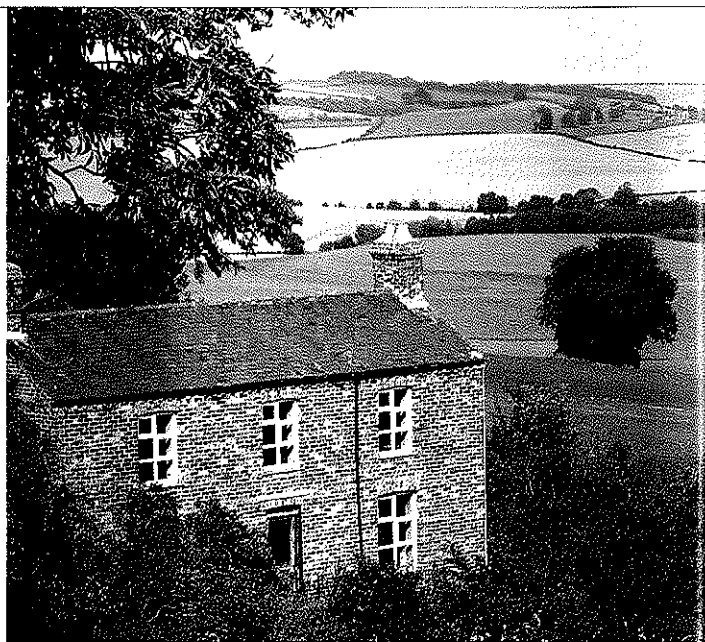


Take the Long Way Home

Buying a home away from home? Take your time, do the research, and heed the advice of the experts. Shortcuts just don't cut it here.

By Iris Benaroia



Fantasy and reality are fast foes. Consider this especially true when purchasing elite properties abroad. That dream home—say, an enchanting sun-splashed seaside villa—could well turn into a nightmare if you buy blindly without assessing the legal and financial nuances in real-estate transactions overseas.

Besides the standard considerations—property and estate taxes, construction and renovation costs, a home inspection—determine what it is exactly you're buying...and buying into.

Danish owner of the fashion brand Day Birger et Mikkelsen, Keld Mikkelsen knows firsthand the importance of being well informed when purchasing a home away from home. Seven years ago, he bought property with several houses on it, in St. Barts, in the French West Indies (see page 62). There are only about 25 hotels in this 21-square-kilometre (8-square-mile) sliver of paradise in the Caribbean. Most of them have 15 rooms or fewer, and the largest resort has 58. The pristine beaches, upscale restaurants, and designer boutiques are a magnet for celebrities and tourists. What's not to like? Well, plenty, if you're not a patient new homeowner.

"We thought we might [reconfigure] the houses, but in the end we decided to demolish them all," says Mikkelsen. Securing permission to rebuild took three years. Construction costs in St. Barts are high, he also notes, and finding local tradespeople is essential. Fortunately, he had connections on the island who

helped him—a friend's lawyer and an architect. "The building restrictions are [stringent], which is very good, of course, because it's a beautiful island as a result." And it's safe. As an overseas collectivity of France, St. Barts is governed under formal French legal structure, which protects against malfeasance via bribery and extortion.

But do your research, advises John Mehlenbacher, chief operating officer of The Condo Store Realty Inc. in Toronto, which specializes in luxury condominiums. "As a non-national, [you'll find that] there's always going to be issues with ownership and rights," he warns.

Granted, there are properties in non-First World countries that would not involve such real-estate complications, but if you're looking for a sound investment, consider a snazzy condominium in London. According to Mehlenbacher, prescient purchasers who purchased in London a decade ago now own properties that have tripled in value.

Currently, the city's tony neighbourhoods are selling briskly because of the influx of buyers from the Middle East and Russia. "Prices have come down about 15 per cent in high-net-worth areas—Chelsea, Knightsbridge—where the rich and famous live," he says. And what a coup for overseas buyers: they can take advantage of a favourable currency exchange.

And condo rules in Europe are the same as in Canada. There's a monthly maintenance fee, separate from the property management fee, and turnkey packages, which include high-end furnishings and caretaking services, are the



norm for upscale flats in London. Mehlenbacher emphasizes the need for international counseling services: "Speak to an accountant and a lawyer at home [as well as] in the country where you're purchasing."

Toronto-based chartered accountant Steven Chong, who has over 20 years of experience in Canadian and foreign tax matters, suggests retaining both a Canadian Chartered Accountant tax specialist and a U.S. real-estate lawyer unless you're dealing with a large law firm that has a tax department that can advise on both U.S. and Canadian tax issues. He also recommends visiting your potential investment.

"If you're spending half a million dollars on a place, go see it in person," Chong says. Does it have a neighbourhood ambience? Is it close enough to essential services and amenities? To demonstrate the importance of due diligence, Chong cites his trip to Dubai two years ago, where, in one case, when he visited a



Clockwise from far left:
Which is your dream vacation home? The slightly dilapidated but charming English country house in Lincolnshire, in the east of England; a townhome, such as these, in London's Kensington or Chelsea neighbourhoods; a villa in the Chianti region of Tuscany, Italy; or a villa in sunny Spain.



subdivision of mid-rise condos he found it was "in the middle of the desert."

It's also worth knowing Dubai's rules on home ownership. The Sheikh will own the land and you will own the structure on it, though that may change given Dubai's current economic collapse. And foreigners can only buy property in designated freehold zones, outside of which properties have to be under the name of a Dubai native.

Perhaps, for snowbirds, buying property in the U.S. would be less complex. It entails shorter flights and the deals are plentiful. As well, the two countries have similar property-purchasing

tax rules. Canadians interested in U.S. real estate have to consider three taxes: property, income, and estate.

"If you're using your U.S. property as a vacation home, there are no annual tax filing requirements," Chong explains. "If you rent it out, you must file your respective Canadian and U.S. income tax returns. You pay the U.S. taxes on the income first and you get a credit for the amount against your Canadian taxes. You will also have to file a state income tax return. If you don't, you will have to pay 30 per cent of your gross rent to the IRS. Tax on any capital gains

also applies in the U.S."

In the matter of estate taxes, you will likely not be subject to what U.S. residents are required to pay—unless your total estate holdings amount to \$2 million (U.S.) or more. However, upon your death, your estate will be required to pay Canadian taxes on your U.S. home's capital gains.

But here's the good news. Jackpots can be found in Las Vegas, notes Mehlenbacher, and Arizona properties are now "50 to 60 per cent cheaper" in some areas than they were before. David Levine agrees. A seasoned Sotheby's agent in Arizona, Levine highlights Sedona, where he is based, as well as Scottsdale and Tucson. Florida too, he says, is a real-estate hot spot that snowbirds should check out.

Hire a local caretaking service to tackle those small but important maintenance tasks, such as running the dishwasher once a month to prevent the appliance's seals from drying out, watering plants, starting up the car engine, retrieving mail, inspecting the home following a storm, and meeting contractors. Arrange for a thorough home inspection, just as you would in Canada, says Levine. The roof and foundation are obvious checkpoints, but inspect also for mould and termites.

Finally, he advises choosing a real-estate agent who really knows the market and is trustworthy. After all, if you're buying property far from home and can't initially inspect it in person, your agent would be your eyes and ears on the ground and your first link to paradise. And that's the reality. ●