



TOP TEN TIPS FOR BUYING & SUCCESSFULLY OWNING A FOREIGN PROPERTY





ABOUT THE AUTHOR

Peter is co-founder of the AIPO and has been helping British buyers of a foreign property (through AIPP) since 2006. Currently also the CEO of AIPP and a former property owner in Spain for 12 years, Peter has regularly delivered buyer advice at various high-profile buyer events such as A Place in the Sun Live, The Property Investor Show and Luxury Property Show in the UK.

UK media credits include BBC Radio, Talk Radio, The Richard & Judy Show, Sky's Property TV, The Times & Sunday Times, Easyjet & Monarch Airlines in-flight magazines, The Daily & Sunday Telegraph, The Financial Times, Daily Mail, Mail Online and The Negotiator. Abroad, Peter has had numerous speaking engagements at a variety of trade & consumer events in Europe and the Middle East.

Peter has worked with every component of the foreign property industry and brings a unique insiders-view as to how the industry works and how best to navigate your way around it. Expat for a time in both the Middle East and Spain, Peter has been based in Westminster, London, since June 2013 for AIPP (now also AIPO) with a focus on two key things:

1. Consumer Education & Protection
2. Trade Business Development & Best Practice.

Peter Robinson
CEO AIPP



START RIGHT – RESEARCH & ENSURE YOU AND YOUR BUYING PARTNER(S) ARE ALIGNED!

Ok, so we all know how much easier it is to 'get it right' by starting correctly.

If you gleefully & diligently spend time researching the purchase of a new road bike or golf clubs (& all the technical gear that goes with them) or a family holiday to check the restaurants, bar, culture, entertainment and sports options etc, you may be surprised to hear how little proper research is done by people buying a foreign property.

So where do you start?

The simple answer is...sitting in a separate room from your buying partner with a blank sheet of paper & pen answering the questions below. Once you have done this compare notes. Are you in agreement? At property events I attend, it is slightly alarming to hear couples heatedly arguing their different choices of region, property type, usage and country with seemingly little chance of amicable resolution!

Your key questions:

What are you PRIMARILY buying this property for:

- ✘ Holiday home
- ✘ More of a financial investment – to be mainly rented out
- ✘ To retire to now
- ✘ To retire later with some mixed holiday / rental use

What do you each see yourselves doing in the region, facilitated by your property?

- ✘ 100% time together relaxing
- ✘ Boys golf trips (how often..?)
- ✘ Girls weekends away (how often..?)

How often do you think you will visit your property in the first year, 3rd year, 5th year, 10years+?

When your property is not occupied by your friends and family will you rent it out?

How long will you rent it for and for how much?

What NET rental income must your property realise after cost of servicing, agent fees, taxes, running costs and other deductions?

(Note. You know you always underestimate how much money you will spend whilst on holiday? Well, owning and running a foreign property is pretty much like that too. Put a comprehensive budget together, pronto!) there are no right or wrong answers – just the answers that give you both clarification of purpose and direction as to what is the right property that meets your own individual needs.



THE MARKET AND ITS INFLUENCES

Approximately 35,000 Brits buy a 2nd home abroad each year for holiday, investment or retirement purposes – often a combination of all three. Although this is only half the number of 70,000 that were buying in the recent peak boom of 2007, there is no denying that we Brits have an enduring desire to own 'a place in the sun'. The current popular destinations for Brits to buy in are; France, Spain, Portugal, Italy & Florida. Greece, Cyprus & Turkey have devotees too.

One of the first decisions many buyers have to face is whether to buy a newly built property or a resale. Although the 2002 – 2007 building boom in many areas Brits buy abroad saw new properties aplenty, the typical % of sales is now 80% resale to 20% new build, this varies by country.

New properties benefit from the latest building code regulations, improving thermal dynamics and often are accompanied by a higher quality of finish. Existing homes have had opportunity to settle into their environment and often have good infrastructure and amenities around them

but may be less well constructed.

Something to watch out for are apparently 'new' properties that were, in fact, built perhaps 10 years ago in boom times and have been languishing since, unsold. Some of these properties were built in a rush to capitalise upon peak demand from Northern European buyers and corners may have been cut to finish and sell them as quickly as possible. Have these properties also been properly cared for since completion? An independent survey might well be advisable.

The agents who market both new and resale properties will also likely earn different levels of sales commission on both – typically double on a new property. Look out for sales bias from the agent when being shown property – the developer or bank behind the property has much more margin to play with than an existing (resale) home owner and it is this that fuels higher agent commissions.

That said, the agents who market these properties have a much more extensive role to play than traditional UK agents. Agents must support both vendor and buyer over

a prolonged period, often operating or with relationships in several countries in order to market properties effectively.

There are significant up-front costs to operate as an agent in this market and working with a buyer to find and conclude a property purchase can take 6 months or more. With the buyer in one country and the agent generally in another, the agent often supplies supporting services and a point of reference for the new owners many questions long after a sale has been made. Good agents usually well deserve and earn their sales commission.

This section would not be complete without a short comment on BREXIT. At the time of writing, how changes in the UK's relationship with other EU states will affect Brits owning property there is unclear. The freedom of movement of people is one of the core 4 founding principles of the EU but with the UK looking to restrict this from an immigration point of view, there may be some repercussions for Brits looking to move freely the other way, perhaps with the reintroduction of visas?





RENTING YOUR PROPERTY OUT

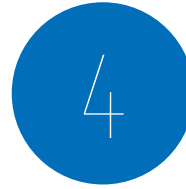
You may be planning to do this already, at least for part of the time. You may be steadfastly against doing so at all. Ever! What you should know is that many people do end-up later renting their property out for periods of time – even when they thought they would not.

Reasons for this include the following:

- Higher than anticipated running costs inc. local services & taxes
- Less frequent use before later planned higher use – perhaps in semi / full retirement
- Change in circumstances – financial, marital, illness or death of spouse
- Sometimes summer is just too 'busy' with tourists where your foreign property is located. Some older people choose to come back to the UK during the very busy & hotter summer months and capitalise the premium rental rates their properties can command during these periods – sometimes enough in July/ August to pay for a year's worth of utility, service, maintenance or community fees & local tax bills. AirBnB, amongst others, has made this very much easier to do.

The reason you need to think about these potentialities now is because it may influence where you buy your foreign property. A rural property out-of-the-way may be idyllic for you to live in but may offer lower rental potential / yield over a sustained period of time. If your property is mortgaged or needs regular upkeep (typically detached homes with pools do in the heat), then you need to be comfortable that you can either meet the ownership / running costs yourself (if not in residence, then living elsewhere with a separate set of bills to pay) or find others to do this for you, effectively, on a commercial basis.

Local rental restrictions can also play their part in limiting or stopping any rental potential – do check this out.



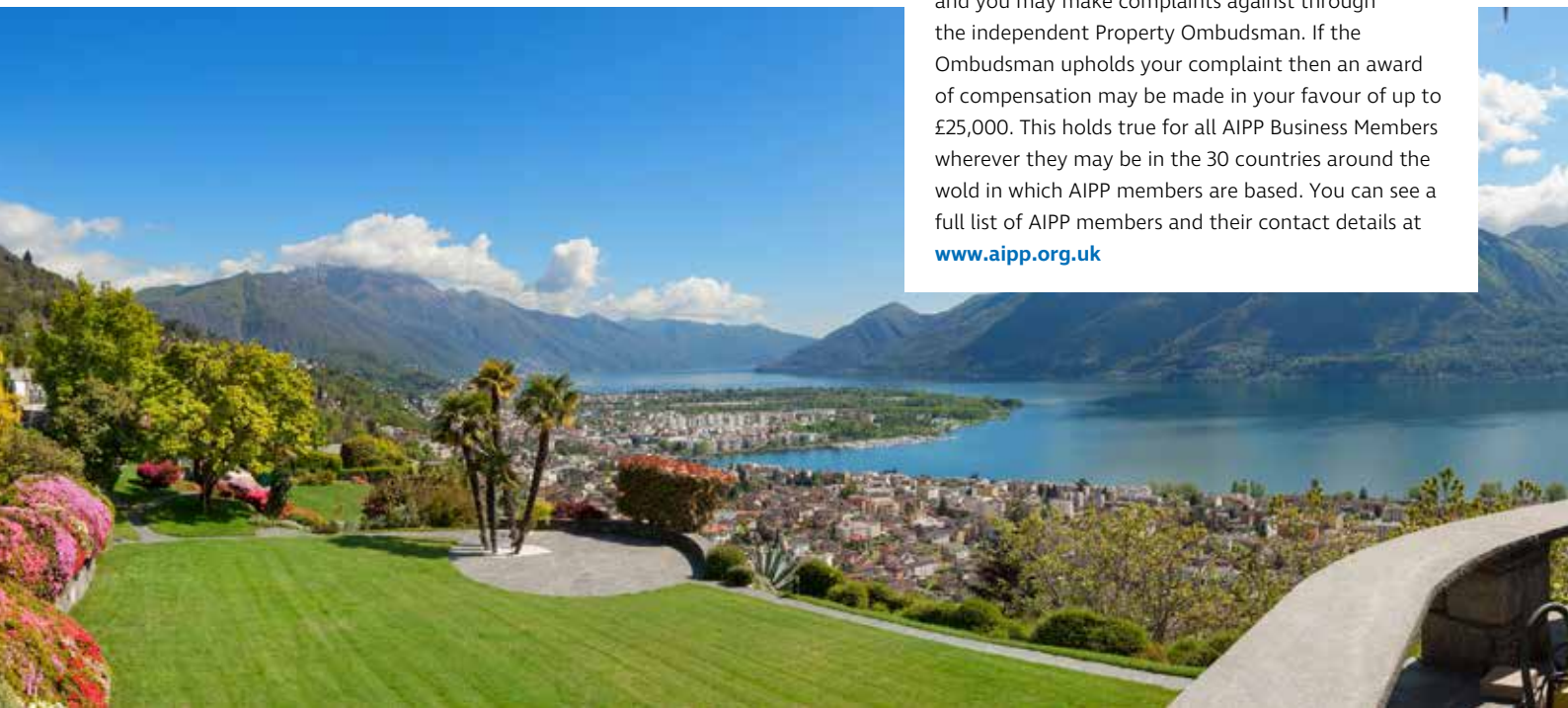
YOUR AGENT - FAR MORE IMPORTANT THAN YOU THINK!

Buying property in the UK usually starts with viewing several properties you like, often found online. The agent can be incidental at this stage only becoming important once negotiations begin to conclude the sale of your own property and the purchase of the new one. But even with a solicitor in the mix, the transaction is usually completed fairly quickly.

With this experience in mind, it is understandable that we approach the purchase of a foreign property in the same way. But what might be far wiser to do is to choose your agent first and work with them to find the right property for you. Here are some of the reasons why:

- Learning, evaluating, buying & owning a foreign property is best done with expert help
- Some agents will list a selection of 'best sellers' as bait to bring potential buyers in but these properties may well not be for sale. Some agents have dubious and high-pressure sales tactics that start with this 'lie'.
- All agents are not equal – many markets are unregulated and you could be buying through an expat agent who knows very little more than you.
- Take your time – a good agent will take the time to understand your requirements and find the right property for you

The AIPO recommends buying through an AIPP member agent. Agents joining the AIPP trade association must, uniquely, abide by its Code of Conduct, can be disciplined for bad behaviour and you may make complaints against through the independent Property Ombudsman. If the Ombudsman upholds your complaint then an award of compensation may be made in your favour of up to £25,000. This holds true for all AIPP Business Members wherever they may be in the 30 countries around the world in which AIPP members are based. You can see a full list of AIPP members and their contact details at www.aipp.org.uk



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TRULY INDEPENDENT LAWYERS

You would use a solicitor to conclude a UK property purchase, so why not one abroad? You may be surprised at how many people are persuaded from using a lawyer to handle the contractual side of their purchase. Or, indeed, use the legal representative as suggested by the agent or developer promoting the property for sale. On whose behalf do you think this lawyer is really working? You may be paying him or her but they receive you, as a client, from an interested 3rd party and they may then feel disinclined to 'cross' them with too much penetrating due diligence on your behalf.

A common mistake made by Brit buyers of a foreign property is to talk to an independent lawyer too late in the buying process. It can be difficult and expensive for a lawyer to try and 'unpick' obligations made by a well-meaning buyer following their dream should a change of heart or due diligence uncover information detrimental to the sale.

AIPP have addressed this issue by arranging for expert and independent legal advice to be freely available to both buyers and owners of a foreign property right from the start. For buyers a 'road map' can be established of what to look out for before venturing into the market. Owners can take good, free advice before embarking upon a course of remedy or disposal of their property through the AIPP Legal Working Group. Further information is available at www.aipp.org.uk/LWG

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PURCHASE FINANCIALS

Cash or mortgage? If you plan on a mortgage then understand how much you can borrow and on what terms before you start looking. Loan to value (LTV) figures are slowly rising and you might expect one at 75% LTV, dependent on your circumstances.

So if you were buying, say, a £200,000 property with a mortgage, you might need a £50,000 deposit plus £24,000 closing costs giving a total of £74,000. To this you might want to budget the cost of several trips for two people to visit your intended purchase destination for an extended stay. So you might want to add £5,000 to that notional £74,000.

With whom you transfer your Sterling into foreign currency and when is also a key consideration. Your bank will most likely give you the very lowest rate of conversion – a significant factor when changing large amounts. You should therefore consider the use of an independent currency broker from whom you will get a much better rate. If you are making stage payments over a period time for a property (perhaps as it is built) then perhaps 'fixing' a rate with a currency broker could lock-in an advantageous conversion giving you surety of the final amount you will pay for your property.





OWNERSHIP FINANCIALS

As part of your purchase planning process you should consider the cost of ownership - this may not change your mind in buying a particular property – but you need to get a swift handle on your expected outgoings as soon as possible. And budget for a contingency!

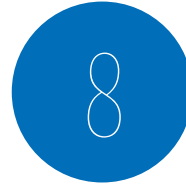
Your agent or lawyer will be able to guide you through the local taxes payable and you should set up automated payments for these and all utility bills from a local bank and make sure it is well funded. That said, it is not unknown for a bank to mistakenly not honour a standing order or direct debit leading to a key service like electricity being cut off – inconvenient for you and embarrassing / expensive to rectify if you are renting your property out to paying guests!

If your property is in a resort or development community then the cost of maintenance will be covered by the various amounts that the Resident Committee declares each resident must pay for upkeep of the communal grounds, exterior facades, amenities like communal pool etc. Problems can arise in this area if some residents (whom you may never meet, perhaps ordinarily living in another country – Germany, Netherlands etc) fail to pay their fair share of the community fees. This could be due to financial hardship or intransigence. Either way, this could see a deficit build in

the Community budget with a reduction in services that can be afforded to maintain standards. Residents who are paying into the community budget could be asked to pay more. In short; ask to see the Community Budget accounts and the last set of Minutes of Residents meetings and the AGM before you buy.

If you privately own a property on your own plot then you need to consider the higher costs of looking after a detached property (possibly with pool) in a hot climate perhaps also influenced by the corrosive effects of sea salt. Frequent heating and cooling of a building will cause accelerated cracks and peeling of the façade and this requires attention. The cost of maintaining a swimming pool can be a new experience to many, as well as a garden they are unable to tend regularly. Most people will elect to hire someone to tend both in their absence, essential to maintain standards if you are also going to rent the property out.

Utility bills need careful consideration – electricity costs peak during the hotter months both for you and any paying guests – guests are also disinclined to turn AC units off meaning they can run continuously for long periods of time. Sun tan cream on sun loungers, sofas, beds and the cumulative effect on your hard-working pool filter must also be taken into consideration.



EXIT PLAN – WHAT'S YOURS?

So the term 'Exit Plan' may be more readily associated with the world of financial services and investments. But this is what your foreign property is – an investment that, at some stage, either you or your heirs will want to liquidate.

Of course, the property may remain in your ownership, your 'exit' may simply mean that you no longer live or visit the property. This could be because you have moved back to the UK on a full-time basis to live in with family or in a care facility, perhaps because of the loss of your spouse or through infirmity.

As such, it may be practical to rent the property, if possible, whilst also seeking to sell it. Properties are, generally, better kept when there is someone living in them. Dependent on the type of property you have, this could take some time to sell – so be realistic in your expectations. At the time you come to sell market conditions, exchange rates, demand for your property type and other similar properties available will all have an influence.



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WHAT HAPPENS IF SOMETHING GOES WRONG?

Hopefully nothing goes wrong if you have done your research, used a good independent lawyer and done your sums! Local issues can always present themselves, however, so you need to keep on top of what is happening that could impact your quiet enjoyment of your property in the future. This could, for example, be planning permissions approved for additional property development close-by or infrastructure changes – positively or negatively impacting you.

Owning and running a property at distance can be challenging. If you are living, expat, in a local community then you can tap into local knowledge and resources to assist you. It's much harder when you are hundreds or thousands of miles away. With this in mind, the AIPP have set up a free legal advisory service for British owners of a foreign property (and available through AIPO too), it's called the Legal Working Group and you can access it online at www.aipp.org/lwg. We hope you don't need it, but if you do then we are here to help.



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ENJOY

So here's one final tip: Designate separate 'holiday only' v's 'DIY' property improvement trips – it's all too easy to sit in your foreign home and look to improve it or do significant maintenance. This may be fine if you both love DIY, but this can cause stress in a relationship if the love is not shared, especially so if you have guests!

Enjoyment is why you started down the route to buying your foreign property, right? A property that would allow you to enjoy a favourite part of the world with your friends and family for holidays and perhaps retirement. So make sure you enjoy it – the likelihood of which will be significantly enhanced if you have followed our 10 Top Tips above.





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