

Go Global – When Is A Dollar Not A Dollar?

By Patricia Tan

Currency Considerations When Buying And Selling International Real Estate.

The decision to buy or sell a piece of property in another country is not one to be taken lightly. There are many aspects of an international transaction that will differ significantly from country to country. Obviously, investors need to understand the local laws and business practices of the market in which they plan to be active, and to identify trusted partners in that country to assist them with the transaction. In addition, it is vitally important to consider the impact of foreign exchange rates on any international transaction. Many Americans who have invested in countries where real estate is priced in U.S. Dollars, such as Mexico, Costa Rica and Panama have not had to worry about this aspect of their investment, but what happens when they look further afield?

Failure to pay attention to foreign exchange issues in a timely manner can have significant financial consequences. In today's volatile world economy, a significant swing in the value of a currency one way or another can make a huge difference in the viability or profitability of any real estate acquisition or disposal.

Consider the British investor who purchased property here when Sterling was trading at \$2.00 to the British Pound. That same investor now sells the property at \$1.60 to £1.00. Let's assume they purchased a property for \$400,000 at a cost in their home currency of £200,000 and they sell it later at the same price, realizing £250,000 from the sale. A "profit" of 25% on their original investment, even though property prices did not appreciate.

As a REALTOR® helping overseas buyers purchase property here, I often see the consequences when those buyers fail to plan for their currency needs. If that same British investor started shopping for real estate when his currency was trading at \$2.00 and was looking at \$400,000 properties but failed to buy a property at that time, and bought when the rate was \$1.60, his buying power would be only \$320,000 – reduction of 20%.

So what can be done to mitigate this kind of situation? How can those wishing to make an international investment in real estate maximize their investment potential? Investors obviously need to understand and stay informed about the foreign exchange markets, but how easily can that be achieved?

Investors should look to establish a relationship with a specialist commercial foreign exchange provider. One who provides tailored services to individual as well as corporate customers. There are a growing number of such companies both here and overseas, and they are making significant inroads into the foreign exchange business that may otherwise have been conducted by a local bank. The investor should establish this relationship sooner rather than later. Currency exchange should be considered early and planned for well ahead of the actual need for the funds.

The biggest benefit of working with a commercial foreign exchange company is that they typically will give consumers much more favorable exchange rates than a bank. They are dealing

in the currency markets in real time, better able to manage exposure and risk, and can operate on a much smaller spread (the difference between currency buy and sell rates) than traditional financial institutions.

But the better exchange rate is just the beginning. There are many other services and benefits that should be considered:

- Easy access to market experts who can advise on the future outlook for a particular currency and assist with timing a transaction and forward planning.
- The ability to fix an exchange rate today that will be valid in the future, protecting the investor from adverse currency movements, and locking them into favorable rates.
- Faster and reliable payment methods, ensuring that funds are transferred as quickly and securely as possible.
- Transferring funds to the destination country in their native currency may eliminate the need to pay commission or receiving bank charges.
- A facility to make regular payments, such as a monthly mortgage – and to lock in the exchange rate for up to two years of payments, protecting the investor against adverse movements in the currency.
- Expert knowledge of the foreign exchange regulations of the sending or receiving countries – daily or monthly limits on transfers for instance.

Timing the movement of funds between one country and another is obviously important as far as managing the exchange rate is concerned. There are other regulatory issues that may also influence timing, and have an impact in international real estate transactions.

Here in U.S.A. for instance, funds needed to complete a real estate purchase are subject to scrutiny under anti-money laundering laws and the Patriot Act. Foreign buyers may be asked to provide information on the source of funds, and to prove they have been in a U.S. bank account for a period of time before they can be used in a real estate closing.

For foreign sellers of U.S. real estate, Uncle Sam's Foreign Investment in Real Property Tax Act requires that 10% of the sale price of the property be withheld at closing, until the seller's tax affairs for that year have been settled. These funds may be tied up for some time, and preventing the seller from re-investing, or taking advantage of a favorable exchange rate if they are repatriating the proceeds of the sale.

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