

HOW TO...

minimize hidden costs



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That perfect villa in Florida might seem a snip compared to UK property prices, but unless you've done your research and keep on top of your paperwork, the costs can soon mount up. **Lesley Dolby** reveals the money involved and shows how to budget

When considering buying a property overseas, the prospect of taxes and hidden costs may seem very perplexing. It's easy enough to figure out the cost of the property itself, which these days in the Disney area averages close to the equivalent of £150,000; but when it comes to monies associated with the purchase of the property, annual costs and the costs to sell, many people are confused.

However, with a little research, a little planning and some trusted local people on your team, the mystery can be unveiled, the potential for problems minimized and you should then know what to expect throughout the ownership of your property.

STEP 1: CHOOSING THE RIGHT PROPERTY

When buying a new home, don't be talked into buying unnecessary, expensive upgrades unless you really want them personally, or have money to burn! Within a short time, these upgrades will only be worth half of what you paid for them. With a resale home, make sure you have enough funds in reserve to cover the costs of any future repairs and maintenance indicated in the home inspection, as well as potential future improvements. Remember that a house with a large garden will require more upkeep.

If buying a condo, although you won't have monthly lawncare and pool maintenance costs, you will have substantial mandatory monthly condo association fees.



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In addition, most condo documents allow for any future community improvements costs and major repairs to be shared by all condo owners, in the form of assessments. These can sometimes be substantial, so if you're not prepared to cover those costs at some point in the future, perhaps a private villa is more for you.

When it comes to the initial cost of buying a property, the best advice is to find a local agent to work with you as a buyer. Look for someone experienced in the market where you are buying, able to show you a full choice of available properties and not just a specific development. Such an agent should know the value of properties in the area at any given time and can help negotiate the best deal for you.

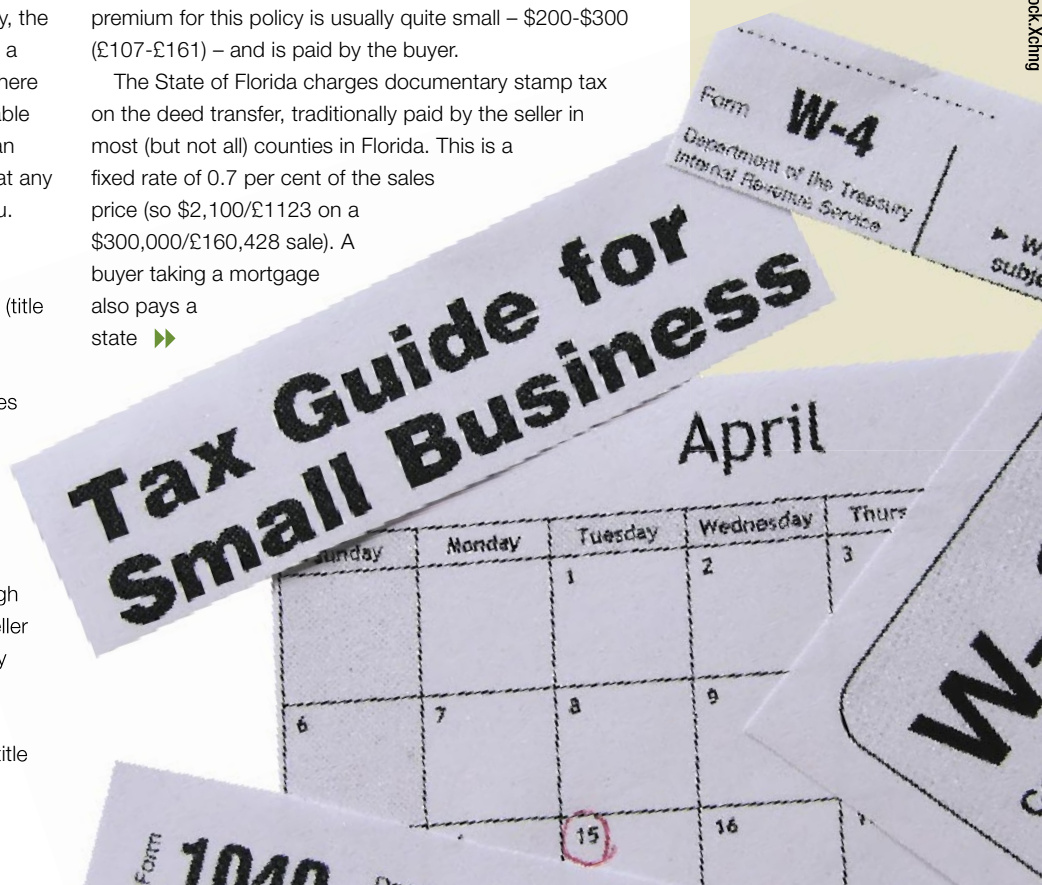
STEP 2: ONE-OFF COSTS

Most closings in Florida are handled by closing agents (title companies), who handle both sides of the transaction. Title companies handle closings all the time and are very experienced, with a minimum cost for their services averaging \$250/£134, which is usually split between the buyer and seller. If you are using an attorney to handle the closing, which is rare in Central Florida, costs generally will be higher for this service. Either way, there will be owner's title insurance, which in Central Florida traditionally is paid by the seller (although this is not the law) – this is the main reason why the seller gets to choose the closing agent. This insurance policy protects the buyer from any possible future defects on the title, which may have been hidden when searches were carried out before closing. The one-time cost of title

insurance depends on the sale price of the property and varies slightly by title company; but an example would be around \$1,650 (£882) for a \$300,000 (£160,428) property. In addition to this owner's policy, whenever the purchase is financed, a lender's policy is issued for the amount of the loan, to protect the lender from any hidden title defects. The premium for this policy is usually quite small – \$200-\$300 (£107-£161) – and is paid by the buyer.

The State of Florida charges documentary stamp tax on the deed transfer, traditionally paid by the seller in most (but not all) counties in Florida. This is a fixed rate of 0.7 per cent of the sales price (so \$2,100/£1123 on a \$300,000/£160,428 sale). A buyer taking a mortgage also pays a state ▶▶

Left There are a variety of Floridian properties to choose from
Far left and below Don't be confused by the myriad of paperwork; seek professional advice to avoid costly mistakes





“ Don't be fooled by offers of no upfront fees as the lender's profit will most likely be in the form of a higher interest rate ”

documentary stamp tax, but at the rate of 0.35 per cent of the loan amount (for example, \$787.50/£421 on a loan of \$225,000/£120,320). In addition, there is a state intangible tax on loans at the fixed rate of 0.2 per cent, so in the above example, this would be \$450 (£241). Of course, cash buyers do not have those costs.

Typically, when buying a new home, or one that has been a bank foreclosure, both banks and builders will pass on the traditional seller-paid costs of title insurance and documentary stamps on the deed to the buyer. In the above \$300,000 example, the buyer would pay an additional \$1,650 (£882) in title insurance and \$2,100 (£1,123) in deed documentary stamps, normally paid by the seller.

When financing your property, lender's upfront fees could vary considerably; but don't be fooled by offers of no upfront fees as the lender's profit will most likely then be in the form of a higher interest rate, costing you more in the long run. You may want to consider whether you would prefer a higher interest rate and lower upfront fees, or the other way around. That choice depends mainly on how long you intend to keep the property.

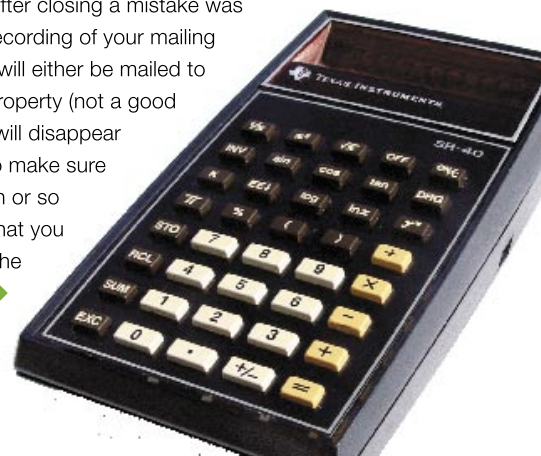
Insurance companies will require you to pay a one-year premium in advance (expect to pay an average of \$1,200/£642 these days). Lenders will also require you to prepay about three months' worth of mortgage interest, property taxes and insurance, in addition to collecting a twelfth of these each month, as they will be paying the insurance and property tax bills on your behalf when they become due.

STEP 3: ONGOING COSTS & TAXES

Although you have no control over such costs as annual property taxes, most counties give you discounts for paying early, so that's one way to save some money. If you have a US mortgage, your lender will pay the bill early anyway from the funds already collected from you monthly; so the discounted rate will be passed on to you. Property taxes vary, depending on the county and the assessed property value; but a typical Disney-area villa now costs around \$4,000 (£2,139) per year in property tax.

If you own a short-term rental, the county treats this as a business and charges you an annual tangible property tax on the personal property you have in the villa, such as furniture and housewares. This is a tricky little tax (usually not much more than \$100/£54 a year) that most people know nothing about; but if unpaid, it can result in a lien on your property!

Unpaid homeowners association bills can also result in property liens; so again, make sure you are on top of your payments. If after closing a mistake was made in the recording of your mailing address, bills will either be mailed to your Florida property (not a good idea), or else will disappear completely, so make sure about a month or so after closing that you check it with the county ▶▶



Above Your dream home can turn into a nightmare if you don't have the correct advice before buying



“ Always stay on top of your running costs and be sure to query any monthly bills that seem excessive ”

Above Exercise caution when your buying a Florida property
Above right Your luxury spa might be relaxing but it will add extra maintenance costs to your property!

property appraiser's office, which you can easily do online.

Always stay on top of your running costs and be sure to query any monthly bills that seem excessive with your management company. If in doubt, ask another villa owner, or ask your realtor for advice.

If renting out your property either long-term or short-term, you need to file a US tax return, and you will be able to offset your rental income with most of your operating expenses, including any US mortgage interest. Hire an accountant from the start who is experienced in working with people from outside of Florida, to make sure you get the correct advice and that all the necessary returns are filed on time. Most accountants charge very reasonable fees for this type of work.

STEP 4: TIME TO SELL

When selling your property, you can expect to pay the seller's costs for owner's title insurance and state documentary stamp tax on the deed, as mentioned above. You will pay marketing commissions; these are always negotiable, but most often you will pay around six per cent, with 50 per cent going to the listing brokerage and 50 per cent to the selling brokerage. A profit on the sale (after taking into account all closing costs on both the purchase and the sale, as well as any capital additions you have made), will trigger capital gains tax.

As a foreign national, 10 per cent of the sales price is withheld at closing for foreign investment real property tax (FIRPTA). If your accountant prepares the proper paperwork in time for closing, then the closing agent withholding this should receive authorization from the Internal Revenue Service (IRS) within about 90 days to release the funds back to you, less capital gains tax. ☀

Checklist

- When buying your Florida property, choose a realtor who knows the local market and can help you to get the best deal possible.
- Determine how much property you really need – for example, don't buy more upgrades (on new builds) than you need and don't buy a property with a larger garden if you don't want to pay extra for the upkeep.
- Don't be fooled by mortgages with no or low upfront costs; lenders will always make a profit somewhere. Determine if you'd rather pay higher upfront fees and lower interest rate, or vice versa; if you intend to keep the house for a long time, a lower interest rate is usually better.
- Make sure your property taxes, intangible property taxes and homeowners association dues are paid on time, as non-payment of these items will result in a lien on your property. Make sure the county tax office has your correct home mailing address or else you won't receive your bills.
- Ask for advice from other villa owners, or your realtor, if you suspect that your utility and other bills are excessive. The sooner it is investigated, the more chance you have of sorting any problems out.
- As soon as possible, hire an accountant who is knowledgeable in working with foreign nationals in Florida, to make sure that all your returns are filed on time and that all your paperwork is in order at all times.