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GLOBAL PERSPECTIVES

TO LOCAL, INTERNATIONAL & LIFESTYLE REAL ESTATE



CIPS

Certified International Property Specialist

> BUYING ABROAD

GUIDING BUYERS BEYOND YOUR BORDERS

Buyers often dream of owning property abroad. Maybe it's the lure of exotic lands, a carefree retirement, or simply a smart investment. Regardless of their motives, most buyers lack experience in navigating foreign waters. Nor do they realize how choppy those waters can be. That's where you come in.

This issue of *Global Perspectives* includes several tools to help them on their journey. You'll find topics you may want to share with clients discussing the benefits of international property ownership, as well as a list of key issues they should consider for steering the best course.

You'll also find new research on which destinations are most popular among U.S. buyers conducting online property searches. Finally, take a look at how currency markets continue to play a pivotal role in the relative strength or weakness of various property markets.

If you're helping buyers investigate an international destination for retirement, vacations, investment, or any other buyers wading into the waters of overseas ownership, lean on these tips and resources—and your CIPS Network—to demonstrate the benefits of working with a true international property specialist. 🌍



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TOP 10

CONSIDERATIONS FOR CROSS-BORDER BUYERS

For many reasons, buying property in another country can be an excellent decision. But it should never be a simple decision.

As a CIPS designee, you have the education, network and resources to help buyers work through all the most important considerations before completing a purchase. Most importantly, remind buyers to never assume that real estate practices in other nations mirror those in their home country. Every market is different, in terms of how properties are marketed, how ownership is secured, and who gets involved in completing a transaction.

Start by reviewing the following topics with your clients:

- 1 **Objectives**
What are your clients' primary objectives? Are they seeking an attractive investment? If so, what are their investment goals (income, appreciation, etc.)? Is the property intended for vacation purposes? Retirement? Mixed use? Clarifying objectives provides an essential reality check (can objectives be attained?) and an initial filter for narrowing down options.
- 2 **Intended Use**
Will this be a cozy retreat for quiet relaxation? A place to entertain friends and family? A hub for golf outings? A place to practice a favorite hobby or write a book? The answers to these questions and others will shape your clients' preferences on location, size, floor plan, related amenities and much more. Also, how often will the property be visited and how will the frequency of visits change in five years, ten years, etc.?
- 3 **Location**
The phrase "all real estate is local" applies just as much, if not more, to purchases in another country. Most people already have some ideas about where they want to purchase a home, but the smartest buyers will make several extended trips to their preferred destination to get very familiar with the local market.

Your clients will also need help establishing connections with local professionals who can offer valuable purchase assistance, including local real estate agents, attorneys, notaries, inspectors, property management professionals, etc. (Remind your clients that CIPS-designated agents have a distinct leg up in providing these contacts by working through the CIPS Network and identifying the most knowledgeable and trustworthy professionals.)

(continued on page 4.)



THE BENEFITS OF OWNING PROPERTY ABROAD

Several of the benefits listed here apply primarily to U.S. buyers of international property, but many of these points are equally appropriate for other cross-border buyers.

B E N E F I T S

F A C T O R S

AFFORDABILITY	
Purchase Price	Depending on the location and currency fluctuations (see next article), housing prices will vary country by country but may offer substantial savings.
Cost of Living	As with home prices, costs (and standards) of living can vary greatly in international markets. Depending on country of origin and destination, this can often work in the buyers' favor.
Currency Exposure	Shifting currency values are a two-edged sword, but (at the time of print) favor U.S. buyers in many foreign markets.
INVESTMENT	
Asset Appreciation	Real estate has always been considered a secure, hard asset and many of the strongest growth markets are outside the U.S. (or other developed nations).
Leveraged Asset	Historically low interest rates and more foreign lending options allow owners to control real estate assets without an outright cash purchase.
Investment Diversity	Real estate represents an important component of a diversified investment portfolio; holding a real estate asset in a different currency adds another diversification component, as does any income earned on the property.
Income Potential	Depending on the type of property and its location, overseas properties can also produce a new income stream for owners.
LIFESTYLE	
Cultural Diversity	For people who relish experiencing other cultures, what better way than becoming a "local." Less adventurous types can strike a balance by purchasing within one of many popular expatriate communities.
Recreation	While overseas properties may be acquired for pure investment purposes (rental income and appreciation), most buyers also intend to enjoy them for their recreational value.
Residency Options	In many countries, home ownership is a key step for obtaining a residency visa, providing future living options.
OTHER	
Control	Unlike many other asset classes, property owners can buy, sell, rent or develop their property on their own schedule (subject to local laws).
Tax Advantage	Tax laws vary by country and are always subject to change, but buyers may enjoy certain advantages. For example, U.S. owners of overseas property can often treat their travel costs as a deduction.
International Asset Protection	In the event of a lawsuit, it is sometimes harder for a plaintiff to lay claim to any assets held overseas.

TOP 10 CONSIDERATIONS FOR CROSS-BORDER BUYERS

(continued from page 2.)

4 Property Type

Some buyers will insist upon a newly-built home, especially if it offers the latest amenities and technologies. (Many renters feel the same way.) Additionally, if a home is purchased pre-construction, owners enjoy the advantage of selecting finishes that reflect their personal tastes.

However, new homes also typically come with higher price tags, potentially including higher taxes. They may also lack the charm and character of an existing home, particularly one of a historic nature. For any purchase abroad—and especially for resale properties—make sure your buyers get a thorough professional inspection to avoid hidden problems, as well as an appraisal.

Buyers also need to decide between standalone properties or units within a multifamily complex. Each offers a distinct set of trade-offs, especially for long-distance owners (or landlords).

5 Rental Potential

How many weeks of the year will your client make their home available for rental (during peak and off season)? What is the minimum rental income the property must achieve? In addition to basic property management services, will your client also need assistance marketing the property and handling bookings?

To determine whether a residence will meet an owner's minimal rental income goals, attempt to capture all related property ownership/rental expenses, including agent fees, taxes, insurance, housekeeping services, etc. Above all, make sure local laws permit owners to accept rentals and that the property is conveniently located in an attractive tourist area.

6 Legal Factors

First and foremost, buyers need to ensure their future home is in a country that honors private property rights. If foreigners can't hold secure title—or there's a legitimate risk that a change in political direction could restrict or revoke foreign property ownership—buyers should look elsewhere.

Other legal considerations:

- Does the contract include related financial obligations (such as community fees)?
- Do local laws restrict modifications to the property or the materials that can be used in a restoration?
- Are there any restrictions on using the property for rental income?

Language and translation issues may arise if a buyer isn't fluent in the language used in the legal documents. Before signing any documents, buyers may wish to translate all written documents using a trusted translator in order to review the provisions (keeping in mind the agreement may be enforceable in the original language only). In order to attract buyers, sellers may be willing to conduct the transaction in the buyer's preferred language. In that case, buyers should review local laws to confirm that legal documents in a non-local language are legally binding. Regardless of the language, you may wish to encourage buyers to consult a local attorney to explain the documents' provisions and ensure the documents are compliant with local laws.

7 Purchasing Costs

Regardless of where a home is located, numerous expenses must be added to the purchase price. These include:

Related professional assistance. This potentially includes attorneys, inspectors, appraisers, and financial/tax professionals.

Closing costs. Procedures and fees vary by country, but may include sales/transfer taxes and title/notary services. Additionally, if the purchase is financed, mortgage origination expenses will be added to closing costs.

8 Continuing Expenses

If a property is financed, monthly mortgage payments will likely be an owner's largest expense. Other items that your buyer should factor into the equation:

Utilities - Buyers shouldn't assume that the utilities they're accustomed to back home are automatically available abroad, even if they're purchasing in a new development. In addition to ensuring access to water (potable? running hot and cold?), electricity (available 24/7?), heat/air conditioning, telecommunications (connection speeds? analog/digital service?), etc. also investigate all costs related to installing and maintaining these services.

Community fees - Similar to homeowner's associations in the U.S., many developments in other countries assess monthly fees to manage the community's infrastructure, maintenance costs and related services.

Taxes - In addition to foreign taxes (property? income?), how will any income earned on the property be viewed by tax authorities back home?



Insurance - Homeowner's insurance is always a good idea, but certain levels of coverage may be mandatory in some developments.

Security - Gated communities may provide better property protection, but if the property is truly local, who will look after it when the owner is away? A security system monitored by a professional firm may be one viable solution.

Maintenance - How will seasonal yard and exterior maintenance be managed? What about repairs? Property management firms may be able to assist with this, as well as general housekeeping services if the home will be used for rental guests.

Travel - Don't forget that using a property also includes the cost of round-trip travel.

9

Costs to Sell (or Inherit)

Before entering into a purchase, buyers should also have a solid understanding of their exit options and related expenses.

Questions to ask:

- When this property is sold, can the proceeds be freely moved out of the country without taxation?
- What are the tax implications of repatriating an investment back to the home country?
- If a property moves into an estate, how will ownership and taxation be treated among the heirs? Can inheritance/transfer taxes be avoided by including heirs on the deed?

While some countries have no taxes on capital gains or estates, others impose high tax rates—and those rates can vary greatly depending on whether the owner (or the owner's heirs) are considered legal residents or foreigners. Every country has a different set of rules governing who should benefit when someone dies.

Encourage your client to plan ahead and seek expert advice on the most effective way to handle such matters before signing a sales contract. Further, such laws are always subject to change, making it essential to have a reliable source to guide the buyer throughout their term of ownership.

10

Other Factors

Currency fluctuations - Cross-border transactions always involve an element of currency risk which can enhance or detract from an owner's related income and expenses. For a further discussion of recent international currency developments, see page 6.

Transportation - Are there convenient and economic options between major transportation hubs? Safe and reliable local transportation options? Are the roads to neighboring destinations in good condition? Beyond affecting how easily an owner can use his/her property, transportation plays a major role in attracting visitors (including rental customers) into the area.

Medical facilities - This factor may not be on the minds of younger buyers, but it should be, especially if their long-term goals include retirement. Besides, emergencies can happen at any age.

Government - Does the country welcome and encourage foreign investment? Are social services available to foreigners? Do property owners gain special visa or residency status? Is the overall political climate stable?

Discussing each of these ten topics and related questions with your clients will help them make a more informed and successful purchasing decision—and help you earn their trust as a valued and reliable expert in the process. 🌍



INTERNATIONAL HOUSE HUNT:

HOME PRICES & CURRENCY RATES

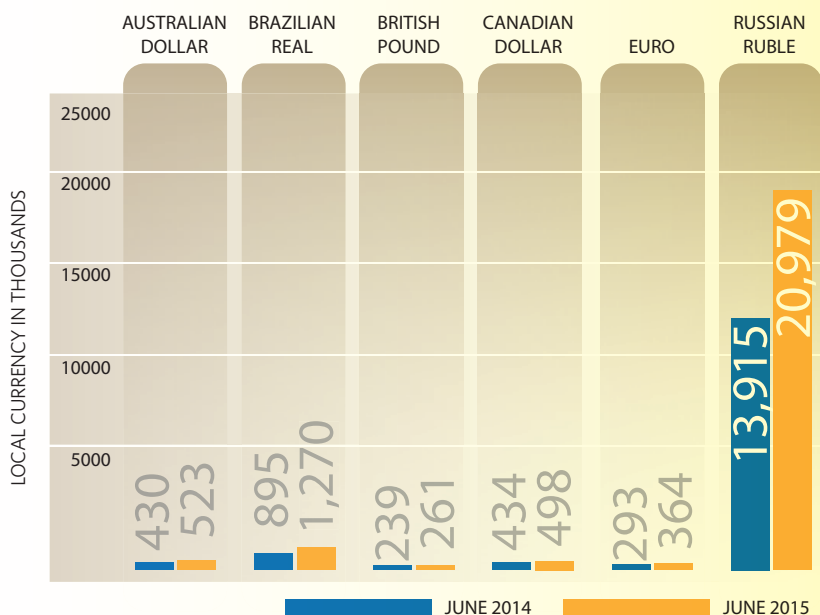
When buyers spend time shopping for homes online, it's not surprising that one of the first parameters they use to narrow their search is price. However, if a buyer is searching for homes in another country, they may be surprised by the extent to which currency markets alter their price expectations. Over the past year, in particular, the purchasing power of major currencies has shifted dramatically, primarily driven by the strength of the U.S. dollar.

According to NAR's *2015 Profile of Home Buying Activity of International Clients*, international sales of U.S. properties dropped 10 percent¹, but total sales volume was up—\$104 billion, compared to the previous year's estimate of \$92.2 billion. The strengthening of the dollar in relation to foreign currencies likely impacted purchase demand in the U.S., as well as generally negative economic conditions in Latin America and Europe, and slower growth in China.

To illustrate the impact of exchange rates, the chart below shows how much different buyers would need to spend, in their local currency, to purchase a \$400,000 home in the U.S.—in June 2015 versus one year earlier. For example, British buyers would have to put 9 percent more pounds on the closing table, whereas Brazilians and Russians are encountering whopping 42 and 50 percent increases, respectively!

Not surprisingly, as foreign sales in the U.S. have slowed, more U.S. buyers are setting their sights on buying abroad. Buoyed by the strong dollar, interest in overseas property is up sharply. International experts cite France, Spain, Italy, Germany and Canada as some of the top markets attracting American buyers.

One-Year Change in Local Currency Price of a \$400,000 U.S. Home



Transaction data is hard to come by, but another way to gauge U.S. buyer interest is to examine their behavior when searching online for properties. Based on recent data supplied by realtor.com®/International (see page 7), it's apparent that destinations in Mexico, Jamaica and Honduras are most popular among U.S. residents using the search portal.

The numbers, however, also point to interest beyond south-of-the-border vacation homes. Paris ranked among the top five overseas destinations and Madrid held the 15th spot.

Regardless of where buyers are searching, most global real estate markets are firm and hot deals are a thing of the past. In fact, the most recent Global Housing Watch survey by the International Monetary Fund found that, in 2014, housing prices increased in most countries over the past year. (See page 7.)

¹ For April 2014 through March 2015, compared to the previous one-year period.



Top Locations that U.S. Residents are Searching Abroad

July 2014 — May 2015

1	Cancun, Quintana Roo	MEXICO
2	Puerto Vallarta, Jalisco	MEXICO
3	Roatan, Islas de la Bahia	HONDURAS
4	Paris, Ile-de-France	FRANCE
5	Playa del Carmen, Quintana Roo	MEXICO
6	Merida, Yucatan	MEXICO
7	San Miguel de Allende, Guanajuato	MEXICO
8	Ensenada, Baja California	MEXICO
9	Negril, Westmoreland	JAMAICA
10	Montego Bay 1, St. James	JAMAICA
11	Cozumel, Quintana Roo	MEXICO
12	Cabo San Lucas, Baja California Sur	MEXICO
13	Mandeville, Manchester	JAMAICA
14	Tijuana, Baja California	MEXICO
15	Madrid, Madrid	SPAIN
16	Ocho Rios, St. Ann	JAMAICA
17	La Paz, Baja California Sur	MEXICO
18	Tulum, Quintana Roo	MEXICO
19	Guadalajara, Jalisco	MEXICO
20	Utila, Islas de la Bahia	HONDURAS

Source: Realtor.com®/International; Omniture

Connecting the Dots: Business-Building Tips

As prices and currencies shift, buyers' interest in various markets is bound to ebb and flow. Spotting these shifts—then capitalizing upon them in your business development efforts—can be a savvy strategy. Consider executing a currency-based marketing plan that includes these steps:

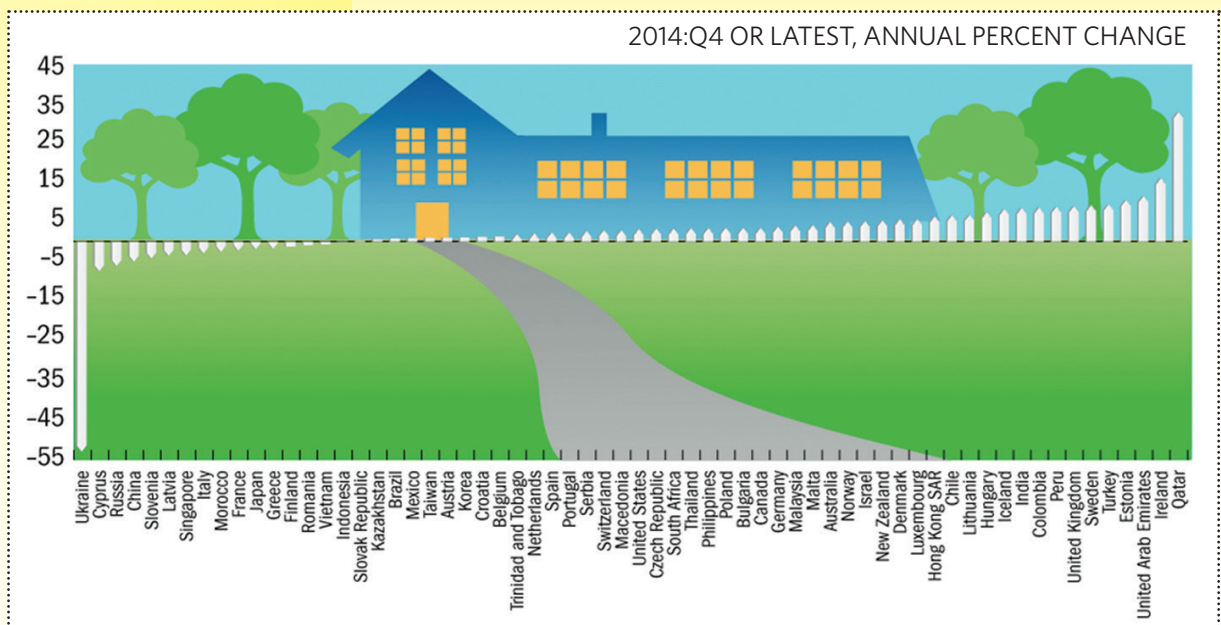
Identify target market(s) - Follow the currency markets to spot relative exchange rate strength (or weakness) that might translate into new global transactions. U.S. buyers, for example, can now buy a home in Mexico for roughly 20 percent less than a year ago, making this already-popular destination even more attractive. Likewise, weakness in your domestic currency relative to another market means it's time to let fellow CIPS designees in that country know you're ready to assist any interested buyers they might send your direction.

Reach out to key professionals - Rely on the CIPS Network to establish professional connections wherever they're needed. (Refer to page seven of the April 2014 issue of *Global Perspectives* for best practices when making and receiving cross-border referrals.) Connecting with other designees can also help you understand the differences in local practices and get recommendations for other key resources, including developers, attorneys, property managers, etc. in their market.

Promote to local clients - If your local clients have been debating an international purchase and currencies have shifted in their favor, make sure they know it's a good time to buy. Create a marketing campaign explaining that, as a CIPS designee, you have the network and resources to help them find a property—and it's more affordable now than in recent years. 🌍

HOUSING PRICES INCREASED IN MOST COUNTRIES

Sources: Bank of International Settlements, Colliers International, European Central Bank, Federal Reserve Bank of Dallas, Savills, Sinyl Real Estate Planning and Research, and national sources.





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BUYING ABROAD

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