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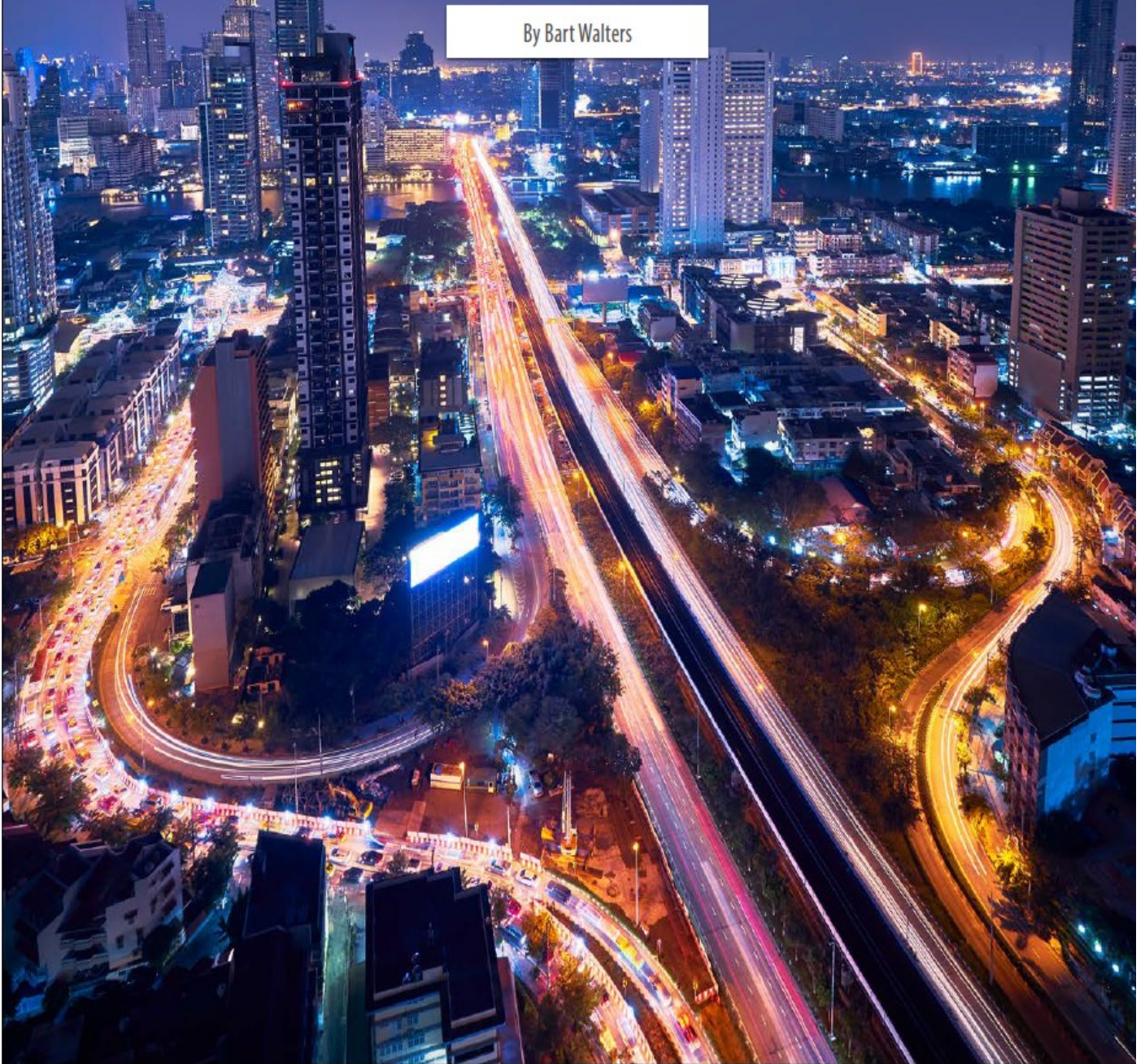
Market Study
The Thailand Hustle:
Capital Appreciation,
Cash Flow, And The
Flipping Reality

Building A
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MARKET STUDY

The Thailand Hustle: Capital Appreciation, Cash Flow, And The Flipping Reality

By Bart Walters





In 1999, I came to Thailand with a pocketful of dollars and no idea what I should do with them. I liked bringing older properties back to life, so I dug into the idea of buying, renovating, and flipping properties with a little bit of land lording sprinkled in.

It was almost too easy. The Thai currency had just collapsed a few years earlier, so my dollars were stronger than ever. Property owners waking up from an economic nightmare were highly motivated sellers. At the same time, new infrastructure projects had switched the city of Bangkok into expansion mode, and if you already had a little money, there was money to be made. The “Land of Smiles,” indeed.

Unfortunately, the halcyon days of the property hustle are long gone in Thailand.

Most of the major markets are now flooded with unpurchased housing inventory. Bangkok and Pattaya are grossly overbuilt in many segments. The condo craze didn’t take off in Phuket as it should have. Chiang Mai properties never seem to gain any value.

The Thailand market seems to be perpetually moving sideways.

Then along came a pandemic and a new war that has everyone on edge. Inflation has become problematic on a global scale, while Thailand’s battered tourism

industry just can’t catch a break. The Chinese can’t come because none of them want to endure three weeks of quarantine when they return to China. The Russians can’t come because their money is “no good.” That’s two out of the top three countries that contribute to Thailand’s tourism industry.

Could there be a silver lining anywhere in this black economic cloud? Let’s focus on how you can make money in the current environment.

Capital Appreciation

There is no capital appreciation when you buy an existing property in Thailand unless you pay upfront at under market value. It doesn’t matter if you bought at market value and the value increased over time, or if you bought cheap and sold at market value later. The profit you make spends the same.

Think about the variables in the Thai real estate equation for a moment. First, you have a pandemic that has dragged on for more than two years, thus, squelching an otherwise vibrant tourist industry that normally accounts for about 20% of the country’s GDP. Plus, a rigid Chinese quarantine policy and an unsettling war with Russia makes for a deflated tourism industry that isn’t going to recover just because we declare COVID-19

endemic. Incidentally, all the properties you would want to buy are in or near areas that are used to heavy tourist traffic.

Thousands of property owners who have relied on rental incomes from condos and villas haven't made a dime for two years. They are currently the definition of "motivated sellers," creating bargains everywhere (if you know how and where to look). I've seen properties selling for 30% under their market value.

Keep in mind that no multiple listing service (MLS) exists in Thailand. Assessing the value of real estate isn't as transparent as in the United States.

Property is worth what someone will pay for it. If you are a seller, this can work to your advantage if someone is in love with your property. If you are a buyer, it allows you to make lowball offers with a clear conscience. The final price is more dependent on how much the buyer is willing to spend than how much the seller thinks the property is worth.

Add a few layers of history onto these variables and you'll see what I mean about getting your capital appreciation "upfront." The Thai economy seems to be made of superball rubber. I've been here through a currency collapse, political unrest, two coups, the death of the king, a tsunami, a housing bubble, the bird flu, SARS, and COVID-19. Things get rough for a while and then come storming back.

During the pandemic, Thailand didn't just sit back and watch as the world wrung its hands over masks and vaccines. Infrastructure projects surged forward full tilt: new roads, airports, hospitals, and high-speed trains were built and the 5G networks were launched. Even at a grassroots level, I've seen business owners closing their doors to retool and refurbish hotels, restaurants, shophouses, and guesthouses. They all know what I've seen time and time again. Thailand is as resilient a country as there is. Everyone should get ready for a bounce.

Tourism will eventually rebound, bringing new renters and future buyers. Foreign investment and commerce will expand exponentially taking advantage of the



improved infrastructure, creating a bigger stream of home buyers and renters. Relaxed visa laws designed to attract remote workers and digital nomads will add yet another column to the list of foreigners who will want to call Thailand home.

My grandson is a dedicated surfer. One day, he explained a very important aspect of his favorite pastime, which seems to correlate to a sound real estate investment strategy: “You don’t surf on top of the wave Grandpa; you surf in front of it.” You should buy when times are tough and the wave is swelling with energy, then shoot out in front of it when the energy is released and things start booming again. Even if you sell at market value in a few years, you made your capital appreciation on the buy.

If my prediction is right, you’ll make capital appreciation on both ends and ride that wave all the way to the beach.

Investing For Cash Flow In Thailand

Twenty years ago, you could buy a few properties, rent them out, and spend your time relaxing with a book by the pool. I had four condos in Bangkok rented to Japanese tenants, who are the holy grail of renters. They pay too much, they pay on time, and they don’t destroy your place. Net rental returns at the time averaged between 8% and 12%.

Nowadays, the competition is fierce. Overbuilt markets have forced owners to lower rents, shorten contract durations, and even take less for a deposit just to compete. The average net rental income in the Bangkok-Chonburi corridor is just over 6%. In Phuket it’s a little higher, while in Chiang Mai it’s a little lower.

The buy-to-let market is a mirror reflection of the Thai retail economy as a whole. Walk down any street in any major metropolitan area and you will witness two things. Some businesses are extremely busy... Restaurants, hotels, jewelry shops, spas, etc., are full of customers. Right next door there may be similar businesses, offering the same goods and services, but they have no traffic whatsoever.



Interview ten business owners and five will tell you things are getting better, while the other five are singing the blues.

It's the same with the landlord game. Some owners seem to always have their units rented with long-term reliable tenants, while others moan and complain about the lack of qualified customers. What's the secret?

There is no secret formula, but I follow a handful of rules to ensure I'm one of those people whose rental income glass is half full.

First of all, you'll need to establish the unique selling proposition (USP) of the property. Figure out what the most outstanding feature is and connect it to what kind of renters it will attract. In Bangkok, a city with 12 million people, being close to public transportation like the Skytrain or the subway is essential. In Pattaya, you want to either be close to the beach or target families living in houses, so being near international schools is a big deal. If you are in the islands, it's all about the view. If you are in the northern capitol of Chiang Mai, certain neighborhoods are more desirable. Find a place that has a strong USP and establish a target tenant who desires what your place has.

Next, choose a target-rich environment. I can find dozens of nice houses that are dirt cheap on the west side of the idyllic island of Koh Samui. The views are spectacular, and you can pick mangoes from the tree in your front yard. But not too many people live in this remote location. They don't have any grocery stores, pubs, or renters. Just because you might want to live there and it's a good deal, doesn't mean there is a large universe of

prospective renters who will come running. If you want to catch fish, you have to go where the fish are.

It's important to remember that a condo or house isn't just a box you live in, it's a platform for a lifestyle. When prospects visit your property, they should be imagining themselves living there. You've set the hook with a strong USP, now close the deal with a place they can't say no to.

Recently I was in Koh Samui looking at properties to rent for a longer stay, and I was appalled at some of the things I saw. Beautiful condos and villas furnished with old musty sofas, cheap spindly tables, and beds with mattresses I wouldn't let my dog sleep on. What's the point of having a sea view if your place hasn't been painted in 15 years and the whole house is lit with cheesy fluorescent bulbs?

In my building in Pattaya, several of the owners have thoughtfully spent money upgrading their condos creating a cozy tropical atmosphere surrounding our USP, which is a badass swimming pool within walking distance to the beach. We enjoy fully occupied units with above-average rental incomes. In contrast, there's an old Belgian guy who owns 18 units ranging from studios to three bedrooms. He bought them 12 years ago and has never upgraded the original furniture package or spent one dime on renovation. As a result, he currently has only two tenants and one of them is family. He suffers from pathological frugality.

Find a unique place in a target-rich environment and create a living space where you would live yourself. Chances are others will want to live there as well.



Thailand's Flipping Reality

As we have already established, plenty of properties are available below market value, and a lot of them need upgrading to turn them into profit centers. But what about flipping? Could you buy something, fix it up, and then sell it for a profit?

The answer is: Yes. But you better know what you're doing.

The first step is to choose a property in a hot spot. Find a place that is in a desirable location with a large universe of prospective buyers. Don't rule out looking at anything. Many people are too tentative when they try the flipping game and only look at properties that need a little help. I like to find places that have a good solid building but are basically a wreck inside. The worse they look, the lower the price, and the bigger the upside.

It helps to have an idea of how much it will cost to upgrade a place. If you are new to a place like Thailand, you may have no idea how much it will cost or how to go about it. Allow me to give you some pointers...

Renovating properties in Thailand is a lot cheaper than in the United States. Labor and materials are cheap, as all the good fixtures are made locally. I recently renovated all three bathrooms in my three-bedroom condo in Pattaya. All the ceramic tiles are made in Thailand, which have a mark-up in the States of about 300%. All the bathroom fixtures like toilets, sinks, and shower sets were high-quality, American standard brand. They are made about 40 minutes from where I live and are embarrassingly cheap. I completely renovated three large ensuite bathrooms with floor-to-ceiling tiles, LED lights, glass shelves, custom-built furniture, and the highest quality fixtures for US\$10,000.

Here is the real key to effectively and efficiently upgrading properties in Thailand: When you hire a contractor, make sure there is no foreigner in the mix. You will find all kinds of construction contractors that are set up and run by foreigners that make a living doing work for other foreigners. They hire local staff and tout their expertise in "quality construction." Don't assume their work will be better. Foreign contractors



mean foreign prices. I sourced a good Thai contractor, supplied him with the materials, and I showed him what to do. That's why I can blow out three big bathrooms for just US\$10,000.

When you buy materials, do not source them at a place that caters to foreigners because, again, you'll get foreigner prices. I sourced all my materials at a huge outlet called Boonthavorn. It is a massive warehouse and showroom with everything from toilets to tiles. I found the materials I wanted, scanned the QR code on them, and went home to order everything online. The materials were cheerfully delivered within a week.

When you buy appliances like refrigerators, stovetops, washers, etc., it's smart to buy them all from the same place. Reputable shops in Thailand like PowerBuy have incredible customer loyalty programs that give you cash to buy other items. For example, with the cashback I accrued on a different renovation, I was able to get three new water heaters and all the LED lights I needed for my bathrooms for free. Additionally, they handle all the warranty paperwork and arrange for any installation or service you might need.

So, you've found your property and renovated it to a high standard. Now what? How do you sell it for a profit?

One way is to put a tenant in it. A lot of investors use property to move money into Thailand. Show them a sparkling new property that is pulling a return of 6% or more based on your asking price and you'll get interested parties. Turn-key real estate investments are rare and attractive to cash buyers. Remember, you aren't selling a property; you are selling a profit center.

My personal technique is to live in the place I've renovated and serve as the salesperson when prospects come to look. Since I know every little detail that went into the place, it can make other places seem bland in comparison. When buyers come to look, I can project the lifestyle they desire.

Your mindset is also an important factor when you are attempting to flip a property. You must have confidence the property will sell. Plus, you cannot set arbitrary time



expectations in a country like Thailand. Every day could be the day your dream buyer walks in the door. Don't panic if it takes a while.

It's also important to note that selling a property within five years of purchasing it incurs a punitive tax known as the Business Tax. This tax was put in place to discourage speculation and flipping. In reality, it only costs about 2% of the assessed value of the property. As the assessed value is usually much lower than the market value or the sale price, the tax is not such a big deal.

While we are exploring the idea of flipping properties, we cannot leave out investing in small commercial properties like hotels and guesthouses. Several years ago, I had a friend who bought a nasty old backpacker flophouse in the heart of the Old City in Chiang Mai. The location was incredible and the building was solid. The interior was gross.

He paid 6 million Thai baht for the property. He sourced my help with the renovation design, and we gutted the place. In the end, he spent another 6 million Thai baht and turned it into a boutique guesthouse with seven

gorgeous suites and a huge kitchen and bar area. For five years he ran the place at a profit, catering to travelers from all over the world. After five years he sold it for 22 million Thai baht to a Taiwanese buyer.

If you have vision, and don't mind hard work and a little risk, these types of opportunities are all over Thailand.

The Good Old Days

It's interesting and helpful to look back and see how things have changed no matter where you live. The Thailand property game sure seemed a lot easier 20 years ago, but I'm sure that can be said about the real estate markets in most countries.

Billy Joel said it best, "The good ole days weren't always good, and tomorrow ain't as bad as it seems."

For those of us who like to play the buying, renting, and flipping game, adapting to new realities is the key to longevity. 🏠



About The Author

Bart Walters is an American expat who has lived in Thailand for over 20 years. He's been active in real estate development and has written dozens of articles and essays about living and doing business in Thailand. Bart has also been a teacher at a major university in Bangkok and recently published his first book titled "Sunset Vertigo," a collection of short stories about expat life in Southeast Asia.