Angsana Banyan Tree. **Photo by Banyan Tree Group**

Shama Medini. **Photo by UMLand**

Investing in buy-to-lease property schemes

It looks like a win-win deal but read the fine print to avoid future problems

BY TAN AI LENG

Many of us have seen advertisements or heard about "buy-to-lease" property schemes especially, serviced apartments that are used as hotel accommodation. They sound really good as they allow property investors to gain returns without the hassle of managing the property.

Under such a scheme, owners who purchase a property have to lease the unit back to the property developer or property management company. In exchange, they will get rental returns either based on a guaranteed return model or a profit-sharing scheme, for a set period of time, explains property consultancy PPC International chief executive officer Siva Shanker.

He adds that buy-to-lease properties are not only limited to hotels, serviced apartments and resort homes, as they can be a normal residential property such as a house and condominium, or even student accommodation, office space and industrial property.

In countries such as the UK, investors have numerous choices from hotel rooms, apartments to purpose-built student accommodation where the whole building consists of studio suites that come with kitchenettes.

"However, in Malaysia, the choices are limited as there are not many investment-grade properties available," says Siva.

According to Siva, buy-to-lease property investments have gained investors' attention in recent years as most of these schemes promise very attractive rental returns. The average rental return offered is about 5% to 7%, some even up to 12%.

"But keep in mind, like owning a property, owners still have to pay maintenance charges and towards the sinking fund," he reminds.

One of the recent property projects offering guaranteed rental returns is PTS Properties Sdn Bhd's luxury condominium hotel The Pines Melaka with leaseback returns of 7.5% per annum for the first nine years and 9% for the following six years. Others include Shama Medini by United Malayan Land Bhd (UMLand), The Ruma by Ireka Corp Bhd and Angsana Teluk Bahang by Banyan Tree Group.

UMLand will launch its buy-to-lease Shama Medini serviced apartments located in Iskandar Malaysia, Johor by the end of this year. Shama Medini offers 196 units of fully furnished apartments for investors. The units with built-ups ranging from 583 to 2,015 sq ft, are available in four layouts — studio, 1-bedroom, 2-bedroom and 3-bedroom. The average selling price is RM1,300 psf.

Buy-to-lease with 'guaranteed' rental returns checklist

DOS	DON'TS
• Do prepare a checklist on things to look out for, such as the rental yield, benefits and guaranteed return period.	• Don't just focus on the return rate and benefits, also check on the exit mechanism. Will the operator buy back your property at any time if you want to cash out?
• Do due diligence and research on the property and the developer.	• Don't fully trust promises such as financing assistance and guaranteed return rates. Check the company's track record.
• Do read the fine print, scrutinise the contracts closely.	• Don't just rely on information on the internet and brochures. If the property you plan to invest in is in Malaysia, grab your car keys and drive there to have a look. You may have second thoughts after the visit.
• Do calculate other costs besides the money you use to purchase the property, such as income tax, maintenance charges and sinking fund.	

Paul: Check on who is providing the guarantees. **The Edge Property file photo**

Siva: In Malaysia, the choices are limited. **Photo by Suhaimi Yusuf/The Edge Property**

Previndran: You may end up staying in another unit. **Photo by Haris Hassan/The Edge Property**

The owners of Shama Medini will enjoy 6% guaranteed rental returns for the first five years of the leaseback scheme. The next five years will be a revenue-sharing model, in which 45% of the rental revenue will be shared by the owners.

Ireka Corp launched The Ruma hotel and serviced residences in Kuala Lumpur in 2013. The one-acre development, which is located at the Jalan Kia Peng-Changkat Kia Peng junction in Kuala Lumpur, has a gross development value of RM635 million. It offered 253 units of hotel suites for leaseback investment.

The Angsana Teluk Bahang, which is located in Penang, is developed by Senja Aman Development Sdn Bhd and is the first beach resort in Malaysia managed by the Banyan Tree group. It offered 83 units of serviced apartments for leaseback investment. Currently, there are fewer than 10 units available.

Main considerations

Zerin Properties chief executive officer Previndran Singhe says there are three main considerations before deciding on a buy-to-lease investment: yield, benefits (free stay, for example); and discounts on hotel or apartment rentals.

He explains that some operators give time-sharing benefits — certain days for free stays in their property. The stays could be under the same hotel brand, while others may extend the benefits to other brands under their umbrella.

For instance, "at Shama Medini serviced apartments, which will be managed and operated by the ONYX Hospitality Group, investors can enjoy 14 days free stay. They can choose to stay in Shama Medini for seven days, or OZO and Amari hotels, which are under ONYX's umbrella, for up to seven days," says Previndran.

Another important point for investors to note is, although you own the property, you can't occupy it, because once the property is leased back, the owner will not have a say over the property.

"Even if some operators offer you free stays, these are subject to availability, if your unit has been rented out, you may end up staying in another unit," Previndran explains.

'Scrutinise contracts closely'

Buy-to-lease schemes are not new to Malaysia, however, there are some things investors need to be aware of.

According to Carey Real Estate Sdn Bhd managing director Nixon Paul, the returns on investment attracted many in the early days, especially for projects located in prime locations catering to the expatriate community.

There were some good quality properties offering buy-to-lease schemes that were worth investing in, but as more investment schemes were introduced, not every one of them honoured their guarantees and many investors became apprehensive about these investments.

"Usually, young and new investors tend to subscribe to these type of property investments. The older and more savvy investors will stay away from guaranteed returns," says Paul.

For investors who are interested in investing in a property offering guaranteed returns, the first thing to do would be to scrutinise the contracts closely. "Check on who is providing the guarantees and if there are escape clauses," advises Paul.

Investors also need to check on the financial strength of the developer offering the guarantees. "Further to that, one would need to know if there is legal recourse if the rental payments due are not forthcoming," he adds.

There are also some companies offering a profit-sharing business model instead of guaranteed rental return. Paul says investors may need to find out whether they possess a licence to do so.

"In Malaysia, profit-sharing on rental income with the developer or an investment company is illegal unless they have a licence from Bank Negara Malaysia to sell these type of investments," he explains.

Overseas properties

More due diligence would be required if the property investment is located overseas. On the checklist would be details regarding income tax, property management fees, commissions, repair and replacement costs, forex gains/losses and several other costs.

"When it comes to investing in a foreign property, it is best to visit the property and conduct a proper due diligence before making your decision," he explains.

There are other issues related to valuations and property financing which can be a tedious and difficult experience. For instance, a developer overseas may promise to secure financing for the investor, but this may only be done when the property is nearing completion.

"At the time of completion, if the valuation on the property is unable to meet the price that it was purchased for. It means that the investor have to fork out more money for their investment," he explains.

Hence, there are many things one needs to be aware of before jumping into an investment.