



Fallacies Of Buying Overseas

April 2018

So here's debunking some of the most common fallacies that marketing agents have been using to sell you their wares!

BUYING FOR CHILDREN EDUCATION

"Why throw money into the rental when you can own a property and profit from it when it grows in value? When your kid is done you can rent it out and make more income!"

The truth is student accommodation or even residential properties near universities seldom grow in value. The reason is simple – professionals and families (easily 90% of any residential market) would not want to stay in an area dominated by students.

So it's down to either parents or savvy investors looking for yield. While the former are mostly foreigners who will likely buy new, the latter will squeeze your price to maximise returns. Once your kid enters professional life, he or she will also not likely want to stay in the same area for the same reasons. While rental can be high, so is wear and tear, thus requiring higher provisions for up-keeping. So there goes the rent as well.

Most will do a lot better buying a property in a high growth suburb and pass on the rental collection to their kids to rent. They will be able to then rent anywhere they like near the universities while gaining life experiences in maintaining and managing a property. Upon your kids completing their education you can then choose to have them stay in the property, sell it with profits or continue renting it out!

BUYING FOR INCOME / YIELD

"Build a passive income with a property that comes with a 3 years, 5% guaranteed rental and get over 15% back!"

First a reality check. Nobody gives a rental guarantee without marking up their prices to cover the risks involved. So what you are doing is really giving the developer additional 15% and then let them give you back over 3 years.

Next, some simple math. If you are taking a loan, you will be leveraging on the additional 15% and paying interest on it for the next 25-30 years. I will leave you to work out the exact numbers but I am guessing that you will be paying back at least twice if not thrice the amount.

One last point, and probably the most important one. I have not met, and I suspect most of you wouldn't have either, any successful property investors who got rich collecting rent.

Property investment is always about capital growth especially in the early stages of wealth building. So if you are asking for rental guarantee without investigating why the asset would grow in value you are almost certain to lose money. Because to support the yield, developer will have to price it above market, leaving very little upside for you.

So think about it, will you prefer to buy a \$500k property and collect 5% p.a. rental yield on it for the next 2 years with the property growing to \$550k? Or a \$550k

property simply to have the \$50k returned to you through a 5% p.a. guarantee over the next 2 years, only to have it valued at purchase price?

BUYING IN CITY CENTRES

“City centre apartments are the best buys for growth and yield, and their values are most resilient during market downturns.”

The reason why most marketing agencies would prefer to sell city or city-side apartments is because that’s probably the locations that you know and that makes their job a lot easier. The truth is such properties are often not the fastest growing nor the ones to hold their values best in a downturn. In fact, they are often just the opposite.

Properties in the cities and city-side locations are often dominated by overseas buyers, thus exposing their prices to risks other than the local demand and supply conditions. This includes forex risks, interest rate risks, capital outflow risks, policies and regulatory risks such as manpower regulations or foreigner taxes. These risks often translate to holding power issues and thus price fluctuations. So unless investors are in for a short ride to quickly flip the market, most will be better off buying in locations where property prices are well supported by local demand and income. Such properties will tend to provide stable and consistent growth – something which is essential when investing away from home.

Damien Teo

Senior Consultant, RunningStream Group