

15 CRITICAL “MUST ASK” QUESTIONS

WHEN BUYING REAL ESTATE OVERSEAS



Everyone buying property outside of North America needs to remember the famous words from The Wizard of Oz when Dorothy says to Toto, “I have a feeling we are not in Kansas anymore.”

When going offshore, especially to places that feel familiar, we must be very, very careful. In fact, the more familiar it seems, the more cautious we should be. But how do we do that?

TAKE A LOOK AT A FAVORITE SAYING OF MINE, “I DON’T KNOW WHAT I DON’T KNOW.”

Please stop and re-read that... Is it possible to know what we don’t know? Not really. But we can be open to new possibilities and realities that vary greatly from our assumptions.



IT ALL STARTS WITH HUMILITY

Humility is the one attribute that really helps us to be open to the fact that we don't know what we don't know. It gives us a willingness to listen, to hear what doesn't make sense, and to acknowledge what is real, and try to fit that reality into our analysis. It also allows us to ask others with more experience to guide us in this unknown territory. The choice is humility or tuition.

An analogy that makes sense here is one of a radar screen. A small radar screen is easy to manage. In the world of "North American normal," we can get away with that and make assumptions. But overseas, a larger radar screen serves us well. We must expand it greatly so that anomalies are picked up way out, not close in. Give yourself time and space to examine the data, process it, and then understand it.

Assumptions are like filters. They make living easy. I assume the sun will rise tomorrow so I don't worry about it. But have you seen the word "assume" defined as making an ass out of you and me? Ass--u--me. Assumptions are part and parcel of who we are. But they may or may not serve us well overseas.

In the back of the brain, right at the top of the spinal cord, resides a special area called the Thalamus. This is one of the oldest parts of the brain, and it is the brain's

chief filtering mechanism. It hears and senses literally everything. We receive billions of sensations per second, yet our conscious mind gets only about 1% of that information because that is all the conscious "I" can handle and process.

A good example is when you have a small baby in the house. It is possible to sleep through a raging thunderstorm, but a tiny squeak from a newborn will rouse the mother instantly (and dad sometimes). This is the Thalamus hard at work, sorting out the needed from the not needed. This filtering mechanism lets us live our lives. If we had to pay attention to every noise, movement, and sensation around us, we'd be overwhelmed. So, we filter.

But this filtering mechanism can be an Achilles Heel unless we understand that we are indeed filtering and we are prepared to turn it off as best we can. But it's not easy to turn off the filters, to live "on your toes," and to be ready to see something that doesn't make sense. In fact, it can be hard work. But it is necessary to if we want to make wise property ownership decisions overseas.

Push your radar screen out further. Turn off your filters. Give yourself time and space from the awesome emotional experience of palm trees, margaritas, and

friendly sales guys. Process the hard data and do your homework. Look for evidence that contradicts what you want to believe. If you do these things, you'll work harder, but receive the benefits of a smarter decision.

The bottom line is that there are numerous wonderful properties out there and some of them are right for you. But you are in a different country, with different rules. There is no big brother looking out for you. Hooray! So be sure you are smartly looking out for yourself.

An educated buyer is a happy owner. The answers to the following questions should be an important part of your property selection process. There are no "right" or "wrong" answers, but we've found that the things people take for granted or assume in North America, may not be granted or assumed in Latin America. Be sure you know the answers to the following questions and make conscious decisions about what levels of creature comforts are mandatory and which may be optional.

THE 15 CRITICAL "MUST ASK" QUESTIONS WHEN BUYING REAL ESTATE OVERSEAS NEEDED FOR COMPREHENSIVE DUE DILIGENCE ARE BROKEN INTO 3 MAIN AREAS:

1.

BUY WHAT YOU SEE

2.

OWN COMMUNITY

3.

KNOW THE DEVELOPER

**"YOU GET WHAT YOU INSPECT,
NOT WHAT YOU EXPECT."**

Promises are easy to make and difficult to deliver.

Be sure you are dealing with existing reality.



PART 1 BUY WHAT YOU SEE

1.

IS THERE YEAR-ROUND
ACCESS TO THE
PROPERTY?

WHAT IS THE DRIVE
TIME FROM SHOPPING,
DINING & THE
AIRPORT?

Not all roads are accessible year-round in the region. Streams that barely flow or don't at all in the dry season can be raging torrents the other half of the year. Know the road conditions in rainy season. Proximity to services is very important. The key factor is the "time" to reach the destination not the "miles."

10 MILES ON A
ROUGH DIRT
ROAD IN RAINY
SEASON CAN
EASILY TAKE AN
HOUR OR MORE.

DO NOT TAKE FOR GRANTED PAVED
ROADS, STREET LIGHTS OR STATE OF
THE ART TELECOMMUNICATIONS.

If these are not in place when you buy your property, they might never be. Rarely, if ever, does the government or utility company provide these services to a developer. If the sales agent says, "it's coming," verify that the developer has the funds to meet his promises. Ask to see a copy of his most recent bank statement showing the millions of dollars it will take to build the infrastructure. Bottom line: Buy what you see! Be sure that the price you pay is indicative of existing reality.

2.

WHAT ROAD & PUBLIC
INFRASTRUCTURE
EXISTS?

DOES THE CURRENT
INFRASTRUCTURE
INCLUDE UNDER-
GROUND UTILITIES,
PAVED STREETS &
SIDEWALKS?

3.

IS THERE ENOUGH FRESH WATER & WATER PRESSURE?



SOMETIMES IT'S THE SMALLEST OF THINGS THAT ADDS GREATLY TO THE QUALITY OF LIFE.

Water pressure is one of them and it must be planned for and paid for. Either the developer has done this, or the lot owner will bear this cost with the addition of storage tanks and pressurizing systems. If you are considering an existing home or condominium, turn on all the faucets, inside and out, the showers, and then flush the toilets. Is there sufficient pressure?

NOT A SILLY QUESTION.

Look under the sinks to see if there is hot and cold service. In many cases, a splitter is used from the cold service to provide water to both faucets. The cost to retrofit a concrete home for hot water to the bathrooms can be high. If you are having a home built, be sure to triple check the plans for a hot and cold service to all bathrooms and fixtures. Architects and builders may design "local."

UNLESS YOU CATCH THIS UPFRONT, CHANGE ORDERS BECOME PROHIBITIVELY EXPENSIVE.

4.

IS THE HOUSE OR CONDOMINIUM PLUMBED WITH HOT WATER?

5.

HOW FAR IS IT TO MAJOR MEDICAL CARE?

HOW LONG IN DRY SEASON?

RAINY SEASON?

MAJOR MEDICAL CARE IS CRITICAL.

Most major Latin American cities have state-of-the-art hospitals. In fact, in many cases these facilities can eclipse regional U.S. hospitals with newer, more modern equipment approved for use by the Europeans but not yet passed by the FDA. Be sure to visit the medical facilities as part of your due diligence process. Remember too, it is not how many miles to a major medical facility, but how many minutes by car in both the wet and dry seasons that really counts.

PART 2 OWN COMMUNITY



Part two of the 15 Critical “Must Ask” Questions when Buying Real Estate Overseas will focus on “Owning Community.” While this seems like a no-brainer to most folks from North America, it really goes to the heart of what “big brother” does for us in North America and just how much we unconsciously depend on him. Sorry if I offended anyone there, but please be honest and tell me that if you bought a piece of property in Latin America, that you’d ask what could prevent your neighbor from starting a pig farm. Really! Would you think to ask to see a copy of the local zoning laws? Would you be surprised to find there are none, and that in fact, your neighbor can legally build anything they want next door as far as the government is concerned? This is real freedom, isn’t it?

A build requirement on the part of the developer is a key piece of the community puzzle. Without someone to mandate home construction, most projects of Latin America are long to be ghost towns and a collection of sold, empty lots waiting for their investor buyers to come build a home. Most won’t. They bought the lot as an investment to flip in a few years. A community is something else entirely.

Community is a tough word to define, but the subjective experience is real and we know it when we sense it, don’t we? In fact, this soft fuzzy feeling is quantifiable by the free market. Developments that achieve this sense of friendliness and warmth sell at higher prices initially and retain much higher resale values over time. The velocity of sales, even in down periods, outpace projects that lack this very important sense of community. Case studies abound, and several are contained in ECI’s Business Plan. If you’d like to see these, let us know and we’ll send you the data.

**OWNING
COMMUNITY
IS IMPORTANT
NOT JUST ZONING, BUT
ALSO KNOWING WHO
WILL BE AROUND,
OR MORE IMPORTANTLY,
IF ANYONE WILL BE AROUND.**



6.

ARE THERE BUILDING REQUIREMENTS OF ANY KIND?

WHAT KIND OF CONSTRUCTION & DESIGN STANDARDS ARE IN PLACE & ENFORCEABLE?

ZONING IS ALMOST NONEXISTENT IN LATIN AMERICA.

Unless the developer has written and implemented CC&Rs, your neighbor can do whatever they want. Empty lots on the beach are great for a picnic, but don't create much of a living environment.

Community means homes around you. If you want to have neighbors around, be sure that there is a requirement that property owners build a home in order to avoid living in a "ghost town."

Read the CC&Rs and make sure you agree with what is allowed and what is not. Know what deed restrictions are in place or you may be unpleasantly surprised by a neighbor whose tastes are radically different than yours.

There are numerous factors that contribute to community and bring the financial and personal benefits that we want. Walk-ability is a huge factor.

So are 3rd spaces where people can meet casually and get to know one another. Sure, there are a few Robinson Crusoe's out there, but the vast majority of people want other people to make a foursome for golf, someone to help you carry the cooler for the fishing trip, to play tennis, to swim, to hike, to play cards, to share a drink or a meal and a multitude of other activities that we enjoy socially. But if there are no other homes, no restaurants or fun places to congregate, no amenities open to play a round with friends, how will this happen? "Buy what you see" is extremely relevant here too.

7.

ARE THERE AMENITIES FOR USE BY OWNERS & VISITORS?

“BUY WHAT YOU SEE” SHOULD BE THE BASIS FOR 90% OF YOUR DUE DILIGENCE EVALUATION.

Is there a golf course, restaurant, bar, tennis court, fitness center, dock, or dive shop? Are they in place and serving clients? Or are they just promised? Promises can be alright, but your due diligence should include the verification of real money needed to complete the promised infrastructure, amenities, and services. Without the money, you are buying a developer’s dream.



THIS QUESTION COULD FIT IN EITHER “BUY WHAT YOU SEE,” OR “OWN COMMUNITY.”

But in a time where we take internet and phone service for granted, community is being more and more defined on the web.

This vital component must be in place, and in place well. Understand the reality of the telecommunications infrastructure. How is the phone service provided? Can you get the bandwidth of internet you need? Is the service flexible and expandable to grow with the future needs?

8.

ARE THERE STATE-OF-THE-ART TELECOMMUNICATIONS OR FIBER OPTICS FOR FAST & RELIABLE WORLDWIDE COMMUNICATIONS?



9.

WHAT ABOUT THE HOME OWNER'S ASSOCIATION? ARE THE FEES HIGH ENOUGH TO COVER MAINTENANCE OF EXISTING & PLANNED INFRASTRUCTURE?

YES, HIGH ENOUGH. You should worry about low fees because they are usually a sales tool to show how cheap the cost of ownership is. Let's be honest, nobody likes to pay monthly fees. However, please realize that fees set too low equate to unexpected surprise assessments in the future and/or a drastic rise in HOA fees when the developer is gone and the true costs of maintenance are carried by property owners. Look for honest, realistic dues and be sure to pencil out the quick math to be sure it adds up.

TRUE COMMUNITY REQUIRES 3RD SPACES AND PLACES FOR PEOPLE TO MEET & ENJOY EACH OTHER'S COMPANY.

Clubhouses, parks, sidewalks, and maintained open space are critical to foster a spirit of enjoyment for residents. If public spaces are important to you, be sure they exist and are protected in the master plan. Remember too that there must be sufficient resources for the care and maintenance of these areas. Knowing and agreeing with the vision of a project is important too.

Be sure that the developer's long-term plans align with your goals and desires as a homeowner in that project. Ask to see a copy of the developer's business plan if they have one and make sure it makes sense over the long run for you.

10.

WHAT ABOUT GREEN BELTS, COMMON AREAS & THE FUTURE OF THE DEVELOPMENT?

PART 3 KNOW THE DEVELOPER



Part three of the 15 CRITICAL “MUST ASK” QUESTIONS WHEN BUYING REAL ESTATE OVERSEAS deals with “Knowing the Developer,” and using the marriage analogy here is appropriate. Not many of us meet a girl in a bar and get married the next day, but it does happen I am told, especially in Vegas. When it does, it might fall under the category of “Margarita Madness,” a malady that sadly also affects many travelers to Latin America as well as those struck by marriage at first sight.

So, when you decide that you want to own a piece of property outside North America, you should consider it like a marriage. Generally, we get to know several ladies in our lives, find one that is a very good fit, court her for weeks, months, or even years, and then after we know her pretty well, ask her if she’ll marry us. If she says yes, we tie the knot.

Tying the knot is a great way to look at owning foreign real estate. In the previous section, we discussed “Big Brother,” and here is the good news / bad news about

“Big Brother” again. Good news, he isn’t generally around much south-of-the-border. Bad news, you are responsible for what happens, buyer beware. Just as there are few or no zoning laws, there are also no bonding agencies or fair reporting commissions to protect you from outright lies or even just good intentions gone awry.

The questions in the “Know the Developer” section below is all about who the developer is, why they exist, how they plan to get from point A to point B, and how your philosophies and values align with theirs. A very simple way to know a lot about the developer is to ask them for a business plan. Do they have one? Really! Developing real estate is a business after all, and on “a wing and a prayer” is hardly the best way to come at it. Ask to see the business plan. Read it and make sure it is comprehensive and makes logical sense to you.

Also, who are the people on their team? What experience do they have? Is there a proven track

record? Or is this their first experiment, with you as a guinea pig? What is their commitment? When the going gets tough, and I assure you it will, what is keeping them there to grind it out through the middle of the marathon? Yes, marathon. Everything takes longer in Latin America. Why will they stay? Look for answers in this case that make sense in your heart.

Again, owning a piece of property is like a marriage. If it's a good one, you'll be happy. If not, you'll be stuck with the developer for the next decade or two. You might want to know who they are a little better than

what you can learn over a few drinks under some palm trees in paradise.

A great sales psychologist states, "We buy emotionally and justify logically." Margarita Madness sets the euphoric mood to "buy emotionally." These 15 critical questions, the last 5 of which are below, show us how to "justify logically." Both parts of our brain, the emotional and the logical, are critical for happiness and satisfaction with property ownership. It's a marriage after all. Get it right the first time. Divorce is expensive, I hear.

11.

HOW WILL YOU
BUILD YOUR HOME
FROM THOUSANDS
OF MILES AWAY?

WHO CAN
OVERSEE THE
CONSTRUCTION
OF THE HOME
& WHAT
IS INCLUDED?

LOOK FOR PROJECTS THAT SHOW HOMES AS EXAMPLES OF WHAT YOU WILL ACTUALLY RECEIVE.

What are the written specifications? What do the Architectural CC&R's dictate? Are you in agreement with them? Have they planned for 220 volts of electric, water heaters, and air-conditioners? Are there hot water lines to all the sinks and showers? Are lights, fans, faucets, and fixtures included in the price? Are appliances and AC units included? Is there a dryer vent or a water line to the fridge? How about the telephone and cable TV wires? Are they included in the price? Really! What are the engineering guidelines? Who is going to validate these specifications as the home is constructed? All of these things and more that we assume as North Americans need to be verified. Assume nothing. Remember, "You get what you inspect, not what you expect."



12.

IS THE DEVELOPMENT COMPANY FINANCIALLY SOLID & DO THEY HAVE A RECORD OF SUCCESS?

IS FINANCING AVAILABLE FOR PROPERTY OWNERSHIP?

REMEMBER THAT BUYING A PROPERTY IN A FOREIGN COUNTRY IS LIKE GETTING MARRIED.

You should know very well who you are marrying. Hopefully the developer will be around for many years. If so, you want to be sure you are comfortable with the long-term association. Ask to see a copy of a business plan. Do they have a business plan? Ask to see financials. You are the buyer and you have every right to ask to see financials, especially if they've promised something like future amenities. You need to know who they are and if they will be around for a long time. Remember, you are going to send them your hard-earned money. There are no bonding agencies holding their feet to fire to complete anything they promise. You are counting on the people and company involved to make good now and for the next 20 years.

If they've promised an ROI on rental return, ask to see cancelled checks to owners. Really! If they've returned 8%, 10% or 12% to owners, they'll be proud to show you the cancelled checks. In addition, because financing is rare in the region, the developer should provide a form of financing as a buyer's option. This shows financial stability. It also will indicate that they are not using your money to build promised infrastructure and amenities. Build-outs based on sales flow can stall in down markets, leaving buyers with half-built projects to complete and fund as a HOA.

13.

IS THERE A CENTRAL SEWER SYSTEM?

THIS MAY SEEM LIKE AN ODD QUESTION TO PUT UNDER THE HEADING OF “KNOW THE DEVELOPER,” BUT HERE’S THE LOGIC:

When a developer doesn’t plan a central sewer system, what they are in fact doing is pushing the cost of the waste disposal off to the property buyer. Depending on soil type, this may or may not be a big issue. But either way, property owners will be responsible for paying for and installing septic systems. If septic is the provided solution, request to see a copy of a “perk test.” Many soils of Latin America are heavy clay. Lot owners may be forced to install expensive systems to meet environmental codes. Worse, without proper zoning and environmental inspections, many property buyers may not install what is hygienically required, leading to a nasty situation, especially in rainy season.

24/7 SECURITY SHOULD BE PROVIDED AT ANY PUBLIC ENTRANCE, WITH COOPERATING BACKUP FROM LOCAL AND NATIONAL POLICE.

Generally, the municipalities will not have the funding or staff to provide the kind of security North Americans are used to. Prevention and deterrence is the key here, and a strong visible presence prevents the kind of petty theft that can happen in the region. Be sure it exists and works. Were you let through the gate without question? Hmmm. Who else can get through?

Having a tough time getting through the gate yourself means others will face it as well.

14.

WHAT ABOUT SAFETY & SECURITY ACCESS?

15.

WHAT KIND OF TITLE GUARANTEE CAN BE PROVIDED?

IF YOU CAN’T GET TITLE INSURANCE, YOU SHOULD SERIOUSLY RECONSIDER THE PURCHASE.

There are no legitimate reasons you should not be able to get this protection from a major company like First American or Stewart. This is a black and white issue. Either the seller has title and you can get a policy, or you should walk away. There will always be a story. Believe it at your own peril.