

CONSUMER TIPS
BUYING FOREIGN PROPERTIES



In recent years, there are numerous foreign property advertisements and property exhibitions as well as investment seminars/roadshows vying for consumer attention. Singapore property buyers and investors have to exercise caution and not be too hasty in making foreign property purchases that have initial promises of strategic location, spectacular view and high rental yields.

Unlike local properties, buying foreign properties, especially off-plan purchases may not be as straightforward. Location, being one of the most important buying factors, is already an unknown unless one is familiar with the country where the property is located. You should not simply commit to a purchase based on attention-grabbing headlines in advertisements without doing your necessary homework.

Find out pertinent information such as the rules governing foreigners to buy a particular property and all the costs involved e.g. taxes, if any. Conduct your own research, look at the viability, pricing and terms and conditions of purchase. Do not rely solely on the advice of the speakers' or vendor's representatives of the foreign property.

The factors to consider in buying a foreign property are more complex than buying a local property. This guide provides some general tips to consumers who are interested in buying a foreign property.

DEFINITIONS

Under the Estate Agents Act 2010, "Estate Agents" refer to estate agency businesses (sole proprietors, partnerships and companies) while "Salespersons" refer to individuals who perform estate agency work.

COVERAGE OF ESTATE AGENTS ACT 2010

The Estate Agents Act applies to all estate agency work for local and foreign properties, whether residential, commercial or industrial, so long as they are marketed, sold or leased in Singapore.

All persons performing estate agency work must have written agreements with their estate agents and register with the Council for Estate Agencies (CEA) before they can practise. Persons handling their own property transactions and property developers and their employees are not covered under the Act.

Foreign estate agents and salespersons who wish to market or sell foreign properties in Singapore will need to comply with the new regulatory requirements which include getting a licence before they can engage in estate agency work in Singapore. Alternatively, foreign estate agents can consider tying up with a local licensed estate agent if they want to hold property exhibitions or fairs in Singapore. If the properties are marketed directly by the foreign developers, it is not under the purview of the Estate Agents Act.

KNOW YOUR NEEDS

If you are considering to buy a foreign property, it is in your best interest to know and understand your needs. Ask yourself the following questions:

- Is this foreign property an investment, a future retirement home, an accommodation for children studying overseas, a holiday resort, etc.?
- What do I want to get out of this property – passive income from rental, profit gains from capital appreciation, better living standards, etc.?
- What is the financial commitment I am prepared for and over what period of time? Can I afford it?

Understanding your needs will help you to decide on the type of property and the location or country that you are interested to buy into. Your needs and situation are likely to be different from others.

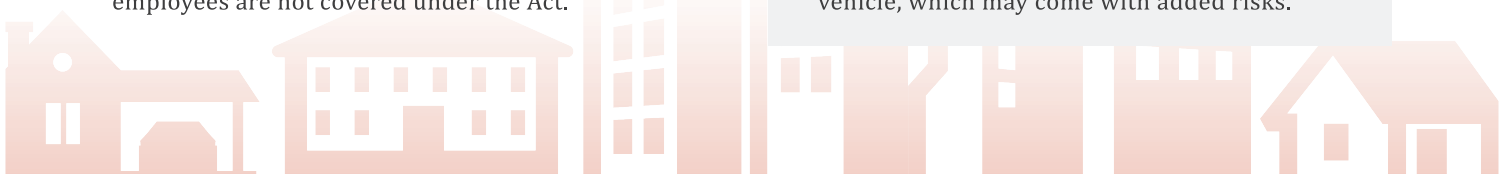
Do not rush into buying a foreign property because others are doing so. You may regret your decision later if the purchase does not fulfil your needs.

DO YOUR RESEARCH

Be it a local or a foreign property, it is important to do your research thoroughly before embarking on the purchase. Some factors to consider in your decision-making process are as follows:

- **Rules and restrictions on foreign ownership**

Some countries may impose restrictions on the types of properties, minimum property price or location of the property which foreigners can buy. Some countries may impose restriction on reselling in the secondary market e.g. resell only to the locals (citizens and PRs). Sometimes, buyers of foreign property may do so via a local company vehicle, which may come with added risks.



Certain properties may also have restrictions on their use. For example, if the property is to be sold for the purpose of student accommodation, the buyer can only lease the property to students and the buyer cannot use it for his/her own stay. As such, the buyer must be aware of the potential demand due to the restrictions.

- **Lease period**

The lease period in Singapore is commonly defined as 99 years leasehold or freehold properties. However, some countries may define the lease period differently from Singapore.

- **Taxation**

Some countries may levy taxes on foreigners to curb excessive speculation and to stabilise property prices. There may be taxes levied when buying property and separate taxes levied when you want to sell the property. There may be property taxes for owner occupation or when the property is rented out. Various categories of taxes such as stamp duties, capital gain tax, withholding tax, estate duty may be imposed. Hence, it is crucial that consumers find out more before committing to the property.

- **Property market trends**

Most property markets experience ups and downs known as property cycles. Depending on your needs, be it a stable rental income or high capital gains, you should understand the market trends and the duration of each cycle to gain a better insight in the foreign property market that you are interested in buying into.

- **Political, social, natural climate of country and utility services**

Understanding the country where you are buying a property is also crucial. Foreign legal and regulatory frameworks may change suddenly when domestic politics or other factors cause a change in policies. Political unrest, strikes, anti-foreigner sentiments are potential reasons that discourage foreign investments. The insurance costs in countries prone to natural disasters such as typhoons or earthquakes may also be high. In some countries, the availability and reliability of public utilities e.g. electricity, water and sewerage services may have to be considered. All these factors are likely to affect the value and returns of your investments.

- **Buying transaction process**

As a foreign buyer, you are likely to face a more complicated purchase process than local buyers. For example, you may need to obtain approval from local/central Government to own the property. You may wish to find out more about the procedures involved and the timeframe to complete the process to ensure a smoother transaction.

- **Dispute resolution avenues and relevant laws**

In addition, you need to be aware of any relevant laws that apply to your transaction. If ever there is any dispute, you need to know the dispute resolution mechanism that will apply in the event that your transaction does not go through smoothly. You should find out under which jurisdiction the dispute resolution will be handled.

- **Approved building plan**

If the property is still under construction, you can ask for confirmation that the property had obtained building plan and other necessary regulatory approvals in the country where the property is located.

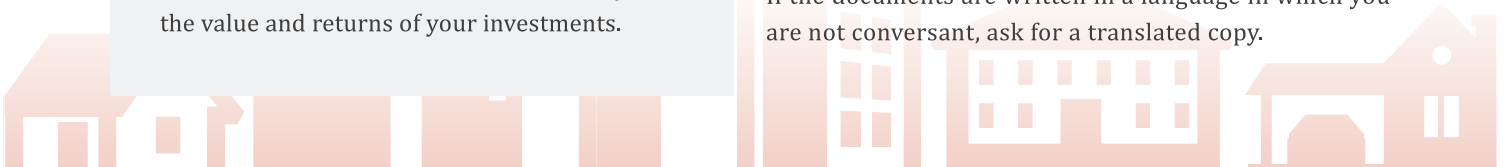
- **After-sales support**

Find out if there is any service support from the developer after the sales is completed e.g. whether there will be progress reports on the property development if it is under construction. If there is support, ask for the extent of the support in writing.

For **new property purchases**, examine the track record of the property developer to see whether it can deliver the completed project by the stipulated timeline and with the promised quality.

For **resale property purchases**, ask about the condition of the property and neighbourhood where the property is located. If you are also concerned about the background/history of the property/owner, you may ask the owners or the appointed estate agents/salespersons to find out more details. You may also consider an actual visit to the property to give yourself a feel of more local factors such as accessibility to public transport, traffic conditions and noise and air pollution.

Prior to signing any agreement or document, read and understand all the terms and conditions carefully. If the documents are written in a language in which you are not conversant, ask for a translated copy.



In some countries, you may be made to enter into a Sale & Purchase Agreement instead of an Option to Purchase.

If you are in doubt on any matter, you should always obtain independent expert advice from appropriate professionals such as lawyers, valuers or bankers.

You should find out if legal advice is arranged, or it has to be paid or sourced by yourself. In some cases, the foreign developers invite their lawyers to the exhibitions in Singapore and you should clarify who they are acting for. You can consider if you wish to engage a lawyer to act in your interests.

As a buyer, you should ask as many questions from the developer and estate agent as necessary before making a decision. In addition, you should also do your own research as well.

BEWARE OF COSTS AND FINANCING LIMITS

Foreign properties may appear to provide better value and returns than local properties. However, you must be aware of the associated costs and financing limits when doing your financial planning to make the purchase.

You should find out what is the total financial commitment before you purchase the property. The initial downpayment may appear low but progressive payments may add up to a heavy commitment.

Where discounts are given in the purchase price, or where there are guaranteed rates of return, guarantee of rental returns, or yield rates, it may be possible that such discounts and returns had already been factored into the price and costs that you have to pay.

In some countries, you may be liable to pay capital gain tax if you sell your property. You may also have to pay income tax if you receive rental income from your property. Banking and financing facilities through international banks can be considered although they may come with high monthly fees. Other costs are as follows:

- Housing loan or Loan-to-Value limits
- Valuation price
- Mortgage interest cost
- Conveyancing or legal fees
- Mortgage legal cost

- Maintenance fees
- Conservancy charges
- Insurance costs
- Ground rent
- Stamp duty fees
- Property tax
- State consent fee
- Car park lot may need to be purchased separately
- Salesperson's commission, if engaging a salesperson

If a loan is taken from a Singapore bank, requirements such as the Total Debt Servicing Ratio (TDSR) will be considered in the processing of your loan application.

You are also exposed to foreign exchange rate risk. Your income, recurring costs and overall financial commitment may be affected by foreign exchange rate movements.

AVOID THE FOLLOWING PITFALLS

While you may be attracted by claims of ostentatious returns, promotions and freebies stated in the promotion materials or advertisements, you must be discerning in reading such claims.

High and guaranteed returns e.g. XX% Yield Guarantee!
Do not be misled by high expected or projected rental yields or capital growth claims that could be unrealistic.

Ask for evidence to substantiate the high returns e.g. supporting investment reports or non in-house surveys from credible or authoritative sources.

In the case of guaranteed returns, ensure that it is indicated in the Sale & Purchase Agreement. You should also ask about the time frame for which the yield is guaranteed.

Irresistible promotions, discounts, financing options e.g. legal fees waived, zero interest, exclusive club membership worth \$\$\$\$

Be careful of representations such as zero legal fees, state levy, capital tax or discounted maintenance fees for X years or XX% special incentive.

Ensure promotions and discounts are indicated in the Sale & Purchase Agreement and check if they are subject to other terms and conditions.



In the case of financing options, ask if it is provided on the condition that the loan is serviced by a particular bank.

If property is managed after purchase or as part of the purchase contract, you should ascertain the quantum of property management fees and related charges.

Excellent location e.g. proximity of world class academic facilities, central market, state library, theatres, etc.

Be aware of the actual location of the property that you are interested to buy.

The location indicated in advertisements may be of an area a few times bigger than the size of Singapore. Purchasers should know the country well and where the property is located - in a good neighbourhood or one that everyone is trying to avoid.

Do not rely on tube maps or sketch plans in advertisements which may make the foreign developments look close to well known landmarks. For example, a property located in New York State may not be located in New York City which is familiar to Singaporeans. New York City is one of the cities in New York State.

Do not be attracted by the panoramic views promised in advertisements. An actual visit to the site will be useful. You can also check with the land and planning authorities for the land use surrounding the property that you buying into. However, planning parameters for development sites may change over time.

Property Investment Seminars

If you are attending property investment seminars, some organisers may be using these seminars to recruit investors to become shareholders of certain projects. However, the collection of funds may not be approved by the relevant authorities. During such seminars, persons who are not registered with CEA are not allowed to introduce, market or sell specific properties to consumers, and are not allowed to conduct estate agency work.

ADVICE ON ENGAGING A SALESPERSON

If the property is not marketed and sold directly by a property developer, ensure that the sales agent/representative is registered with CEA.

You should only engage a salesperson who is registered with CEA. Please request for the salesperson's registration number, and verify that he or she is listed on CEA's Public Register at www.cea.gov.sg before engaging his or her services.

Please note that the salesperson who is marketing on behalf of the developer cannot represent you (the buyer) in the same property transaction. It will be a form of dual representation.

In general, the salesperson representing you is responsible for promoting and safeguarding your interest in a property transaction. He or she should:

- Offer you professional advice and meet all reasonable instructions and requests from you in the transaction process.
- Be transparent about the transaction and act in your interest.
- Must clearly explain to you all the relevant forms and documents for the transaction, and assist you to enter into a binding agreement with the other party.
- Declare to you any conflict of interest as soon as practicable.
- Inform you and seek your consent before he or she receives any fee or other payment from any source with respect to the transaction, such as a referral fee from the bank which he or she has recommended you for your mortgage loan.

You should report to CEA when you encounter any person not listed on the Public Register but carrying out estate agency work illegally. You can report the person to the CEA at 1800-6432555 or feedback@cea.gov.sg.

CONCLUSION

Exercise due diligence and do not be rushed into buying any foreign property without carefully considering your needs and the financial commitments.

Useful Checklist – the 5As

- Ask Yourself – what are your Needs
- Ask about the property - Do Due Diligence & Research
- Ask about the total Costs and financial Commitment
- Ask questions to avoid Pitfalls
- Ask again – Can you afford it?





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