INTERNATIONAL RESIDENTIAL
PROPERTY REFERALS

The Fastest Rising Source of New Business for U.S. Agents

by Tom Kelly

Housing analysts continue to paint a rather uncertain picture for residential property in the U.S. in the near future. In the midst of this uncertainty, two emerging sources of business for residential brokers and agents continue to be foreign buyers investing in the U.S. and Americans buying abroad.

Tom Kelly is the author of several books including "Cashing In on a Second Home in Mexico: How to Buy, Rent and Profit from Property South of the Border" and "Cashing In on a Second Home in Central America" which was written with Mitch Creekmore, senior vice president of Houston-based Stewart International. The book is available in The Real Estate Bookshelf at www.realtors.org or on www.tomkelly.com.

Offshore Transactions on the Upswing

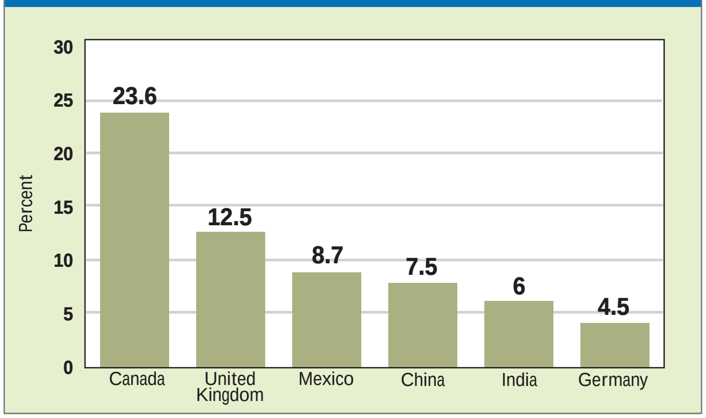
At the 2008 National Association of REALTORS® Conference & Expo in Orlando, a new survey "The 2008 National Association of REALTORS® Profile of International Buying Activity"[1] was released. It revealed that approximately 178,000 of NAR's U.S. members closed transactions with foreign buyers in 2008, including approximately 61 percent of all REALTORS® in Florida. About the same number saw deals fall through with offshore buyers because of price, immigration laws, higher than expected property taxes, or home insurance costs. While the inflow of Russian, German, and UK residents to the U.S. has been common in the past five years, particularly along the Atlantic Coast, the outflow of U.S. residents north to Canada and south to Central America has also increased. And, while the total international business is tiny—approximately three percent—compared with the number of total transactions done in the U.S., this business segment is forecast to rise faster than any other.

"I have REALTORS® who have offices in Florida and in Panama and others with offices in Texas and Costa Rica," says Lawrence Yun, NAR's chief economist. "They travel back and forth. This can be new business for REALTORS® or they can also simply focus on the referral business." (For more on Yun's comments, see Education News on page 14.)

Creative Sources of Investment Funds

Many of these REALTORS® serve second-home and retirement clients primarily, but a growing number of potential buyers are investors seeking a better return on their money than they are currently receiving in mutual funds, stocks, or bonds. Some are even beginning to use their Individual Retirement Account (IRA) to buy international real estate. Consumers can invest self-directed IRA money in a wide range of investments, including stocks, bonds, mutual funds, money market funds, saving certificates, U.S. Treasury securities, promissory notes secured by mortgages or deeds of trust, limited partnerships, and . . . real estate. Investment properties include single-family homes, timber parcels, gorgeous getaway condos, and office properties. IRA funds can be the answer for an investor who sees a bargain property, is confident it will appreciate, and has no other available cash with which to purchase it.

Top Six Countries of Origin of International Clients



[1] www.realtor.org/international (Click International Research)
[2] www.guidantfinancial.com
[3] www.conficasa.com
[4] www.worldwidelendingllc.com
[5] www.mexicoalive.com

According to David Nilsson, president of Guidant Financial,[2] a Kirkland, Washington-based company specializing in investment strategies, "While buyers who have relied on equity in their homes to justify the purchase of additional properties may be struggling, buyers and investors with other assets still are scooping up excellent deals outside the country." Many of our self-directed IRA investors are buying everything from raw land to condos and beach huts to country estates with IRA funds, and are realizing their profits tax-deferred within their accounts."

Nilssen said that some self-directed IRA clients are actually buying their future retirement home at today's prices in highly desirable foreign locales. They're renting out the place for now and will claim occupancy after they take their final distribution after the age of 59½. History has shown that, despite recessions and depressions, long-term real estate investments and rental properties tend to pay off over time.

A Good Time to Buy

"During this readjustment period, it is great to be a buyer," said Bruce D. Greenberg, founder and principal of Montana Verde, a Tucson, Arizona-based appraisal and consulting firm specializing in Mexican property. "Not often is there such a dramatic buyers market."

While huge U.S. conglomerates refuse to gamble the time and energy to learn the complexities of international mortgages in a down domestic market, a few smaller niche lenders are seeing the international space as prime territory. All are attempting to offer U.S. customers the same look, feel, and closing as the loans they have in the States.

"We believe there is an enormous potential in the Mexican market, not only in recreational second homes but also in retirement residences for aging boomers," said Matthew Miller, president and CEO of Chicago-based ConfiCasa Mortgage International.[3] "We have a supply of funds that have nothing to do with the U.S. economy or with U.S. mortgages, and we plan to be south of the border for a long time."

ConfiCasa is targeting North American baby boomers, including large Canadian groups from Vancouver, Calgary, Montreal and Toronto who have been drawn by ConfiCasa's 20 percent down-payment programs. ConfiCasa offers construction loan programs for single-family homes and condominiums, 80 percent loan-to-value ratios, and stated-income loans with a 30 percent down payment. Its most popular loan programs are five- and seven-year adjustable-rate mortgages. Anaheim, California-based World Wide Lending LLC,[4] which plans 20 locations in Mexico, has begun to list its approved developments on its Web site. It plans to utilize a broker network throughout Mexico.

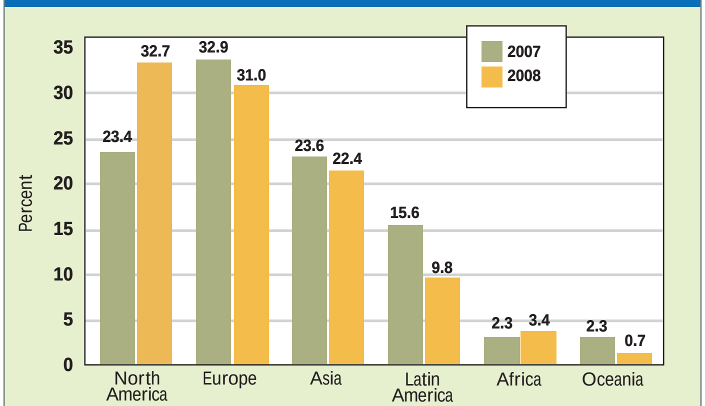
Referral Opportunities Abound

North American referrals are a hot commodity, especially in the Caribbean and the rest of Central America. U.S. brokers and agents have been asked to send potential clients to offshore developers and marketing companies and earn a handsome commission for doing so. For example, Mexico Alive,[5] a Puerto Vallarta-based real estate marketing and development company that offers developer direct sales of popular Mexican destination properties in Mazatlan, Puerto Vallarta, Cancun and other regions, is hosting a North American broker's weekend in January to educate professionals on its commission referral structure.

"We know U.S. REALTORS® have friends and business associates who are interested in purchasing property in Mexico," said Benjamin Beja, Mexico Alive's president and founder who earned an MBA from Harvard University. "We are happy to pay those REALTORS® a referral to work with us. We would welcome the chance to have them learn more about our culture, property and traditions."

The Mexico Alive weekend for brokers and agents offers an explanation of housing type, price and location along with useful educational material that includes financing, taxes, culture, health care and title insurance.

Region of Origin of International Clients



Preferred Destination of Foreign-Property Purchases, by Buyer's Region of Origin

REGION/CONTINENT	DESTINATION STATE	SHARE
North America	Florida	24.1
	Arizona	21.5
	Texas	12.0
Europe	Florida	39.4
	New York	5.6
Asia	California	18.3
	Florida	7.6
	Washington	6.9
Latin America	Florida	36.8
	Texas	12.3

The Baby Boomer Market

In the United States alone, the Baby Boomer (born 1946-1964) population is approximately 77.8 million. Many U.S. Boomers are targeting favorite travel regions and charting ways to buy property, vacation there now, and retire there later. Every year, they are being joined by more and more Canadians, Europeans, and Asians. Boomers, regardless of region or country, are adventuresome and drawn to the exotic. They are all about special experiences and they also place a premium on generating a return on their enjoyment.

Sales to Americans abroad have slowed—mirroring a pattern in the U.S.—yet many of the "fly-in" destinations are experiencing steady sales, thanks mostly to the international Boomer profile.

"Remember that World War II ended at the same time in Europe as it did in the U.S.," Yun said. "Many of the Europeans had bought in Spain, but the Spanish market is undergoing a transition now. Some of them see the lower cost of U.S. real estate and consider it a good investment."

Regional Investment Patterns

Canadian property referrals have provided an attractive niche, especially with the 2010 Olympic Games in Vancouver just around the corner. Retirees and aging baby boomers "from the States" are drawn to Canada for its wonderful skiing, health care, bargain medicine, terrific sailing, and clean air. Europeans have long coveted summer homes in East Coast waterfront regions of Nova Scotia and New Brunswick.

For the U.S., the group with the greatest inflow potential is that of the rising middle class in Brazil, Russia, India and China (the "BRIC" countries) who are expected to buy vacation homes in California, Arizona, Florida and Nevada. "I expect to see 80 million people rising to the middle class every year in the BRIC countries," Yun said. "Approximately one percent of them will move to the bracket of super rich and the biggest status symbol they can have is a home in an international city on the West Coast or Las Vegas or Florida. Many of these are cash buyers who don't have to worry about the mortgage markets. This is going to bring new business to REALTORS®."

Trending your way

The trend towards cross-border real estate transactions is increasing. More than 25 percent of survey respondents reported some international transactions in the period covered, with 21 percent reporting steadily increasing international business. As the NAR report says "as more and more people in different nations realize the value of owning property, the opportunities and challenges for real estate professionals" are increasing every day. gp