Knowing their tactics will help you avoid sharks

DON'T FEED THE SHARKS

It's easy to get conned when buying property overseas. **Siobhan Maguire** reveals the scams that could bite you

An ever-weakening dollar and promises of a strong rental market should have clinched the deal for one American agent selling a property in Florida. The house, close to Orlando, was in a popular tourist spot, with guaranteed income. On the surface, it looked good enough to buy.

But the Irish businessman, just a signature away from owning this piece of property gold, decided to do his own research. He soon found out the managing agent, developer and selling agent were the same person. Posing as a holidaymaker, the buyer tried to rent the house for several dates — a feat that should have been impossible, given the "100% occupancy" sales pitch. All the dates were available, and this "busy" house was exposed as an empty and isolated property with nothing going for it.

In this instance, the buyer had a lucky escape. But for others, particularly the smaller investor, the international property market is a dangerous place, where property sharks circle and financial difficulties are rife. The current general downturn in the market brings new risks, including concocted rental yields, dodgy "mezzanine finance" packages, bogus insurance plans, and tax traps.

Here we look at the top five swizzes to watch out for when buying abroad:

The rose-tinted glasses

The glossy brochure features a photograph of a sun-drenched villa nestled between palm trees, with a young, bronzed couple lying beside its clear blue swimming pool. The headline reads "from €30,000", luring the reader to the inside pages, where rental yields of 10% are promised, along with full occupancy rates, owners' usage for up to two weeks in the off-season, and a five-year investment horizon. On closer inspection, however, the blurb reveals anything but the sale of the century — and often included (though not stated in the brochure) are hefty management fees, lack of resale options, charges to use on-site facilities and long travel times to reach the property.

"Two key words should be considered when investing — return and risk," says Chris McGrath, of Tiger Global Property Solutions, a Galway-based property research and consultancy company. "Your return should always be commensurate with your risk. Don't rely on brochures or agents' advice. They are commission-based and, obviously, are not impartial. A lot of Irish people used Irish agents to buy overseas property under the misconception that this reduced their risk. In many cases, these agents merely added another layer of commission onto prices that were already overpriced."

Digging out the developers

Spain, Britain and the Baltic states have experienced a fall in buyers' confidence, both in domestic and overseas markets. This has had a knock-on effect on undeveloped schemes, which rely on money up front to fund their construction. Off-plan buys are now increasingly vulnerable where the development is in danger of going bankrupt. Many who bought in the expectation of capital appreciation, and paid a bulk of the overall price, are facing negative equity as the market slows and builders go out of business.

"So many people bought and continue to buy off-plan," says McGrath. "Lots of companies encourage people to build up vast portfolios by buying one property off-plan and borrowing off that to buy another. Some people who paid a 30% deposit in a development on the verge of going bust are faced with the dilemma of paying the 70% balance into the development, in an effort to save it, or lose the 30% and let it go bankrupt."

Pick a number, any number

The international property market often throws up figures without the necessary data to back them up. Rental yields can be anything from 6% to 20%, occupancy rates can be 80% or 100%, and guarantees come as standard. In a country such as Germany, where rents are regulated, an increase in rents based on market value is unlikely.

Neukölln, one of Berlin's 12 boroughs, was sold to Irish investors as an area of strong rental growth, with yields of 10% and capital appreciation. Many bought there. The northern part of that borough, however, is associated with high levels of unemployment and social problems and, with many tenants on welfare, rents have remained cheap.

Buying off plan in Spain and other countries can be risky; above right, rent is regulated in Germany

"I would always treat rental guarantees with great suspicion," says McGrath. "The cost of the rental guarantee is usually built into the sales prices of the property. The key considerations are who is offering the guarantee and what happens after it expires."

The property roadshow is another way disingenuous companies have trapped buyers. These exhibitions — normally well managed events used to showcase properties abroad — can fall foul of bogus agents and rogue developers.

"At one of these shows, I went to a man selling property in Portugal and because I was familiar with that market I asked about the tax rates," says McGrath. "The guy who was selling told me the wrong tax rates and continued to give me incorrect details about the cost of buying there. I was eventually told by one of the men on that stall that staff were not armed with all the facts, because one day they would be selling for Portugal, the next America or Cyprus. My advice for people at these exhibitions is to get everything written down. This is an unregulated area."

The finance trap

Mezzanine-finance products are increasingly being sold with the idea of shifting risk from the developer to the buyer. Targeting the smaller buyer, who does not have the €20,000 deposit required to secure a unit, these packages come in the form of insurance policies or exchange bonds, taking €2,000 to set the deal rolling, with 100% of the price due a year later. The developer does not lose out when the buyer cannot meet the payment and takes the €2,000 security deposit. Many of these bonds are sold to the buyer on the premise of split ownership, and multiple units are sold to one investor for a small deposit. The consequence of this is an increased risk of losing deposits and stage payments.

"Mezzanine finance is high-risk business at any time, but in a time of financial turmoil and static or falling markets these risks are greatly enhanced," says McGrath.

Michel Tcherevkoff

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No way out

Bad property investment decisions happen all the time in a market built on risks and, quite often, pure luck. Mistakes of the last five years are coming back to haunt Irish buyers who bought under pressure and took rental guarantees, or promise of capital appreciation, at face value rather than carry out their own due diligence on the property.

One Irish investor found this out the hard way when he had to hire agents to help him out of a deal on mixed-use land in Germany. The land, a mix of industrial and residential, turned out to be contaminated, something a due diligence test would have picked up.

There are ways to avoid problems when it comes to selling, however. These include: buying in countries that have a double taxation agreement with Ireland to avoid paying tax twice; researching local markets — for example, smaller apartments sell better in eastern Europe, but the Portuguese prefer larger apartments; buying where there is a local secondary market; and identifying all local property taxes and management charges before you buy.

"A lot of Irish people have made serious mistakes over past years and we should learn from their errors," says McGrath. "With the changed economic status at home, people are trying to exit from deals and are finding no viable way out. Many are stuck with overseas assets that are neither rentable nor saleable. You should think of it as the day you buy is the day you sell."

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