



Getting down to business

Last month API spoke to investors who had bought in diverse locations including Thailand, Bali, London and Dubai. In part two of our special report on overseas investing we look at how to minimise the risk of buying abroad and how to finance a foreign property. *story Mary Banfield*

THE LURE OF OVERSEAS PROPERTY is catching investors. Those willing to take the plunge are reaping the rewards of high returns found in exotic locations and finding a unique adventure into another land.

New Zealand is our most popular destination for overseas property investments with Australians buying apartments, ski lodges and farms.

"There are a number of reasons for this," says Michael Davoren of R.E. Concepts International. "New Zealand offers low entry costs – there's no stamp duty. Also it's only a four-

hour flight from Sydney and at the moment our exchange rate is very favourable to the NZ dollar."

The second most popular spot is Europe where people have strong cultural and historic ties to places such as Italy or France, but high on the list of investor destinations are the emerging markets of the Czech Republic, Poland and Turkey.

While still not dominating the market, Davoren believes there's also increasing interest beginning to emerge in the South Pacific, including countries such as Fiji, Vanuatu and other Pacific Rim nations where investors can legitimately fly to check out investments over the weekend.

"It's potentially a tax deductible weekend holiday," he says. Sounds tempting, doesn't it?

Buying down the street in Australia is relatively straightforward – we know the market, we watch it every Saturday. But how do you begin to build an international portfolio?

Electronic tools

Last month Davoren put up a strong case for Polish real estate, reporting that this Western European country had experienced significant capital gains in residential property. He believes the party isn't over yet and so Poland will be used as an example.

For many Australian investors Poland is unknown territory

《OVERSEAS INVESTING》

so before investing, it's critical to understand the economic and political environment with its associated risks.

Identifying a good solid investment is becoming easier with organisations such as the World Bank (www.worldbank.org) providing macro economic data and political information.

World Bank data shows Poland's gross domestic product (GDP) has been increasing from \$166.5 billion in 2000 to \$242.3 billion US in 2004 with its major production in service industries; while the population has been slightly in decline, from 38.6 million in 2000 to 38.2 million in 2004.

The Central Intelligence Agency website (www.cia.gov) gives investors a window into the political structure and history of the country.

The website tells us how Poland, a former satellite of the Soviet Union, broke away to form a market economy. However the country still experiences high levels of unemployment and has a rundown infrastructure. In its favour, the country is joining the European Union.

The website of Jones Lang LaSalle (www.joneslanglasalle.com.ph/en-gb) offers one of the most valuable resources – a transparency index. Countries around the world are surveyed and ranked based on being free of corruption, having information readily available and operating in a fair and consistent manner.

Australia is ranked number one. We're seen as having a highly transparent system compared to Poland, which in 2004 was ranked at number 28 but has moved up to 27 this year.

The organisation also provides a report on the office market in Poland, giving details of the demand including a view on vacancy rates and a snapshot of rents in the major cities, including Warsaw.

The Economist (www.economist.com/countries/Poland/) also gives economic, social and political information that's critical to understanding the inner workings of the country.

How to find properties

For the past few years Australian real estate agencies have been opening offices in other countries, reflecting the globalisation of the market and simplifying the process for investors.

Real estate agent LJ Hooker has offices in Papua New Guinea, New Zealand, Fiji, Hong Kong, China, Indonesia, India and United Arab Emirates.

Another agent, Knight Frank, whose head office is in London, has 140 offices in 30 countries around the world.

Using its international research arm this company can provide comparative country and market information, but also uses its experience at a local level. With an office in Poland, Knight

Frank can locate properties as well as assist in providing independent valuations for properties found through other agencies.

As real estate agents turn to the internet, websites across the world can be accessed and many offer English translations, leaving the option open for those investors wanting a more independent buying experience.

With a quick search online there are now a number of English language websites advertising Polish properties, such as www.mamdom.com. Listed here are houses and apartments across the country, including a snow-covered country house in walking distance from the forests of northeastern Poland with a price tag of approximately \$60,000 AUD.

Money in the bag – the finance

Clayton Byrne, an Australian living in London, has structured his investments to take advantage of international finance by borrowing money for his four English properties through British banks.

Having realised the high returns possible away from home, he began to encourage family and friends in Australia to buy in London and helped them arrange finance through mortgage brokers.

In England his properties are rented at around 7.75 per cent gross return, far higher than many Australian cities will reap, and low interest rates offered in England have added to the monetary potential.

"The best thing is that when you're working out yield at home versus here (London) you find that a 7 per cent yield here is different to a 7 per cent yield back home just because the money is cheaper to borrow. On average it's about 1 per cent less than back in Australia," Byrne says.

In August the Bank of England increased its cash rate by 0.25 per cent to 4.75 per cent, which compares favourably to the Reserve Bank of Australia's current target of 6 per cent (at the time of writing).

"For investors from Australia investing over here you can quite easily get loans close to 6 or even less than 6 per cent," Byrne says.

Which banks within Australia?

From within Australia some banks are willing to assist investors to buy overseas. However the conditions of the loans vary significantly.

Below, we survey some of the major lending institutions.

WIZARD HOME LOANS

Loans through Wizard rely on the investor having Australian assets worth at least the value of the overseas investment, but income generated from overseas property will be taken into account.

"If we're talking about Australians living here and wanting to buy overseas there's no issue at all if they have equity in their property here. That's the only way we can do it," says Alex Ralec of Wizard Home Loans, who has assisted numerous people to buy property overseas.

"All we need is bricks and mortar to mortgage here in Australia."

So if you have a house worth \$700,000 and a mortgage of \$200,000 Wizard will lend up to \$430,000 which is 90 per cent of the property value minus the outstanding loan, as long as there's proof that there will be an adequate rental return from the overseas property.

"If you're relying upon the income from, say, a New York property we won't lend you the money till we see a contract of sale and evidence from a solicitor over there that yes, you're buying a property in New York, the value is \$300,000 and your return is going to be \$300 per week, US of course, then we convert that to Australian dollars and then say yes, you can afford the loan," Ralec says.

HSBC

With offices in 76 countries around the world HSBC can put Australians in contact with the bank's overseas offices to submit a loan application to buy property in that foreign territory (subject to the country's property ownership laws).

If an Australian has found an apartment in Paris, the Sydney HSBC office can arrange a 'relationship manager' in France to facilitate opening a bank account and a mortgage application based on local French interest rates.

Such a system can reduce the currency risk as investors receive rent in the same currency they'll need for the mortgage repayments.

ANZ

Overseas investors are offered loans either at the standard variable rate or through a range of fixed loans.

The most significant difference between buying domestically and overseas is that the income derived from the foreign property won't be taken into account when assessing a person's ability to service the loan. Nor will the value of the asset be considered, whether the property is in New York or Belarus.

Effectively the bank is saying that if the investor defaults on the mortgage the bank will, if necessary, sell an Australian asset.

Once approved the ANZ will pay out the loan in Australian dollars, leaving any currency risk in the hands of the investor.

If an investor has put an offer on an apartment in New York for \$1,000,000 USD at the exchange rate of 0.760594 (at the time of writing), they would need \$1,314,762.35 AUD.

However, the exchange rate can vary from day to day and a small change can leave the investor out of pocket. If the exchange rate goes down to 0.75, the borrower will now need \$1,333,333.33 (AUD) to buy the \$1,000,000 USD, leaving a shortfall of \$18,570.98.

AUSSIE HOME LOANS

A line of credit would be available through Aussie Home Loans to buy overseas but the investor has to show they have equity

and income in Australia to cover the amount of the loan and repayments.

ST GEORGE BANK

Loans are available through either a standard home loan or a portfolio loan.

A portfolio loan is a flexible line of credit that can also be linked to a St George margin loan (a loan used to buy either Australian shares or units in an Australian registered international managed fund).

These home loan products are all secured by Australian residential property. The income earned from the overseas property through rent will be taken into account but the bank will need a copy of the lease or bank statements from the vendor as evidence of the income derived from the property.

COMMONWEALTH BANK OF AUSTRALIA (CBA)

The CBA will lend only to investors buying in Auckland, Wellington or Christchurch in New Zealand and there are limits on the property values the bank will lend for.

A higher deposit, 25 per cent, is required but there are no extra documents needed, other than what would normally be required for a domestic loan. If a person is relying on income generated from the New Zealand property the bank will need a copy of a lease or rent statement from the agent.

Back-up tools

CONTROLLING CURRENCY RISK

To minimise exchange rate risk there are services available, such as Travelex Australia, where investors can lock in

an exchange rate for up to two years to cover at least the time between the purchase of the property and settlement.

LAWYERS

"Get a lawyer both here and in the country where you're going to buy," advises international lawyer, Michael Bula.

To find a reputable lawyer or notary (a specialist lawyer needed for a purchase in some jurisdictions) in another country Bula suggests the Australian embassy as a great starting point, or a local lawyer who has networks throughout the world.

The role of the Australian lawyer will be to view any finance documents and help look at what vehicle to use to purchase the investment – a company or individual.

Your overseas lawyer will be critical in carrying out the local searches and viewing the contracts.

Given that the titling systems are unreliable and can be disputed by locals or governments in some countries, this part of the process is critical.

Even more importantly, a lawyer can arrange inspections to ensure you're not being taken for a ride financially.

From another country it can be difficult to properly value land, so having independent local advice can save investors a bundle of money and embarrassment. ■

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