



Independent Financial Services **PPS International**



Guide to International Property Investment

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Introduction

As all discerning overseas property investors are aware, in order to make lucrative returns on their investment, it is essential to find the right property and to acquire it at the lowest possible price before it becomes general knowledge. In so doing, important considerations need to be taken into account and this Guide addresses these, providing investors with useful tips and enabling them to make wise, informed decisions on their next overseas property investment.

This Guide is aimed at all types of international property investors; individuals looking for a short-term investment, mid to long-term investors seeking a dream holiday/second home or buy-to-let property, large-scale land and commercial investors, and those simply looking to further expand their existing international property portfolios. The Guide examines the various strategies available to maximise returns on investment. It also exposes the many important factors to be taken into account when selecting the right investment opportunity to best suit your particular requirements.

Off-Plan Property – The Concept

Off-plan property is often the favoured property investment tool as it allows the generation of high returns on investment (ROI) while employing a wide choice of investment strategies to suit the individual investor. It is important to decide which strategy to adopt in order to achieve your required ROI from an off-plan purchase (see Property Investment Strategies section).

Off-plan investment offers the potential to achieve returns of between 10-100% in just 24 months, while in many locations generated profit can also be free from capital gains tax if sold prior to completion. If you complete on the property and keep it for the purpose of obtaining rental income, excellent yields could be achieved. Meanwhile investors have the opportunity to enjoy a beautiful holiday home when the property is unoccupied, while watching its value appreciate at a steady pace.

How is property cheaper if bought off-plan?

The developer of any project is always exposed to risk. In order to cap this risk as quickly as possible and limit bank loans and other debts, units are sold off-plan. Prices are very low as buyers cannot see a physical property at this stage and their decision to purchase is based purely on location, artist impressions, diagrams and computer simulations.

In addition to an excellent price, the property, due to the fact that it is off-plan, allows the investor to benefit from an excellent finance structure. In some cases, a deposit of only 10-30% of the value of the purchase is payable and the balance is due upon completion and can be financed by a mortgage.

Investor Safety / Due Diligence

As with any investment, it is essential to carry out comprehensive research to purchasing a property to ensure you are well informed on all aspects of your proposed investment.

Information is power, so when buying something as expensive and as important as property, be sure you are in full possession of all the facts, without simply listening to salesmen or other interested parties. It is astounding how easily some people part with thousands of their own hard earned, taxed income and sign up to borrow hundreds of thousands of bank money after fewer background checks than they would if they were buying a second-hand car.

Below are some recommended due diligence checks:

The Developers:

In the case of off-plan development, just who are the developers? Do they have proven track record? It is important that the developer has a traceable background experience. Often previous projects are a good point of reference to assess future projects. Many experienced developers will have high standards and a reputation for completion on time.

Bank Guarantees:

Are the developers providing you with a bona fide bank guarantee and insurance should the project fold? It is usually possible to obtain a guarantee stating if the developer or constructor runs out of funds prior to the completion of a development project, the bank or insuring party will return funds to the investor.

Cost / Value:

A property purchase is only an investment if it is purchased at the correct price, thus allowing for its value to appreciate and/or generate solid rental returns in proportion to its cost.

If you are looking to purchase your property as an investment, it's important to seek out the lowest possible price in order to maximise your return on investment. This could be in the form of an off-plan pre-release or launch price, or simply a bargain for bargain's sake. To find out the true worth of similar property in the area, you will need to ask independent advice from a local lawyer, estate agents, and valuers who will know about their local market as well as average prices per square metre.

If the price of your off-plan property does not compare favourably with that of similar finished or soon to be finished developments in the surrounding area then you are gaining nothing by buying off-plan.

Investors should always aim to pay as low a deposit as possible. Normally the lowest is 30-70%, i.e. 30% deposit and 70% payable upon completion, although in some instances deposits of 10% and less can be achieved.

If you are buying off-plan, you will be selecting your property from a plan, a model and the best, a show home. Make sure the room sizes you get are the same as those you see in the show home and if they are not, find out the exact difference. Make sure you fully understand what you will be getting for your money and that it is well documented in the contract you sign.

PENTHOUSES AND END OF TERRACES ALSO SELL FASTER AND FETCH HIGHER PRICES THAN ANY OTHER UNITS.

It is important not to get carried away buying property you cannot afford. Remember to add on the relevant amount to the asking price to cover taxes, fees and other costs. Make sure that at the stage of searching for your property abroad, you have enough money available for a deposit payment in order to secure it immediately.

If you are to rent out your property, calculate what rent might be achievable over the year, both in peak and off-season, to cover your mortgage payments, net of management fees and other costs.

Selling on Your Off-Plan Property:

Be sure your particular off-plan property can be sold on prior to completion without penalty, as this is not always the case on every development and some will not publicise this fact to purchasers. You will be better off with your options left open so it

is advisable to avoid developments where selling on is not possible. Contracts must be re-assignable and any administration fees will need to be highlighted to ensure maximum benefit from your investment strategy.

Be aware that some developers say you can sell before completion but include a clause in the contract stating you may sell on only when they have sold all the other units within the development. You may not be allowed to sell for a lower price than the other remaining apartments, or they may require you to sell through the developer's sales office who will then charge huge fees for the privilege! Developers normally charge 1-2% to transfer paperwork from one name to another and this is normally paid by the purchaser.

Once you have found your chosen development, be careful to select the right unit that will allow you to sell it on easily if you wish. It is human nature and a well known fact that well appointed properties, with views and sun facing terraces are firm favourites and are proven to sell faster than other alternatives of the same address. Penthouses and end of terraces also sell faster and fetch higher prices than any other units.

Two common errors can arise if investors are not diligent prior to purchase:

Inability to achieve the rent or resale price you require – If you will be relying on a rental market or even a resale, go to other agents as a potential buyer or renter and ask about what is currently available in the area and for what price. If there is plenty of similar accommodation available, is there an oversupply or simply no demand? What makes your property to stand out from all the rest? Is your rental income confined to a peak tourist season or

can you enjoy a year-round rental investment?

Forgetting to do the sums - Some investors have a strategy to sell the property on just before the project is completed, thus avoiding the final payment and escaping capital gains tax. But be sure you can afford the final payment in the worst case scenario if you do not sell when you wish to do so.

When you buy off-plan, you will need to pay tax (percentage varies from location to location) at every stage payment and typically a percentage of the property price as stamp duty upon signing the deeds. For any type of property purchase, you will need to seek advice on the required "closing" costs you need to add on to the asking price to cover taxes, fees and other costs.

Remember, on a development that has a 30-70% payment schedule, if the price of the apartment goes up 10% then that is actually a 31% gain on capital invested.

Example

Based on development in Spain with a standard 30-70% payment structure

Purchase price = €200,000
30% deposit = €60,000
7% IVA = €4,200
Total capital invested = €64,200

If the developer puts the price up by 10% the the increase is €20,000
If you bought the house immediately when it was released at €200,000
you gain would be as follows: $\frac{€20,000}{€64,200} = 31\%$

If you had bought after the increase, then you would have lost a 31% gain!

Title Confirmation:

Whether you are purchasing a new or resale property, make sure the person selling the property is indeed the owner of the property and the land by arranging to do a search at the local Land Registry. You can save legal fees by doing this in person. Ownership is a key issue and there have been many documented cases of developers taking funds for projects for which they do not even own the land title or building permission having not been fully granted. Construction has consequently been halted, often resulting in investors losing all or part of their investment.

Building Licenses:

Building licenses are required prior to construction. Many projects work on a pre-release basis and these licenses may not be in operation at the early stages of development. Carefully managed pre-release opportunities can be highly lucrative to investors, allowing them the earliest possible entry into certain projects. In this case of pre-release opportunities, monies must be held in an escrow account or client account of a reputable lawyer and only released to the developer when all relevant licenses are granted.

Build Quality Guarantees:

All good developers offer a construction guarantee, detailing quality specifications. Investors should make sure these qualities and their guarantees are to the required high standard, while building specifications must also be made available.

Finance:

Some developers will offer a pre-arranged mortgage as part of the off-plan deal. You are not obliged to take this mortgage, although you will probably save some arrangement costs if you do so. It is always wise to exercise caution and get competitive quotes from other mortgage suppliers before simply taking the developer's option.

Typically, early entry into emerging markets offers the highest potential returns on investment, but in many circumstances this is also associated with the highest level of risk. Property used solely as an investment vehicle can generate substantial returns for the investor. It is therefore essential for you to understand the entire procedure from start to finish, including exactly what funds are required and at what stage of the purchase, ensuring you obtain an accurate cash flow analysis and maximum financial leverage.

Above we have considered the due diligence required to research the viability of the property.

Market Drivers

If a market is expected to offer continued growth, it is important that as an investor you understand what the “Market Drivers” are for this growth.

Some common market drivers are listed below:

Location:

This is always a major factor with any property investment. The location of a property is directly linked to the return on investment you can expect from both capital growth and rental yields. It is wise to look at the current property and rental prices in the direct and surrounding areas of any proposed investment in order to gain first hand knowledge of pricing and, where possible, personally visit the area.

Once you are clear on what your criteria are, the property you choose must fit in with these requirements. All well located property is close to local transport and amenities. A rural property will be far more marketable if it is easily accessible, located within close proximity to good quality roads and within easy reach of an international airport or city.

Logistics:

In order to be an attractive investment location, the area must be easy to reach. Look out for new low cost airline routes, nearby airports, a good road infrastructure and the time it will take to reach your investment property.

LOOK OUT FOR NEW LOW COST AIRLINE ROUTES...

Infrastructure:

An excellent sign of a potential investment property hotspot is when there are considerable infrastructural improvements being made to a particular area. Generally this includes local attractions, services and amenities, but also, and often most importantly, additional airports, ports and roads, expansions to existing services, as well as secure signs of economic growth and firm commitment by the local government to improve the area.

Economy:

The economic condition of the country must be taken into account. A country or region relying heavily on tourism will be prepared to invest substantially into the infrastructure in order to promote construction and tourism. The downside may be that too much planning permission may be allowed and in order to avoid a saturated market, it is important to ensure this is not the case in the area you are considering. Currently some emerging markets boast significant business attraction. International consortiums are increasingly looking to invest in overseas locations, relocating their production facilities to benefit from lower costs.

In such areas, a resulting demand for quality accommodation and commercial property boosts opportunity for many types of investment strategy. In addition, the increased Foreign Direct Investment (FDI) the country experiences does wonders to boost a growing economy.

Tourism:

Tourism is the major factor that enables many emerging property markets to create a successful real estate market. With the introduction of the EU directive, Open Skies Agreement, and other new low-cost direct flights to a multitude of worldwide destinations, the door is now open to previously relatively

unknown locations. These are offering exciting new holiday destinations to today's tourists who now seek a change from some of the more traditional destinations.

Political Stability:

Political stability is an important market driver. With terrorism around the world on the increase and many political, religious and legal implications to consider, it is essential that the stability of the location is carefully considered prior to investment. A consistent and stable political environment will lead to the continual support of economic policies and investment, perhaps even encouraging foreign investment through tax advantages. A constantly changing, uncertain political environment will at best lead to a de-stabilisation in the real estate market and, at worst, it could cause possible civil unrest.

Factors:

These are often the most obvious market drivers. Many locations base their bid to increase tourism and property demand on the fact that the area enjoys excellent weather conditions and can offer stunning beaches, tropical views or it is positioned next to mountain ranges with top quality skiing conditions. These factors are obviously very important but it is essential that other market drivers listed above are also considered.

Property Investment Strategies

Strategies vary greatly depending on the objectives of the individual property investor. They range from short, medium to long term and differ in levels of complexity in accordance with the investor's attitude to risk.

For illustrative purposes, the two most common strategies are described below:

Short Term Investment Strategy (Flip):

Typical duration: 18-24 months.

This strategy involves purchasing an off-plan unit, i.e. a property that has either not commenced construction or is currently under construction, then selling it prior to completion. In reality, this is not a property purchase as the unit has not been completed, but it is simply a purchase and sale of an option to purchase property. A major success factor in the flip strategy is the identification of the correct investment opportunity.

Key Opportunity:

The key opportunity to purchase a property at a low initial price can lead to significant capital appreciation. This can often be achieved in an emerging market where prices are still extremely low, before market forces lead to significant capital appreciation. The option is then sold whilst demand is increasing, taking advantage of normal supply and demand economics where

Prices increase as more people wish to buy.

Timescale:

Typically the time period involved will be between 18 to 24 months, although this is dependent on factors such as the stage of construction of the development and the speed of construction for that particular country.

Level of Complexity:

The short term strategy is attractive to investors due to its simplicity and the low initial investment (typically 10% to 20% of the purchase price plus some basic legal fees). The short payback period allows the investor to recover cash relatively quickly for reinvestment in other developments. In addition, the investor is not left with a long-term liability that needs to be serviced and paid for.

Return:

This type of investment is a speculation of capital appreciation and therefore returns fluctuate greatly dependent on how popular the country, the area and even the development becomes.

For example:

- An off-plan investment is made at a purchase price of €150,000.00
- The deposit required is €30,000.00 with expected legal costs of €500.00
- Completion is expected to be in 24 months
- The area has shown a growth rate of 10% p.a.
- The initial investment will be €30,000.00+€500.00=€30,500.00
- When the option is sold in say, 18 months (i.e. Prior to actual completion) the price is: €150,000.00 * 10% growth p.a.=€173,250.00
- Therefore the gross profit is: €173,250.00-€150,000.00=€23,250.00
- Gross return is €23,250 / €30,500.00 = 76%

Financing:

As the off-plan property is under construction and has not yet been completed, it cannot be legally registered. It must still pass all the relevant planning directives and license requirements. As such it does not provide adequate security for the lenders and therefore it is not possible to raise a mortgage upon it.

The initial investment will have to be raised from the investor's own sources, be it cash funds or by releasing equity from an existing property by way of a further advance, re-mortgage or bridging loan facilities.

Taxation:

Taxation rules are very different from country to country and specific expert advice should always be sought regarding this subject.

Although the option to purchase property is a legally binding contract, in itself it is not a property purchase. Therefore it will not be treated as a property transaction and will not incur associated registration procedures and taxation such as stamp duty or the VAT equivalent.

As the transaction is a private contract which will most probably take place outside of the country in which the property is located, the resale of the option to a third party will probably not incur any tax unless you choose to declare the gain in the country concerned. Remember your obligation to declare all income and gains to the relevant tax authorities.

Key Risks:

The critical element to the success of this strategy is the sale of the property prior to completion. This avoids the investor being forced to complete on the purchase and experiencing all the associated legal and financial consequences.

The investor must be clear to the mechanisms available to resell his/her option. This may be done by private advertising, through an existing database of buyers, or through commercial means such as estate agents, website portals etc.

Medium/Long Term Investment Strategy (Buy-to-Let or Buy-to-Hold):**Typical duration: 3-5 years**

This strategy involves the purchase of either an off-plan unit or resale property, completing on the purchase and holding onto the property for a typical period of 2 to 5 years or sometimes longer,

before ultimately selling. During this period the property is rented either on a holiday or long-term rental basis in order to generate income. When considering this strategy it is important to be clear as to whether income generation or capital appreciation is the key objective and to tailor your investment accordingly.

Although possible, it is extremely difficult to achieve a high return in terms of both income generation and capital appreciation, which often leads to average returns. It is usually better to focus on one specific objective in order to maximise the return. Typically investors look for capital appreciation and use any rental income to negate the cost of financing and maintenance.

Avoid emotional purchases as this type of strategy is a medium to long term investment which requires careful analysis of the returns. The investor also needs to be sure he/she is able to afford the cost of maintaining and financing the investment.

If you plan to be away from the property and rent it out, it will need to be within easy reach of a reliable management company to help with any lettings or maintenance in your absence. If you plan to use rental income to pay off your mortgage, it is of utmost importance to use a professional agent who will not let you down and will find you good tenants to cover your outgoings.

Key Opportunity:

The strategy is to either maximise on capital appreciation by holding on to the investment until market conditions change, enabling you to sell at the highest possible price, or to maximise the income generated via rental means, perhaps at the expense of capital appreciation. As a bonus, the property may also be available for the investor's own holidays.

Timescale:

The time period for holding the investment property is typically 2 to 5 years in order to ensure there is sufficient capital growth to cover the initial purchase expenses, such as taxation, legal costs etc.

Level of Complexity:

Fundamentally this is a normal property purchase, therefore the concept is simple. However please bear in mind maintaining a second property in another country involves more management than a property close to home. There will be physical, economic and legal requirements to adhere to, ranging from basic maintenance of gardens, pools etc, rental administration, perhaps financing mortgage payments, community charges, annual legal returns and taxes, though a good lawyer and management agent should take care of many of these issues.

Return:

In holding a property for a long period it is possible to achieve more significant returns, assuming the market growth rate remains constant. The example below shows capital appreciation as the objective, therefore the rental income is designed to cover the annual finance and maintenance costs.

For example:

An off-plan investment is made at a purchase price of €200,000.00 with completion in 24 months.

- The deposit required is €40,000.00 with expected legal costs and taxes of €24,000.00. A mortgage can be arranged for 80%, i.e. €160,000.00.

The total cash investment is: €40,000.00+€24,000.00=€64,000.00

- The area has shown a growth rate of 10% p.a. Rental income is expected to cover at least the mortgage expense and annual maintenance costs. When the property is sold 4 years after completion, i.e. 6 years after initial purchase contract, the price is: €200,000.00 * 10% growth * 6 years = €354,312.00

- Therefore the gross profit is: €354,312.00-€200,000.00=€154,312.00

- Gross return €154,312.00 / €64,000.00 = 141%

Financing:

The investor must be prepared to finance the balance of the purchase either via personal cash resources or, more commonly and more sensibly, via a mortgage.

Please be aware that some countries may not have an established mortgage market for non-residents by the time the property is completed. With this possibility in mind, it is wise to be prepared to finance the balance of the purchase through other means, perhaps via an equity release or re-mortgage on an existing property in a different country.

Rental opportunity is highly dependent on location and may be seasonal in nature, leading to high rental yields during the summer months and little or no rental during the winter months. Some developments offer reliable guaranteed rental schemes that alleviate this problem and more importantly remove the worry of finding tenants in the first place. If no guaranteed rental scheme exists, specialist rental companies exist that will contract to rent suitable properties for at least 6 months of the year.

Taxation:

Taxation rules vary greatly from country to country, therefore specific expert advice should always be sought regarding this subject.

Taxes will be payable upon the initial purchase of the property and are usually the most significant expense that needs to be recouped.

Expect to declare and pay tax on the rental income generated, particularly if you use a rental agency in the country that the investment is situated.

As the investor is the legally registered owner, expect to have to pay capital gains on the profit upon sale in most countries.

Key Risks:

Depending on whether income generation or capital appreciation is chosen, one of the two key factors is the identification of a suitable property to suit the strategy.

For example, if a rental strategy is chosen, the type of property will determine the type of tenant. One bedroom apartments will appeal to young singles or couples and should be located near to lively nightlife locations, bars, nightclubs etc.

The rental for this type of property will be lower than a three bedroom property attracting families, but these require different facilities such as proximity to beaches, supermarkets, children's amusements etc. The type of tenant will become a factor when considering the quality of furnishings to be purchased and, as importantly, the condition the property is left in following a rental.

The location of the property is always important as it will determine the amount of rent and level of capital appreciation achievable, however please remember the initial price of the property will also reflect these factors.

Investors continually need to monitor the market to ensure the property is not put up for sale during a market downturn which would of course reduce the sale price. Please bear in mind this level of awareness is a little more difficult to achieve when the investment is in a different country.

Investment Finance

Mortgages

When considering a medium or long-term investment, mortgages are an extremely efficient mechanism for the completion of the purchase when the property has been finished.

In financial terms, the process of borrowing funds to purchase property is often described as "Gearing". When a property is highly geared this simply means that there is a large mortgage secured against the asset. For example, a property valued at €100,000.00 with a €70,000.00 mortgage, i.e. 70% loan to valuation, would be described as highly geared, whilst a property with a 25% loan to valuation i.e. €25,000.00 is low geared.

There are many advantages in gearing an investment:

- Allows financing when the investor does not have enough liquid funds.
- Avoids tying up significant cash into one investment, therefore allowing other investments to be made simultaneously.
- Eases cash flow to fund the mortgage repayments to fund the initial purchase price.
- Allows investors to benefit from different interest rates in various countries.
- Takes advantage of the availability of specific mortgage products to reduce risk, such as interest only and fixed rates.
- Possibility of tax advantages, depending on the country.
- Negates exchange rate risks and differences upon sale.

The main disadvantages for gearing are:

- Needs finance to fund the mortgage repayments.
- Lack of financing in some countries for non-residents.
- Necessity to demonstrate your ability to repay the loan.

When considering mortgages and gearing, it is important to weigh up all the options available, including whether or not it is the best option to look for the mortgage in the country in which the investment is being made. For example, if interest rates are very high in that particular country and another property located in a different country attracts lower interest rates, logically it would be more advisable to borrow where the interest rates are lower. It is always advisable to speak with a professional financial consultant who has experience in the countries you are considering investing in.

Equity Release

When considering financing the deposit and stage payment for an off-plan purchase, or completion in an emerging country that does not offer mortgage facilities, equity release could be a viable option.

Using the term in its broadest sense, equity release is the release of the equity that is locked in an existing property either because it was originally purchased in cash or due to the value it has accumulated over time. Although in some countries equity release may indicate a specific type of product, the principle

Remains the same releasing equity. In a rising property market, the latest value in a property could be considerable and this makes it ideal to be released and utilised for the next investment. Many successful investors have used this principle to build property portfolios over the years.

This is done either by a re-mortgage (because there is an existing mortgage in place) or a new mortgage (on a debt free property), then using the cash released to finance the new investment.

The formula to calculate the equity is very simple:

- Current value of the property minus current loan commitment = Accumulated equity.

Case study:

- A property was purchased 10 years ago at a value of €100,000.00 with a mortgage of €60,000.00.
- Today the property value is valued at €225,000.00 and the existing mortgage is now €50,000.00
- Therefore the accumulated equity has become €225,000.00 - €50,000.00 = €175,000.00
- There is potentially €175,000.00 available to invest in another property or properties if creating a portfolio.

Portfolio Investments

This involves investing in a number of properties rather than just one. They do not need to be in the same development or even country so it allows investor to spread the investments across different market spaces, thereby taking advantage of different growth rates and spreading the risk of those investments. In this way, the investor does not rely solely on one development to be successful.

Using the example above Case Study:

Our investor releases 80% of the €175,000.00 equity available = €140,000.00 for further investment.

Four properties are identified:

- Properties A and B in Bulgaria are priced at €125,000.00 each and require a deposit of €25,000.00 each
- Property C in Cape Verde is priced at €101,000.00 and requires a deposit of €20,200.00
- Property D in Spain is priced at €230,000.00 and requires a deposit of €57,500.00
- In total the investment is €581,000.00 but the initial cash paid is €127,700.00. The balance of funds is used to cover initial legal costs.
- Whilst the properties are being built, the investor can choose to either hold on to all the properties and finance the balancing payments at completion by a mortgage, or put them up for sale and take advantage of a short-term investment strategy.

The profits gained by the sale or sales could be used for another investment opportunity or to fund the completion of one of the other properties. When creating a portfolio of investments in this way, it needs to be actively managed to ensure there is always sufficient cash to fund the next stage of the investment.

A Sophisticated Finance Market

In Northern European countries such as the UK, Iceland, USA etc. the financial market place can be described as sophisticated, with a stable political, economic and real estate environment which allows banks to be more adventurous and confident in their lending policies.

Loans of 80% to 90% of the value of the property are available, usually on an interest only basis, as the lenders are aware that investors will use equity release for financing further investments but they feel comfortable because their loan is secured against a stable asset.

The key factor is the affordability of these loans. Set up costs can be very low and as the loan is on an interest only basis the monthly repayments are also as low as possible, making this form of funding truly accessible to the majority of home owners. In addition, a growing number of self-certification and non-status finance products are now available, allowing equity to be released easily and quickly.

Remember that your property is at risk if you fail to maintain the mortgage payments each month, therefore consider your monthly repayments carefully. For buy-to-let investors, rental income can sometimes cover the mortgage payments leaving a self-funding asset appreciating each year until the equity is released.

Less Sophisticated Finance Markets

In many emerging markets and some established markets such as Spain and Italy, a level of instability has been experienced, causing the banks and lenders to be more cautious in their lending policies, often limiting their lending amounts and criteria.

In the case of new emerging markets, finance may not be available for non-residents. Many investors have purchased property abroad over the past few years and have discovered the value has increased significantly over time, potentially allowing equity to be released. This is an ideal situation when considering your next investment, however please be aware that equity release is a product used in more sophisticated financial markets, as already mentioned. Therefore you may not be able to release as much from the property as you hope.

It is important to obtain professional financial advice from an experienced mortgage or financial consultant in the country of your choice to establish exactly what is realistically achievable.

Alternative Finance

Other than using mortgages for investment, alternative methods of financing are also available:

- Cash
- Buy-to-let
- Company Purchases
- Shared Investments
- Pension Schemes
- Investment Funds

IT IS IMPORTANT TO OBTAIN PROFESSIONAL FINANCIAL ADVICE FROM AN EXPERIENCED MORTGAGE OR FINANCIAL CONSULTANT IN THE COUNTRY OF YOUR CHOICE

Cash

This is a simple way of financing an investment if the funds are available. In general terms however, it is better not to use your own funds when someone else's are available, i.e. a bank. In this way, by investing only a small amount into more than one investment and financing the remainder by debt, more investments can be made and potentially greater returns can therefore be achieved.

Buy-to-Let

A popular source of raising finance in many countries,

buy-to-let raises finance through the rental income that will be generated. The lender assesses the rental income achievable and approves a loan based on the rental income. Lenders will be conservative in their estimates so it is unlikely that 100% funding will be possible.

Bear in mind that many emerging markets do not have sophisticated financing products, therefore this type of product may not yet be available.

Company Purchases

Some investors have their own company and may consider using it for the purchase of an investment. This can make great sense if the company is set up correctly as an investment company. However, remember that the investments will all become commercial assets of the company and careful tax planning is required to ensure there is no double taxation incurred when trying to extract profits from the company.

Trading companies may legally be used to invest in a property and this often appears attractive as the company may be able to raise funds more freely than the individual. However, this brings with it certain tax issues that could effect the profitability of the trading element of the company. It also means the asset is at risk from trading creditors. It is not therefore normally advisable to use this mechanism if an alternative is available.

Shared Investments

This simply involves buying with a relative, friend or group of friends. A shared investment is often a good entry method into property investment as it reduces the amount of cash required by each individual, making the opportunity more feasible to a greater number of people.

When investing with others, disagreements and disputes may arise, therefore it is important to make an initial contract between all the investors, detailing the amounts invested, the percentage returns each party is eligible to and the mechanism of agreeing decisions. The latter point is particularly important when there is an even number of investors which can lead to split decisions or when the parties have invested different amounts.

Pension Schemes

Some pension rules allow for the investment in residential property abroad. Not all pension providers are likely to allow such investments in their main fund and it may therefore be necessary to seek out a specialist pension fund manager to do so.

Pension schemes are strictly controlled by law and taxation regulations, which differ according to country. However, investing in a buy-to-let property through a pension can be an attractive option significant tax advantages can be achieved regarding contributions to the scheme, income generated from the investment and capital gains upon sale.

Real Estate Investment Funds

In basic terms, investment funds are formed by individuals who operate under the umbrella of a financial advisor or fund manager in order to invest in real estate.

Please bear in mind that these funds need to be run by a fund manager and costs will be associated with the investment. These costs are often calculated as a percentage of the income. Remember also that this is not a personal investment and decisions regarding the investment are often taken by the fund manager in the interest of the investors.

For example:

A fund manager sets up a fund requiring an initial investment of 10,000.00 per person, and needs at least 500 investors to invest. This provides a fund of 5,000,000.00 which can be invested in a complex of apartments generating both rental income and capital appreciation.

REMEMBER ALSO THAT THIS IS NOT A PERSONAL INVESTMENT AND DECISIONS REGARDING THE INVESTMENT ARE OFTEN TAKEN BY THE FUND MANAGER IN THE INTEREST OF THE INVESTORS.

Leaseback Property

Particularly popular in France and growing in Spain, the leaseback system of property ownership has caught on and is now well-known as a trouble-free and cost effective method of investing in property.

The concept of leaseback property purchase is simple: a purchaser buys the freehold of a property outright and then leases it back to a management company for renewable periods of up to 10 years. In return, the property owner receives a guaranteed rental return, irrespective of occupancy, at a fixed annual amount, which often offsets the cost of their mortgage payments. The rental return is net of all community fees, running and maintenance costs while these are covered by the management company for an initial fee. Leaseback owners also benefit from a substantial government-backed VAT-refund system.

An attraction of Leaseback purchase to many investors is the ability to buy a dream holiday-home within a development they could afford. It is a freehold investment while most or all associated costs are covered by the guaranteed rental income. Most leaseback properties are found in the best tourist orientated locations with free pools, gyms and other facilities, rendering them high-demand holiday-homes and therefore easy to rent.

The Leaseback Agreement provides great peace of mind for investors, who constantly receive guaranteed returns, irrespective of occupancy. Reliable annual rental payments are

thus achieved and investors are not exposed to any fluctuations in the tourist market. It also means owners have no worries about day-to-day management responsibilities such as looking for a rental agent, paying utilities, dealing with maintenance issues or insurance.

At the end of the lease period, the owner has the option to live in the property or simply sign a new leaseback contract with the management company for another fixed period of guaranteed income.

The Process of Leaseback Purchase

Once a property is decided upon, certain original, signed documents will need to be supplied to the developer in order to secure the unit:

- leaseback contract
- reservation contract
- technical description of the building
- furniture list
- floor plans

Meanwhile, a deposit payment will need to be made to the notary along with proof of transfer to the developer. At this stage the property will be secured until the eventual official signing of the Deed of Sale at the notary's office. Developers are obliged to allow purchasers up to two months before completing in order to raise the appropriate finance for their property.

Frequently Asked Questions – Leaseback Purchase

Is leaseback like timeshare?

No, leaseback is not like timeshare. Leaseback schemes involve the full purchase of freehold property. Timeshare however, is the purchase of specific periods of time usage of a specific property. Unlike timeshare, although you are leasing back your property to the property management company for a fixed period, when the contract comes to an end the property is still owned by you.

When will I receive my rental income?

This depends on the property management company and the lease agreement you have with them. Payments can vary from quarterly to once a year.

What taxes are involved?

VAT is payable on all new build properties at a rate applicable to the country in which you invest. The government agrees to offset the VAT payable on the purchase price against the rental charged for short lets via the rental management company. In addition to the rental, other services such as cleaning and breakfasts qualify the letting business as a hotel letting. Therefore the rentals charged by the management firm are also subject to VAT. In most cases you pay the VAT upon purchase and receive a rebate from the government within 5 months of the purchase. However sometimes the developer advances the VAT and the purchaser later reimburses the developer on the day he/she receives the rebate from the government.

As you receive rental income on your overseas property, annual tax returns will be due in the country in question. The management company can often help you with filling these in and will provide you with an accountant, often free of charge.

Are there any more costs?

The owner is responsible for some costs, such as land/building tax and often a portion of the shared facilities costs, depending on the amount of weeks that are used personally. Owners are also responsible for any building or repair costs that fall outside the guarantees of the builder and the responsibilities of the management company, so check your Leaseback Agreement.

If I purchase leaseback, can I sell it whenever I want?

Yes. As the freehold owner of the property you are entitled to do as you wish with your property. However, if you decide to capitalise on your investment before the end of your lease contract, then the person to whom you are selling will be obliged to see through the remaining time on the lease contract.

If an appliance in my property breaks, who will organise and pay for its repair?

Under the leaseback system, the management company is completely responsible for the upkeep and maintenance of your property and will ensure everything is in full working order. If you do not renew your lease when it comes to an end, you will be responsible for all maintenance.

Guaranteed Rentals

Rental guarantee schemes have increased in popularity over the past few years as developers continue to create new incentives to attract buyers and on paper they look very good. The developer undertakes to find tenants and guarantees all rental payments for a specified number of years. This is essentially what happens, however, investors need to consider the price they pay for this privilege, bearing in mind the following cautionary facts:

- Some developers will look to recoup the cost of their generous offer, often by including it in the purchase price. Typically, many will offer a gross rental guarantee of say, 5% of the purchase price, while the purchase price is quietly raised by 15%, more than covering the guaranteed rental. Therefore investors could essentially be paid “rental” with their own money.
- Many developers are not interested in obtaining a maximum rental value for the property as they have already more than recouped their money with the sale. Some people find that when the guarantee period ends, they are unable to rent out their unit and may be stuck with the existing low rental payments which are difficult to increase.

- If investors are confident in the rental potential of the property, having calculated the value of the rental guarantee offer, they may be better to ask for this as a discount on the purchase price.

However, not all developers are the same and it would be unfair to brand them all as guilty of a scam. Many genuine companies work ethically, serving to enhance investor confidence and provide an excellent product. Look out for the good signs when picking the ideal property.

A company offering a good guaranteed rental agreement will:

- Not overprice their properties to more than cover your rental guarantee.
- The guaranteed rental agreement will be made on the basis of signed contracts with national and international tour operators. Travel agencies pre-book blocks of the year and supply bank guarantees.
- Keep properties permanently occupied with genuine rentals, usually linked with tour operators and holiday lets within a good niche market that will continue to feed you investment.

Avoid the Pitfalls

A few initial checks will allow you to be sure your developer is offering a genuine deal.

Add up the items making up the price of the terms offered in the guarantee offer, including legal fees, stamp duty and deduct this from the asking prices. This will give you the actual price of the property, which you can then compare with other similar options. You can make this a clever bargaining tool.

Study the rental market in the area and work out if your property stands a good chance of rental. On what basis are the developers guaranteeing to rent out your property and will you be able to do so when the guaranteed rental period is over?

What is the infrastructure like around your property? Will it be adequate for the rental market proposed?

Make sure your property is within an established, or preferably an up-and-coming area which is becoming popular. In this way your property will be commercially viable as a good investment. It must be continually in demand as a holiday home to fetch a fair price.

Is the developer obliging you to accept their furniture pack as part of the deal? If so, how much is this costing you and is it a fair price?

Be aware that gross rental guarantees do not include costs such as service charges, management fees and ground rent, while net guarantees do.

Add up the total income from the rental guarantee and if this is greater than the difference between a comparable property without a guaranteed rental agreement, then ask for a discount.

FOR FURTHER INFORMATION PLEASE CONTACT:

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