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Investment Newsletter – October 2005

Real Estate in Thailand Part I – An Introduction

This month's newsletter is the first in a series on Thailand. I have just spent two weeks researching several markets in Thailand. I will explain why this is a market you should consider and a couple of the specific areas where I see good opportunities for investors.

Why Thailand?

Thailand has a tropical climate with relatively warm temperatures all year round. The beaches are year round tourist destinations with many world class resorts. Thais are famous for their hospitality, their smiles, and their easy going nature. The country is blessed by beautiful beaches with tropical vegetation, and scenic mountains.

Like Hawaii, Thailand attracts both vacationers and retirees from around the world. There are many more Europeans and Japanese here than Americans and it is becoming increasingly popular with Chinese from Hong Kong, Singapore, and even mainland China. Aging baby boomers and rich Chinese see Thailand as a place where they can afford their own piece of paradise. Foreign money is pouring into the market and a land rush has commenced. Most Thai houses and apartments would be considered substandard by developed country standards. As a result, demand for quality houses and condos far exceeds supply and prices have risen very rapidly in the last 3 years. Even so, property is inexpensive compared to Hawaii or the Gold Coast of Australia. I see a lot of future appreciation potential here.

Thailand is very cheap for buyers coming from more developed countries like Hong Kong, Singapore, Australia, Japan, and Europe. Condo's and houses are roughly 1/3 the prices of Hawaii. Living costs are also very low including household help. Medical care in Thailand in established hospitals has achieved a very good reputation; costs are dirt cheap compared to Europe and the U.S.

The country is very open to the West in terms of trade and culture. It is a democracy, and, except for the far southern part of Thailand, it is a very peaceful society. Crime is much less of a problem here than in the U.S. Although there are the usual payoffs to speed up government approvals, it is possible to do business under the rules as written. The courts have a reputation for enforcing contracts and respecting property rights - though the process can be rather slow.

Market Background

The Thai real estate market is rather primitive in many ways:

- Real Estate agents are unregulated – anyone can become an agent with no training.
- There are no exclusive listing agreements - the business is brutally competitive.
- There is no centralized system for listing properties - cooperation among agents is rare and you must work with many agents and talk to everyone to find out what is for sale.
- There are no escrow or title companies – the seller holds the deposit and the transaction closes at the land title registration office.
- There are no standard contracts – you hire a lawyer and negotiate all terms.
- Infrastructure (roads, sewers, power, etc.) are poor in many areas.

There are various forms of title. For our purposes we would only consider the following types (in order of desirableness):

1. Chanote – the same as U.S. titles
2. Nor Sor San (3) Gor - the same as Chanote except land hasn't been measured precisely. Errors can be as much as 5%. This can be upgraded to Chanote by getting an official survey done.
3. Nor Sor San (3) - similar to Nor Sor San Gor but with larger potential measurement errors.

Because land with Chanote title gets a premium price compared to the others, some investors buy land with lesser titles in areas they know will soon be upgraded by the government.

With a few exceptions, foreigners cannot hold land directly in their name. The standard practice is to set up a Thai limited liability company to hold title. There are some technicalities to be observed (a Thai citizen must “own” 51% of the shares) but for practical purposes the results are the same as if you owned it directly. If you wish to use the property in an exchange, you will need to lease in long term from the Thai LLC to yourself (or your U.S. entity).

Geography (See Maps at the End)

Bangkok, the capital of Thailand, is well inland. Most of the wealthiest people in Thailand live here and as do most of the foreign expatriates working in Thailand. Directly south of Bangkok is the Gulf of Thailand and an area called the

Eastern seaboard – which is the coastline on the Eastern side of the gulf (i.e. it is a Western facing coast). Just south of Bangkok is an industrial area. Below that, about two hours drive from the Bangkok airport (the north side of town), is Pattaya. Pattaya has its own airport for domestic flights but driving is the normal way to get there. There are several other beach towns growing up as suburbs outside Pattaya.

Further east towards Cambodia, the government has designated Koh Chang as a national park and announced intentions to promote this and the surrounding islands as major tourist destinations. The politicians have money in land here so they must be serious. At the moment the area is popular but not nearly as popular as the top three beach destinations in Thailand: Pattaya, Phuket, and Koh Samui. The Thai peninsula stretches along the West side of the gulf all the way to Malaysia. Koh Samui lies this way, an hour's flight from Bangkok. There are several islands out in the gulf along with Koh Samui. The closest to Koh Samui, and most developed, is Koh Phangan. This is 30 to 60 minutes away by boat depending on the boat and the weather. There are other towns along the road south from Bangkok that are popular with Thai people (and to lesser extent foreigners). The most significant are Hua Hin and Cha Am.

On my recent trip I visited Pattaya and drove all the way to Koh Chang. Then I flew to Koh Samui which I have visited many times over the years. From there I also visited Koh Phangan which I last saw in 1993. The most obvious and lowest risk investment opportunities are in Koh Samui and near Pattaya. This newsletter will therefore focus on these two areas.

Pattaya Area

The coastal area around Pattaya is developing rapidly along the lines that Hawaii and Australia's Gold Coast both followed. This area has a great deal going for it and although there is quite a lot of undeveloped land right now, I believe the whole coast will be developed. The area starts a few kilometers south of the Industrial zone north of Pattaya and continues right down to the border of the military land to the South of Bangsaray. Making money by developing land here is as close to a sure thing as it gets in real estate. The markets for houses and condo's are well established and demand vastly exceeds current supply. A boom has been going on here for 2 years already.

There are several catalysts to support further demand growth. First is the new Bangkok airport which is just 45 minutes away by taxi. Eventually a planned high speed train will reduce the transfer time to just 20 minutes. A second catalyst is the expected opening of Thailand's first casino just south of Jomtien Beach when gambling is legalized in 2006. (Top politicians argue this is necessary to compete with other Asian cities just now opening casinos and, they will make big

bucks from legalization). Finally the critical mass of golf courses and luxury developments will appeal strongly to newly rich Chinese as well as expatriates and retirees from Europe and Japan.

The only way to lose (short of fraud), when buying beach land for development, is if they changed the laws after the land purchase but before building permits were issued. Even this remote risk might be eliminated by clever structuring of the purchase contract. Buying well priced houses or Condos also seems a good bet so long as they are in a location that can support vacation rentals.

Koh Samui

Koh Samui has historically been a budget traveler destination. It had been slowly attracting new 5 star hotels for several years. Then a golf course went in and Bangkok Air (which owns the airport) added direct flights from Singapore and Hong Kong. Now the island is accelerating its move upscale and I expect most of the places below 3 stars to be redeveloped as land prices escalate. The international luxury hotel chains are on their way. The boom here started 3 years ago and land prices have roughly doubled in that time. Because Samui is an island and much of the shore is rocky or has shallow water, there is a very limited supply of desirable beach front property. This supply constraint, combined with escalating demand from investors and retirees from Hong Kong and Singapore will ensure continued appreciation of real estate on Koh Samui.

The main resort towns at the North end of the island from Lamai to Maneam are all within 20 minutes taxi ride of the airport. The government wants to put in a new airport to provide access to airlines other than Bangkok Air. If this happens, fares could come down 30-40% and there would be a significant increase in visitors to the island. Thai Airways would then have the capability of putting in direct flights from Tokyo and other major cities. So far Bangkok Air has held off the new airport, so the government may be forced to put the new airport over at Koh Phangan. The local newspaper also published an article saying a casino would be built on one of the other islands.

Conclusion

Thailand is well positioned to capture significant amounts of real estate investment funds from more developed countries. There are several areas that have achieved the momentum and critical mass that will carry them into the top ranks of international class resort areas. This newsletter is just a brief introduction to the possibilities of Thailand. I am currently working to put together a group of investors to buy and develop land in Koh Samui or possibly Pattaya. Anyone seriously interested in participating should contact me. Next month I will provide further details about investment opportunities in Thailand.

Featured Opportunity

In South Koh Samui there is a 1.2 acre plot of land for \$188,000 just 70 meters from the beach. The owner is in financial difficulty and has priced this 45% less than the next parcel over. This may already be sold when you read this as it is an obvious buy and flip transaction.

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