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Thailand

SPECIAL REPORT

Visit any of Thailand's popular coastal resorts and you will find a paradise of golden-sandy beaches, crystal-clear waters, delicious food and super-friendly locals. Combine this with the country's affordable housing market and cheap cost of living, and you might just decide to move there for good.

But scratch beneath the surface of these idyllic scenes and you'll find a country in turmoil. Following a *coup d'état* in November of last year, Thailand is under the rule of a military-controlled government, Muslim separatists from the southern states are waging a violent campaign, and the Thai economy is under a cloud of political uncertainty. All this for a country still recovering from the devastating Boxing Day tsunami of 2004.

But despite the dramatic events, and some increasingly awkward laws governing property ownership for foreigners, the overseas housing market in Thailand remains buoyant. Are foreign buyers foolishly being entranced by what the country's tourism authority simply labels "Amazing Thailand"? Or does stability and a prosperous property market lie around the corner?

An unhappy Christmas

Back in 2004, while millions of Brits were tucking into their Boxing Day turkey sandwiches, a monster wave was colliding with Thailand's west coast. Thousands were killed, millions

of pounds-worth of damage was caused and Thailand's reputation as a haven for tourists was seriously dented.

According to the Tourism Authority of Thailand's (TAT) 2005 report, year-on-year tourist numbers fell by ten per cent in the wake of the tsunami. This was bad news for the many overseas property investors who let to tourists. But Thailand's recovery was as spectacular as its decline - annual tourism figures actually increased during the second half of 2005.

"Tourism experienced a growth rate of two per cent in the third quarter and four per cent in the final quarter, compared with the same periods in the previous year," says the TAT report.

Robert Martin, of Hua Hin-based Thai Properties (www.huahingardensresort.com), thinks that the disaster actually created new property hotspots. "The tsunami hit the Andaman Sea, not the Gulf of Thailand," he says. "Only certain resorts were

THAILAND: PROBLEMS IN PARADISE?

DUBBED 'THE LAND OF SMILES', THAILAND HAS AN IDYLIC REPUTATION. BUT AS THE COUNTRY REELS FROM NATURAL DISASTERS, TERRORIST ATTACKS AND A COUP, IS IT REALLY A SAFE BET?

WORDS ROBIN CHRISTIE PICTURES GETTY

Thailand

 SPECIAL REPORT

hit, like Phuket and Ko Phi Phi. Clearly, it's had an impact on the property market there, mainly with the Asian market, as Thai people are reluctant to buy where the tsunami hit. They moved to the Gulf and that's why the property market has boomed in Hua Hin."

The TAT report backs Mr Martin's viewpoint: "Tourists changed to visit other alternative provinces in the Gulf of Thailand, such as Trat, Hua Hin and Samui, rather than the Andaman coast. Those destinations have had the highest occupancy rate in the past five years."

But the property markets in Phuket and other traditionally popular west-coast resorts haven't collapsed. Sales in the region remain strong and Chris Gordon, Managing Director of Phuket's The Village, Coconut Island (www.thevillage-coconutisland.com) is bullish about the resort's prospects: "Statistics show that in the 12 months that covered the tsunami, sales were almost the same as the year before. It didn't really affect where people chose to buy within Thailand."

Frank Khan, Director of Residential International Sales in Thailand for property consultancy Knight Frank, agrees that Andaman Sea resorts such as Phuket and Pattaya are still going strong. "More than 80 per cent [of foreign buyers] require a sea view resort," says Mr Khan. "Ideal provinces in Thailand are Phuket, Samui, Krabi, Hua Hin, Pattaya and Rayong."

Southern insurgency

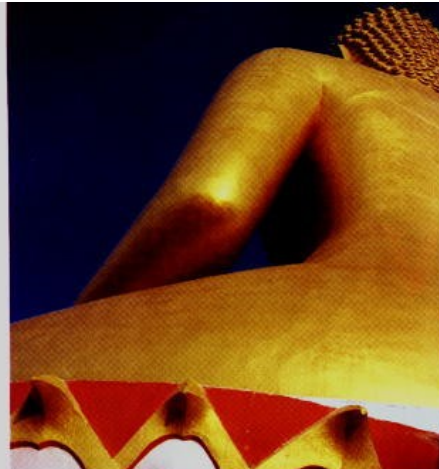
As well as the tsunami, Thailand has had to deal with escalating violence from Muslim separatists in the southern provinces of Narathiwat, Pattani, Yala and Songkhla.

"A total of 1,900 people have died in insurgency-related violence since 2004. In February, there were 31 bombs in the southern provinces, and nine British nationals have been murdered since 2005," says Neil Thompson, Director of Security for security specialists red24 (www.red24.info).

However, he doesn't believe that house-hunters should avoid investing in Thai property. "There's no doubt there's a terrorist risk, but it's mainly in the south," says Mr Thompson. "I wouldn't invest in the south, but I see no problem with investing in resorts."

The terrorism issue was brought to the fore recently when three people were killed in a New Year's Eve bomb attack on Bangkok. Although the Thai authorities discounted Islamic insurgency as the reason for the attack, you'd be forgiven for thinking that such a high-profile terrorist act would have a negative effect on visitor numbers. – but this doesn't appear to be the case.

"The bombs in Bangkok on New Year's eve were a bit too close to home," says Mr Martin. "But, according to the Thai tourist board, the number of visitors are rising, so it doesn't seem to have affected people."



"A total of 1,900 people have died in insurgency-related violence since 2004 – nine British nationals have been murdered since 2005"

The coup

If bomb blasts and freak waves weren't enough drama for one decade, last November – after a sustained period of democracy – Thailand saw its first *coup d'état* since 1992. Controversial leader Thaksin Shinawatra was deposed by the military, casting severe doubt on the country's social and political stability. While there are plans for elections to be held this October, the coup has sent shockwaves through the Thai economy.

Bob Munroe, Senior Economic Consultant with currency exchange specialist HIFX (www.hifx.co.uk), comments: "The Thai economy has been remarkably strong in recent years, so the coup came as a shock to the outside world. In late 2006, the new government became concerned about the rapid appreciation of the Thai Baht and imposed capital controls to try to limit the currency's popularity with international speculators. These measures led to massive volatility in the Thai stock market and currency. Property investors should be aware that the political and economic circumstances in Thailand remain unstable."

However, Neil Thomson believes



that visitors have little to fear from the coup's aftermath – just the kind of message that property investors want to hear. “It was a low-level coup, so my clients weren't too concerned,” he explains, calmly. “It looks like the Thai government have handled things quite well.”

In the long term, property investors will worry that the military will not want to relinquish control of the country, resulting in a double-whammy of reductions in tourist numbers and a further loss of faith in the economy.

Interim Prime Minister, General Surayud Chulanont, has stated that he is keen to reintroduce democracy as soon as possible. As a respected figure, who has spoken out against military involvement in politics in the past, he seems like the ideal man for the job.

Risky business

A lower-profile – but arguably more relevant issue for foreign property investors – is a planned change in the way in which non-Thais buy property. Currently, foreigners are not allowed to own freehold real estate, but under the Foreign Business Act (FBA) they are allowed to form a company, along with nominee (non-voting) Thai shareholders, in order to buy property. But the nominee system is under threat.

“Legally, foreigners cannot buy land in Thailand, they can only lease it,” explains Mr Martin. “As things stand, there is a way around this by forming a Thai company of which you, as a foreigner, are allowed 49 per cent of the shareholding. You have ‘A’ shares, which are voting right shares, and your Thai nominees have 51 per cent in ‘B’ shares, which are non-voting. So, in effect, you are in control of the company that buys the land.”

Foreigners are now allowed to own condominiums, as long as 51 per cent of the entire development is owned by Thai citizens. This arrangement would be unaffected by FBA changes, which is good news for Mr Martin, who markets condos in Hua Hin. But what about all the freehold villas on the market? Chris Gordon believes that the solution is far from complicated.

“We've only ever sold freehold property,” he says. “The only difference now is that if they do change the law and say that Thai shareholders should become majority voters, we just alter our articles of association to say that leases, instead of being voted for by the villa owners on renewal, will be renewed automatically unless 75 per cent of the shareholders vote not to renew them.”

So even if the full 51 per cent of Thai shareholders voted against renewing

WHO'S IN CHARGE HERE?

AFTER A RECENT COUP D'ETAT IN WHICH THE THAI PRIME MINISTER WAS OVERTHROWN, WE ASK HOW A COUNTRY WITH SUCH A PEACE-LOVING IMAGE HAS SUFFERED SO MUCH TURMOIL OVER THE YEARS



On 19th September, 2006, while caretaker Prime Minister Thaksin Shinawatra was representing Thailand at the UN General Assembly in New York, a Thai military junta was rolling the tanks into Bangkok (above) and declaring a coup d'état.

A bloodless coup

There were no casualties and many Thais chose to line the streets as events unfolded. But Thaksin's ousting wasn't unanimously supported by the population. He was extremely popular with the country's rural poor, and in 2001 his Thai Rak Thai party swept to power in a landslide victory. He was re-elected in 2005 by a similarly impressive margin, and became the first elected Prime Minister to complete a full term in office.

A controversial leader

Thaksin had some notable successes, such as reducing poverty and increasing access to healthcare, but his judgement was questioned on numerous occasions. Accusations included breaching human rights during bloodshed-ridden dealings with drug-dealers and southern Muslim separatists, and insider trading when selling his family's stake in the Shin Corporation to Singapore's Temasek Holdings (netting the family a tax-free THB73 billion – £1.1 billion).

Political turmoil

Between 2005 and 2006, there were numerous demonstrations on both sides of the political divide, and the opposition even appealed to King Bhumibol Adulyadej to replace Thaksin. Hoping to bring an end to all this political turmoil, Thaksin dissolved Parliament in February of last year, and called for elections in April.

However, opposition parties boycotted the elections, and the Constitutional Court declared Thaksin's victory invalid. New elections were scheduled for October and, in the meantime, Thaksin became caretaker Prime Minister.

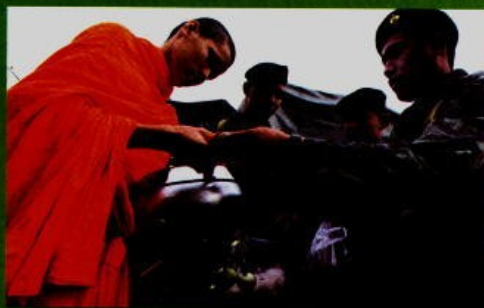
The immediate aftermath

The junta swiftly dissolved Parliament, suspended the constitution, cancelled the upcoming elections and declared martial law. General Sonthi Boonyaratglin claimed that Thaksin's government had divided Thai society through its corruption, nepotism, interference with independent agencies and insults to the King. Sonthi also stated that the junta, or Council for Democratic Reform (CDR), would call elections within a year, once the new Thai constitution had been drafted.

The future

This was Thailand's 18th coup since 1932, when it became a constitutional monarchy. There is concern that the military will be reluctant to loosen its grip on power and deliver the promised elections – now scheduled for October. The appointment of the highly-respected General Surayud Chulanont as interim Prime Minister is seen as a step in the right direction. Surayud, who is against military involvement in politics, has put restoring democracy at the top of his agenda.

“The appointment of the highly-respected General Chulanont as interim Prime Minister is seen as a step in the right direction”



Thailand

SPECIAL REPORT

the leases, it would still take half of the villa owners – who have the remaining 49 per cent of the shares – to follow suit and vote against renewing the leases on their own villas.

"The final protection is that the land cannot be sold without 100 per cent of the shareholders voting to sell it," explains Mr Gordon. "And besides, the Thais want us to buy villas here."

Changes to the FBA could have a dramatic effect on the Thai economy, which relies heavily on foreign investment. Mr Martin believes that the Thai government will have to come to some sort of compromise on this issue.

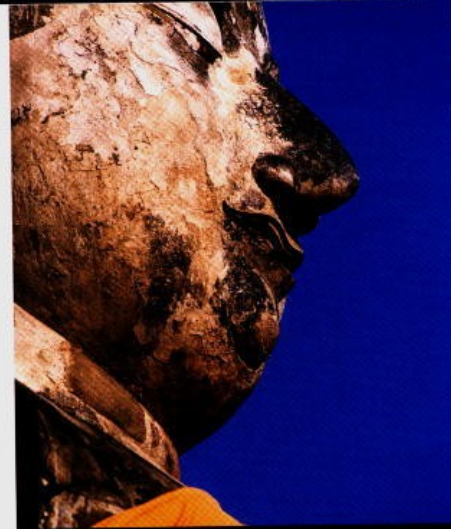
"People here are screaming blue murder," he says. "Changing the FBA doesn't just affect property-buyers, it affects all foreign businesses. For example, The Ford motor company, one of the biggest companies in Thailand, operates through a nominee structure. The Thai government will

have to be less dogmatic on this."

Under immense pressure from business leaders, it looks as if the Thai government may well have to reconsider. Stephen Frost, a board member of the British Chamber of Commerce in Thailand, had this much to say at a seminar on the matter attended by the *Bangkok Post*: "At a time when Thailand's regional competitors are creating a 'can-do' business environment by putting forth clear, attractive ownership structures and tax incentives to encourage foreign investment, Thailand appears to be going in the opposite direction."

Undoubtedly these are uncertain times for Thailand, but despite the constant drama that this beautiful country has lived through in recent years, its tourism market has remained remarkably robust.

As long as Thailand continues to draw in the visitors, the demand for property looks set to follow.



"Despite the dramas that this beautiful country has seen in recent years, its tourism market has remained remarkably robust"

IS THAILAND A SAFE BET?

We asked four Brits for a thumbs-up or thumbs-down



Wan Issara, GM of Cham Issara Residence Company. "The demand for luxury property in Thailand is definitely a growing market. At Sn Panwa we have a number of residential villas for sale alongside the hotel's villas, and we have found that many people who stay on holiday fall in love with the beauty of the area and the laid-back luxury on offer, and are keen to buy into the lifestyle which Thailand offers."

Mark O'Sullivan, head of trading for Currencies Direct. "Thailand's tourist industry and economy are currently the strongest in south-east Asia, despite the tsunami of 2004. As a result, property prices are buoyant with capital appreciation of ten to 15 per cent a year. The combination of low property prices and high occupancy bodes well for the British property investor, who can expect rental returns of up to seven per cent a year."



Scott Huggins, CEO of Intrepid Investments (www.intrepidinvestments.co.uk) and presenter of BBC's *Get a New Life*. "Thailand is a lifestyle (as opposed to an investment) destination. The people buying there will be likely to use the property as they get older. The market has huge demand from tour operators as tourist numbers are on the rise. But on the property side, I don't believe there's enough high-quality build as yet."

Dominic Hicks, Investments Director of Westhill Investments (www.westhilluk.com). "Thailand is a fantastic country but, as a developer and a manager of property investment trusts, I would recommend investing in EU countries. Nations prone to military coup d'états don't make the best places to invest. Also, logistically, an investment within a few hours travelling time has got to be preferable to one on the other side of the world."