

INVESTMENT **PROPERTY**

THE EARLY BIRD PAYS MUCH LESS

Buy 'off-plan' and save big, says *Payal Uttam*

Imagine a luxury flat on the northern tip of Koh Samui perched over Thailand's turquoise waters. The interior is fitted out with white couches, a flat screen television and stylish wooden furniture. Now imagine being offered the keys at a massive discount.

Ready to put down a deposit? For retiree David Martin, the answer was "yes". There was just one catch. The property had not yet been built.

"It's a strange concept to be honest, but I saw the renderings and I could just see the potential," says Martin, who purchased the flat off-plan.

"They had just started with the ground works. I got in early, so obviously you get a cheaper price. Now it's gone up considerably."

Off-plan holiday homes have long captivated buyers for their relatively low cost and potential for capital gain.

Unlike buying a property outright, for many the appeal of buying off plan is the staggered payment structure. While they fell out of favour during the global financial crisis, off-plan developments are enjoying a resurgence, particularly among those planning to retire.

For Martin, a former accountant who was looking for a second home, the decision to buy off-plan was "a no-brainer". His flat was one of the first to be sold in the Code Residences, a development of 40 units with a sauna, tennis courts and full maid service. Martin purchased his home for about 3.25 million baht (HK\$816,000), 14 months before it was built.

Today, completed units in the same building are going for 4.25 million baht. But while it is tempting to leap at offers for discounted dream homes, there is no guarantee of a fairy-tale ending to your dream home story.

"The adverts and e-mail blasts for properties sound great and everyone is jumping on the bandwagon, but you've



got to be very careful," says Seb Warner, regional director of international project marketing for the Asia-Pacific region at Knight Frank.

When purchasing overseas, particularly in emerging markets, there are pitfalls to guard against.

Property consultant Paul Burke says: "Where people normally end up having problems is the 'developer risk'. In many off-plan projects, particularly somewhere like Thailand, there have been cases where the developer doesn't have the finances to finish the project and he goes bust or he may deliver a sub-standard product."

To find a trustworthy developer, Burke suggests working with property agents who have an established track



Property consultant Paul Burke, left, says: "Where people normally end up having problems is the 'developer risk'. There have been cases where the developer goes bust." Photos: K. Y. Cheng, SCMP



record. "The reputable agents don't take on the rubbish, so once it gets through their due diligence, then your level of risk is minimised considerably," he says.

Even with the right agent and developer, it is best to do some of your own homework. Before signing the paperwork for his Koh Samui flat, Martin did a thorough background check on his developer, Kalara.

"You've got to be 100 per cent positive of who you are dealing with," he says. Only after inspecting a range of existing Kalara properties in Thailand did he go through with the purchase.

From an investment perspective, buying off plan can be risky. So once you shore up the confidence that the property will be built, timing is everything. "The last thing you'd want to do is gamble with your retirement fund," says James Bolus, chief executive of International Financial Services. Changes in the economic climate mean the value of your property may drop after completion.

To guard against this, Bolus says, "you want to be buying off-plan properties in an environment where you see the market continuing to go up, at least until it's built." If you are looking at an off-plan home overseas, examine the fine print on the ownership structure.

Luke Rowe, senior technical adviser at Jones Lang LaSalle Indonesia, says: "On the face of it, it's not easy. The Indonesian government, for example,

has gone to some considerable lengths to put some hurdles in the purchase of property. It can be a relatively convoluted structure for what is a pretty simple asset - a retirement home or a holiday home."

For retirees, Bolus recommends leasehold and condo freehold structures over land ownership in countries such as Indonesia and Thailand.

In any case it is best to enlist legal advice to comb through your contract before you sign. A common structure for leaseholds is a 30-year renewable lease, for instance, but it is important to check.

Are they renewed on day one or are they renewed in 30 years' time when the landscape of the regulation might have changed?

Stage payments are one of the biggest draws of an off-plan property, but it is important not to get carried away.

"People looking to buy retirement homes have also got to look at their own exposure and ask whether they can really afford this property?" Burke says.

"Some tend to buy these places and when the tequila wears off, they're like, 'What have I signed here?'"

Before the global financial crisis, investors were buying off-plan projects with the view they would be getting 90 per cent to 95 per cent loan-to-value (LTV), Warner says.

Yet regulations changed and the norm shifted to 70 to 75 per cent LTV, so

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they suffered huge losses. When it comes to financing, he cautions retirees to be realistic in terms of borrowing to minimise their risk.

Before you pull out your cheque book, there is one last red flag.

"With overseas investing and off plan, you have to be careful with currency," Bolus cautions.

If you begin paying a mortgage for a home in Thailand using Hong Kong dollars, for instance, one year down the line when the property is complete, the equation may change because of exchange rate fluctuation.

"It is possible that any gains you may make on the capital appreciation of a property can be eradicated because you haven't bought through the currency," Bolus says.

Once your off-plan project is complete, Rowe says, you are looking for three things - "maintenance, occupancy and providing rental return so the thing doesn't turn into a money pit." Many retirees who invest in properties divide their time between two countries, so keeping the property rented is vital. "Rental returns were a big consideration - I can earn money and I've also got a home six months of the year," Martin says.

When it comes to leasing out your

property, location can make a difference. "Look for a sustainable part of an economy. You have domestic demand in central cities, whereas you definitely won't have that same demand on a beach resort," Bolus says.

Within Thailand, he gives the example of a property in Bangkok versus one in a holiday resort location as providing a more secure investment.

For those set on purchasing property at a holiday destination, one option is to invest in a development that has attracted interest from locals as well as foreigners. In the case of Bali, for instance, Rowe has seen a trend of Indonesian families flocking to "condotels", a unit that is managed by a hotel complex.

"Whether it be a gated estate or a condominium hotel, if you know that it is going to be underpinned by local demand, then that gives you more steel in terms of your confidence for investment," he says.

Aside from rental returns, Rowe says there are other reasons for a retiree to consider an off-plan condotel in Southeast Asia.

"In Indonesia, they may range in price from US\$100,000 to US\$300,000. That is still a pretty cheap entry price versus buying a piece of land and

building the great hacienda and spending up to US\$3 million for an unmanaged property," he says. For many retirees purchasing homes overseas, ensuring they are getting proper maintenance and management is essential.

Whether it is an off-plan condotel or bespoke home, risking your retirement fund on a yet-to-be-built home is a difficult decision. "For people that are going to live in these properties for retirement or owner occupation, then they do tend to like to see them finished," Warner says.

But he says the best properties tend to be snatched up during the construction phases these days.

"The early bird gets the worm," Burke says. "If you go in early, you are in better position to negotiate."

It may be reassuring to see a property "in the flesh", but the savings from purchasing one of the first plots in an off-plan development can be as high as 25 per cent.

Provided it is a sensible part of your portfolio and you do due diligence, experts argue there's a lot to gain.

"Buying off-plan isn't something I normally would do," Martin says. "But everything in life is a risk and this was one I was prepared to take." □

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