

GLOBALISE YOUR

PORTFOLIO

You don't need to limit yourself to Australia in property investing. Some of the best rental yields, for example, can be found abroad. But the greater gains also come with risk. Kit Kadlec reports

Unlike the rest of the world, Australian real estate values have held steady during the global economic storm.

That's been the mantra of domestic real estate agents and property experts alike over the past year or two. Don't let what is happening abroad get you too worried, they say. Things are better here.

So why would you ever think about investing elsewhere? For one, there is no guarantee Australian property values will continue to perform well, despite the latest indications and predictions by experts in this magazine that they will. You can minimise your risk in the country as a whole by investing in property elsewhere. "If the Australian market crashes, you'd be bankrupt," says Matthew Yap, an Australian who runs property tours to the US. "It's always good to have a backup."

There's also the consideration that while rental yields are high now in Australia, they are even better in some other parts of the world. Global property investing is not for everyone, but those for a sense of adventure, a nose for a good deal, appetite for the risk of changing currencies, and the time to put in some extra work, it can pay off more than just staying around your home base.

"Tourism with a purpose"

Matthew Montagu-Pollock, publisher of the web-based Global Property Guide, is one of the strong advocates for international property purchases. A Brit now based in the Philippines, he and his wife own four apartments of their own, in Austria, Slovakia, Egypt and London.

"I think the advantages are considerable," he says. "And the prime advantage is diversification." That diversification can benefit an investor by shielding them from a price bust in a particular country's real estate. "It really does pay to spread your investments around," says Montagu-Pollock.

It also may mean you pay less tax by diversifying your holdings and thus finding yourself in smaller income brackets in individual places. That can be undone, however by double taxation agreements.

Such issues that can fluctuate from country to country point to one of the key disadvantages as well – it's much more complicated. But those with the will and the means can overcome these issues.

While rental yields are high now in Australia, they are even better in some other parts of the world

"Most people would say, 'Why bother?' But what I'm saying is, it can be done," says Montagu-Pollock.

Another reason, which reaches beyond the cold calculations of financials, is that for some people, global property investing is just plain more enjoyable.

"I like being this person with an international property portfolio," says Montagu-Pollock. "The amounts of money are frankly tiny, since what we

own are each small flats, but it's quite nice. It's a sort of tourism with a purpose."

American bargains

One of the more common places for Australian investors to look has been America. While there are some complications, such as exchange rates and the difficulties of finding finance, there are many who see the benefits as too much to ignore.

For one, there are many US homes being sold right now under foreclosure, and thus many prices marked well below what would seemingly be market value. In the first quarter of 2009 alone, there were more than 800,000 foreclosure filings in the US, as unemployment continued to rise. Some experts say there is worse to come. Add on to that

the fact home prices have fallen 19% from January 2009 from a year earlier, the largest drop on record for such a time frame, according to the S&P Case/Schiller Index.

Those figures just reflect the national average. Go to the locations hit hardest by oversupply and unemployment and you will find even greater bargains. Yap, who is organising trips mainly to California and Florida for investors here at www.USArealestatetours.com, says

US states hit by foreclosures the hardest

One in every 159 U.S. housing units received a foreclosure filing in the first quarter of 2009, according to RealtyTrac Inc. In total, 803,489 properties receiving a default or auction notice or were seized, an increase from 9% on the quarter and 24% from one year earlier. Filings in March alone totalled 341,180, a record in the four years of RealtyTrac data. As show below, the highest rate was in Nevada, home to once booming Las Vegas, where one in 27 homes, or 3.7%, received a foreclosure filing.

State	Total foreclosure filings 1st quarter 09	Foreclosure rate (1 of every X housing unit) for 1st quarter 09
1. Nevada	41,296	27
2. Arizona	49,119	54
3. California	230,915	58
4. Florida	119,220	73
5. Illinois	38,966	135
6. Michigan	33,184	136
7. Georgia	28,608	138
8. Idaho	4,293	147
9. Utah	6,143	151
10. Oregon	10,547	153

Source: RealtyTrac Inc.

those investors in these areas should seek at least a 50% drop in price from the market value. In some cases, he says, you can find up to 70%. And for those with large sums of cash, even more discounted. Yap says one Asian investor he's familiar with just bought two condominium buildings in Miami, a total of 1,000 properties, for 15% of the market value.

"In Florida, you'll see entire neighbourhoods with every house for sale," says Yap. "It's almost scary." Equally as tempting as the wide range of choices and discount prices is that many of the options can offer exceptional rental yields. "I'm getting a 14% return on my Florida properties," says Yap.

Those who think investing in US property right now is too risky could miss the chance to get in when the prices are low, he says. "America has always come back strong," says Yap. "Eventually, the economy will come back up again this time, and you'll have missed your opportunity."

Yap advises Australian's buying in the US to stick near the best pockets, just as they would be advised here domestically. That doesn't mean one has to buy in the city centre, but sticking along the fringes of the most popular areas will mean the recovery will hit those areas first when the cities recover, he says. In

California, for example, he recommends bargain hunting in Beverly Hills and Orange County, despite the impression many Australians might have that they couldn't afford to invest there. "The TV shows make it look like everyone is a multibillionaire there, but it's not the case," he says.

That's not to say that any buy in the US will pay off. There's also some risk, and plenty of unscrupulous businessmen looking to rip someone off. If you're told a property is well below market

Those who think investing in US property right now is too risky could miss the chance to get in when the prices are low

value, study why that is. Perhaps the real market value is closer to what is actually selling for, or even less. "There are a lot of con men out there that want to target foreign investors," says Yap. He cited one realtor trying to push an apartment valued at \$200,000 for \$600,000. Rather than rely on an agent, always have an independent source tell you what a property is worth, he says.

Yap says investors in Florida or California properties should also avoid letting emotions come into play, as it could lead to making a purchase well

above what could be achieved. "Take South Beach in Miami. Everyone has hyped it up, and people often buy there without thinking," he says.

Going overseas but staying close

For those not so willing to invest in a country like America, where flights can often take up the majority of one full day, there is especially one closer and more familiar options – New Zealand.

Just as UK residents find Europe's proximity and familiarity appealing for investment, Australians have a near equivalent in New Zealand.

New Zealand has plenty going for it to attract investors lately, says Mary O'Brien of New Zealand Mortgage Solutions and more recently Down Under Mortgages as well. For one, there's no stamp duty. That means aside from about \$1,000 to \$1,500 in legal and registration costs, there's little more to pay other than the purchase price. "That's a big, big saving," says O'Brien. "New Zealand is one of the few places in the whole world with no capital gains tax and no land tax."

A new tax law could also make for improved investing conditions there. From the 1st of July, 2008, losses arising on the rental of property located outside Australia can now be offset against Australian assessable income. In addition, taxpayers who have sustained losses on rental property in the last 5 Australian tax years while resident in Australia and which have not yet been claimed as a deduction can contemplate

claiming a tax deduction when completing their 2009 Australian Tax Return.

O'Brien says the overall process is just easier and more familiar for Australians than other countries. "We have a great relationship between the two countries," she says. It's also cheaper. "To live along the water is very cheap compared to Australia. If you're up for a lifestyle location, it's quite affordable for most of the population." That could also apply to an investment turned retirement destination. Plus before ultimately living

Vancouver (Canada): A two-storey house with four bedrooms and three bathrooms, located in suburban Maple Ridge with a mountain view. Has 146 square metres of space with a garage and fireplace.

Chicago (USA): A 73 square metre one bedroom apartment in the South Loop, with views of Lake Michigan. Train and Grant Park are within walking distance.

London (England): A one bedroom with 42 square metres in the West London suburb of Uxbridge. Includes ceramic tiled floors in the kitchen and bathroom. Located a block from the Tube.

Prague (Czech Republic): New two bedroom attic apartment, 75 square metres with balcony in the Žižkov district and close to the city centre. Car space included.

Moscow (Russia): A one room, one bathroom apartment on the sixth floor of a block style building with 31 square metres of space. It's located near the Prospekt Vernadskogo Metro stop, 15 minutes to the city centre, and has outdoor parking in the yard.

Ulan Bator (Mongolia): A 240 square metre house with mountain views in the Khan Uul district of the capital with mountain views and near the agricultural university. Interior includes four bedrooms, three bathrooms and a two car garage.

San Francisco (USA): Studio in 100-year-old building, located blocks from Union Square in Financial District. Total of 41 square metres.

New York (USA): One bedroom renovated apartment in Brooklyn with 70 square metres of space. Property located in Bay Ridge neighbourhood, close to the water esplanade and shops and restaurants.

Dublin (Ireland): One bedroom apartment close to the city centre in Dublin 8 with 37 square metres of space. Grafton Street and Stephen's Green are within walking distance.

Belgrade (Serbia): A completely renovated two bedroom two bathroom apartment in New Belgrade, near the Sava River bank in the residential Block 70. Total of 82 square metres.

Beijing (China): A one bedroom apartment in the recently completed Central Park development, located in Chaoyang District, Beijing's CBD. Property includes 88 square metres.

Honolulu (USA): A one bedroom penthouse apartment with ocean, mountain and city views. Centrally located in Waikiki, allows for an easy walk to the beach. About 50 years old, but recently renovated throughout.

San Jose (Costa Rica): A four bedroom, 263 square metre villa within gated community. It's located in San Antonio de Belen, just outside of San Jose with mountain views. Also includes garage and maid bedroom and bathroom.

Madrid (Spain): A one bedroom apartment in the Puerta del Sol district of the city centre, includes 40 square metres of space. Recently renovated bathroom and with parquet floors throughout.

Jerusalem (Israel): A two bedroom house in Yemin Moshe, with views of the Old City. Includes a 'parents unit' and total 100 square metres of space.

Tokyo (Japan): A 19-year-old flat in the Itabashi ward with nearby train access on the Tobu Toju line. A total 70 square metres of space, including a western-style living room and a more traditional Japanese bedroom measured by six tatami mats.

Dubai (UAE): A newly built studio in the Dubai Waterfront District, a total of 43 square metres with a fireplace and parquet flooring.

Mumbai (India): A new two bedroom apartment on 119 square metres with marbonite flooring and a total of six rooms. Located in Andheri, the city's most populous suburb, it includes a parking space and gym access.

Puerto Princesa (Philippines): A villa with swimming pool and six bedrooms, includes 1,200 square metres of floor space and 2,500 square metres of land. Car port and staff quarters included.

Around the world in \$400,000

From tiny studios in Dubai and Moscow to massive homes in Puerto Princesa and Ulan Bator, \$400,000 can get you much different things depending where you look. Here's a sampling of 25 global properties, using recent real estate listings and descriptions posted in these various cities.

Accra (Ghana): A four bedroom house in the suburb of Pokuase, on a land plot of 12,800 square metres. Situated in a gated community and fitted with a tiled underground water reservoir.

Ho Chi Minh City (Vietnam): A new luxury 2 bedroom, 2 bathroom apartment on the 30th floor of a high rise in the Binh Thanh district and bordering the Saigon River. A total of 90 square metres of floor space. Five minutes from the city centre.

Rio de Janeiro (Brazil): One bedroom beachfront property in Copacabana in the fashionable Posto 6 with 110 square metres in size. Garage space included.

Cape Town (South Africa): A furnished two bedroom, two bathroom apartment in Blaauwberg, 10 minutes from the city centre. Property located on Lagoon Beach, with 92 square metres of floor space within.

Buenos Aires (Argentina): A renovated two-storey loft in the Las Cañitas neighbourhood. Property includes two bedrooms and two bathrooms for a total of 170 square metres of space.

Auckland (New Zealand): New two bedroom apartment with car space in city centre. Total of 98 square metres with city views on 12th floor, and near the Sky City Hotel.

Note: Based on exchange rates and real estate listings from 19 November, 2008

Rental yields* in selected European cities

Chisinau, Moldova	14.17%
Skopje, Macedonia	10.11%
Kiev, Ukraine	9.09%
Budapest, Hungary	6.84%
Amsterdam, Netherlands	6.63%
Warsaw, Poland	5.95%
Bucharest, Romania	5.54%
Ljubljana, Slovenia	5.49%
Istanbul, Turkey	5.48%
Zagreb, Croatia	5.07%
Prague, Czech Republic	5.02%
Brussels, Belgium	4.90%
Geneva, Switzerland	4.80%
Berlin, Germany	4.80%
Sofia, Bulgaria	4.62%
Moscow, Russia	4.61%
Copenhagen, Denmark	4.61%
Riga, Latvia	4.40%
Vienna, Austria	4.40%
Tallinn, Estonia	4.36%
Bratislava, Slovakia	4.28%
Paris, France	4.26%
London, UK	4.12%
Vilnius, Lithuania	3.70%
Helsinki, Finland	3.69%
Madrid, Spain	3.67%
Luxembourg City,	3.63%
Rome, Italy	3.62%
Nicosia, Cyprus	3.45%
Malta Island	2.94%
Athens, Greece	2.71%

*Based on 120-sq. m. apartments located in city centres. Source: Global Property Guide, 2008.

there, Australians can get good rental returns.

Because of its proximity, Australians are more familiar with New Zealand laws. More Australians, or at least their local accountants, know more about New Zealand taxes than they would about American taxes on property investments. Being closer also means flights to visit are easier as well. Visiting an investment property before purchasing it, or after to check on it, is also a much easier task. A flight from Brisbane to Auckland is shorter than from Brisbane to Perth, for example.

Cash preferred

O'Brien says she is accredited with major New Zealand banks, and thus

Australians don't even need to fly overseas to get financing for a purchase there. The latest economic conditions, however, have meant that Australians need to put up a deposit of 25% of their purchase, as opposed to the previous conditions of 10%.

In America, financing is especially an issue, where lending conditions are clearly more difficult than a couple years ago. However, there are still providers of finance to international clients, and competitive rates can still be found. Chase Brodsky of LynxBanc Group, a trans-Atlantic real estate broker, says the most popular mortgages have been where they are the lowest, adjustable rate mortgages, currently at 4.25%.

Other clients prefer something like multi-currency mortgages, which flexibility in choosing the currency of repayment. Steven Scott Nicholls, CEO of Florida Mortgages International, says these are becoming especially popular as more foreign buyers come back to the American market. "Interest from foreign buyers has increased with declines in property values and declines in interest rates," he says. Processing such mortgages takes between 45–90 days. Proof of income from an accountant or employer is the main document required, although assets, liabilities and credit history must also be documented.

Brodsky says every state has different down payment requirements currently. Florida, for example, ranges from 30% to 50% down, he says. "That depends on which part of the state the client is looking to buy in," says Brodsky. "With the change in the market over the last two years, the large lenders have stopped lending and now all that is available are smaller banks that only lend where they have a banking footprint."

Investing without borders

Aside from America, New Zealand and other more common choices, it's always worth keeping an open mind to all kinds of countries, says Montagu-Pollack.

"In our kind of investing, the thing is not to obsess about buying in one particular place, like only Spain, for example," he says. "If you're buying for yields, you need to take a broader look."

But when buying from a wide range of countries, the investor must also keep a strong understanding of political and economic factors within each country.

In buying in Austria and Slovakia, for example, Montagu-Pollack says he and his wife aimed to benefit from the improving economic conditions there and expectations that they'd get even better. They stayed away from beachfront locations.

"The majority of people are hoping to have second homes in idyllic locations," he says. "What we've done, instead, is to buy residential properties mostly in the centre of central European towns that we felt were going to benefit from the revival of this part of Europe as the free market got kicking." They also aim to rent their units to foreigners, preventing any risk of long-standing tenants who might want to stay indefinitely. "Historically, renting is always a bit dodgy, because one never knows when a city might get swept up by some pro-tenant legislation and then the rents are fixed."

Many others, especially Brits, have followed this investment path into central and eastern Europe, but not always with success. Part of the problem is few have a familiarity of what actual properties will maintain good demand from renters. "A lot of Brits bought in the old section of Budapest, but then found out that locals didn't want to move there, they preferred living further out," says Montagu-Pollack.

Putting in the work

In finding a good property, it often takes a visit, as well as a substantial period of time to visit many options before making a purchase. In making their Slovakian apartment purchase, Montagu-Pollack says his wife rented a hotel room and ended up seeing nearly 50 options before making her purchase. She didn't speak any Slovakian, but was able to find a trustworthy lawyer eventually to work out the details. "Instinctively, she thought, 'I can trust this guy,'" says Montagu-Pollack.

They now own what Montagu-Pollack describes as a charming flat in Bratislava, a beautiful city they never knew much about before. And the lawyer his wife met now looks after the property and updates them from time to time via email about any additional costs or changes in tenants. "It does require a bit of administration, but what I like about it is that it's our own, it's not invested in some fund that is borrowing

money from somebody else." While others had preferred REITs that invest in global markets, Montagu-Pollack says he's come out ahead from those investors in the long run by buying individual properties. "We know where our property is, we know who's in it, and ultimately we know what's going on," he says. "It's just an extra step in diversification."

An important factor in deciding on whether or not to invest in a particular foreign country might be either its proximity, or also whether there's a friend or relative who could give you advice and help look after it. Having a similar language might help as well, but as Montagu-Pollack's Slovakian example shows, it's not always necessary. "Buying abroad does require a bit of an adventurous spirit," he says. "You might need to be able to spend three or four weeks in relatively unfamiliar surroundings."

Complications could arise too, if you buy in a foreign country and you have tenant difficulties. Management can be a challenge in itself remaining within your own borders, and even more difficult abroad. That's why having a friend or relative nearby can help. "Most investors advise to buy in a country that they have relatives or that they know someone," says Montagu-Pollack. "Otherwise it's a hassle." If a tenant leaves, you'd have to either visit or organise a cleaning of the property, for example.

Exchange risk

Some issues are out of your control, however, such as the currency exchange rate. Investing in a country with a shaky currency might especially carry a high risk. "Speculating on currency exchange is very dangerous," says Yap. That's why, he advises in most cases to maintain ownership of a foreign property with a long-term hold strategy,

Changing currencies, changing times

In July of 2008, the exchange rate was A\$0.98 per US dollar. Even when it was near A\$0.80 about five years ago, many Australians started to take interest in American property purchases. But investors looking to buy overseas have seen that rate dramatically fall three months later, however, and it has sat closer to A\$0.70 ever since. If investing A\$300,000, the your purchasing power difference between a rate of 0.98 and 0.70 is US\$84,000.

Exchange – What A\$300,000 could roughly get you in foreign currencies in the past 5 years

	US Dollar	British Pound	European Euro	Chinese Renminbi
15 April 2009	\$213,000	£144,000	€165,000	¥1.47m
15 April 2008	\$276,000	£141,000	€177,000	¥1.94m
15 April 2007	\$249,000	£126,000	€186,000	¥1.93m
15 April 2006	\$219,000	£126,000	€180,000	¥1.75m
15 April 2005	\$231,000	£123,000	€180,000	¥1.91m

picking up rental money along the way. "The exchange rate is an enormous factor," says Montagu-Pollack. "They are notoriously hard to forecast. But if you're clever about it, that's another positive about international buying. If you look at the very long term, you can try to see the countries that have undervalued currencies and those that are overvalued." For example, he says Latin American currencies appear undervalued, at the moment. For example, a European apartment bought for €187,000 in April, 2007, using A\$300,000, would return a near 15% profit if sold for the same amount in April, 2009 and returned to Australian dollars, minus any taxes and other costs.

There's also a great risk, however. A loss in the value of the currency you've made your purchase in could wipe out any capital gains if you plan to sell and return the currency back to Australian dollars. Such an example would have been experienced by Australian buyers who purchased in the US a few years

ago, and have now seen the value of the US dollar shrink compared to the Australian dollar.

Tax and transaction costs are also a key factor. Each country is likely to have different rules from the next, so knowing those details ahead of time is key. Montagu-Pollack says buying internationally only makes sense when transaction costs are low.

Statistics can also be misleading. One country might seem to have higher rental yields, but when there's high corruption, real estate transactions are rarely reported accurately.

"In most of the world, there is very poor information about these transactions," says Montagu-Pollack.

Some countries, such as the US, UK and New Zealand, for example, do have similar systems and report fairly accurate numbers, however. That's one advantage to sticking to one of these more familiar areas, says Yap. "In the US, it's a pretty similar process," he says. "The only thing that's different is some of the terminology." ■

Source: based on historical rates from x-rates.com

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