International property investment 101

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Cape Town - Purchasing an international property is an excellent way for investors to diversify their current property or investment portfolios, provided the necessary considerations are taken into account.

This is according to James Bowling, CEO of Monarch&Co, a market leader in facilitating citizenship and foreign property investment.

He notes many investors in today's market are looking for ways to either diversify their specific property market exposure by disinvesting from their current country of residence and investing into different prime property destinations or to diversify into property from equities and other similar asset classes to create a more balanced portfolio.

Residency and citizenship benefits

"Another driving factor for many investors who want to purchase property overseas is the numerous benefits they may acquire from purchasing real estate through a residency or citizenship programme, particularly in countries within the European Union (EU)," says Bowling. "There are a number of countries in the EU that welcome foreign property investment and are in fact encouraging it through the introduction of their citizenship programmes.

"These citizenship programmes have, in uncertain economic times, boosted the property markets of those countries through pushing up capital appreciation as well as strengthening the country's economy - a mutually beneficial factor for both the country and the investor.
Investors are also eligible, through these programmes, to enjoy the travel, lifestyle and business advantages of becoming an EU resident or citizen."

What is the objective of the investment?

Bowling says that while there are several benefits to investing in an international property, there are a number of key considerations that an investor needs to ponder before taking the step forward. “The first thing to determine is what you want to achieve through the investment,” he says.

“It’s important to have a sound objective with regard to the investment as this will largely determine which avenues to explore. Investors will need to know what the purpose of the purchase is, whether it’s for personal use, purely investment returns or perhaps even both.”

He notes that if the reason for the property investment is for personal use there will be far more emotional considerations, such the scenic view from the property, its proximity to amenities or the ocean, how picturesque the building and surrounds are, the element of privacy, the neighbours, what size the rooms are and what finishes are installed.

However, Bowling says that if the reason for the purchase is predominantly for investment returns, personal considerations will carry far less weight in the decision making process.

“An investment decision will be based on the primary driving factors that determine the property’s capital appreciation value as well as the potential net rental income. The focus of the purchaser will be around the property’s marketability and its potential to attract desirable tenants. Other considerations will include the costs of maintaining the property and it’s positioning to the relevant tenant drivers such as universities, tourist amenities and the local financial hubs,” says Bowling.

“Often the properties that are the best investment choices are not the ones that an investor would have chosen if they had purchased the property for personal use. While it can be challenging, it is often best to try and avoid making the decision based on emotion when selecting a property for its investment potential. If the investor’s motives for purchasing the property change they can always sell the property and buy one that fits their new criteria.”

Which country?

According to Bowling, a vital consideration in international property investment is selecting which country to invest in.

“Again, this decision will largely be determined by the purpose of the investment. If it is for personal use then the investor will need to decide where they would like to spend their time and what country appeals to them the most. It will be a far more emotionally-driven decision regarding finding a property in a country that suits their needs. Currently there are several countries to choose from that offer residency and citizenship programmes such as Cyprus, Grenada, Mauritius, Malta, Portugal, St Kitts & Nevis, the UK and USA,” he says.

“From an investment perspective countries that offer residence and citizenship programmes often use their attractiveness for tourism to aggressively market their programmes as it goes without saying that the more desirable a destination the more successful this strategy is.

"Another approach that many of these countries have taken to unlock their potential economic growth is by developing themselves as financial service centres by creating a low tax jurisdiction and making it attractive for individuals and corporates to make the country their new tax domicile,” explains Bowling.

He notes that high tourism-interest coupled with low-tax benefits will make purchasing property in these jurisdictions a very sound investment. There is often good capital growth potential as well as an attractive rental yield to be enjoyed.

“Purchasing an international property can be a viable and highly beneficial endeavour as long as the investor has a clear understanding of their objectives and knows what they hope to achieve from the investment. Investors who are unsure of anything should seek the counsel of a professional who deals with foreign property investment on a daily basis. This will ensure that they gain the necessary insight when making an informed and profitable decision,” Bowling concludes.

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