

## **Thailand Property Report - July 06 - Market Focus**

### **Samui Market Focus**

**After more than ten years of sustained growth on Koh Samui, the property market is now maturing and diversifying. Michael Crouch looks at the current situation for investors in what is becoming one of Thailand's premiere destinations for property investment.**

When it comes to market trends, in the last 5 years Koh Samui has followed a similar development path to some of Thailand's more established resort destinations - most notably, Phuket. In the early days, raw land purchases predominated, while the housing market mainly involved modest constructions aimed at long-term travellers rather than those looking for high investment returns. In fact, according to Johnny Moir, Director of Zen Properties, one of the island's original property agents, there was actually very little interest in buying property on Koh Samui until the late nineties.

"It hit a curve about 5 or 6 years ago," he explained. "In 1998, I started doing land deals. But back then we were mainly looking to buy or rent resorts. The land sales came more recently."

One reason for the current fast-paced development on Samui is that after the millennium, international security issues and regional natural disasters prompted a popularity boom that quickly made the island one of Southeast Asia's more lucrative investment options. Success in the tourism sector led to an explosion in the construction of medium- and top-end hotels, as well as the emergence of an impressive range of fine dining choices around the island. Such services began to attract a new breed of visitor, and little by little luxury properties started to spring up around the island, closely followed by gated residential developments and more recently, large-scale commercial projects.

This diversification has opened up new choices for investors and one of the more recent trends on Samui has led private investors away from raw land purchases, with buyer focus shifting more towards finished, residential properties.

John Birt from Samui Villas and Homes explained: "Since 2001 there has been a dramatic growth in demand for residential properties here," he said. "That interest has been satisfied in two ways. Firstly by people buying land and building their own homes, and secondly with developers buying land and offering finished homes to the market."

According to Mr. Birt, in the last eighteen months, large corporate investors with deeper pockets than their predecessors have begun to create more sophisticated developments that are attracting interest from high-profile buyers. In the past, most of Samui's developers had to secure sales before beginning to build their properties, but that era may have passed with a number of high-end projects now under construction offering the chance to invest in a high quality finished product. Carl Lamb, Managing Director of Kalara Properties, believes these residential buyers will help sustain the market in years to come.

"The market has consolidated and matured," he said. "There's more of a residential community developing here due to better support services now becoming available. Samui now has schools, hospitals, Tesco-Lotus, a new cinema, DIY stores and so on."

Such services mean that a more permanent foreign population is beginning to emerge on Koh Samui, distinct in many ways from their tourist cousins. Expatriate organisations now provide support and advice to new arrivals, and there is a resident social scene that appeals to many potential investors, especially those arriving from within the region.

Network Samui is one of the largest expat groups. Karina Roberts, who works for the organization, described the current expat scene: "The expatriate community is fairly well established on Samui now," she said. "We provide activities and entertainment for expats and help newcomers get involved in a social network. The clubs also provide a focal point and someone to contact when you first arrive. When you leave home, you lose the support network that you have. We help establish a new one."

Unfortunately, perhaps due to the nature of the location, demand is already greater than supply when it comes to the residential market, and shortfalls are already being felt in some sectors. There is currently no real secondary property market on Samui as most of the properties are brand new. Management portfolios are increasing rapidly, however, and from next year onwards, many of those in the industry feel there will be more of a secondary market emerging. Until then, without any stock to fall back on, agents are literally having to tell people to wait for more houses to arrive.

Despite rapid residential growth, some raw land is still available on Samui, particularly in less populated areas, although prices are definitely not as affordable as they once were. Beach land now ranges from around Bht8 million per rai up to as much as Bht40 million per rai in areas of high concentration like Chaweng and Bophut. Even in parts of the island once considered inaccessible for top-end clients, the larger developers have already snapped up most of the best beach plots. Examples of this trend can be found in the South of the island around Taling Ngam, where new and exclusive projects are under construction, financed by international companies such as Dhevatarra Properties. Some of whose villas have already sold for between US\$2 - 4 million.

There are also still tracts of land for sale on the hillsides overlooking the Angthong National Marine Park, meaning that large, opulent houses will soon border once sleepy fishing villages like Ban Makhm and Ban Taling Ngam. This shift in preferred locations can be attributed to several different factors. It's clear that many investors and developers believe Chaweng and the north coast are already too developed and busy to start building luxury properties, while others simply feel the land prices in these parts of the island are unrealistically high.

Whatever the reasons, with the land fast disappearing, finished properties will soon take over as the most accessible and perhaps even the only form of investment on Koh Samui.

Andrew Moore, Director of Samui Property Solutions, a company that is currently developing a huge piece of land in the hills behind Samui's north coast called 'The Peak'. He explained the advantages of finished properties: "Finished property on a professionally-run resort-style development will offer investors the best long term yields," he affirmed. "One only needs to look to Phuket see this is the case. On the Peak we aim to have two hotels, one 6 and one 5 star each offering services to the residential market in their catchment area."

Such approaches mean that the luxury market on Samui will continue to expand and diversify, although larger stand-alone properties will increasingly have to share space with apartment buildings and smaller villas. The dramatic increase in land prices means that developers are now keen to make the most of every single metre of land space. Some still manage to apply intelligent, considerate designs that offer privacy and a sense of openness to suit the tropical location.

But In years to come, the demand for truly secluded properties will undoubtedly drive prices still higher at the top end of the sector. Mike Langaskens, sales and marketing manager at Profmil Ltd believes this is already apparent: "The luxury villa market is very buoyant indeed," he said. "Villas are getting bigger and more expensive. A year ago it would be exceptional to have a house, with land, at 20-million baht. This year such a house would be considered unexceptional."

Although some see such price increases as excessive, and worry that wider markets may be excluded, the Samui boom continues to suggest otherwise. This undoubtedly has much to do with similar trends in many western property markets. It seems that despite significant price hikes, buyers from abroad still see Samui as an attractive and affordable investment opportunity. Carl Lamb at Kalara Properties summed up the dilemma currently facing Koh Samui's property companies. "Internationally it is cheap," he said. "But nationally it is expensive."

So where are the clients for all these new properties coming from? According to Mr. Langaskens, it's still difficult to categorize the type of buyers investing on Samui: "Backgrounds and nationalities are very diverse," he said. "The clients are mostly rich expats, and they come from just about everywhere. Most will probably come and live full time on Samui when they retire."

Others in the industry, when asked to describe their client profiles, offered a wide variety of sources that included Hong Kong, Malaysia and Singapore, as well as the UK, USA, Russia, Australia and France. Yet wherever they come from, most agents and developers agree that when it comes to construction, the biggest demand on the island is for tropical designs, with western standards.

"People are looking, above all, for European quality," Mike Langaskens added. "They are particularly concerned about kitchens and bathrooms, which in traditional Thai housing isn't often so important. They also want and need lots of storage space. This is very important too for them."

The demands of international buyers have definitely prompted a number of recent changes on Samui, particularly within the building industry. As well as inspiring improvements in the overall standards of design and construction, well-known brands are now becoming readily available, without having to order from abroad. Homeowners can now choose from a range of companies selling fitted kitchens, lighting, furniture, home accessories and security systems. And this, combined with better guarantees and follow on services, means that in many cases, quality standards have increased almost in tandem with property prices. This is not to say that care and attention to detail are no longer advisable, however, especially for those who opt to buy land and build themselves.

"It's more cost effective to build yourself," says John Birt. "That way you're getting a wholesale price. But buying small plots of land isn't easy, especially if it has electricity and water. Building a property yourself is only a good idea if you have both the time and the inclination. "

No matter what kind of investment you choose, legal considerations are always an important concern when purchasing land or property. Recent worries regarding a change in the government's policy towards nominee shareholders caused the same consternation on Samui as they did elsewhere in the country. In fact, over the last few years, with new building regulations also being more comprehensively imposed, both buying and building on the island have become more complicated. Samui was treated as a somewhat maverick island for many years, and in such an environment local connections were always paramount. Increasingly, however, broader legal issues are creeping into local property sector deals, and these certainly make life more difficult for the local agents and administrators. For many people however, such regulations also add an element of stability to the market, and as long as investors fully understand their implications, laws may eventually build investor confidence.

"At this moment in time, we're at a phase in the boom where there are lots more end-users buying the products." Said Johnny Moir from Zen Properties. "Rumours about changes to the law have slowed the market down, and these rumours are generally to do with a raft of planning

regulations. Checking the land title is still one of the most important aspects when buying land here, and so is having a reliable lawyer. Due diligence should be done in a serious manner. As long as you follow the law, it's 100% safe to buy a property on Samui. It's a well-worn path."

Unfortunately, another well-worn path is the road that encircles the island. In fact, a number of large-scale infrastructure projects are sorely needed to keep pace with development, especially in areas such as transportation and waste disposal. A proliferation of properties 'in progress' may be a clear sign that the market is still going strong, but dusty building sites and heavy vehicles loaded with construction materials do not exactly give first time visitors an impression of tropical paradise.

Sabrina Grimwood is a local writer, and also sits on the board of directors of The Rotary Club of Koh Samui. As a resident of 14 years and a small business owner, she continually reminds people about the dangers of an imbalance when it comes to public and private investment.

"Tourism and property businesses have leapt ahead since the airport arrived," she said. "This has left the infrastructure straggling. In Bangkok, Koh Samui is known as 'Koh Farang' because there are so many foreigners here. Unfortunately, the authorities here haven't a clue what they're doing. Funds get diverted, and money is never spent on what it's supposed to be spent on."

Such complaints are commonplace, especially since last year's floods when one billion baht in public funds was pledged to improve drainage but never materialized. However, according to the Head of the Municipality Office, Khun Warakorn Ratanarak, Samui has now applied for 'city' status, which would give the local government much more control over their annual budget, and therefore increase the speed of public service improvements as the authorities would no longer be forced to wait for funds to be allocated by the provincial government in Suratthani. In Bangkok, however, the application has yet to be approved.

Despite certain drawbacks, it's not only water that floods to Koh Samui. Thanks to its affordable lifestyle, manageable size and convenient location the island appeals to an ever-broader range of people both as a tourist and residential destination. This bodes very well for a property market that, despite its relative immaturity, is evolving into a multi-dimensional and much safer investment than many people at first predicted.

"My wife and I moved here from homes in both the south of France and Guadeloupe," said Maurice Jespersen, a recent investor in his early 40s. "We find Samui a very, very good value. We have everything we want here, and at a good price. As I am both a keen golfer and yachtsperson, I'm glad I came. Prices are all very affordable here. We have a gardener, two maids, rotating nannies and my wife can have a manicure at home."

Which seems to suggest that as a lifestyle choice, Samui makes perfect sense.