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## Investing in a condominium: the regional prospects

Purchasing a condominium in Thailand has profited many investors during the past 10 years. But there is no need to limit property investment to the local market, and other countries in Asia might offer returns as good as or better than those in Thailand. Savvy investors can diversify their portfolios or capitalise on opportunities by shopping regionally.

### CONDO MARKETS COMPARED

Country	Buying price/sq m (US\$)	Gross rental yield	Tax on rental income (1)	'Round trip' costs (2)	Annual property possession tax (3)	Tax on resale (4)	Capital gains tax (5)	Tenure allowed	Buy-to-let income rating
■ China	6,932	2.66%	5-7%	2-12%	1.2%	n.a.	30-60%	Freehold	**
■ Hong Kong	20,600	3.00%	15%	2-29%	0-5%	0-20%	15%	Leasehold	**
■ Indonesia	2,544	7.05%	20%	6-7%	0.3%	n.a.	5-15%	Leasehold	***
■ Japan	11,466	5.53%	n.a.	3%	1.4%	n.a.	20-39%	Freehold	**
■ Malaysia	2,616	4.57%	26%	2-4%	varies	n.a.	5-30%	Freehold	***
■ Philippines	3,084	7.53%	n.a.	12-18%	2-3%	n.a.	25%	Freehold	****
■ Singapore	17,709	2.41%	n.a.	21-37%	10-20%	0-20%	15%	Freehold	**
■ Thailand	3,282	6.29%	12%	3-6.3%	n.a.	n.a.	10-35%	Freehold	****

Note: Above figures reflect terms and conditions in each country for an investor who is a non-resident foreigner

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| <ol style="list-style-type: none"> <li>1. Applies to rental income, without deduction of expenses</li> <li>2. Total costs of buying plus selling property, which are taxes and fees, but excluding agent and legal fees</li> <li>3. Applies to assessed or original value of property</li> </ol> | <ol style="list-style-type: none"> <li>4. Applies to assessed or sales value, without deduction of property cost and expenses</li> <li>5. Applies to assessed or sales value, with deduction of property cost and expenses</li> </ol> |
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Source: EIC analysis based on data from GlobalPropertyGuide.com, JLL Asia Property Investment Guide, and press releases

As for Thailand, property has done well lately. Holding rentable real estate has allowed investors to earn better annual returns than the low interest rates being paid on bank deposits. The gross recurring return from renting out a condominium unit in Thailand is between 5% and 7%.

Capital gains have often been substantial. For example, the average price of a Bangkok condominium rose 42% between 2009 and 2013, according to the Real Estate Information Center, to about \$3,280 (105,000 baht) per square metre.

During the same five-year period, the average price of a single-detached house rose 13%, while that of a townhouse climbed 24%.

Economies throughout Asia have grown steadily during the past 10 years, driving up condo prices in almost every major market. Among eight countries where regional property investors are likely to shop, prices rose in seven of them between 2009 and 2013, led by the 123% climb in Hong Kong, according to The Economist.

Singapore prices increased 55%, while those in China grew 23%.

The exception was deflation-hit Japan, where housing prices fell 12% in the same five-year period. But following the government's recent push to reflate the economy under "Abenomics", Japan's housing prices are again on the rise. Last year, condo prices rose 7.6%, the highest year-on-year increase since 2008.

Although the specific market trends might differ somewhat among these Asian countries, they have risen in general due to the region's rising sovereign wealth and institutional capital, much of which has flowed into real estate, as noted in the latest annual research report by the Urban Land Institute and PricewaterhouseCoopers.

The report further observed that there is too much capital and not enough opportunity, which is pushing up prices in Asia and dragging down rental yields.

Yields in some countries are indeed quite low. Hong Kong has a gross rental yield of 3%. Yields in China are only 2.7%, while those in Singapore are just 2.4% on average. Japan is slightly better, at 5%, which is a result of the past fall in prices.

Bear in mind that housing prices in these countries are very high. The average price per square metre is about \$20,600 in Hong Kong, \$17,700 in Singapore, \$11,400 in Japan, and \$6,900 in China, according to GlobalPropertyGuide.com.

Because economic prospects in Asia are generally good, investors tend to view real estate investment as a way to obtain reliable annual returns which, like those of bonds, are moderate, but with hope of eventual capital gains.

Yields are higher, and prices lower, in the Asean-4 countries (Indonesia, Malaysia, the Philippines and Thailand). Rental yields are highest in the Philippines at 7.5%, followed by Indonesia at 7.0%, Thailand at 6.8% and Malaysia at 4.5%. Here is a look at property investment prospects among Thailand's three counterparts in the Asean-4:

The Philippines allows foreigners to own condominium units on a freehold basis. But there are several drawbacks. Bank financing is not widely available, although some developers do offer loans. Another issue is the high "round trip" investing cost of 12-18%, which refers to total costs of buying a property plus the costs of selling it, including taxes and fees but excluding agency and legal fees. There is also a capital gains tax of 25%. Various annual property taxes add up to 2-3% of the property's value to be paid each year.

Residential prices average about \$3,040 per sq m, with the best location being Manila's central business district, Makati. Residential prices rose more than 10% in such prime areas in 2013. Yet the future looks bright because the country's boom in business process outsourcing (BPO) is driving the economy and the real estate market. Luxury property is also on the upswing due to demand from executives at large Chinese companies.

Indonesia offers a rental yield of 7.05%, with a roundtrip cost of about 6-7% and capital gains tax between 5% and 15%. But the tax on rental income is high at 20%, a big disadvantage. Another issue is that foreigners can only obtain a leasehold title (a Right of Use or Hak Pakai title) of up to 70 years. This prevents the foreign investor from getting a loan from any local bank

On the other hand, condo prices in Indonesia are relatively low at \$2,540 per sq m, and market prospects look very good. Analysts forecast that residential prices will rise another 15% in 2014 and that growth of Indonesia's middle class will continue to generate high demand for housing in Indonesia. Prices showed almost 16% compound annual growth during the past three years, while average rental prices have risen nearly 50%, to an average rent of \$1,250 per month.

Malaysia is an up-and-coming destination for real estate investment, mainly from Chinese investors, thanks to prices that are much lower than in Singapore and Hong Kong. The average price is \$2,610 per sq m, about 20% lower than in Thailand, with a rental yield of 4.57%. Freehold ownership is allowed, and bank funding is easy to obtain, usually up to 70%.

However, due to high speculation in places such as the Klang Valley, Penang and Johor Baru, the Malaysian government recently imposed measures to slow the rise in property prices, which are as high as 15 times average annual household incomes, far above the affordable house price level, which is 4 to 5 times average annual household incomes. This has crowded ordinary Malaysians out of the market.

The cooling measures include a doubling in the minimum price of properties that foreigners can buy, to 1 million ringgit (\$312,000 or about 10 million baht) and a doubling of the capital gains tax to 30% for property sold within five years. (The tax falls to 5% after five years).

As for which markets are most attractive this year, the Philippines and Thailand are appealing thanks to their high rental yields, low transaction and holding costs, and freehold ownership for foreigners. But wherever you invest, the key is to choose the right location so that you can rent out the unit quickly. This means a site near mass transit and/or in a central business district or shopping area.

Knowledge of local laws, regulations and market conditions is important. Beware of cooling measures. Singapore, Hong Kong, and China as well as Malaysia have all adopted measures to reduce the rate of increase in housing prices, with different effects in each country. But one result is uniform across all markets with steep price rises: lower rental yields.

Residential prices can rise so fast that renters are unable or unwilling to pay correspondingly higher rents. This shrinks yields. Moreover, cooling measures can cause prices to fall, as happened in Hong Kong, which could hurt your investment.

With these caveats in mind, it is wise to seek expert local advice in any market you do not know well. The best strategy for investing in real estate is to set clear objectives, whether it be for short-term or long-term results. Most important is to study the market and anticipate risks.