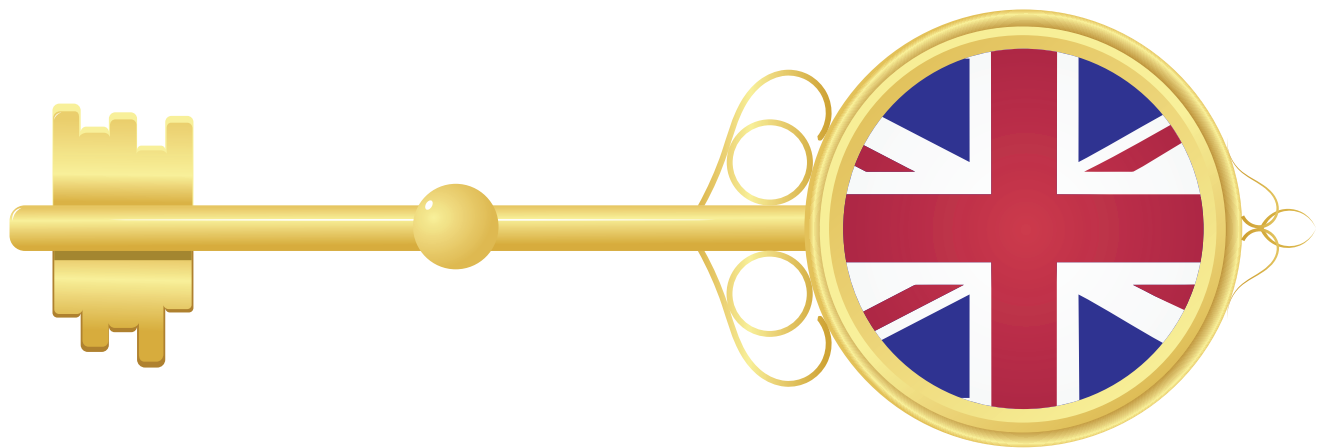
Brits who have actively invested in property in the past tend to have established relationships with estate agents (real estate agents) and solicitors (lawyers) who have previously assisted them. "At the upper end of the market, networking with highly-regarded London agents is crucial," reports Mike. "There's a tremendous amount of capital available in a global financial center like London. Trade missions are a good way to gain an introduction." From there he advises networking into trade-specific events and meetings in private clubs and attending estate agent association events.

The good news is that more U.K. buyers are aware of opportunities in the U.S. market than ever before.

**You don't have to be in Florida or another vacation hot spot to capture this business.**

Buyers in all segments will want to establish relationships with agents who are knowledgeable, ethical and will protect their interests throughout the process. It's entirely possible that your market contains the kinds of properties they're looking for.

**GP**



## A HORSE OF A DIFFERENT COLOR

Global agents are aware of the ways in which differences in culture and business practices can complicate transactions. Yet the U.S., Canada and the U.K. share a cultural heritage, a common language, and their governmental and legal systems share roots. How different can real estate practices in the U.K. be?

Astoundingly different, say buyers who have bought property on both sides of the pond. Since buyers' expectations can create stumbling blocks to international transactions, here's a primer on the players and the process for buying real estate in the U.K., and the implications for dealing with British buyers in the U.S.

### Agent qualifications and compensation

**U.K.:** There are no licensing or educational requirements for estate agents (real estate agents). Most estate agents work for an agency as salaried employees.

**Implications:** A brief explanation of licensing requirements and professional designations will bolster credibility with U.K. buyers. By discussing how commissions work in the U.S. they'll also understand an agent's financial interest in helping them purchase the right property.

Do offer to introduce clients to a U.S. accountant to help them structure their purchase with appropriate tax considerations, and/or to a U.S. property attorney who is versed in international property law. Also have a good relationship with a U.S. immigration attorney who can advise them on their ability to use their own property, should that be their intention.

### Buyer representation

**U.K.:** Estate agents only represent sellers. Buyers must look out for their own interests.

**Implications:** Since the concept of buyer representation doesn't exist in the British real estate market, U.K. buyers may not be familiar with it. For buyers expecting to navigate a foreign market on their own, it will be a welcome surprise. Explain that a buyer's representative owes duties of confidentiality, accounting for the buyer's funds entrusted to the agent, and full disclosure of materially relevant information during the buying process. Though only a minority of states require a written agency/representative agreement, all agents have an obligation to disclose material facts – even those who represent sellers.

### MLS and market transparency

**U.K.:** There is no shared listing information among estate agents. Sellers often list their property with multiple agencies and agents sell only their own company listings. Buyers

may narrow their search by visiting public real estate portals and then contacting listing agents, or by viewing agency websites in their locations of interest.

**Implications:** The MLS and concept of market transparency may be new to U.K. buyers. Explain that most agents are members of an MLS and therefore have access to information for ALL listings, comps (comparables) on similar properties and can show all properties meeting a buyer's criteria.

### Property viewing

**U.K.:** Sellers are often present and a sense of privacy may discourage buyers from examining properties in detail.

**Implications:** British buyers may not realize it's acceptable and expected for them to look in closets, attics, and cabinets when viewing a property. Advise them prior to a showing that they have tremendous leeway in exploring the property, both outside and in.

## Making an offer and negotiating

**U.K.:** Buyers make verbal offers to sellers through the seller's agent. There may be verbal counteroffers. If a price is agreed upon, the buyer contacts a conveyance solicitor (real estate attorney) who will draw up a contract and work with the seller's solicitor. At this point the estate agent pulls the listing and exits the process. The accepted offer is not binding until the actual signing of contracts and full payment by buyer in exchange for transfer deed. No firm date is set for closing. The buyer will show commitment by making a small deposit, perhaps £500 to £1000, into the solicitor's account.

"Gazumping" (in which a buyer is informed late into the purchase agreement, often on the very eve of contract completion, that someone has come along and offered the seller a better price) and "gazundering" (in which a buyer informs a seller late in the purchase period that they are no longer willing to pay the agreed price, but will purchase the property at a new and lower price) are bewildering and not uncommon practices which may arise in a purchase.

**Implications:** U.K. buyers may not realize that in the U.S., written contracts are exchanged throughout the negotiation process, and that the terms and timing specified in them are fixed and binding. They also may not be aware that an earnest money deposit of one to three percent of the offer price is required of them for escrow, which may be forfeitable if they do not complete the sale. Advise them on using contingencies to protect their position during the transaction, and let them know that their agent will assist them through closing. Let them know that gazumping and gazundering are not allowed. Also, explain the Foreign Investment in Real Property Tax Act (FIRPTA) requirements and assist them in obtaining a U.S. International Taxpayer Identification Number (ITIN) from the IRS.

## Closing

**U.K.:** The buyer's solicitor will check the property title, encumbrances, and history of the property, and then finalize the contract's details with the seller's solicitor. A day is set to exchange signed contracts and turn over the deposit. The sale is not closed until the completion date, which may not immediately follow the contract exchange. On that date the key is handed over and remaining funds are delivered in return for the transfer deed.

**Implications:** In the U.K. the process of drawing up final contracts and setting the date of completion are fluid. At any time during the process a sale can and often does fall through. U.K. buyers will no doubt appreciate that U.S. transactions adhere to a firm time schedule and that their agent will help coordinate the players for a timely and smooth closing.

In short, the process of buying property in the U.S. is usually more predictable and reliable than in the U.K. and requires less work on the part of buyers. Educate British buyers on what to expect during a purchase and emphasize the binding nature of timing and terms with written contracts. They will be glad to have solid representation guiding them through the completion of their transaction.

While this example focused on the U.S. and the U.K., other nuances exist from country to country. It is important to educate your clients and make sure each party has a clear understanding of the transaction process no matter where you live. **GP**

## SPEAKING THE SAME LANGUAGE

**Americans and Brits may both speak English, but they don't always use the same words. Here is a comparison of some terms frequently used in real estate:**



AMERICAN ENGLISH	BRITISH ENGLISH
REAL ESTATE	PROPERTY
APARTMENT	FLAT
CONDO	FLAT
INCOME PROPERTY	BUY-TO-LET
SINGLE-FAMILY HOME	HOUSE
TOWNHOUSE	TERRACE HOME
AGENT (or REALTOR® if a member of NAR)	ESTATE AGENT
YARD	GARDEN
STOVE	COOKER or HOB
TOILET	LOO
BATHROOM	TOILET
TRACK LIGHTING	SPOT LIGHTS



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