The Global Property Investor's Toolkit

A sourcebook for successful decision making

By Colin Barrow

CAPSTONE
be inspired!

John Wiley & Sons, Ltd

The Global Property Investor's Toolkit

The Global Property Investor's Toolkit

A sourcebook for successful decision making

By Colin Barrow

CAPSTONE
be inspired!

John Wiley & Sons, Ltd

First published in 2008 by Capstone Publishing Ltd. (a Wiley Company)
The Atrium, Southern Gate, Chichester, PO19 8SQ, UK.
www.wileyeurope.com

Email (for orders and customer service enquires): cs-books@wiley.co.uk

Other Wiley Editorial Offices

John Wiley & Sons Inc., 111 River Street, Hoboken, NJ 07030, USA
Jossey-Bass, 989 Market Street, San Francisco, CA 94103-1741, USA
Wiley-VCH Verlag GmbH, Boschstr. 12, D-69469 Weinheim, Germany
John Wiley & Sons Australia Ltd, 42 McDougall Street, Milton, Queensland 4064, Australia
John Wiley & Sons (Asia) Pte Ltd, 2 Clementi Loop #02-01, Jin Xing Distripark, Singapore 129809
John Wiley & Sons Canada Ltd, 6045 Freemont Blvd. Mississauga, Ontario, L5R 4J3

Wiley also publishes its books in a variety of electronic formats. Some content that appears in print may not be available in electronic books.

A catalogue record for this book is available from the British Library and the Library of Congress.
p. cm.
Includes index.
ISBN 978-1-84112-763-7 (pbk. : alk. paper)
1. Real estate investment. 2. Real property–Foreign ownership. I. Title.
HD1382.5.B377 2008
332.63'24–dc22 2007050366

ISBN 13: 978-1-84112-763-7

Typeset in 11/15.5 Berkeley by Thomson Digital, India
Printed and Bound in Great Britain by TJ International Ltd, Padstow, Cornwall

Substantial discounts on bulk quantities of Capstone Books are available to corporations, professional associations and other organizations. For details telephone John Wiley & Sons on (+44) 1243-770441, fax (+44) 1243 770571 or email corporatedevelopment@ wiley.co.uk

Contents

Introduction

More than 2 million British citizens now either own or are actively looking for homes abroad: a number that is expected to rise to more than 3 million within 5 years, according to figures from Saga. By 2025, according to a study published recently by Grant Thornton, the accountants, over 2 million British homeowners – around a tenth of the total homeowners in the country, could own a property overseas. Mintel, the respected research company, conducted a study found that over 800,000 British people now own a home abroad, and double that number would like to buy one. The viewing figures for TV programmes such as 'No Going Back' would support the belief that the potential overseas property buyer population is substantially higher than that. If you add the populations of the other rich overseas property buyers – the Dutch, the Germans, the Irish, the Americans and, to a lesser extent, the French and the Italians (who are more inclined to buy additional property in their own country) – it is not too difficult to believe the word-of-mouth statistic that over 15 million people are looking for homes overseas.

Why buy property overseas?

The reasons are myriad: some consider the possibility of buying a second home either as a place to which to retire or as an investment (either by way of a 'buy-to-let' or in the anticipation of capital gain).

The investment imperative for buying international property, particularly in less developed parts of the globe, is coming from factors such as the diminishing value of conventional pensions and annuities, increasing life expectancy and the need to diversify property investments, all of which are growing in importance and apply to a greater or lesser extent to all the countries whose citizens are casting their eyes across continents and oceans searching out new areas of property value.

Who should read this book?

Here are a few observations culled from various studies about people buying properties abroad that have a ring of truth about them. If you identify with any of these descriptions, then this is a subject you might want to explore with some zeal.

- **Retirees:** around one in five people plans to retire abroad, citing climate and cost of living as the main reasons for doing so.
- **First-time buyers:** close to half of 18- to 29-year-olds are planning to buy a property abroad, stating that that's the only way they can see of ever getting on the property ladder.
- **'Fly-to-let':** the average overseas property costs around £100,000 (that figure includes more costly countries such as France, Spain and the United States), while the average British property costs around £200,000. With the average rental yields abroad being nearly double those in the United Kingdom, 'jet-to-let', the international equivalent of 'buy-to-let', produces the same income in pounds for half the outlay.
- **Low-income entrants:** theoretically, about a million people earn enough money comfortably to afford a home in Spain, Portugal or France. About 6 million people can afford to buy further afield, in areas such as Eastern Europe, Thailand, Cape Verde, Brazil and New Zealand.
- **Investors:** according to a Grant Thornton study, the value of foreign homes owned by British citizens has surged to £71 billion, up from £29 billion 8 years earlier. Adding in the owners from other counties, this could well be a £1,000 billion marketplace. As such, the competitive pressures must inevitably increase, requiring higher

standards of information from everyone hoping to achieve superior returns on their investment.

About this book

Once upon a time, as the story goes, almost everyone buying a house abroad went to Spain or France and there was little for the prospective house buyer to decide about. 'Foodies' went to France and 'sun worshippers' went to Spain, usually electing for regions in which they had experienced satisfactory holidays. But now there are not only more choices as to destination but more factors to consider. In the first instance, *The Economist*, among other sources, considers Spain to be about 60% overvalued. The smart money is now heading for more exotic locations such as Thailand, China, New Zealand, Croatia, Bulgaria and Estonia, where not only is the amount of money needed to buy a house often a fraction of that in the mainstream markets but there is a decent prospect of good increases in values as these 'emerging' markets mature.

The factors that a potential buyer has to consider in selecting which of the 50 or so countries now being 'touted' by real estate brokers and developers is the one for them are what form the backbone of this book. These factors include:

- Tax regime for income and capital gains as well inheritance and wealth tax.
- Healthcare services, both for emergencies and for long-term care.
- The extent to which a range of long-term air routes to the country exists and can be sustained.
- The rate at which inward investment and tourism are growing: both vital factors that underpin property rental prospects and so influence valuations.
- Economic growth, inflation, the availability of mortgage finance and growth in local salaries: factors which influence the 'affordability' of property to the population at large. Unless the locals can

afford property in the market, the potential pool for onward sale or letting will be limited to other international buyers, which is typically less than 3% of any market.

- House-building rates, historic property price inflation, planning and property buying regulations, restrictions on foreign ownership, the potential for land title disputes and tenancy law in terms of security of tenure and rent controls.
- Rate of rise of cost of living, fuel, food, water, local property taxes and so forth.

Buyers either ignore this vital information, concentrating instead on climate and current affordability (that buyers 'leave their brains at the airport' is a frequent comment made by brokers); or they get less than impartial information from brokers' websites and property exhibitions where they are fed 'knowledge' from regurgitated favourable newspaper articles, themselves often little more than 'stories' circulated by the brokers themselves.

Books also play a valuable role by informing readers, but even the best of these have an important weakness. They only cover a few dozen of the hundred countries that have property markets worthy of at least some consideration as a home for investors' money

The key difference with this book is embedded in the sub-title 'A Sourcebook for Successful Decision Making'. The fundamental sources of information required to make informed decisions about property investment have been identified after extensive research into international property markets; first-hand experience of building, buying and selling properties in overseas markets; and interviews and discussions with over 200 successful property investors, brokers, lawyers and other property professionals. From these studies the key sources of all the relevant data for all the facts required to evaluate any and every property market in the world have been identified. That data is usually available online (almost invariably free) and always comprises the latest available facts.

Often a single website will suffice. For example, Climate Zone (www.climate-zone.com) gives the weather history for every country and major city in every country in the world, with detail such as average hours of daily sunshine over the past decade, maximum and minimum temperatures, snowfall and rainfall. (Climate is a vital property investment topic, but not just because it could affect an owner's enjoyment. The period of sunshine or snowfall that occurs each year can profoundly affect rental yields.) The World Wide Tax Guide (www.worldwide-tax.com) covers tax methods, income tax, capital gains tax and property taxes in every country. The CIA World Fact Book (www.cia.gov/cia/publications/factbook/index.html) gives data on inflation, economic growth, political system and environmental issues.

When it comes to other subjects, sometimes information is only available on a continent-by-continent basis. In rather fewer cases, such as, say, finding an accredited estate agent, a search needs to start with the International Consortium of Real Estate Associations (www.worldproperties.com/CountryHome.aspx) where you can find the national real estate associations or regional associations covering most major countries. From there you can link to, say, the Hellenic Association of Realtors (www.sek.gr) on which site you will find both a directory of members and the basics of buying property in that country.

How the book is structured

The book has four parts, each of which drills down deeper into the factors governing choice. Part 1 starts by giving the overview for property as an investment and the factors that affect global property cycles and bubbles. Part 2 moves on to examine country-specific factors such as visa restrictions; healthcare; education; economic growth; the quality of life; tax; property law; and the prospects for capital appreciation and income generation. It also covers business-related taxes, including information on what is required to set up in business; what procedures need to be gone through; how complicated the process is; how long it will take; and what costs are involved. This information will be valuable for those considering setting up in any type of business, including property rental. By the end of Part 2 the reader should be able to narrow down their choice of overseas countries worthy of consideration, both by their own criteria and by objective investment yardsticks.

In Part 3 the tools required for rigorous investigation of individual countries are introduced. This includes methods for researching a particular town or area within a country; examining internal transport infrastructure; the climate month by month, covering hours of sunshine and rain and also snowfall (if appropriate); and information on the leisure, cultural and tourism appeal of the country. Here you will also see how to find a bonded estate agent who won't run off with your deposit; an impartial local surveyor to advise on structure and local planning issues; and a lawyer who speaks your language and is on your side.

Part 4 looks at issues related to getting settled into a country. These include language issues; moving effects; and, most importantly, all the issues that relate to fitting out and renting, in both the long and the short term.

How the chapters are structured

Each chapter includes the following elements:

- A description of the **subject area**: for example, the chapter on tax identifies and explains the key taxes to look out for (income tax, capital gains tax, 'stamp duty', inheritance tax and wealth tax). Each one is described alongside the effect that they will have on property-related decisions. For example, if tax reduction, or even elimination, is a primary goal, you will need to consider how to go about changing your tax residence; the implications of that decision; what double taxation agreements apply; what will happen if you change your mind and decide to return to your home country; and how to find a reliable tax adviser.

- At the end of each chapter section, the sources of the key data are provided together with the simplest way of accessing the data. In some cases this will be a brief description of website menus, showing how to find the appropriate locations. Where the web address is relatively straightforward, a direct link is given.
- When it comes to more overarching topics, such as evaluating economies or the legal environment, for example, the subject is broken down into its constituent elements, each is examined and key sources of information are explained and listed.

Research does pay off

The Duke of Wellington, one of the most successful overseas campaigners, believed strongly in the value of research. He called the subject 'the art of knowing what is on the other side of the hill'. He invested in a substantial core of intelligence gatherers who roamed the area around where he planned a battle and kept him fully informed as to what was happening there. There is considerable anecdotal evidence that those buying property overseas could benefit greatly from taking a similar approach to gathering current data.

Taking just the most mundane of matters – currency: industry experts reckon that over 80% of those buying currency make poor decisions. On average they make just over 5% on their transactions, compared with what they could have achieved by taking no additional risks whatsoever. Around 1 in 10 buyers loses out by an amount in excess of 10%.

There are dozens of other areas where superior and timely knowledge pays off. This book describes exactly how to acquire that. Budget airlines come and go; tax rates go up and down; property ownership regulations change; countries' corruption levels, economic performance and tourist appeal all fluctuate, often dramatically. To give two recent examples: Bulgaria halved its tax rate to just 10% virtually overnight on succession to the EU in 2007. This decision will have a significant impact on the inward investment climate and in due course on rental yields on new-build properties in the capital, Sofia. There is also the uncertain outcome of a court case rumbling through the judicial systems of Cyprus, the EU and the UK concerning a house built by a British couple in 2002, on land owned by a Greek Cypriot now living in the south, prior to the 1974 partitioning of the island. Locals estimate that property values in Northern Cyprus will be affected positively – by as much as 20% – on the favourable outcome of this single court case. An unfavourable outcome may send prices into freefall. Neither of these events attracted much attention in the international press, but they and other facts relevant to sound decision-making are easy to find, as the contents of this book explain.

PART 1

The World Property Market – A Beginner's Guide

There is no shortage of 'experts' when it comes to investing in property. Nearly everyone, everywhere, who bought property a decade ago is sitting on a unprecedented pile of 'dough'. Nominally, that is, of course, because property profit is notional until we cash in our chips. This 'success' has gone to our heads, while few of us did anything very clever to achieve this paper wealth. For the most part, we just rode the wave that swept us further and further up the profit curve. While not many people remember the last property collapse, though 2007–8 may refresh some memories many more are still nursing losses from the stock market collapse that followed the 'Dot Com' bubble burst. The 'expert' investors who rode that wave up have discovered two important facts: what goes up a long way fast can come down just as dramatically; and that they had either forgotten or never really knew the fundamentals that underpin long-term share prices.

Now, there are no absolute guarantees with any investment, except that your chances of success are improved exponentially if you understand something of the forces at work in the market – in this case, the property market. If you really are an expert and your property investments have outperformed the general trend, then skip this chapter. If not, read on.

Property – the backbone of wealth creation

Property has been a worthwhile source of wealth for generations. More private individuals have become millionaires in this way than by any other route to wealth. Property has the added attraction that financial institutions will actually back your investment as a matter of course, rather than having to be persuaded as is necessary in order to attract funds for other wealth-creation activities. With that borrowed money, through the miracle of 'gearing', it is possible to acquire an asset 10 or even 20 times the value of the ready cash you have to hand. The property investor can then enjoy the growth in value of the whole asset for just a fractional downpayment. Research shows that most people who achieve a comfortable retirement have a large element of property, both in their home country and overseas, in their portfolio. But for most of these property millionaires their home country was the boundary of their domain. Indeed, for some, the Duke of Westminster perhaps being a prime example, their riches were the happy result of owning a few dozen acres of land in an area that became immensely desirable for reasons that had little to do with their own efforts; though it must be said that they have proved adept at enhancing the value of what serendipity provided.

The world *is* enough

The spur to the next wave of property millionaires is undoubtedly the opening up of vast new tracts of the world to the adventurous investor as brought about by the extension of capitalism, or at the very least capitalist-driven economic thinking, and its corresponding policies. Countries that until recently placed restrictions on their own citizens owning private assets (China, Vietnam and Russia, to name but a few) are now opening up their markets so that 'even' foreigners are welcomed both to own property and stay for extended periods, or indeed take up permanent residence should they so wish. For the countries of the former Eastern Europe, removing restrictions on the ownership of property and creating 'functioning market economies' has been part of the price for gaining EU membership. For countries such as Turkey, Ukraine and Albania, the mere prospect, however distant, of EU membership has knocked down barriers that hitherto restricted property ownership. For Vietnam, membership of the World Trade Organization was the prize; for Russia, it was membership of the G8; for China, the Olympic Games; and for Thailand, the need for funds to fuel its tourism-dependent economy.

In a nutshell, the globalisation of financial instruments such as mortgage finance, foreign exchange and international banks, alongside cheap air fares and the richness and 'reach' in communications brought about by the Internet have created for the first time in history a world market in properties open to all. Of course, there have always been individuals and companies who owned property assets overseas, but this has until now been the domain of a very small minority of relatively sophisticated buyers. Spain, France and Portugal for the British and, to a lesser extent, the Germans; Mexico for the Americans; and the Black Sea Coast for the Russians were the first signs that a world market in private property assets was beginning to emerge.

As a consequence, for the first time ever, it is now possible for citizens of almost any country to buy property in another. Not only can they buy property, but that property is very likely to be available at prices a fraction of those currently available in their home market. Those who until now have found either getting a foot on the property ladder or building a property portfolio near impossible will now find an escalator in front of them.