Renting is easier, but the vacationing wealthy prefer to buy

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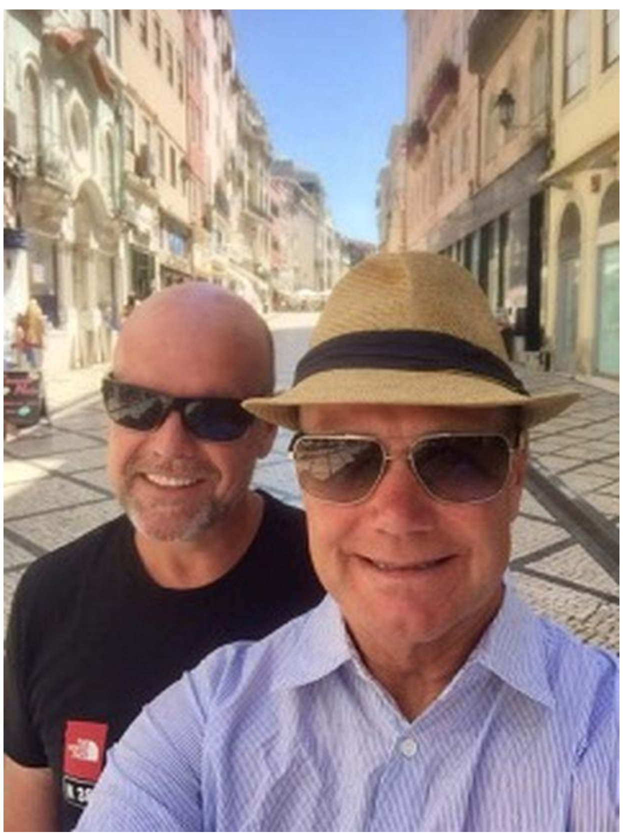
Maybe it was the wine. Or the vibrant culture and attractive European lifestyle. But when Iain McMeekin and his partner visited Portugal for the first time, they fell in love with the country, its illustrious history and welcoming attitude toward foreigners.

Now the Collingwood, Ont.-based couple is poised to join the ranks of Canadians who live abroad for at least part of the year as they pare down a list of dream properties in Porto, home of the eponymous fortified wine.

The big question: whether to buy or rent.



Iain McMeekin, left, and his partner Stuart, in Portugal. The couple from Collingwood, Ont., are looking for a place in Porto.

In this case, Mr. McMeekin and his partner chose a hybrid approach, at least to start. The couple want to be sure Porto is right for them before they make an investment decision.

"What we're hoping to do next summer is rent the place for a month and see what we think of it," Mr. McMeekin, a senior human resources executive, says of the property that the couple hopes to purchase.

"It's very easy to get into that place where you say, 'I love it here,' when you're in vacation mode. But is the allure still there once we've been residents for a period of time?"

For high-net-worth Canadians, taking up part-time residence in a beloved foreign country is a way to unwind and perhaps spend time with loved ones. It's also a major financial decision that, even for the well-heeled, isn't to be taken lightly.

Determining whether to rent or buy a property is a key consideration.

The Douro River runs through Porto, in Portugal.

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One of those considerations is the state of the local property market. Will investing in a home there deliver a long-term return on investment? Other factors include the ease of acquiring financing, exchange rates that can dramatically increase prices for those paying in Canadian dollars, and the amount of time a buyer plans to use a property, says David Nicholls, director of enterprise development for the international transactions firm OFX in San Francisco, which facilitates international money transfers for individuals buying or renting overseas property.

"If you find somewhere you like to spend all of your time and every winter, the decision becomes, is now the right time to buy?" Mr. Nicholls says.

Other popular foreign destinations for wealthy Canadians are Florida, Arizona, Hawaii, Mexico, Australia and Europe, he says. "If you prefer to move around and spend time in different countries, you're better off renting until you've made the decision where you want to spend your time."

Indeed, renting is by far the easier option. Canadians can simply book and pay for a rental property online, then lock the door and walk away at the end of a vacation. No need to worry about repairs, local tax or immigration issues, and they maintain greater flexibility to visit a different locale each year.

But Zack Wright, executive director with Christie's, the international luxury real estate brokerage, finds that most wealthy individuals prefer to own property abroad. The simple reason: They want to use their vacation oasis whenever and however they want.

"Wealthy individuals want their own place. They want to customize it to their own liking and lifestyle," says Mr. Wright, who is based in Los Angeles. He notes that booking hotels or rental properties at popular destinations can be challenging – and far more expensive – at peak times such as Christmas.

Buying a home abroad does require greater due diligence, according to Mr. Wright. Beyond considering the prevailing social, political or economic conditions at a destination – a major factor when considering a purchase in a developing country – buyers must also understand local real estate, estate planning and immigration laws.

David Altro, the principal at Altro LLP, a Toronto-based tax firm that specializes in cross-border transactions, says that a deep dive into local tax laws can guide the decision to buy or rent.

"I have an ultra-high-net-worth client who wanted to buy a $10-million apartment in Paris, and he asked me to check on the tax issues," Mr. Altro recalls. "I contacted a lawyer in France and by the time he explained the tax problems for non-resident aliens to own property in Paris, the answer was: 'Just rent.'"

Challenges aside, Mr. Altro says that having proper legal representation at home and abroad can help buyers avoid potential tax and legal issues.

When buying in the United States, for example, he urges clients to consider some key questions:

- Do they plan to purchase the property for personal use, to rent, or perhaps to renovate and sell the home in the future?
- Do they need financing? He says that working with Canadian banks with branches in the United States makes the process far easier.
- Do they plan to leave the property to family members, which necessitates cross-border estate planning?

Estate planning issues can be avoided by owning the property in a cross-border irrevocable trust, Mr. Altro says of a common strategy to avoid double taxation in the United States and Canada, not to mention avoiding charges for state probate or federal estate taxes upon the property owner’s passing. Structures often recommended by U.S. lawyers, such as limited liability companies or limited liability partnerships, can trigger unwanted double taxation back home.

The challenge for Canadians working solely with a foreign lawyer, he says, is that these lawyers rarely understand tax laws in Canada, where capital gains on a foreign property must be declared on income tax returns.

“Buyers should talk to the local lawyer in the foreign jurisdiction, but have it vetted by the Canadian tax lawyer to ensure the structure in the foreign country doesn’t trigger double taxation problems from the Canadian perspective,” Mr. Altro explains.

Mr. McMeekin says his research exposed potential tax issues in other European countries. That, coupled with flexible immigration laws allowing foreigners to own property and obtain residency permits, was yet another factor that influenced the decision to settle in Portugal.

“The biggest driver for Portugal is the price and the ease of ownership,” he says. “It’s a three-step process. You pay a fee to a lawyer, make an offer and then it’s signed off and you own property. There’s also no foreign ownership or taxation issues. It’s very, very easy.”