cashflow rentals

10 COSTLY MISTAKES FOREIGN INVESTORS MAKE IN U.S. REAL ESTATE

ESSENTIAL INVESTING GUIDE

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Dear Fellow Investor,

My name is David Garner, and I am a real estate investor first and foremost. My wife (Argentinian) and I (British) have acquired over **100 investment properties** in the United States as non-U.S. resident foreigners.

Over the course of all those deals, we’ve certainly learned a lot. We’ve also built an incredible network of professionals who understand the challenges faced by foreigners like us who want to **build wealth safely and profitably** in the U.S. real estate market.

Today, we use that hard-earned experience—and our trusted professional team—to help other non-U.S. residents find, finance, and manage their own high-quality investment properties in the United States.

Our simple **5-step investment process** removes the friction, saves time, and significantly reduces the risk faced by non-residents investing from overseas, enabling our clients to close on U.S. properties in as little as 21 days from start to finish!

If you are a non-U.S. resident looking for safe, profitable investments in the U.S. real estate market, we’d love to welcome you as part of our growing community of international investors.

We look forward to working with you!

David Garner

David Garner

Introduction

Why This Guide Matters

Foreign investors like us buy tens of billions of dollars in U.S. real estate every year, and for good reason. In fact, according to NAR, foreign buyers purchased over $53 billion in U.S. real estate in 2023 alone.

Aside from being a large, **safe, stable market with excellent property rights**, the U.S. also offers an amazing opportunity to acquire affordable real estate that appreciates steadily over time and generates sufficient net cash flow to cover holding and financing costs.

This combination of security, stability, pricing, **access to financing, and exceptional cash flow** makes the U.S. – in our opinion and experience – the best global market for foreign investors seeking to build long-term wealth and income.

However, **foreign investors face specific risks and challenges**, and I see many investors make the same costly mistakes due to a lack of knowledge, poor planning, or bad advice.

This guide highlights the 10 most common—and costly—mistakes I've seen foreign investors make, along with the practical strategies to avoid them.

By the end, you'll have the insights needed to make smart, profitable, and legally sound investment decisions.

Costly Mistake #1

Buying property in the wrong market

With over 145 million homes, the U.S. market is huge, so finding that 'sweet spot' can be challenging.

Unfortunately, most of the 'investment properties' I see marketed to overseas investors consist of **cheap houses in bad neighbourhoods**. Why? Because those properties tend to look great on paper!

The cheap purchase price combined with high rents (often with 'Section 8' subsidised tenants) looks like a great deal to the uninitiated.

However, there are significant problems with this investment strategy, and in my experience of personally owning this type of property, I can say with some confidence that **they do not work out well in the long run**.

When assessing a local market, look out for:

- Chronically undermaintained housing stock in poor condition
- Lots of vacant houses
- High or rising unemployment
- Low or stagnant household income
- Poor demographic and socio-economic data
- Ridiculously cheap prices
- Poor real estate market data

How to Avoid Costly Mistake #1

Dive deep into local data

Analysing prospective markets on a hyper-local level will lead you to the right kind of property in a good local market that will rent well and appreciate steadily over time.

I use a data-driven analysis to **evaluate market fundamentals at a micro-level**, focussing on a 10-block to 3-mile radius of the subject property.

The **market-leading data analytics platform I use considers over 328 data points** covering demographics, socio-economics, and the real estate market.

Of course, nothing compares to walking the street, so we do that too!

Here are some of the metrics we use to assess a local market:

- Population growth and decline (3-mile radius)
- Housing affordability
- Rental yields
- Jobs growth
- Income growth
- Unemployment trends
- House price trends and forecasts
- Rent trends and forecasts
- Rental vacancies

If you can't walk the streets of the market you're investing in, let the data do the walking for you.

Smart investors rely on hyper-local trends, <u>not guesswork</u>.

Costly Mistake #2

Failing to fully grasp U.S. tax law for foreigners

If you own U.S. real estate, you'll have to pay U.S. taxes, including; property taxes, income tax, capital gains tax, and possibly estate taxes or gift tax.

However, many non-residents fail to plan properly for their U.S. taxes, resulting in high-income taxes, high withholding taxes, double taxation, or excessive liability.

Without proper structuring, a foreign investor **could lose 30%+ of their rental income and face massive capital gains or estate taxes**.

Some things to be aware of:

- You could lose the property if you do not keep up your property taxes
- The default setting for income tax is 30% of gross income
- Withholding tax could be up to 15% of the gross proceeds of a sale
- Estate taxes could be 40% of the gross value of the estate

How to Avoid Costly Mistake #2

Plan your tax strategy wisely

There is plenty you can do to minimise your tax liability in the U.S.

First, make sure to keep a detailed record of income and expenditure, and make an accurate assessment of the cost basis of your property for accounting purposes.

When filing your U.S. tax return, elect to have your income taxed as ECI (Effectively Connected Income). You'll then be able to deduct all your costs, including purchase costs, management fees, property taxes, maintenance costs, insurance premiums, mortgage interest, and depreciation (that's what the cost basis is for!). **You'll then be taxed on your NET income, and you'll also be taxed at a much lower rate.**

Also, carefully consider what investment structure you will use, and when you might sell the property so you can plan effectively to avoid the 15% FIRPTA withholding tax.

Here are some top tips:

- Establish an accurate cost basis for the property to deduct annual depreciation
- Keep detailed records of income and expenses
- Make the ECI election when you file your tax return
- Get advice on your investment structure to plan for estate taxes
- Work with an experienced CPA who understands Non-U.S. resident tax
- Get a cost segregation study to depreciate other property components

Effective tax planning starts with accurate records, a clear cost basis, and making the right tax rate election to reduce your U.S. tax bill

Costly Mistake #3

Buying in your own name

Buying property in your personal name is NOT a good idea for non-U.S. residents.

This can lead to higher taxes, liability risks, and estate tax exposure.
If something happens to you, your heirs may face a lengthy legal process to claim the property, and they might even have to sell it to pay the taxes.

If someone sues you, like a tenant for example, you could be held personally liable (ask me how I know!).

Here are some things to consider if you buy in your own name:

- You will be taxed at the maximum rate (30% of your gross income)
- You won't be able to make any deductions
- You could be personally liable if someone sues you
- Your estate could have to pay 40% of the gross value in estate taxes

How to Avoid Costly Mistake #3

Establish a structure that protects you

I'll say it again... Getting the right advice ahead of time is important!

Most foreigners will set up an LLC (Limited Liability Company) to hold their U.S. real estate. **That's ideal, but make sure you set up the LLC correctly** (type, jurisdiction etc), or you could face additional difficulties later.

This will protect your personal liability if someone sues you (if you do it right), and it will also make it much easier to open a U.S. bank account and get a mortgage to fund your investment.

Here's some friendly advice:

- Set up the right kind of LLC (there are various options)
- Choose the right jurisdiction in which to register the LLC
- Have an attorney draft your operating agreement (not a template)
- Use a physical address, not a virtual address
- Choose an appropriate name for the LLC (avoid financial names)
- Get liability insurance
- Plan for FIRPTA taxes when you come to sell the property

The right setup can save you time, money, and stress.

It's not just about buying the property—it's about protecting it (and yourself) for the long term.

Costly Mistake #4

Buying a bargain and ending up with a burden

Unfortunately, I see this a lot. Many foreign investors buy overpriced properties, fixer-uppers, or properties in areas with a problematic tenant base, often resulting in negative cash flow or expensive renovations.

While cheap houses with high rents might seem enticing, they are often **very expensive to maintain, have problematic tenants, and generally have no profitable exit strategy**.

Additionally, I seen many offers marketing 'pre-renovation' properties, in these cases the investor will be asked to pay full price (including renovation costs), with the seller promising to carry out the renovation post-sale. In my experience, **this is extremely risky and rarely works out well for the buyer** as they have no real control of the renovation resulting in poor quality and cheap work to maximise the seller's profit margin. Long story short, the buyer will most likely pay for these cheap renovations in the future!

Here are some serious red flags when looking at a specific property:

- House being sold 'pre-renovation'
- Paying for a renovation upfront with no phasing or drawdowns
- Excessively cheap house prices
- No independent valuation
- No independent home inspection
- No title report or title insurance offered
- Poor quality renovations by turnkey house flippers

How to Avoid Costly Mistake #4

Invest in quality, safe beats cheap every time

While fixer-uppers and high cashflow properties can make great investments – I've invested this way myself before – it is typically a very risky strategy for non-U.S residents without their own trusted team on the ground to oversee things.

There is no guarantee of the quality of work and little to no oversight for the investor, and those cheaper high-yield properties are generally very difficult to manage, expensive to maintain, and hard to sell.

My advice is to **search for properties in higher quality neighbourhoods and focus on houses in good condition that need little to no work, preferably recently renovated and tenant-occupied.**

This will save you considerable time, money and stress down the line:

- Focus on properties valued at $150,000+
- Only buy fully renovated or good-condition property
- Get an independent home inspection
- Get an independent valuation
- If there is work to be done, don't pay your contractor upfront
- Get multiple quotes for any work
- Inspect the roof, sewer and furnace

When investing from overseas, you don't just need a good deal, you need a good property.

One that won't unpleasantly surprise you later.

Costly Mistake #5

Missing expenses that turn cash flow into cash drain

This is another common trope with investment property sellers.
Most will offer some form of cashflow analysis, but almost all that I've seen will make a few strategic omissions that – if included – would turn a good cash-flowing deal into a loss maker.

Typically, most will account for operating costs like property management, property taxes, insurance, and a budget for some repairs. **But in most cases, they will omit to include further deductions for vacancies and capital expenditure.**

If you own real estate for 10 years, at some point it is going to be vacant, and you'll have to cover the cost of turnover (making it ready for the next tenant), and all the other bills (mortgage, utilities, taxes etc.).

In time, you'll also have to repair or replace some major items like a roof, furnace, electrics, or plumbing.

Here are some things to remember:

- Older houses require more maintenance budget
- A shoddy or 'light' rehab will result in higher maintenance costs
- You'll still have to pay the bills and mortgage if the house is vacant
- Tenants can (and do) damage properties
- Over ten years, you may have to repair or replace major items

How to Avoid Costly Mistake #5

Budget realistically and build reserves

Make sure you run a comprehensive financial analysis to accurately assess the cash flow potential of the property. Make sure to include:

- Property management
- Property taxes
- Insurance
- Repairs (5% to 10% of gross rent)
- Vacancy (5% of gross rent)
- Capex (5%+ of gross rent)
- Utilities
- HOA
- Landscaping
- Accounting and Legal Fees

Also remember to deposit a cash reserve in the bank to cover at least 3 to 4 months of total operating costs and debt service when you purchase the property.

Making sure you have cash reserves and continuing to build them up by making the appropriate deductions from your cash flow will ensure you never have to go out of pocket and your investment doesn't become a cash drain.

One of the biggest mistakes investors make aren't in the purchase price—they're in the numbers they didn't include.

If you don't account for every cost upfront, your property will do it for you later on.

Costly Mistake #6

Failing to secure adequate financing

Many foreign investors assume they must pay cash or that they don't qualify for U.S. loans, **causing them to overextend financially or miss out on leverage opportunities**.

Often, non-U.S. residents will try to secure financing but hit a roadblock when U.S. mortgage brokers are unable to accommodate the specific needs of an overseas borrower.

Here are some things to remember;

- Paying all cash for a property delivers the lowest ROI
- Mortgage brokers struggle to accommodate overseas signing
- Foreigners might get offered higher rates or less attractive terms
- It can be difficult to arrange notarised signatures from overseas

How to Avoid Costly Mistake #6

Use leverage to multiply returns

Using leverage is the secret sauce to real estate investing. **Borrowing allows you to buy more real estate with your available capital, dramatically increasing your ROI and adding further profit through amortization** (mortgage paydown).

Despite challenges, there are U.S. mortgage lenders that specialise in providing loans specifically to overseas investors.

Working with such a specialist lender ensures you will get access to the most appropriate loan products on the best terms possible – even as a foreigner!

These specialist lenders are also well-versed in accommodating borrowers based in other countries, allowing you to sign and close on your investment property remotely.

Here are some pointers on using leverage;

- Use DSCR loans that don't require U.S. credit or proof of income
- Work with a specialist lender versed in accommodating foreigners
- Compare rates and terms across multiple loan products
- Don't over-leverage – only borrow 50% to 70% of the purchase price
- Refinance for a better rate, and/or pull-out equity in a few years

Used wisely, leverage is the most powerful tool in real estate.

It boosts your returns, increases your buying power, and builds equity while someone else pays the loan down

Costly Mistake #7

Failing to plan for estate taxes

Failure to plan for estate taxes can lead to 40% taxation to be paid by your estate upon death, making inheritance difficult for family members.

While U.S. citizens enjoy a $13 million exemption from estate taxes, the exemption for foreigners is just $60,000. So, **if you fail to plan properly, your estate may have to pay 40% of the gross value of your U.S. assets above $60,000.**

If you own a $500,000 property, your estate will have to pay $176,000 in estate taxes. If there isn't liquid cash available in your estate, the property may have to be sold to pay the tax bill.

Here are some things to consider;

- The U.S. estate tax rate is 40%
- Foreigners only get an allowance of $60,000
- The property may have to be sold to pay the taxes

How to Avoid Costly Mistake #7

Seek expert advice to secure your legacy

There are various estate planning tools available for foreigners investing in U.S. real estate that can help to mitigate and minimise your exposure to U.S. estate taxes, including using trusts and/or foreign corporations in your investment structure.

The most appropriate solution for you will vary depending on a range of factors, including;

1. Where you are based.
2. If there is a tax treaty between your country and the U.S.
3. Your specific financial situation and estate planning objectives.

Remember:

- Get qualified professional advice
- Consider all the available options

There's no one-size-fits-all estate plan.
But there is a right structure for you—and the right advisors can help you find it.

Costly Mistake #8

Neglecting Due Diligence

This is another big one. I developed my own due diligence process over the course of 9 years and more than 100+ personal investments.

Failing to complete a proper due diligence process both pre and post-contract can result in heavy financial losses.

From unexpected major repairs to overpaying, or ending up with title issues are all very serious and could cost you tens of thousands of dollars, or even see your investment wiped out completely.

Bear in mind:

- Unidentified faults with the property could result in expensive repairs
- Problems with the title could see you lose the property entirely
- Not establishing an accurate valuation could result in overpaying
- Buying a property in a bad area could lead to negative cash flow
- It can be hard to resell property for a good price in the wrong market

How to Avoid Costly Mistake #8

Don’t just trust—verify every detail before you commit

The due diligence process starts before you buy! Making sure you understand the fundamentals of the local real estate market (within 1 to 3 miles) is key to ensuring you purchase a property that will cashflow and appreciate.

Further property-specific due diligence should include an independent home inspection, a title report, title insurance, and an independent appraisal (valuation).

Here are some top tips:

- Use a market analytics platform to analyse the local market
- Look for job growth, income growth, rising prices and a strong rental market
- Buy only in landlord-friendly states
- Run a thorough cash flow analysis including all operating costs
- Get an independent home inspection – including the roof and sewer line
- Get an independent appraisal
- Get title insurance when you close

Most investment losses don’t come from market crashes—they come from skipped due diligence.

If you don’t verify the numbers, the property, and the market before you buy, you’re not investing... you’re gambling.

Costly Mistake #9

Not having a clear exit strategy

Many investors buy investment properties in the U.S. without considering future resale value, market cycles, or exit costs, **leading to difficulty selling, lower profits, or even financial losses.**

I made this mistake early on! I bought cheap property with high rents in poor areas because the deals looked good on paper.

Despite being expensive to maintain and difficult to manage, selling these properties proved very difficult, and in a few cases, I even sold houses for less than I paid, even after a few years.

Bear in mind:

- The real estate market is cyclical
- It can be difficult to sell properties in rough areas
- The cost of selling can be up to 6% of the sales price

How to Avoid Costly Mistake #9

Buy right, hold tight, exit smart

Buying the right property for the right price in a good market is the key to a profitable future exit strategy.

By far the best investment strategy for Non-U.S. residents is to 'buy right and hold tight',

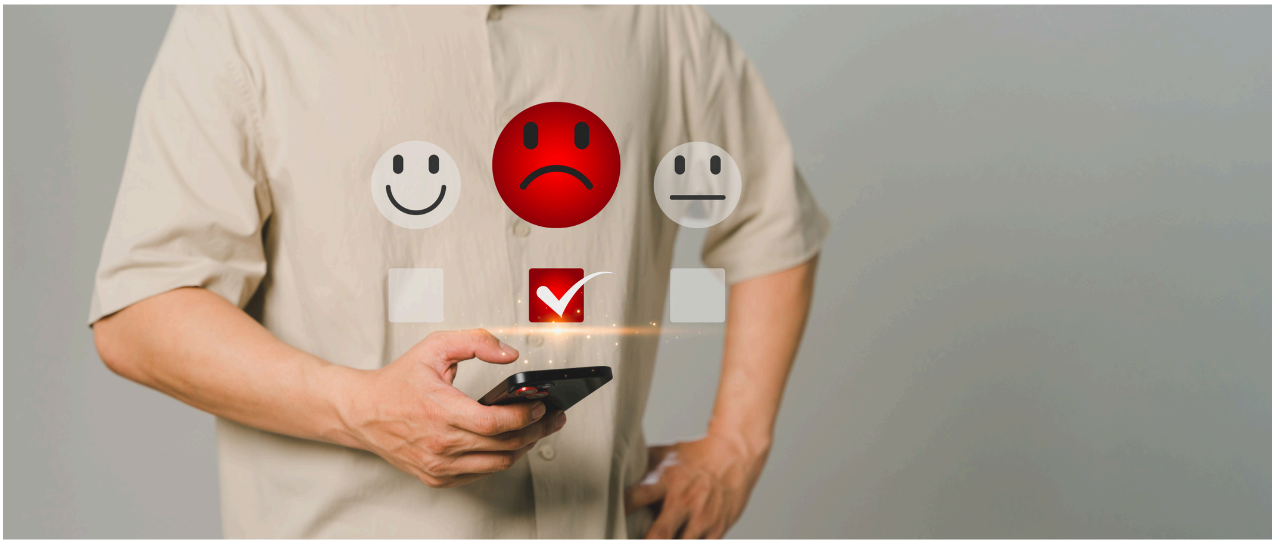
Plan to hold your investment for at least ten years, riding out any market cycles.

Treat your investment like an asset, not an ATM. Use your cashflow to build up cash reserves to improve the asset when you come to sell.

Here are some top tips;

- Buy in better neighbourhoods (C+ to B)
- Make sue you don't overpay
- Plan to hold for the long-term
- Factor in the cost of selling when you analyse a deal
- Use your cashflow to improve the asset value

Don't chase quick wins—buy in good markets, hold for the long term, and let time, cash flow, and smart improvements build your profit.



Costly Mistake #10

Putting your trust in the wrong team

Hiring the wrong real estate agents, attorneys, or property managers can lead to bad deals, legal issues, and poor property performance, ultimately leading to financial losses.

Sadly, not all service providers in the real estate industry have your best interests at heart! Nor are some well-equipped to support non-U.S.residents through the property sourcing, due diligence, financing, closing, or property management processes.

Buying from an investment property seller who isn't an active investor themselves can leave you exposed to their lack of personal experience and real-world expertise.

Bear in mind:

- Not all sellers are aligned with the buyer's goals
- Many providers don't understand the needs of foreign investors
- There are a lot of scams in the real estate industry
- Some sellers see overseas buyers as easy targets
- A lack of experience and expertise can lead to costly oversights

How to Avoid Costly Mistake #10

Work with a team that understands your needs

Work with a team experienced in foreign investor transactions.

From setting up your investment correctly, through property sourcing, financing, remote closing, and property management, there is a lot to consider and many touch points with professional service providers.

Preferably, you should work with active investors who know how the process works from personal experience, and have the capability, competency and capacity to mentor you through the process, and a professional network capable of serving overseas investors.

Here are some top tips;

- Ensure your team understand the needs of foreign investors
- Work with professionals with personal experience
- Get to know your service providers before jumping in
- Listen carefully to what you're being told. Is it good for you, or them?

Choosing the wrong team is one of the most expensive mistakes a foreign investor can make. The right advisors don't just close deals—they protect your outcomes.

Conclusions and next steps

The mistakes I've listed in this guide are all born of my own personal experience of buying over 100+ rental properties in the Unites States

Need expert guidance?

I've made plenty of mistakes along the way, and my team and I know how to spot a bad deal as well as the good ones.

Today, we bring our experience to bear helping other Non-U.S. residents build profitable real estate portfolios in the United States, including:

✅ Setting up your LLC and U.S. bank account
✅ Sourcing high-quality investment properties
✅ Conducting due diligence
✅ Securing financing
✅ Closing remotely
✅ Managing properties profitably
✅ Securing a profitable exit

📞 Book a Free Strategy Call Today!

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Thank You