PROPERTY SERIES

The Jet-to-Let Bible

The secrets of overseas property investment

Dominic Farrell

This is an excerpt from Lawpack's book *The Jet-to-Let Bible*.

To find out more about buying property investment overseas, **click here**.

The Jet-to-Let Bible
by Dominic Farrell

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For convenience (and for no other reason) 'him', 'he' and 'his' have been used throughout and should be read to include 'her', 'she' and 'her'.

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Part 1: Introduction

Welcome to *The Jet-to-Let Bible* – your guide to the exciting and profitable world of overseas property investment.

What is the major advantage of jet-to-let? You can be free! Free to decide how to use your time; free to live anywhere in the world; free to spend more time with your family and free to pursue activities which really stimulate and interest you. Most importantly, you are free from answering to anyone else – except yourself. For investors, financial freedom is the main reward at the end of the property investment journey.

This book aims to demystify the process of buying abroad and will provide you with all the tools you need with which to be successful. Whether you are a complete newcomer or an experienced international investor, this book's clear and simple approach will guide you in making your overseas property work for you!

What is your goal? Successful property investors have choice. Some carry on working for other people, some start their own businesses and some 'retire'. Whichever path you choose, the key factor is that a successful investor makes decisions based on his wants and needs and not on economic necessity. Whatever your aim is, whether it's to be totally financially free or to give yourself a lucrative second income, *The Jet-to-Let Bible* is essential reading.

So, what makes this book different from all the others on this subject? Well, for a start, it's not a disguised travel guide with a few 'tips' thrown in for the sake of credibility and it's not just pages of common sense which will leave you feeling cheated. Instead, it's a unique guide to every aspect of the buying process which you can use to get ahead of less savvy investors and leave them floundering at the departure gate. As the old saying goes,

forewarned is forearmed, so the book's well-researched chapters will give you all the information you need to invest with confidence.

Why should you invest in property abroad? Property is an effective money-making investment and overseas property investment is particularly popular. Chapter 1 outlines this through the analysis of supply and demand, economics, and how these factors affect the domestic and international property markets. The phenomenon of jet-to-let and the reasons for its prolific growth are also examined in some detail.

Opportunity cost, return on investment and using other people's money is the subject of the second chapter. These key investor concepts will change your approach to property investment and the level of profits you can earn. They will also adjust your thinking when you are considering the best way to get the highest return on investment. Just by using simple principles, you can make money without investing much of your own.

The most difficult question is where to start investing. Chapter 3 shows how to use a 'top-down approach' to property investment so that you can maximise your profits. The most popular types of location may seem obvious (beaches, waterfronts, exclusive city neighbourhoods, etc.) but it's important to understand the reasons for their profitability. Money makes the world go round, so why not go round the world and make some too?

Chapter 4 focuses on strategy and looks at how goal-setting, reviewing and a 'big-picture' approach will ultimately lead to success. It looks at the different types of investors and shows you how to play to your strengths while keeping a realistic approach to your investment. Using the technique of investor profiling will also make the process of property investment a lot clearer.

Number-crunching and the financial considerations of jet-to-let form the body of chapter 5. Many novice investors don't take into account the costs associated with purchasing a property and then letting it out on a commercial basis. Cash flow is king and this chapter outlines the techniques used by professional investors to ensure maximum profitability.

Property development, renovation projects and 'off-plan' packages are examined in the following chapter, with information on how to use and improve your negotiating skills to get the best deal. All the jet-to-let strategies available are examined so that you can choose the best one to suit you.

Vital to any investment is an understanding of risk. How to plan, to control and mitigate (i.e. hedge against) any potential problems is fundamental to your investment success. Risk takes many forms and is examined in detail in chapter 7. We also show how a risk management matrix can assist you in formulating a robust risk management plan.

Everything that you need to know before signing on the dotted line is dealt with in chapter 8. There is also crucial information on whom to buy from, and the risks involved in buying in another currency. We then look at contracts as well as the potential pitfalls that await the ill-prepared when investing overseas.

So, you've looked into buying your property, prepared yourself to negotiate the best price, have overcome the potential hurdles with ease but something's missing: people! Chapter 9 shows you how to find tenants for your property, whether short- or long-term, and from across a multitude of different markets. There are some useful tips to ensure that your property is never empty, and that the people paying to stay there will be happy to come back again and again.

The final chapter outlines the necessity of having a checklist when researching and analysing where to invest. The book includes a list of the factors you should consider before embarking on the jet-to-let journey and shows you how to apply your own criteria to this analysis so that you can get the most out of your future overseas property investments.

Now, let's go back to the question of where to start. In Part 2 of the book, there is a reference section which has information on 20 locations across four continents detailing everything from the climate to currency, from politics to property, using the most up-to-date data. These outline some of the most popular and up-and-coming jet-to-let destinations at the moment. They also provide you with a framework for research so that you can compile your own information for other destinations.

Finally, in the Appendices, the book aims to add the last pieces of the puzzle to your overseas property investment jigsaw. It includes a list of UK holidaymakers' top destinations, low-cost airline routes, retirement destinations, economic facts, exchange rates and transaction costs. These facts and figures will make it easier for you to plan your overseas investments and make *The Jet-to-Let Bible* your new best friend!

CHAPTER 6

Jet- to-let property investment strategies

Earlier, we spent some time looking at the relationship between goal-setting and developing a property investment strategy that works for you. I want to avoid offering prescribed 'this is the way to do it' advice based on my own goals and personality because everyone's goals, ambitions and personalities are different.

Instead, you will find a framework so that you can develop your own thoughts, a series of options for you to think about, and hopefully the confidence and knowledge to step up to the challenge.

We will now consider and explore in more detail some of the strategies open to you as a jet-to-let property investor. The list is not exhaustive, but it covers the main areas which you should think about before deciding where to focus and includes:

- property development;
- jet-to-sell renovation projects; and
- off-plan investing.

Property development

If you want to invest overseas and become a property developer, you will

construct or refurbish single or multiple properties with the intention of selling them for a profit.

If you are in a good market where demand is strong and prices are rising, then the option to develop is attractive. But before you get carried away, there are a few things to consider.

1. Partners

It's possible to enter an overseas market as a foreigner and develop, market and sell property, but this is easier in some markets than others.

Ideally, you need a partner who is from the country in which you wish to develop and preferably someone who has a bit of clout, as the doors that open for a local will in some cases be closed to you. The opportunities to buy good development land or buy out small developers who are in difficulty will present themselves more often with a local partner.

As with all things jet-to-let, choose your partner carefully as you have to trust him 100 per cent. Property developing involves large sums of money and requires clear decision making and the ability to live with a high degree of risk.

If it's possible, an introduction via a mutual third party is the perfect start, but how many people are in that position? This is why I am a great believer in networking and meeting people. Who knows who you will meet at a networking event?

On one of my courses last year, we had two very experienced property developers from Spain fly in for the weekend. They sat through the course, asked some excellent questions and then stayed for the networking drinks afterwards. We had a chat and I was impressed with everything they were telling me about their operations in Spain.

They are developing 400 villas on the Costa Blanca, but need a specialist consultant to advise on accessibility issues. The market for property that provides for those with mobility problems is growing. How often have you been to a hotel or villa and wondered just how on earth anyone in a wheelchair could get around?

Anyway, within 24 hours we had put them in touch with a member of our property investor community who was an expert in accessible property

and had previously advised on some of our developments. He flew out a few weeks later to provide consultancy services.

So, get out and about. Opportunities will always arise if you make yourself available, but if no-one knows who you are, it's more difficult.

2. Cultural practices

You have probably seen the advertisements on TV for a major retail bank promoting its view that it's 'the world's local bank'. The adverts highlight cultural differences around the world. Making eye contact, the giving and receiving of gifts, greeting one another and many other activities have different meanings, messages and interpretations across cultures. You are not going to pick these things up overnight and, again, a local partner is invaluable in steering you through a potential minefield.

3. Legal advice

Don't confuse what is taken to be normal with what is actually legal.

In some countries it's not uncommon for people to make payments in order to secure a more favourable business position. In the UK we would call it a bribe. It's illegal in the UK and is also against the law in most foreign countries, although in some it's 'culturally acceptable' and sometimes necessary to get anywhere in business. However, don't fall into this trap.

Normal practice and legal practice should not be confused and a good English-speaking lawyer needs to be on your team to ensure that at all stages you remain within the law.

Additionally, your lawyer will be able to draw up any legal contracts that you require, conduct searches on any companies you deal with and carry out any due diligence and checks on any land you may purchase. The robust Land Registry system of the UK is replicated only in a few of the jet-to-let investment areas, and title or ownership of land can be contentious.

You cannot hope to cut through the mist of bureaucracy and red tape without the support of a good local lawyer.

Your lawyer should ideally be recommended by someone you know, such as your business partner, or you can ask the local British Embassy, High Commission or Consulate for their list of recommended English-speaking lawyers.

4. Finance

The big question is where do you get the money from? You will need to use finance or possibly raise cash via some form of offering.

You can raise cash from other investors to finance the development for either a fixed return or for a percentage of the profit. They will require security, a return commensurate with the risk and a detailed investment appraisal.

However, it's not easy finding investors. To pull it off, you will need a good track record, a persuasive personality and a sound business plan!

Alternatively, you can leverage against your portfolio in the UK. This means that if you have investment properties which have significant equity accrued over a number of years, you can use them.

You can also form a syndicate with a group of friends, family or other like-minded individuals. This involves a legal contract setting out the terms and conditions of the syndicate, the management of it and how each of you will take your money out at the end (i.e. an exit plan).

Finally, you have the banks both in the UK and overseas. Many UK banks will not lend for overseas development projects unless you are a big player with a strong track record, but many overseas banks will lend for development projects. Your relationship with your bank is one of the key factors which will determine whether you are successful.

Returning to that local partner again; if your partner is a successful businessperson with an identifiable track record built over a number of years, who already has a relationship with a bank, it will be a lot easier raising funds.

5. Tax and currency controls

Check out the tax situation in the country in which you wish to develop. How big a slice of the profit will the government take in the form of Corporation Tax? Is there a Wealth Tax (i.e. an annual tax based on your overall wealth usually expressed as a percentage) and if so, will you have to pay it? What other taxes are there? What effect does VAT have and how much can you claim back? Is there any form of currency control? How do you get your money out? Make sure that you get all these answers before you start, and the best way to do this is to pay for advice from an accountant and/or lawyer.

6. Contractors

A contractor is someone who actually does the work and constructs the project. You present your development in the form of a competitive tender to a number of contractors with a detailed specification and timeline. The contractors will study the proposals and make an offer.

a. Costs

Your research will give you a clear idea of what the going rate is for new-build properties in a particular area. This is normally expressed in terms of pounds per square metre (or whatever the local currency is).

Example

If your construction costs are £600 per square metre and a house is 150 square metres internally, then the cost to build the house is £90,000.

If the land itself costs £90,000, then the total cost of the house is £180,000.

Let's add in a notional 10% VAT cost on land and building costs at £18,000 and a contribution to other costs, such as sales and marketing, of £18,000, then the overall cost to the developer for this property will be £216,000.

Depending on the country and location, it will probably be sold for between £260,000 and £280,000.

It's also possible that the land may cost a fraction of what I have proposed if it was purchased sometime earlier or if a change of use of that land (e.g. from agricultural to residential) has occurred. I will cover this later in the chapter.

b. Economies of scale

In the example you will have noticed that I put a figure of £18,000 onto the cost of the property in order to cover some additional costs. This contribution will go towards any fixed costs you have, such as staff, offices, motor vehicles and insurance. It doesn't matter how many houses are built – these costs will stay constant.

Other costs associated with sales, marketing, seminars and exhibitions are variable, because if you didn't have developments to sell, then you wouldn't have these costs. But, in essence, your costs won't be much different whether you market ten properties or 100. The key point is that with 100 units these costs are spread over ten times as many properties, thus reducing the costs per unit significantly.

7. New-build versus refurbishment

There is absolutely no reason why you couldn't have a new-build plan running in parallel with, and in support of, refurbishment projects. We will come back to both types of investment a little later.

8. Critical mass

It's easier and more cost effective to sell three development projects than one, as we observed earlier (see above). How can this be true? What about all those costs I was talking about earlier?

Certainly, some of the marketing costs such as brochures will be greater but, on the whole, it takes the same marketing effort to target the buyer whether you have one development of 100 units or three developments of 33 units.

However, what you have with three developments is choice for the buyer or investor. In marketing speak, as a developer you have a 'product mix' as preferably the locations and pricing points will be different. You are offering the client, who may have taken a special trip from another country to view your sites, options. Remember that for the customer, choice is happiness.

If you have one option and your client dismisses it because of any factor, then you are up the creek without a paddle, have incurred costs in terms of marketing, time and resources and your buyer will go to someone else who has the product that he wants.

9. The package

Investors and home buyers are looking for a package – a turnkey solution where all the hassle of buying overseas is taken away from them. They want a top quality product, delivered on time with you taking care of everything from furniture to insurance.

Developers now compete, not just on price and quality, but also on the finance, after-sales and property management that they can offer to the client.

So, if you are considering developing overseas, take into account the non-property ways in which you can compete in the marketplace and thereby create a competitive advantage over your rivals. One way is to produce a package which reflects the wishes and aspirations of your clients.

10. Sales and marketing

Often overlooked in the rush to develop, sales and marketing will be the main factor in determining whether you are a success or failure in overseas property development.

a. Exit strategy

I haven't covered exit strategy yet in this book and now is probably a good time to introduce the topic. By 'exit strategy' I mean the route by which

your profit becomes real. The end result of developing property, whether on a small or large scale, is the successful sale and the realisation of profit.

The biggest risk is not the planning authorities, the construction, the finance or any legal anomalies, but the exit. All of the other issues can be hedged, mitigated against, and if your business planning has been meticulous, there should not be any major surprises.

b. Marketing and selling property

In order to reduce their risk, developers sell properties off-plan, take deposits from their client and exchange contracts. The developer will be in a sounder financial position by selling more properties before the land has been cleared and a foundation laid.

Before you decide to develop in an overseas market you have to be very clear to whom you are going to market and through which sales channels. I would not rely on local estate agents, as this route tends to be slow, and in my view relatively passive.

Routes to market:

- A professional sales and marketing team
- Website
- Marketing materials
- Property exhibitions
- Property marketing companies
- Sales agents
- Property investment clubs/associations/syndicates in the UK
- Editorial features for highly targeted newspapers and magazines

What about putting a few adverts in the Sunday newspapers or one of those glossy magazines? Personally, I'm not a great fan of general print advertising. It's about bangs for your buck. The very large companies have very large marketing budgets because the cost is spread across so many properties, as we looked at earlier.

On a smaller scale, I don't think the effect justifies the expense. You have to do a considerable amount of it to get a return. I also think that the industry has moved away from general print advertising onto the internet.

I would, however, consider advertising in specific, subscription-based property investment magazines where you know that the reader fits the profile of your targeted market.

11. After-sales and customer service

Often underestimated, the after-sales process is both time and manpower intensive. You neglect it at your peril. The post-sale work occurs once a verbal agreement has been reached to sell a property.

I want to highlight this, as I know of UK-based investors embarking on developing overseas who have given no consideration to the after-sales process.

The process of selling a property goes something like this:

Sales and marketing activities = Sale

A sale involves:

- Receipts of money and paperwork
- Contracts
- The mortgage application process
- Choice of tiles, kitchens, upgrades
- Furniture packs
- Takeover of the property
- Takeover procedures
- Snagging
- Property management
- Many questions about all of the above

And this takes a strong, well-trained customer services team.

12. The client

I have left the client until last because he is the most important external factor in your business plan as an overseas property developer. Without clients you have no business.

One satisfied client is worth five prospective clients. A satisfied client will come back and buy more and will do your advertising for you by telling friends who will also buy. For many people, word-of-mouth is a deciding factor when parting with cash, so a satisfied client is your best marketing tool.

I think points 1 to 12 above will give you some food for thought and will make you ask the right questions of others as well as yourself before you embark on what is possibly the highest risk/reward strategy that I cover in this book.

Jet-to-sell renovation projects

I think that a key contributor to the jet-to-sell phenomenon has been the proliferation of TV programmes dedicated to the subject of people leaving the UK for a better life overseas, which may say more about modern Britain than the countries people are moving to. Anyway, the exodus is clearly underway.

Property developers and investors are aware of this and are also following the exodus, not to emigrate, but to buy the derelicts before the ex-pats arrive and, after renovation, selling them to this growing market. There is also an indigenous market in many countries, but it's the foreign market that most of these renovation projects are aimed at.

I call this 'jet-to-sell' and it's becoming increasingly common. To put it simply, you take an overseas property which is run down; you do it up and then sell it on for a profit. This strategy is very popular both in the UK and overseas for a number of reasons:

- You expect to purchase the property at a good development price. In other words, you have calculated that after the cost of renovation and selling you will make a decent profit.

- If it has been there for a while and the owners don't wish to develop it themselves, they may be open to an offer. In many cases overseas, property may well have been left to the family and no-one has actually thought about selling it until you make an offer.
- There is a growing market of Europeans, not just the British, who want the cottage in the country, or the villa in the mountains, lifestyle and are willing to pay a good price for the property of their dreams.
- You are not in competition with the big developers, who can often have a competitive advantage by offering a package which makes it difficult to operate on a level playing field. We are dealing here with a bespoke product.
- You can use this strategy in any market, not just the idyllic rural house one, but also in cities and towns throughout the world. It's presently a popular strategy in many cities in Eastern Europe.

By renovating multiple properties, you can achieve economies of scale, just as we looked at in the previous section on property developing. Your costs are then spread over a number of projects and you will also get a better deal from the contractor.

The main disadvantage, however, is that the barriers to others entering this market are low. You literally have to buy a house and do it up. If others, particularly entrepreneurial locals, see that you are doing well, then they may be tempted to set up in direct competition.

So, what should you do? You must have a competitive advantage with your product (i.e. your renovation project) and you need to have something which is a bit different from the competition; for example, the quality of your construction, the finishes, the personal service you offer or the after-sales care.

Business principles

The same business principles which we looked at in the developer section are also applicable with jet-to-sell, but you will need a clear business plan before proceeding. Whether it's one property or 100 you are still developing property and as such the principles are the same, albeit on a different scale.

For success in jet-to-sell you need to consider some crucial factors:

- You must not alienate your market by over-personalising a property. Keep it neutral so the buyer can put his own stamp on it. You must bear in mind that it's not your dream home, so if you like red walls with green ceilings, think again!
- With jet-to-sell, your property is likely to be old, so don't try to make it look like the new-build further down the road. Your competitive advantage is that it's old, has character and is very different to the other properties in the area. Let that work in your favour, so make sure that any renovation work is in keeping with the feel, charm and character of the property.

Check with the local authorities during your research regarding what the restrictions may be on renovating properties in the area. You may find, for instance, that the regulations are different inside a village than on the outskirts. As always, find out before you commit.

Make a profit

Don't lose sight of the principal aim of the venture, which is to make a profit. The three factors which determine your profit are:

1. Purchase price
2. Costs
3. Selling price

Your aim is to minimise the purchase price and costs and maximise the selling price. It seems obvious, but you only have to watch the property renovation shows on TV to see how often people forget!

1. Purchase price

Achieving a realistic purchase price in order to make the jet-to-sell project

profitable is your first task. Before you negotiate on a potential project, you must have a very clear idea of how much it will cost you to renovate and then add 20 per cent as a contingency. Estimate other costs and then you will have a good idea of your ceiling price. Simple planning such as this will reduce your risk.

Some people love negotiating and others hate it, but negotiation skills are what you need in order to secure the right price to make your project profitable. If you are particularly shy and loathe negotiating, rope in someone else who is particularly adept in the art.

Remember to work to your strengths, not your weaknesses, and if necessary, bring in someone who is a more skilled negotiator. This person may be a family member, friend or a joint venture partner or may even be someone you pay to act on your behalf.

Don't allow any difficulty you have with negotiating hold you back. However, where do you start?

A negotiating checklist

- **Be prepared.** Make sure that you have conducted a considerable amount of research and know:
  - the costs of other comparable properties in a similar state in the area;
  - the renovation costs;
  - the background of the vendor;
  - how long the property has been on the market for;
  - why it's being sold; and
  - any legal, boundary and title issues.
- **Anticipate.** By being prepared and analysing all the information, you now know what you want from the negotiation. You also have to anticipate what the vendor wants from the negotiation. Taking it one stage further, you also have to anticipate what he thinks you want from the negotiation!

There is an overused term called 'win/win', which means that both parties are successful at the conclusion of a negotiation, and this should be your outcome. Just be careful that when he is second-guessing what you want from the negotiation that he doesn't think you are really wealthy and, as a result, he believes that he can charge you a premium for what may be a very profitable renovation project.

- **Build trust.** There is nothing wrong with a good old-fashioned lunch! Moreover, you will find in many countries that it's the normal way to conduct business. The business lunch is a proven concept throughout the world and one which is invaluable in building mutual trust.
- **Listen.** It's important to listen to what the other party has to say and to take his facial expressions and other forms of non-verbal communication into account. As a listener, you are gathering intelligence that can help you discover which of the other party's needs must be met before an agreement can take place.
- **Analyse.** You have conducted thorough research and know your best-case and worst-case scenarios. Best case you think will be £X, worst case it will be £Y. You cannot go beyond £Y because the project then carries significant risk which may result in failure.
- **Act.** You want to be closer to £X than to £Y in order to increase profitability and reduce risk. You may have to compromise, but don't be so quick to do it. Don't get emotional but remain objective and business-like. You can always walk away, but don't give the other party that impression – you are trying to build trust. If you agree a price within your range (£X to £Y), that's fantastic. If you don't, smile, shake hands and walk away. Don't under any circumstances pay more than your profit margins will allow.

  You then have to look for other options inside your budget, but don't be surprised if the vendor comes back with a revised offer a day or two later – perhaps after another lunch!

If you are entering an overseas market for the first time, you may need the services of an estate agent or property sourcing service – see chapter 8 for more information.

2. Costs

The favoured phrase in the property world is 'location, location, location', but as a jet-to-sell developer you must control your 'costs, costs, costs'. These will become your biggest concern and even with the most meticulous planning there will be surprises. Remember that you are dealing with old properties.

Your first task will be to produce a schedule of what works need to be carried out. You may want to instruct an architect and/or building surveyor depending on the level of work, the state of the building or if you want to create a particular feature, extension or modification.

You will need to ensure that what you are doing is within local planning regulations (which the architect can advise on) and then invite bids for the work from three contractors, based on the plan produced by your architect or building surveyor. This may be in the form of a schedule of works. There are many ways to do this and the example below shows you one way of how to do it.

The important thing is to agree a fixed price and it has to be in writing. A written schedule is important because both parties have it to refer to in case of any disagreements or misunderstandings. It's a document which is unambiguous, sets out what you are paying for and also protects the contractor's interests.

You will also have to consider the best language to use for the document; do take legal advice before doing anything. There is no point having it in English if the extent of the contractor's response is 'sí' or 'OK' and if he nods at everything you say.

You will find that some contractors will not put a figure against each item on your schedule, but will quote for the overall job. This doesn't matter. The schedule specifies the tasks and the standards and as such allows you to compare each contractor on an equal footing.

Make sure that you see examples of the quality of work carried out by any local contractors as a guideline before you proceed.

Extract of a schedule of works

Job 1

Task: Replace all damaged windows with wooden framed double-glazed units which comply with current regulations.

Comment: The windows should be as close as possible to the original in appearance.

Job 2

Task: Create an en-suite bathroom in the main bedroom. It is to have a shower cubicle (900mm x 900mm), a shower with mixer, basin and pedestal and a top flushing toilet. A window is to be created on the external wall and glazed.

Comment: Tiling and flooring to be advised. We will supply it and, as a result, it should not be costed other than for labour.

Job 3

Task: The interior walls are to be painted with magnolia emulsion.

Comment: Three coats standard.

Mission creep

Mission creep is the expansion of a project beyond its original goals.

There is a danger with every project to do 'just a little bit more' or to plump for more expensive materials after the costs of the original project has been outlined. But you are almost certain to fail in your profit projections if you allow the project to expand and/or if you lose control of your budget. The only time when you need to be really ruthless, unbending, aggressive and forthright is in the control of your costs!

Contingency fund

You will probably not be dealing with minor 'cosmetically challenged' properties, but ones where a substantial amount of work is required. Your costing will be as accurate as circumstances allow, but with older

properties you just don't know what problems may arise as plaster is ripped off the walls, services such as water and electricity are connected and pipes are laid. With all of this to think about, a minimum 20 per cent of the overall costing needs to be factored into your budget.

3. Selling price

If you buy at a reasonable price and keep within the budget for the project, you have a very good chance of making a tidy profit.

Ultimately, the price at which you sell the property will be a key factor and one which is unfortunately out of your control. Why? Well, who says anyone wants to buy it at the price you wish to sell it?

Many people embark on the jet-to-sell route to instant wealth without considering who the buyer is for their property. Forgetting that this is 50 per cent of the jet-to-sell equation, they will have to settle for less than they would have hoped.

Liquidity risk

One of the risks associated with this jet-to-sell strategy is that once the work has been completed and you have expended time and energy on producing the finished product, you may not be able to sell it!

Liquidity risk is the time it takes to turn your developed property into cash. There are many reasons why you might not be able to sell:

- Rising interest rates
- Falling prices or an unrealistically high asking price
- Change in tastes and fashions
- Change in the character of the village (are they hostile to foreigners?)
- A natural event, outside of your control, such as a flood or landslide
- The oversupply of property in general
- New taxes
- New laws

- You have not appealed to a broad enough market
- Bad location
- Poor quality finishes
- Poor marketing
- An unfavourable news item – such as a town planning corruption scandal

These are just a few of the more obvious factors that come to mind.

You also need to consider that if you have financed the project through a loan, then the longer it takes to sell your property, the smaller your profit will be, as interest payments and other costs mount up. So, you must ensure that the property you deliver is finished to the highest quality that your budget will allow and that its location is unquestionable.

You can sell a second-rate property in a first-rate location a lot quicker than a first-rate property in a second-rate location.

Most potential purchasers will consider the location of your property first, before the quality of the property, so do use this to your advantage.

Off-plan investing

There has been an explosion of interest in recent years in off-plan property investment. This involves purchasing a property which has not yet been built and has been chosen from an architect's plans or perhaps an artist's impression of the site. You may have floor plans and impressions of what the rooms will look like, but little more.

You will sign a contract which states that the property will be delivered to you in a set amount of time (e.g. two years) to a certain specification and lays out the terms and conditions of the sale. The signed contract is binding and effectively states that you will buy and the developer will sell.

What are the advantages of buying off-plan?

The magic of gearing

As a property investor you want your cash to be working as hard as possible on your behalf. One of the best ways to achieve this is through gearing, which we looked at in chapter 2.

The advantage of off-plan investing is the degree to which you can gear, or leverage, your investment. Generally, you only have to deposit with the developer a fraction of the overall cost of the property. In the UK, it's presently about ten per cent, while overseas it varies greatly from country to country.

Example

Let's say that you purchase an off-plan apartment for completion in 2 years' time. The price of the apartment in sterling is £100,000 and the developer requires you to pay a deposit of 20% (£20,000) and then nothing else until completion.

The property market in this country is growing by 10% per annum. So, in 2 years' time the property will be valued at £121,000.

Now, you have only put in 20% or £20,000, so your return on that cash or your return on investment (ROI) is a whopping:

£21,000 ÷ £20,000 x 100 = 105% (gross).

However, you also need to look at the other side of the coin, which a lot of books on the subject, seminars and sales literature either don't mention or gloss over. What if prices fall by ten per cent per annum over two years?

The property purchased for £100,000 is now worth only £81,000 on completion in 2 years' time, which is a loss as follows:

£20,000 – £19,000 = £1,000

A loss of 95% (£19,000 ÷ £20,000 x 100 = 95%), before costs.

In this example, you will almost be wiped out!

Gearing works very well, whether the property market is rising or falling, by magnifying movements in the underlying price. It's a rising market strategy, so don't buy off-plan geared investments in markets which you think are falling or are about to fall. It is, however, a very powerful investor strategy which, if used correctly, can make your bank balances rise quickly and substantially.

Only invest off-plan if you expect the property market to rise over the timeframe of your investment.

No tenants

When investing off-plan, if you are aiming to sell before completion, you have the additional benefit of not having to find and manage tenants. If you have ever had trouble with a tenant, you may consider this factor as a major bonus.

Once an off-plan project is completed you have three options:

1. Sell
2. Let
3. Live-and-let

1. Sell

You must check with your lawyer that you have a fully assignable contract which allows you to sell the property (or more accurately to sell your contract) at any time. This is very important, as you may wish to sell for personal or financial reasons of which you were not aware at the time of purchase. Don't be tied in to contracts which prevent you from exiting at a time of your own choosing.

Trading contracts

Some off-plan investors deliberately sell their contracts prior to completion to gain a competitive advantage, as they don't want to be lost

in a potential crowd of other sellers on completion. This is particularly relevant if there are a lot of investor buyers in your chosen development.

Others sell before completion because they have adopted a strategy of trading contracts. They treat the contract almost like a stock market traded option or future, selling it as its price rises, parallel to the rise in the price of the underlying asset, which is the property being constructed.

Some manage this successfully and others don't. Of all the strategies we will cover in this book, this one carries the highest risk in terms of the result or outcome. You have to know what you are doing and have a proven route to market. You must always be in a position to financially complete given the illiquid nature of property.

If the development has been predominantly sold to investors who have no intention of letting the property, you may find it difficult to sell on completion as the competition and available supply will be fierce. Stack the odds in your favour for a sale and think as a developer.

I repeatedly use the term 'competitive advantage' and you will have guessed that I am a fan of stacking the odds in my favour by doing something a bit different. Let's get back to the example we used earlier:

> After 2 years your property is worth £121,000 and you want to sell. There are also 15 other owners with similar properties in terms of size, position and view.

Whether the property is in a sunshine destination, ski resort or city, the same principles will apply.

Presently, you have made £21,000, or have you? No. You have costs that need to be taken into consideration before you can arrive at a figure for (before tax) profit:

> Legal fees: let's say £1,000 in total for both transactions of buying and selling.
>
> Purchase taxes such as stamp duty, Transfer Taxes, other local or country specific taxes: let's say £2,000.
>
> Estate agents' fees can be very high in some countries, but I will use 3% in this example: £3,630.

Other expenses: £1,000

So you have total expenses of £7,630.

£21,000 – £7,630 = £13,370 before tax, which represents a healthy 63.66% ROI.

Given the psychology of the crowd I should imagine that the vast majority of sellers would now offer their properties for sale somewhere between £121,000 and £129,950. You will have to gauge the market at the time. Look to see what the 'going rate' is, which generally will be determined by the prices of any new phases in the development and by the strength of the overall market.

If the range is somewhere between £121,000 and £129,950, then you don't have enough profit to compete on price without giving it all away in costs, which is not what investing is about.

You must stand out from the rest of the sellers, so you should offer an incentive to a buyer. Allocate a percentage of your profit for incentives; for example:

- Cashback on completion of £2,000.
- A furniture pack of £3,000.
- Pay the buyer's legal fees of £1,000.
- A prize of £1,000 for the successful estate agent who sells your property (check the legality of such a prize with your lawyer in the market in which you are investing).

I'm not suggesting that you do all four, but what I am suggesting is that you do something to make your offer stand out from the crowd. If you keep your expectations modest, then you are more likely to receive a pleasant surprise than a nasty one.

2. Let

This carries less risk than the 'sell' option because of the issues we have just looked at. You will be in a similar situation to the seller, chasing tenants rather than buyers, but you haven't got the bigger issue of trying to sell under a particular time constraint, even if it's only psychological.

If your property stands out from the crowd in terms of presentation or price (or both), and you have instructed a professional lettings company with a reputation for finding quality tenants, then you will be in a strong position and can look forward to years of rental income and capital growth.

One of the major advantages with this strategy is that if you are creative, you can take most of your original deposit out by refinancing. Yet again, situations differ depending on where you are investing, your own personal circumstances and the banks, so you will have to take specific professional advice.

There are differences between overseas countries and the UK in the availability of mortgage finance. In the UK you can get mortgage finance based on the value of the property, but in some countries it can be based on the price you actually paid. So in the case above, you could apply for a mortgage based on today's value of £121,000 and not the price in the contract of £100,000. In this case at, say, 85 per cent LTV, you would receive a loan from the bank of £102,850.

You can see immediately that you would have more than your initial deposit and some paid back, effectively making it a so-called 'no money down' transaction. To clarify, you originally had £20,000 deposit for a property priced at £100,000. After capital growth and a higher LTV (80 per cent increased to 85 per cent) now available on the market, the bank gives you £102,850 based on the increased value. This effectively means that you take your original cash deposit out and use the accrued equity or capital gain as your 15 per cent contribution required by the bank. You can then use your £20,000 for further property investments.

A second advantage of letting your property is that you are treating the business as an investment and you are not speculating solely on price rises to provide a capital gain. With a sell strategy, whether by trading the contract or selling on completion, you are speculating that the market will rise. There is absolutely nothing wrong with this and many property investors have made and continue to make significant profits doing so.

Property is a long-term investment

Property is a long-term investment and if you treat it as such, you will undoubtedly achieve your financial goals. Property prices rise over time

due to the factors we looked at earlier in the book. There may be short-term price fluctuations, but the medium- to long-term trend is up.

Warren Buffett, probably one of the most successful investors of this present era, says, 'My favourite timeframe for holding a stock is forever'. He is well known for not having thrown himself and his investment fund into the dot com bubble of the 1990s. He resisted the temptation to follow fashion and, in some quarters, was ridiculed. Buffett has survived and prospered while others have fallen, as the great bubble burst in 2000.

Buffett selects solid, well-managed companies with strong businesses he understands and then buys the shares. His philosophy is that if his research is correct and he has bought great companies, then he doesn't need to sell.

This way of thinking has a parallel in property markets and in particular jet-to-let. Every year there appears to be a new fashion, a new hotspot and a 'dead cert' for making money. Buffett knew better when it came to the fashion of the stock market. He realised that the technology companies with huge valuations could not justify those valuations assigned to them by the market. There was a lot of hype and very little substance.

I would advise all investors to conduct a Warren Buffett-style investigation into markets in which they are considering investing. Ask yourself the key questions:

- Is there really a rental demand for this type of property in this area and from whom?
- Is the market sustainable?
- Will it be affected by any newer markets where prices are cheaper?
- Is it a passing fad?

If the answers to your questions support your view that the market is strong for the right reasons, then holding for the long term, à la Warren Buffett, would seem to be a sensible and profitable strategy.

There are further considerations you must bear in mind when letting property which I will cover in chapter 9.

3. 'Live-and-let'

There has been a sea change in people's attitudes to work and their aspirations for more free time and leisure time. The brash, 1980s 'show me the money' philosophy has given way to a more considered, thoughtful and lifestyle-orientated view of work in the 21st century.

I enjoy our investors' meetings, as it seems the primary motivation of many of our students is to quit the rat race, and we discuss the many ways they might achieve this. They are seeking to control their own time and not be reliant on anyone or any organisation for financial support.

Many students, after leaving our courses, very quickly quit their daytime jobs and use property investing as a means to achieving a better quality of life. Some have taken considerable personal risk by giving up well-paid careers, but they have used the drive and tenacity they already possess to accelerate their new careers in property.

As a result, many have invested in lifestyle property investments in addition to the mainstream UK buy-to-let and buy-to-sell. I call a lifestyle investment a 'live-and-let'. By this I mean that you invest in a property which you use yourself for holidays and short breaks, but you let it out to receive an income when you are not using the property yourself.

Unlike the other strategies, which are generic and can be applied to any jet-to-let market, the live-and-let idea is found mostly in countries which have good, all-year-round climates. Skiing resorts have been a proven success for many following the live-and-let strategy, as they can be equally attractive as a holiday destination in the summer.

Often you will find that your break-even point (i.e. where your income and expenses balance) is surprisingly low. Given the level of rent many overseas properties can command, it often only takes a good run during the high season to cover many of your costs.

All the evidence suggests that this is a growing proportion of the jet-to-let market and the savvy investor will look to countries which have an all-year-round appeal in order to maximise his own enjoyment as well as the rental income.

Off-plan property checklist

As I pointed out earlier, many investors have made a great deal of money from investing off-plan and reaping the benefits of gearing in a rising market. I would contend that in the past there has been less risk associated with UK off-plan, as the due diligence that you are able to do here is in many cases superior to that overseas.

The risk now in UK off-plan is that at the time of going to press in May 2006, the market is stagnating and, at the very best, is estimated to grow this year and next by about four per cent. As this is an average, clearly some locations will do particularly badly, which suggests a very high-risk off-plan investment.

1. **Check out the developer**, which is easier in some countries than others (see below for pointers on how to do this).
    - Get your lawyer to check out the development company.
    - What is his reputation like locally?
    - Does he have a reputation in the UK? If so, what do people say?
    - Are there any news stories concerning the company?
    - What other developments has the company completed?
    - Can you have a look around at previous developments on a visit?
    - What is the reputation of the construction company?
    - Are the company's employees qualified? In other words, are the key skills of electrics, gas, water and general plumbing conducted by qualified tradespeople?
    - Get a good independent local lawyer who understands property and ideally is a property investor himself.
2. **Check out the property**
    - Does the developer have a legal right to the land and therefore the legal right to sell a property?
    - Is your deposit safe? What safeguards do you have?
    - What guarantees does the legal system afford the buyer?

- Is the contract fully assignable, i.e. can you sell it on to another buyer before completion?
- Do you have to pay the developer a fee to reassign the contract? If so, how much?
- Does the development have the appropriate planning permission?
- What guarantees are there for the construction?
- What are the development plans for the area?
- If there is available land adjacent to the site, what is the plan for that land? Get your lawyer to double-check what you are told by the developer or sales agent with the planning authorities.
- Check the plans relating to the site, the position of your property and the sizes and dimensions quoted.
- Do the sizes and dimensions match those given to you in the price list?
- Particularly, what are the sizes of any balconies and are they included or excluded from the dimensions of the property? Do the listed measurements in metres squared include purely internal built areas or do they include covered verandas or a share of communal areas in the case of apartments?
- Is parking included or excluded? If it's included, ensure that it states so in the contract.
- Visit the site with the plans and check the position of the sun if you have been promised a particular sunrise, sunset, sun in the morning, afternoon, etc.
- Are the detailed specifications of what you get for your money in the contract, such as white goods, tiling, air conditioning units, heating, swimming pool, etc.? Whatever you have been promised needs to be in the contract.
- Are the responsibilities of the developer in the contract, such as the delivery date, any penalties for late delivery, insurances, etc.?
- Is the contract in English or two languages and for legal purposes which has precedence in case of a dispute?

- If you are buying an apartment, what will be the service charge and what does it cover?
- What is the structure of the management company?
- What about the residents/owners' association?
- How many of the properties have been sold to investors?
- Do you know the ratio of those holding to selling?

Developer discounts

Those of you who have been involved in property investing for some time will be aware of the many marketing 'hooks' used by development companies and their agents to sell you properties.

The discount is a hook which is being used excessively these days and it's losing a lot of credibility in the industry. Firstly, you can get a genuine discount off a property at certain times of the year, particularly through public-quoted companies which may want to strengthen their accounting position. You may also get a genuine discount if you buy multiple properties or a complete development from a developer. By selling you the development outright, the developer foregoes a lot of costs, such as interest on loans, sales and marketing, staff, exhibitions and the like, so the discount can be offered in a straightforward way.

Apart from these situations, however, to give a genuine discount, the developer has to give you a slice of his profit. If the 15 per cent quoted discount is truly genuine, then the developer is giving away 15 per cent of his profits. Few companies are willing to give away their profit so readily.

One industry trick is to inflate the market value of properties in order to discount them back. In order to ascertain the fair price, do some research and look for comparable property in a similar location taking into account any special terms you may have, such as finance. If you are not able to do this, as distance may be an issue, then commission an independent valuation from a local, independent valuer. I also know investors who commission UK-based surveyors and pay a fee to have them fly to their chosen jet-to-let property investment to conduct a valuation.

Always be careful of internet research as sometimes it can be misleading. Some agents and developers deliberately advertise property that has already been sold, maybe two years ago at prices appropriate at the time. When you come across such a good deal and pick up the phone to ask for more details, you are told that unfortunately it's now sold, but they have other properties you may be interested in. This is another industry hook to be aware of, so conduct your research on the ground yourself or through a valuer to whom you pay a fee.

How tempting is the proposition that for simply signing a piece of paper (reservation contract) and leaving a deposit you will get an instant 15 per cent profit?

Property price = £200,000

Discounted price = £170,000

Instant equity profit = £30,000

If this is so good, why isn't everyone doing it? Well, everyone is not doing it. Clearly some people are, and best of luck to them, but you do have to think through the logic of a developer giving away a very large slice of his profits. If he keeps doing it, then he will not be in business very long!

A word of caution: It's only fair to point out that property valuation is not a science and I have seen valuations conducted on the same property by up to four different valuers where the range in price was about 25 per cent.

Land investing: the Las Vegas of property investment

You may have seen advertisements in newspapers and magazines from companies offering land investment opportunities – it appears to be a growing trend as more companies enter the market. This is also happening overseas and many novice investors are investing in companies which buy land and then sit on it. These companies are doing one of the following two things:

1. Land banking

This is where you buy land at today's prices and 'bank' the land by allowing it to remain unused, with a view to selling it later at a higher price or developing the land for profit. This is a good, sensible strategy in any market and a good long-term strategy even when markets are flat or falling. Land is land and has a good solid value, particularly in prime or up-and-coming areas.

2. Speculative land banking

This is where you buy land in the hope that at some stage in the future you will be able to develop that land or sell it for a profit after it has been 'rezoned'.

When you buy it, the land may be zoned for agricultural use only. Therefore, you cannot use it other than for grazing sheep or growing crops. It's a speculative investment because you are hoping that at some stage in the future you may be able to develop the land if and when the area is rezoned.

Zoning

Zoning outlines the uses of land for residential, office, industrial, agricultural and other uses and also stipulates the type and density of what can be built. If you can buy land when the zoning is for agricultural use and then two years later that land is rezoned to residential, you win the jackpot.

Example

1000m^2 of agricultural land purchased in country X for £10,000.

Due to a change in planning policy, which could be for many reasons, your land now falls into a zone which has been re-classified for residential use. Overnight, because of what you can now build on that land, the price shoots up to £60,000.

It's like winning the jackpot at Las Vegas! So, why isn't everyone running out and doing it when it appears to be a 'no-brainer'? Well, maybe it's not. As with any form of investment, research and due diligence are the watch words.

'Gambling promises the poor what property performs for the rich – something for nothing.' George Bernard Shaw

There are a lot of companies in the market which have good intentions, are well managed and explain in detail the risks associated with speculative land investment. They are professional companies with a track record and they will still be around in the years ahead.

Then there are the others, who will make a quick buck on the back of Mr and Mrs Smith who don't fully understand the speculative nature of what they are getting themselves into, particularly where the advertising and the contract are in a foreign language. This may be a bit harsh, but this is an area of the property investment world where some of the marketing literature beggars belief.

I again come back to research, due diligence and professional advisors. Don't be put off the idea of investing in land by what you read here. My aim is not to dissuade you, but to persuade you to cut through the hype and look at the facts. Speak with professional advisors in the country you have chosen and look at the history of rezoning, timeframes, what the locals are buying, where the locals are buying and ask the sort of questions which make people feel uncomfortable. You have the right because it's your money and it's your future.

Key points summary

The jet-to-let property developer's checklist can be used to formulate a plan and provides the key components that you will need to understand and have in place to be successful:

1. Partners
2. Cultural practices

3. Legal
4. Finance
5. Tax and currency controls
6. Contractors
7. New-build versus refurbishment
8. Critical mass
9. The package
10. Sales and marketing
11. After-sales
12. The client

Other points:

- Remember that the people assisting you are a critical factor and they will have a positive or negative impact on your performance.
- Don't confuse what is seen as normal with what is legal.
- Have a clear and well-defined strategy that deals with the entry, the administration and the exit from your investment.
- Understand your risk and how to control and manage its potential effect.
- Make profits – it's allowed to be fun as well.
- Use the negotiating checklist.
- Keep control of your costs, as if your life depended on it.
- Buy off-plan only in rising markets.
- Property investing has the highest risk when you treat it as a speculative short-term punt.
- Property is a medium- to long-term investment and should not be regarded as a 'get rich quick' scheme.
- Use the off-plan checklist to assist with your planning.

- Beware of discounts. Has the price been artificially increased so it can be discounted back to a more realistic figure?
- Investing in quality land can be a very profitable business.
- Speculating that land may be rezoned is simply that – speculating – and it carries potentially high risks or rewards.