Buying offshore

If you have the desire and the money, buying property overseas has never been easier

Story Pam Walkley

THE VERY STRONG $A, particularly in relation to some currencies such as the $US, means now is a good time to move money offshore, buying property for instance. But you still need to be aware of the pitfalls. Buying in unfamiliar markets should be very much a case of buyer beware.

People look to buy offshore for different reasons. It could be simply to have a bolthole in a city you love. A relatively well-heeled friend of mine did this, buying an apartment in Paris so she and her family could have their own base in their favourite holiday destination. She does rent out the apartment to friends at "mates rates" when her family is not using it, but could make much more by listing it on one or more of the many websites devoted to short-term Paris rentals.

Others buy purely for investment, chasing higher returns and increased diversification. Undoubtedly the US is where we have the biggest currency advantage. In just over two years the value of the $A against the $US has jumped from around 70 cents to about 95 cents at the time of writing in early June.

But the US property market is very diverse and particularly risky in some areas suffering from a glut of mortgagee in possession homes. While this can throw up potential bargains, it can be a minefield for people who do not adequately research the market they are buying into. Also keep in mind the US economy is weakening and may already be in recession.

Global Property Deals (www.globalpropertydeals.com) is a company claiming to help Australian and New Zealand investors source property in the US. It also conducts week-long real estate tours of selected areas for $A3900 plus airfares for interested investors.

But if you buy one of its listings you have to pay an upfront "service fee" of 3% or $US $2500, whichever is the higher. The company's website claims this is to "guide you through the process" and also says that nearly all its listings "have been sourced and listed by our US-based partners who are local people who know their market". But not all Global clients are happy with their experiences with these partners (see *Watchdog*, page 38).

If you go to the website realestate.com (www.realestate.com.au) and click on international you will find listings of property for sale in the US and many other countries as diverse as Brazil, China, Japan and India. The world truly is your oyster.

And depending on the country of your choice there will be other websites that display properties for sale if you use a search engine such as Google. For example, "Paris apartments for sale" brought up several.

I could even choose the district I wanted, the number of bedrooms and my price limit. But even if you do fall in love with a Paris apartment or Tuscan villa on the web, do not buy sight unseen, advises Melbourne-based international lawyer Michael Bula.

He helps Australians buy property overseas, mainly in Europe but also in the Pacific and America (see www.mbsols.com.au).

He says that people on holidays, caught up in the romance of the occasion, often "drop their guard" when it comes to making a sensible decision about buying property overseas, particularly in this age of internet shopping.

Bula says it's vital for people considering buying overseas to inspect the property. "You've got to go over there and do the hack work," he says. "As a rule of thumb prices will be 25% higher than those shown on the internet."

Also the legal aspects vary from country to country. In France, for instance, no property transaction can be done without the presence of a notaire, or notary, a legal specialist responsible for verifying the chain of title of the property and authenticity of the conveyancing transaction.

Also unlike Australia the buyer pays all the costs, including the vendor's and government charges associated with the transaction, says Bula. The notary adds about 6% to 8% of the total value of the property, partly his cut of around 0.5%, but mainly government charges.

Different laws

It's also important to remember that laws on tax and succession are different to those in Australia and buyers need to understand the rules in the country they are buying in, adds Bula(for more on tax aspects see Property Viewpoint, page 20).

"We can provide a minimum service, where we might give advice on some documents, through to full service where we hand-hold the client from A to Z," says Bula.

And he can provide this from his Melbourne base because he has built up a network of notaries that he works well with. Bula charges a fee for service, not commission. He can help with buying, selling and leasing.

Currency is another issue that you need to sort out if you are buying property overseas. You may be tempted to deal with your usual bank, but it's probably worthwhile checking out one or more of the online and telephone-based foreign exchange dealers that have set up shop to cater for the boom in demand.

Scott Collins, of forex dealer Caxton FX (www.caxtonfx.com), says niche players such as his company (which is an offshoot of a UK-based company) charge much less than the big banks, partly because they do not have the same level of overheads.

"On $2000 if will not make much difference to get a slightly better rate, but once you are in the tens of thousands it does," he says.

One option he suggests is buying currency ahead at a fixed rate, so buyers can factor in their transaction costs without the surprise of currency fluctuations.

"Many people forget that buying something in a foreign currency does not fix the cost to the buyer until they agree on a rate of exchange," he says. "Often the time between an offer being accepted and the final settlement can be measured in months, which leaves ample time for the exchange rate to fluctuate, potentially costing the buyer much more than they had originally planned."

Fixing is a particularly good strategy if the $A is strong against the relevant currency, such as is the case now with the $US where it is enjoying a 25-year high.

Another option is a rate watching system, where the client agrees to take a particular rate if it becomes available over a set period. This is probably appropriate now with the Euro, where the rate is not the best we have had over the past few years, although it is not the worst.

With Caxton what you pay is transparent, says Collins. "If we agree a rate of 95 cents for $US100,000 it's all inclusive, there are no additional fees or charges."

The other major question offshore buyers have to ask is where to borrow to fund their property. Bula says most Australian lenders are not keen on lending against offshore property, so many of his clients mortgage their Australian properties to raise money for the overseas buy.

A minority finance in the country in which they buy, because interest rates can be lower, but then they are taking a currency risk that the $A will fall against the currency in which they have borrowed.

Some people also decide to join with others to buy overseas property and for more on this see Property Viewpoint.

FACT FILE

10 mistakes to avoid when buying

There's plenty to think about

1. Choosing the wrong location. Buy only in areas where you are sure there is long-term growth and profit.
2. Choosing the wrong property. Make sure what you are buying will always enjoy strong demand as this is what drives prices.
3. Not understanding your tax liabilities, which vary from country to country.
4. Not understanding about title deeds. Find out upfront about the title deed quirks of the country you are buying in.
5. Failure to look into local laws of succession. You may need a will in the country where you own property as well as at home.
6. Forgetting about exchange rates. Speak to currency experts.
7. Forgetting about your overseas tax liability.
8. Not having an exit strategy.
9. Not hiring a lawyer who understands the laws in the country you are buying in.
10. Not seeking local help. In most cases you will need it.

SOURCE: WWW.SHELTEROFFSHORE.COM

GETTY IMAGES