

International Real Estate - Be Careful

Contributed by Steve Gillman
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Thinking about looking at the international real estate market for your next home or investment? Here are some things you need to know.

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Looking beyond our borders at the international real estate market might make sense for a second home or an investment. My wife and I recently bought a small lot a hundred yards from the Pacific Ocean in Ecuador, with the idea of having a second home there. The price, \$3,000, shows why people look to other countries for real estate. Where in the United States can you buy a lot near the ocean for even ten times that much?

On the other hand, there are some risks in investing in property abroad. There are some things to think about that you don't normally have to consider when buying real estate in the U.S. And unfortunately, there are even some hard lessons to be learned from our own experience.

International Real Estate - Some Considerations

{bot_wrgoogle}At the time we bought the property, in early 2007, Ecuador had been experiencing an economic boom for years. This was partly because the country adopted the U.S. dollar as its official currency in 2001. Inflation was no longer an issue, and businesses were starting everywhere. New subdivisions - like those in the 1950 here - are still popping up around most of the major cities. Easier financing has even put more cars than ever into all those new driveways.

Political leaders have seemed to come and go too fast over the years, but even when the process was chaotic it was mostly peaceful. Ecuador was a stable democracy that seemed to be heading in the right direction. Most of the changes that had happened since my wife grew up and went to university there were good changes. Then came Correa, the current president.

Apparently the system wasn't as stable as we thought. Earlier this year, he prevented many opposition members of congress from entering the parliament. Then there were elections to create assembly for the rewriting of the constitution. The assembly (now elected) could dissolve the congress or even hand over dictatorial powers to Correa. The public, unfortunately, has mostly been on Correa's side.

Unfortunately, I say, because Correa seems to be doing many bad things. He openly admires Hugo Chavez, the socialist leader of Venezuela, and Fidel Castro. He talks about a "new socialism." Already he has told international oil companies which operate in Ecuador that they will not be getting all of the profits promised for their investments.

As you can imagine, many wealthy Ecuadorians and foreign companies are already taking their money out of the country. There are rumors that Correa plans to steal the real estate owned by foreigners (I won't use the euphemisms - theft is theft). It is rumored that he may even steal and "redistribute" the second homes of Ecuadorian Citizens - especially those along the coast. This could include our property.

The obvious lesson? When buying international real estate, you need to more than research property prices. You need to take a close look at the political climate of the country. The law may be clear and allow for foreign ownership, but laws can be changed. Some other tips:

1. Hire an attorney to be sure everything is done correctly. Have a list of questions for him or her, so you know exactly what you are getting into.
2. Investigate what it takes to sell the property. You may not want to keep it forever. This is a legal and market matter. Are there any legal or tax issues you need to know about? How long does it normally take to sell a house?

3. Know before you buy what the other costs will be. How much are taxes? How much will you have to pay for basic services like water and electricity.

International real estate may be a great investment, depending on where you buy, how you buy, and what the market is doing. Looking overseas can also be a way to afford a second home in a beautiful place. But take some basic precautions and learn from our lesson.

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