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Yield-seekers take offshore hospitality route

Sale-and-leaseback properties offer 6% guaranteed returns

By **NG ZHUO YANG**

[SINGAPORE] As the Singapore real estate investment scene gets more challenging, potential investors here are eyeing offshore sale-and-leaseback properties in the hospitality sector.

In recent months, many yield-hungry investors have been turning towards these investments, which typically guarantee returns of around 6 per cent per annum for up to a decade or so.

According to Isabelle de Wavrechin, chief executive of French tourism management company Pierre & Vacances, the biggest benefit of investing in offshore sale-and-leaseback hospitality projects – mainly in Europe and Asia – is the comfort of hassle-free property management.

These investments also offer numerous sweeteners to further entice retail investors.

Buyers of Pierre & Vacances' latest project in the vicinity of Disneyland Paris – Villages Nature – receive a VAT refund of 19.6 per cent, which has been put in place by the French government to encourage investments in tourism residences.

Still, the sale-and-leaseback of hospitality properties to retail buyers is not new, said Joe Kwan, director of Asia-Pacific real estate research & strategy at UBS Global Asset Management.

"The restrictive domestic residential market, coupled with the weight of capital currently operating in the market, means that demand for offshore real estate opportunities has been on the upswing. This includes deals that have a sale-and-leaseback component."

In the past, these attracted a select group of retail investors who were typically seeking to diversify their portfolio and in some cases, to own a holiday home. But more recently, developers have been seeking to take advantage of an environment of high cash liquidity among retail investors, coupled with restrictions in the domestic property market, added Dr Kwan.

Dr Kwan: *Retail buyers should understand the market they are entering*

The result has been numerous opportunities in the largely fragmented marketplace for various forms of hospitality properties in Europe and Asia.

Singapore-listed Banyan Tree Group, for example, has retail projects in Lijiang, China; Lang Co, Vietnam; as well as Cabo Marques and Mayakoba in distant Mexico. Closer to home, there have also been opportunities in the sale-and-leaseback of hotel rooms in nearby tourism hotspots such as Malacca, Malaysia and Phuket, Thailand.

The Business Times understands that a launch by The Chedi Andermatt – a sale-and-leaseback property in Switzerland – has attracted at least five on-site visits since its release in late-June.

All these are emerging as popular alternatives to traditional buy-to-let retail investments in markets such as the United Kingdom, as investors do not need to worry about maintaining the property, yet receive a higher rental income each month.

Banyan Tree Residences assistant vice-president for property sales Roy Lau said: "Developing residences that are part of a professionally managed resort meets the needs of property investors."

But retail investors should consider the risks before hopping on to the hospitality sale-and-leaseback bandwagon, added Dr Kwan.

For one thing, they should expect pricing to be on the higher side because the flight to income will probably come with a pricing premium. Pointing out that institutional investors of sale-and-leaseback properties typically pay a premium, he suggested that retail investors should first compare the initial pricing of these properties on the market to avoid overpaying.

Moreover, complications could arise due to the longer sale-and-leaseback period in the hospitality segment, compared to residential or commercial underlying.

Besides considering asset management issues beyond the lease term, retail buyers should also be mindful that they are effectively buying into the strength of the operator, with little room for legal recourse in the event that problems occur later.

Likening the nature of some deals in the market to offshore investment funds that are focused on real estate development overseas, Rodyk & Davidson real estate practice partner Lee Li at Yeang told BT that he does not know of any laws in Singapore that protect local retail investors in such cases. "If there are disputes or if the developer gets into problems, the investor will have to take legal suits against the developer on foreign soils, and this can be costly and time consuming if it is even worth pursuing in the first place."

Other than operator risks, Dr Kwan noted that offshore investments also typically carry market, liquidity and currency risks. It is thus a "big mistake" to directly compare the yield in overseas markets with domestic yields.

He suggested that retail buyers should gain an understanding of the market that they are entering, and target a risk premium of 1-3 per cent for the additional risk of investing abroad.

Nevertheless, retail investors who are prepared to hold out over a long-term lease can typically take on risks of greater volatility. Hence, they should fully understand their own risk profile before committing to what offshore sale-and-leaseback hospitality properties have to offer.