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Retirement Realty Fiesta

Hugh Bromma, The Entrust Group 07.24.07, 4:45 PM ET

We recently found that 30% of our roughly 30,000 clients who invest in real estate through self-directed IRAs were interested in investing in offshore real estate. While that might seem like a surprisingly high percentage, longtime real estate investors have been seeing the proverbial writing on the wall for some time.

Interest in offshore real estate has been slowly growing over the last few years, and real property investment opportunities for the small investor outside of the U.S. have multiplied. Add in a softening domestic real estate market, and you have the necessary ingredients for a nascent boom in real estate south of the border.

Despite the recent pounding REITs have taken, there are still some buying opportunities. This finance REIT yields 7%. [Click here for details in the Forbes/Slatin Real Estate Report.](#)

Interest in real estate in Mexico, Panama, Costa Rica, Nicaragua and other central and South American countries has risen over the last several years. The popularity of Central America appears to be related to its proximity to the U.S., a widely held perception that these locations offer good value for the money, and the notion that offshore property can be used for investment purposes or perhaps second homes or vacation homes. Panama, for example, ties its currency to the U.S. dollar, and the dollar is the medium of exchange. Costa Rica is sometimes called "the Switzerland of the Americas." Mexico is closest geographically and is seeing strong economic growth and investment opportunity.

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Just as Spain became an ideal location for Germans to have a second home that could be used for retirement, some believe that Mexico and Central and South America present a similar opportunity for Americans.

In Pictures: 11 Superstar International Funds

But turning these aspirations into reality is definitely more complex than simply purchasing a nice property in a warm climate like Florida or California. The U.S. investor must be clear about his or her objective. You can become enamored on a vacation trip and talk yourself into a purported investment property. But vacation is often an escape from reality, and a true investment must include proper due diligence and an analysis that the investment can meet the necessary financial objectives.

In each venue, whether Mexico, Costa Rica, Panama, Nicaragua, Belize or Ecuador, for example, the language is Spanish. Therefore, even if the local seller is an Anglophone, the language of law is Spanish. Competence in the language of law and expertise in local law is essential. If the prospective investor doesn't have this type of expertise, he should make certain that he is in very close contact with people who do.

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Mexico and every other country in Central and South America have different laws regarding

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real estate and taxes. The vesting of property varies from one country to the next, and so does the method of title transfer.

For example, recently there was a real estate developer in Panama who had begun to grade roads, subdivide property and take deposits of \$6,000 per parcel, to be sold for \$80,000, for single-family homes. The investors were told that development would start soon after local officials consented, which was thought to be a given.

In Panama, the legal ownership must be registered properly with a central authority. The builder had "purchased" the property from local inhabitants who farmed the land. But the title to the land had never been established by the local inhabitant who had right of possession. When the builder bought the land, he failed to follow the proper procedure of securing title. His time line for completing the process of building and selling suddenly became much longer.

The farmer continued to farm the land, and the developer continued to work with local lawyers. The builder also had to deal with cultural issues. The inhabitants are San Blas Indians, who have a culture of their own, just like many peoples in other countries.

The mayor of the village, who had veto power over most everything, was not in the right frame of mind to go along with some of the revisions to the building plan. The builder's "hill to climb" became even steeper, and the investors had all their deposits returned, without loss, thanks to the deposits remaining un-cashed, with the attorney handling the purchase.

Planning and fully understanding financial objectives, along with language, cultural and legal issues, are among the first set of issues that must be addressed by would-be investors. Then there is the question of how to insure that one's financial objectives are reasonable and sensible.

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We've found that the demand for properties in some Mexican and Central American countries has driven property prices to the point where net operating income targets could not be met. In other cases, there are many properties that not only generate cash flow but also appreciate, in popular locations in every country. It is essential that the numbers support your objectives. Beach properties in Costa Rica and mountain properties in the Panamanian highlands are still available as vacation homes, second homes or income-producing properties. But investors need to do their homework and check it twice.

One of the most overlooked issues that may affect the popularity of buying investment property is taxes. Tax issues are not just local; for the U.S. taxpayer, there is the requirement to report and pay tax on worldwide income. In our experience, many investors overlook the reporting requirements to the IRS, and the ordeal of expatriating, if one wants to do that. The matter of designating beneficiaries varies from country to country. It is essential to pay attention to these details with local counsel, along with your U.S. legal counsel.

The number of real estate investors in Mexico and Central America has been increasing, and, not surprisingly, prices for the most desirable properties and locations are rising as well. Beachfront property, in particular, is very much in demand, so cash-on-cash returns should begin to moderate. The more due diligence and planning that is performed, the better. As everywhere, caveat emptor is the rule.

[In Pictures: 11 Superstar International Funds](#)

*Hubert Bromma is CEO of the Entrust Group (www.theentrustgroup.com) and author of **How to Invest in Real Estate and Pay Little or No Taxes**. His new book, **How to Invest in Real Estate with Your IRA & 401(k) and Pay Little or No Taxes**, is published by McGraw-Hill.*

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