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SOUTH EAST ASIA

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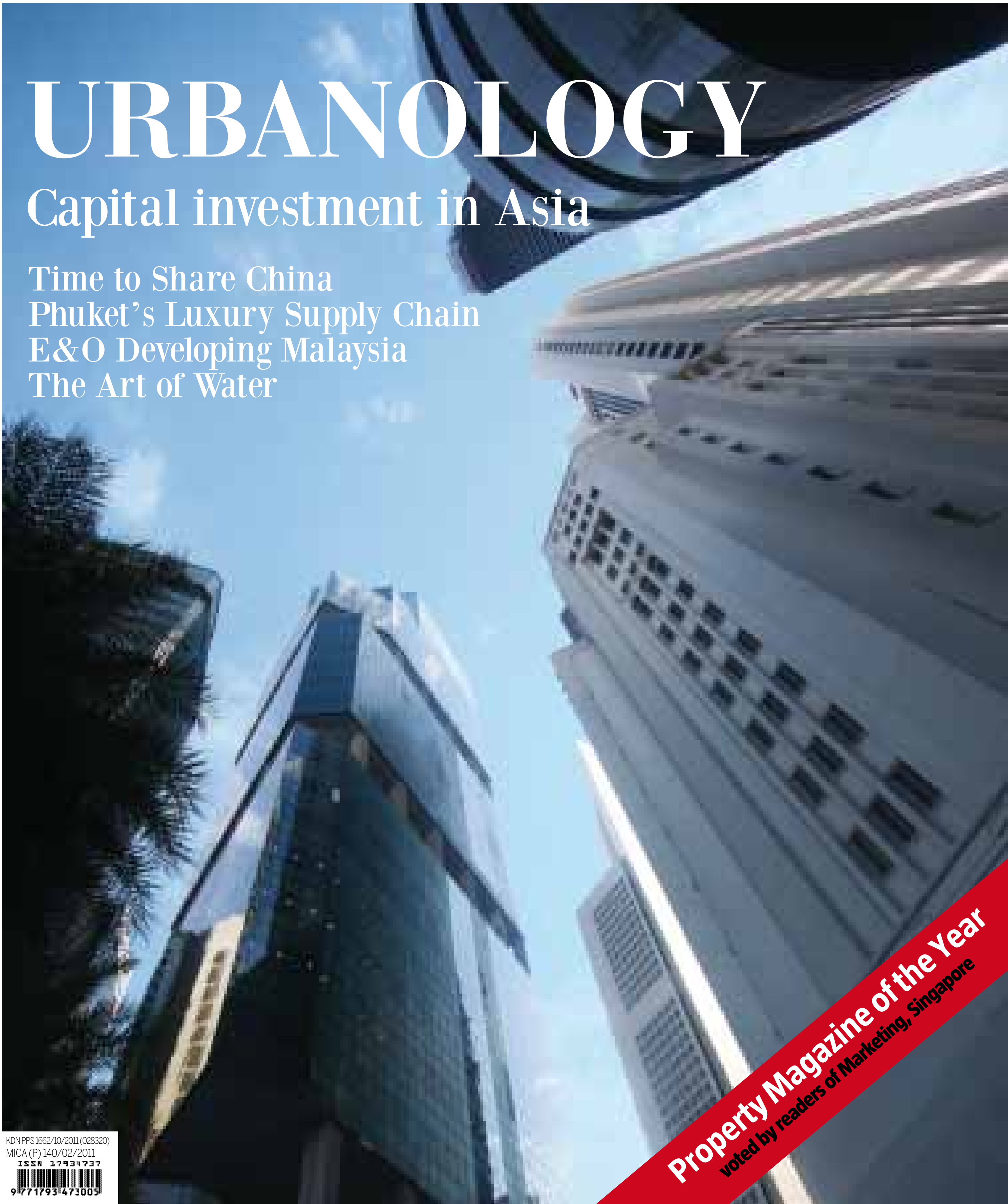

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CONDOMINIUMS • VILLAS • APARTMENTS • HOT DEALS • INTERIORS • DESIGN

Promises promises!

A resort villa without comprehensive rental management is simply a house near the beach.

> "IF YOU ARE REALLY ORGANISED YOU SHOULD START TO SEE SOME PROFITS AFTER YOUR INITIAL INVESTMENTS AFTER 12 TO 18 MONTHS."

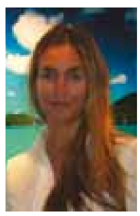
Most properties purchased around the world are marketed and sold as "investments" but unless the yields promised can be realised, they can turn into money pits. It's all very well conducting due diligence on the legal aspects of a piece of real estate, but that's only half the story – full research into the rental management programme is critical – unless you really aren't investing for income. Acquiring revenue generating assets is most definitely the name of the game these days, especially as the banks are giving us next to no interest on our savings, so having a property that makes our money work damn hard is definitely a smart choice.

The problem is that a lot of developers are of course very competent when it comes to building and delivering real estate, but have no clue about rental marketing or hospitality management – and to be fair to them, it isn't surprising. The two skills sets are not usually transferable; in fact they make quite strange bedfellows. I have had numerous meetings with developers over the years when as an agency owner I decide which projects to market, and drilling down on rental management details can be a little bit like herding cats. The brochures will typically talk about an 8 per cent yield, but when pressed on how that is going to be realised, often developers admit that "they'll work that out later". So in essence they'll talk about high returns to get the sale signed, but don't really have a clue how they are going to deliver – rental management in this case is merely an after-thought, and probably not a very interesting one at that, once the building has been finished and all the buyers are fully paid up. The more delusional developers think they'll be able to hand their projects over to "management companies" on completion, but the fact is that international hotel brands spend years defining which regions and markets to get into, and they will only partner with developers from the pre-design stage as they need the project to fit in exactly with their required room numbers, brand identity and operational format, i.e. long before the construction has been planned in.

As a gift to any developers out there quoting high yields without any real tangibility, here are a few things that you can start to consider so that you are ready to deliver on those forecast yields:

Start planning your rental strategy at least one year before construction is due to end, or preferably when you start your project. Next up, you need to calculate what your operational start up costs are going to be, and don't forget that building all the common areas and facilities you promised is going to add approximately 40 per cent onto your build costs. Also, don't forget to include the cost of the professional kitchen which alone should be minimum US$250,000 if you have any more than 10 villas or apartments to cater for. Then there's the equipment for your house-keeping department – it's probably best to allocate another US$100,000 for this. Then you need to calculate what your running costs are likely to be, this will include security staff, front of house staff, house-keeping staff, utilities, amenities for the rooms and consumables. You'll need an experienced GM to start at least 3 to 4 months before you open too, who can assist with your supply chain management, recruitment and training of staff and systems processes. You'll obviously need a fully optimised website and hotel booking software, this can be pricey but it's well worth investing in. Once you have got the hardware and staff set up and all your systems in place, you'll need to analyse the marketplace you are in and set rack rates, soft opening rates, and maybe come up with some incentive packages to get the initial guest traffic into your development – as a word of warning the first 12 months are the hardest. You can begin establishing occupancy by forming relationships with tour operators, web portals, group buying websites and airlines. I'm hoping you already defined how your split on rental will be with your property investors and who is covering the costs for things like utilities, wi-fi and room amenities and I'm sure you have already decided if you are going to pool the rental income across all units or instead have a fair usage policy. If you are really organised and your marketing is excellent you should start to see some profits after your initial investments after 12 to 18 months.

I hope this helps – investing for income is very sensible and as property buyers we should start to see returns within the first few months of ownership – we just need to make sure we are selecting those projects which truly deserve our hard earned cash and not those which might be careless with it.



Claire Brown formed Claire Brown Realty in 2004 having worked for various developers across South East Asia. Her roles included sales and marketing, project management, construction planning and consultancy. As well as running the business, Claire is also developing her own project in Bali, a luxury villa and spa retreat in the beautiful and somewhat undiscovered province of Tabanan. She enjoys travel, food and wine, interior design and shopping – in no particular order. www.clairebrownrealty.com