Common Mistakes Foreign Investors Make Buying Property in the U.S. and Canada

Looking to buy a condo or house in New York, Toronto or Vancouver? Watch out for these common real estate investment mistakes.

The real estate markets in many North American cities are hot right now. But before you start looking to purchase new or resale properties as safe investments or second homes, make sure to avoid these residential real estate pitfalls.

Are you looking at beautiful houses or condos in the U.S. and Canada on international real estate websites? If so, you are part of a growing global trend.

According to the National Association of Realtors in the U.S., over US$90 billion was invested in U.S. real estate by foreign investors in the fiscal year of 2013 to 2014. During the previous year, the figure was $68.2 billion.

In fact, foreign investment in North American real estate is expected to continue to grow, supported by low market prices in many parts of the U.S., favourable currency exchange rates, new regulations restricting financing for U.S. domestic buyers and global middle-class growth patterns, especially in the Asia-Pacific region.

But according to top real estate brokers, many foreign investors make common mistakes when first starting to look at investment properties. Read their advice to learn how to make a smart investment decision and avoid getting stuck with the wrong deal.

Know the rules of the local market.

"It's important to know the local rules and regulations around the property," says Wei Min Tan, an associate at Castle Avenue at Rutenberg Realty, one of the top-selling residential real estate brokerages in New York City.

Foreign investors sometimes don't understand why a property is discounted. "For example, there is a big difference between condos and co-ops," says Tan, who adds that cooperatives can be up to 40% cheaper but their ownership rules can also be more complex. Nearly 70% of properties in Manhattan are cooperatives, he says.

Co-operatives have tighter rules governing the rights to sell, buy, rent and renovate, typically lowering their market value, whereas condos generally don't. Also different rental laws apply in North American cities. "The downside to co-ops is that you need board approval to buy, sell or rent," says Tan. "Not fully understanding the type of property ownership can complicate things."

Know that the local market is very local.

Despite the prevalence of more cars on the road in North America, city neighbourhoods are like villages onto themselves. What matters for residents is what is within walking distance — schools, supermarkets, public transport, parks and coffee shops.

"In New York City, market demand is very much proximity to the subway," says Tan, who sees foreign investors often not appreciating how locality affects their ability to attract renters. "They want to rent it out, but then can't find renters."

Property developments in other neighbourhoods, even along the same subway line, affects rental rates and resale value. Tan says it's important for foreign investors to see the property themselves and get to know development trends in the neighbourhood before deciding to invest.

Know your financial transaction rules.

"There are so many complexities to bringing in money from another country," says Victoria Boscariol, sales representative at Chestnut Park Real Estate in Toronto, an exclusive affiliate of Christie's International Real Estate. "Investors just don't realize it can be difficult," she says.

Boscariol has seen clients stymied because they can't make an international funds transfer upon conditional sale — they were unaware their home country or home bank has rules limiting the transfer amount, complex penalties or even makes it illegal. Often their home bank requires investors to divulge sensitive financial information.

Different rules govern international funds transfers for both leaving the home country and being transferred into the U.S. or Canada. "Not understanding the legalities of how much they can withdraw and transfer," is a major headache to be avoided before even looking at foreign properties says Boscariol.

Know how the MLS system works.

Many foreign investors are used to exclusive listings in their home country, says Boscariol. As a result, they expect to engage several different agents to access listings and spend significant time networking to discover property information.

In North America, most properties are represented by the Multiple Listing Service (MLS), which is transparent and accessible to everyone. Listing and purchase prices, commissions and title are publicly available.

Boscariol says that some clients are surprised that she can represent them in purchasing many different properties and that they can see the same property information she can. "We have have more of this one-stop shop here [in North America]," she says.

Know your realtor's expertise.

Andrew Chan, owner of Vancouver-based brokerage Realtyline, sees foreign investors "not doing the necessary due diligence" in choosing a realtor, he says. Realtyline has branch offices in Toronto and Whistler, Canada, and a partner arrangement in Shanghai, China.

Chan says investors hire a realtor based too much on the recommendations of family and friends and not enough on specific experience related to the property. "They need to find a realtor who knows their stuff, who has access to a local network of resources," he says.

The problem, says Chan, is realtors "often have a mandate to buy something, let's say $10 million in value, and they just need a place to put it. They do not know if it is good market value. They are simply looking for a safe place to invest but they don't really know what 'good' means."

Chan says he finds too many realtors chasing trophy properties or discounted properties with foreclosures and liens against them, not seeing the hidden strings attached.

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