Best Place to be a Landlord – Claire Brown Interviewed for Article (June 2010)

Best Place To Be A Landlord

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Property prices in some parts of Asia are skyrocketing; since the first quarter of 2009 China's rose 68% and Hong Kong's 31%. But some of the best real estate buys may be farther south.

Indonesia, the Philippines and Malaysia top the list of best places in the region to be a landlord, according to rental-yield data calculated by the Global Property Guide, a research house and website. In those places the cost of buying an apartment is relatively low compared with the money that can be earned by renting it out.

"We try to explain to people where they should be investing," says Matthew Montague-Pollock, Global Property Guide's publisher. "One reason is for income. One is for capital gains."

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Montague-Pollock's team collects its information using in-house research, information from accountancy and law firms, and central bank and national statistical data. It ranks 13 Asia-Pacific countries in terms of rental yields (technically, the gross annual rental income expressed as a percentage of the property purchase price) in upscale parts of their major cities. These include areas like Hong Kong Island and the central residential neighborhood of Boeung Keng Kang in Phnom Penh, Cambodia–places where at least moderately well-heeled professionals live, be they expatriate or local.

Jakarta boasts the best rental yield, 12.34%; Manila has 8.98% and in Kuala Lumpur a landlord can make back 8.76%. Rounding out the top five are Bangkok, Thailand, and Auckland, New Zealand.

"Not only will you make more money from the rent, but also the chance that the value of your property will appreciate is greater," Montague-Pollock says. "The yields are an excellent signal of property markets in general."

Apartment in Jakarta

Local Indonesian markets are attracting the attention of fund managers and property developers from places like Japan, India and Singapore, according to Anton Sitorus, head of research at Jones Lang LaSalle (JLL – news – people) Indonesia. But they are finding some obstacles.

"Unlike investing through the stock market or through project-financing schemes, investing directly in real development projects or by buying property in Indonesia is regarded as difficult and complex for investors and individuals from overseas," he wrote in an op-ed in the Jakarta Post. "Current laws and regulations and a lack of market transparency are the main concerns hampering foreign investment."

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Meanwhile, the Philippines is a particularly good pick, according to Claire Brown, founder and managing director of Claire Brown Realty, which specializes in investments in Southeast Asia for clients in the region as well as in China, Europe and the U.K.

“Most capital cities are much more expensive now. The Philippines is still really, really cheap for buying real estate,” Brown says. “We’ve got a development in Ortigas, an up-and-coming CBD [Central Business District] in Manila. We have units for $70,000, which is ridiculously cheap compared to Hong Kong.”

Number three Kuala Lumpur is another promising buy, Brown adds, pointing to a new residence called Verve Suites in a high-end suburb called Mont Kiara. Three months after opening, this property–a serviced one with amenities like a pool, gym, movie theater and restaurant–is half-owner-occupied and half-tenanted. Malaysia’s investment channels are easier to navigate, she says.

“You can get bank financing up to about 80% even if you’re foreign. The capital gains tax has been slashed to 5% so it’s easy to get in and out of that market,” Brown says. “There is an abundance of expats who are happy to rent, but there is also a huge amount of local interest.

If your tenants are a mix of local nationals and a smattering of expats, you’re going to have good, healthy rental income and very few void periods.”

There are some downsides, however, to becoming a landlord in these developing Southeast Asian markets. For one, there are often roadblocks facing foreigners looking to buy property.

“You can’t just walk in as a big American fund and buy a building, necessarily,” says Andrew Ness, executive director of CB Richard Ellis Research Asia. “The lack of openness is what tends to keep yields high.”

Indonesia, though, didn’t suffer the same consequences from the global financial crisis as other Asian nations. The archipelago’s economy relies less on overseas investment, which contracted in 2008, and on exports, whose buyers cut back around the same time, according to Bagus Adikusumo, director of real estate research firm Colliers International Indonesia. Those developments make Indonesia’s economic climate look more attractive and resilient by comparison to its neighbors, he says, because “the other countries are getting less and less rental yield and revenue.”

The growth of industry in Indonesia will also help boost property markets. “More and more companies that are growing and expanding are going to bring more and more expatriates,” he says, citing companies like U.S.-based Marathon Oil (MRO – news – people) and Australia’s Pearl Oil as well as financial firms like Standard Chartered (SCBEF.PK – news – people). One of Indonesia’s biggest banks, CIMB Niaga, is also expanding and bringing Indian and Malaysian expatriates to Jakarta to work. “They need more and more good quality apartments for them to rent.”

Aspiring landlords, take note.