



PILC

PROPERTY INVESTMENT LIFE CYCLE
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**A TRULY INSPIRATIONAL BOOK
FOR FUTURE INVESTORS**

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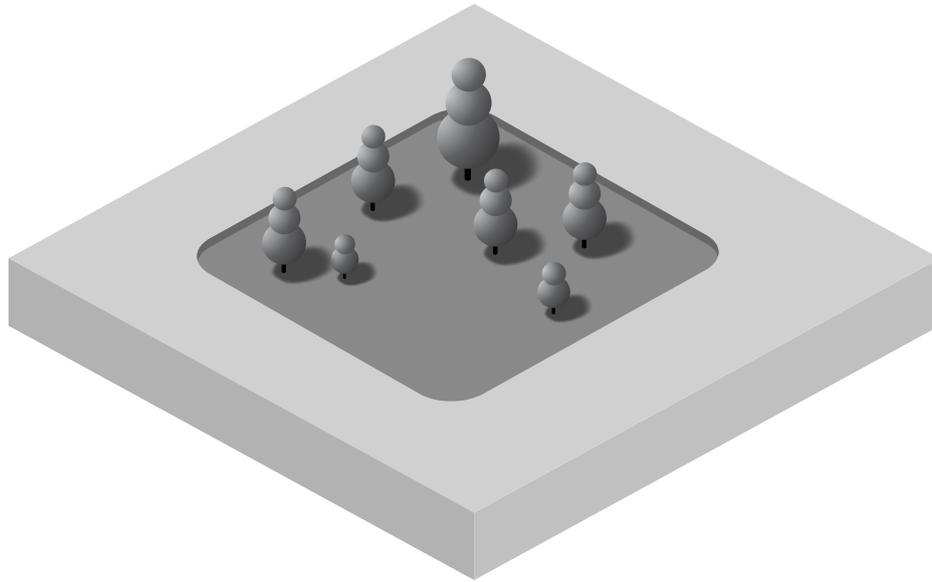
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In our third article we wrote about property investments and the meaning of **PILC** investment strategies. In the following articles we will dig a little deeper in each stages to have better understanding in the process. The **PILC (Property Investment Life Cycle)** consists of the following investment strategies in each stage of the property life cycle.

- Land Acquisition
- Construction/Development
- Management
- Renovation
- Refurbishment
- Redevelopment





Chapter One

Land Acquisition: 1st Phase of PILC



This stage would be the most essential part as land is classified as the raw material for any property development. Acquiring the right type of land (*agriculture, industrial, residential, commercial, etc.*) at the right location (*matured, developing, potentially upcoming, etc.*), with the right concept (*guarded and gated, landed, high-rise, mixed development with commercial components, etc.*), the right size (*density, plot ratio, unit size, etc.*) and most importantly, the right price (*below or current market price, or inflated future price*) will ultimately decide the sell-ability of the projects subsequently determine the best potential value of the land.

Throughout the years, there have been many attractive and creative land investment opportunities made available, commonly in **United Kingdom (UK), North America**, and other developing nations. Some are genuine gems, some are outright scams.

It is important to consider the long holding period of green belts or brown field lands before it can be converted into commercial use.

This is definitely challenging to predict as there are many aspect such as the accessibility to the land title, ownership, land laws that allow for conversion, duration, premium meanwhile there's several implicit restrictions whereby in **Malaysia** there are few states that impose **30%** of the land usage solely for Bumiputera, and other factors that govern the duration for due diligence. More importantly, the consideration of the huge capital outlay usually required for this type of land banking investment.

Moreover, the land price that inclusive all of the construction, development, marketing and sales with other additional costs involved can be too high to the extent where the final selling price for the completed units would be overpriced, both locally and internationally.

However, when we were first introduced to land acquisition opportunity in **Hong Kong (HK)**, we felt excited to explore more and eventually got involved. This is due to **HK** properties which are ranked among the most expensive in the world, and with land scarcity it all boils down to capitalizing on demand and supply.

Below are some key indicators that will be used to decide if the stipulated land will be suitable for this strategy. As a rule of thumb: Island with scarcity build-able land and high population density with high PPP or FDI will never goes wrong.

Please keep in mind that the information below is an example to help you understand details on a new level and I would like to remind you that every opportunity is different and you must always make your own research before you commit.



LOCATION

With a land mass of **1,104km²** (426 miles²) and a population of 7 million people, HK is one of the most densely populated areas in the world. As of 2017, **HK's GNI per capita is 64,100 PP dollar** and its GDP per capita is **USD 46,193.61** according to the World Bank.



POLITICAL SYSTEM

Under the principle of “**One Country, Two Systems**”, HK has a different political system from mainland China. The law of HK is based on the rule of law and the independence of the judiciary where the constitutional framework is provided by the **HK Basic Law**.

The Lands Department in HK is practicing British system, which is common law and familiar when we invest, is important as different country have different legal system which some protect owner meanwhile some can be politically influenced.



ECONOMIC OVERVIEW

HK has a free market economy where it highly depend on international trade and finance.

Chart 1: HK GDP Annual Growth Rate (Trading Economics 2019)

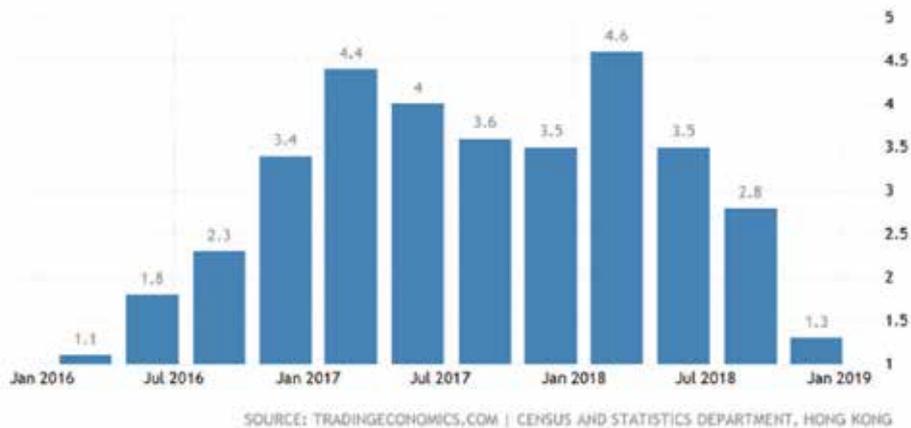
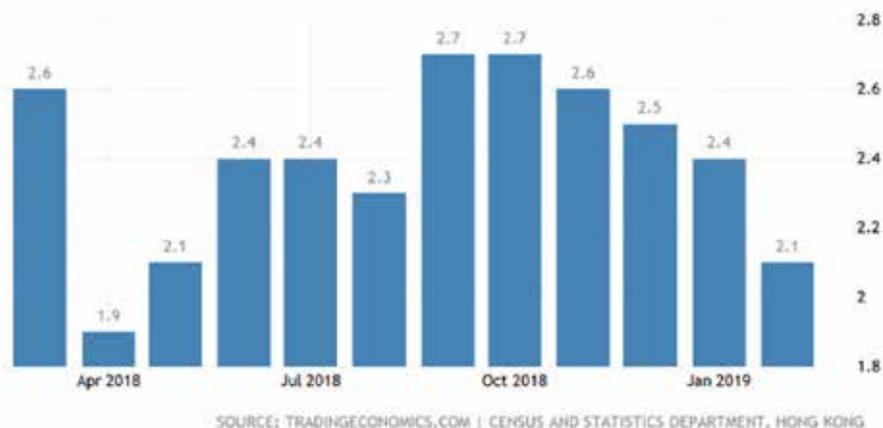


Chart 2: HK Inflation Rate (Trading Economics 2019)





ALTERNATIVES:

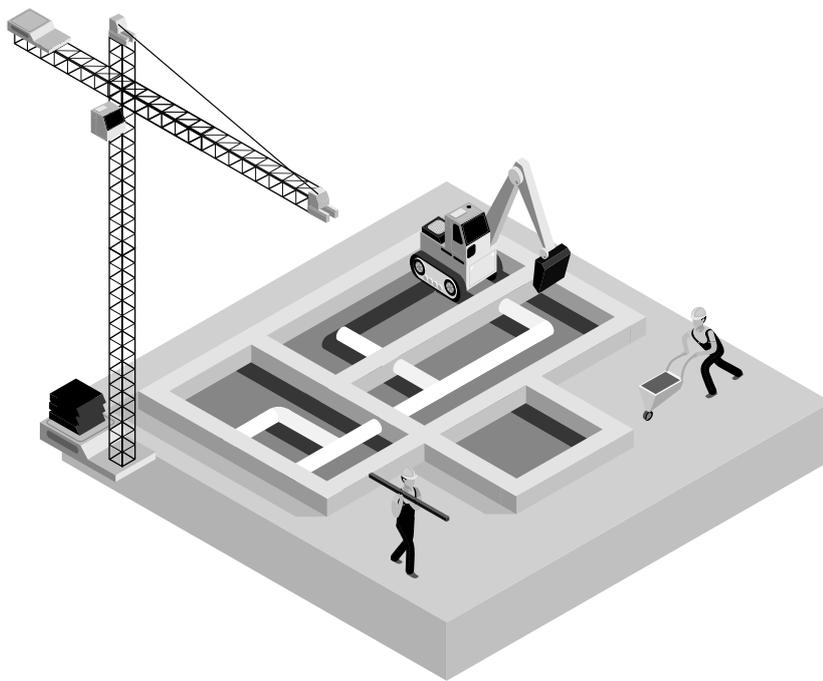
One of the alternative proposals to land acquisition is leasing the land from **landowners** for a certain lease period. Leasing land, may also support sustainable project development since the lands need to be returned to the landowners at the end of the lease period in a condition similar to its original form without considerable environmental degradation.

When the land is leased then anybody who has to otherwise give up land or livelihood will be compensated for its growing valuation over time. In this model, the landowner lends her land to the government for a steadily-increasing rent, or through an annuity-based system.

“The best investment on earth is earth”

- *Louis Glickman*





Chapter Two

Construction/Property Development: 2nd Phase of PILC



The biggest profit-making ratio in the entire **PILC** can be contributed by the construction and development stage.

However, due to the very huge capital involvement and high expertise and team are required, as such, this segment is usually controlled or monopolised by big corporations and conglomerates.

In recent years, there have been many established main contractors and builders re-positioning their business strategy to become full-fledged developers coupled with some **MNC's** organising their construction or property development division or subsidiary to participate in this lucrative segment when in view of this lucrative profitability.

They often offer a very lucrative entry package like low or zero deposit package to attract purchasers. Sometimes, outgoing expenses like **legal documents, stamping fee, duty and even interest during construction** can also be fully borne by the developers, so that the projects can sell off within a much shorter time period, which translate to more profit to developers.

Some developers are even offering leaseback / buyback option from the property investors on certain **ROI per year**, for a number of years especially if the developers have committed to do business with reputable parties. This can be like renting to **MNC's** for their business premises or staff accommodation or to universities for their hotel business and so on. If they use a third party's property, this leaseback strategy will save the developer a lot of cost.

Likewise, this leaseback model also works well for some knowledgeable investors who do not want to be involved with the hassle of handling the properties themselves. They will have a steady tenant, i.e. the **MNC's**, the hotels, the universities, who still need to operate their business on the tenancy. It also acts as a safeguard against potential global economy downturn as when the economy recovers to the its normal cycle, the investors can then either continue to lease back to the tenant or another new tenant at a higher prevailing market rate or outright sell the property at a higher value with existing tenancy agreement.

There even a debate on whether **Malaysia** should continue with the concept of **"Sell Then Build"** or switch to **"Build Then Sell"** which may add additional cost to developers, discouraging smaller developers without huge working capital. This may ultimately increase the overall property prices if the **"Build Then Sell"** concept is imposed. So now is still the best time to take advantage of the prevailing opportunity in the property development cycle in Malaysia.





Investment Strategy

In Malaysia, there are many real estate investment opportunities especially in the property development phase where most of the investors' category, ranging from beginners to sophisticated investors can benefit.



What is Property Development?

Real estate development, or property development, is a multi-faceted business, encompassing activities that range from the construction and release of existing buildings to the purchase of raw land and the sale of improved land or parcels to others. Developers are the coordinators of the activities, converting ideas on paper into real property.



How Does It Work?

Property development includes developers buying land, financing real estate deals, building or have builders build projects, creating, imagining, controlling, and orchestrating the process of development from the beginning to end to meet customers' requirements. Developers, generally coordinate the activities converting plans, needs and ideas into property.



Why Participate In Property Development Phase?



Lower Capital Outlay:

When buying completed properties at secondary market, the initial capital outlay can sometimes require cash as high as **30%-40%** of the property purchase price. However, if you buy properties before any property construction works, sometimes you are able to purchase the property on a much lower budget or sometimes without having to pay the down payment (**zero-down**) with the creative package provided by the developer.



Better Financing:

Buying property directly from the developer, will most likely allow better financing packages from financiers as the developer and the financiers have tied up for the particular property project and the property price too.

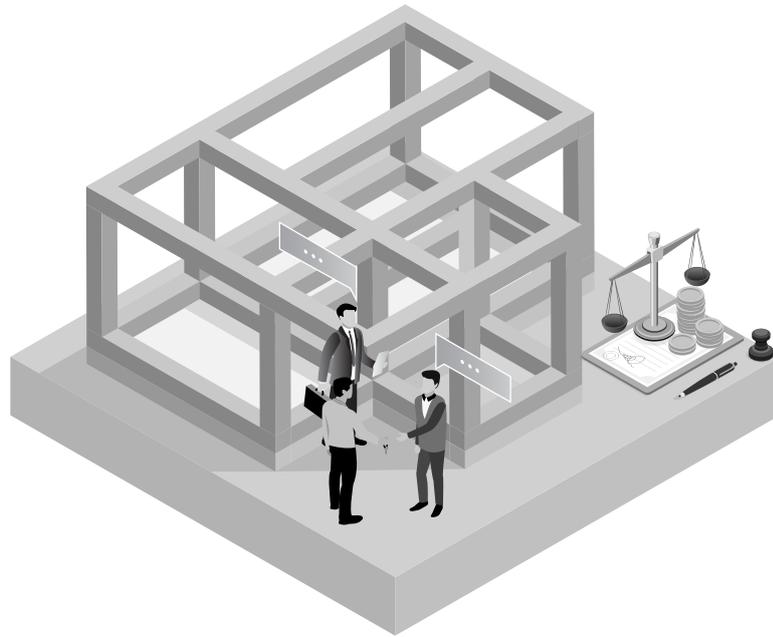


Potential Appreciation upon Completion:

During the construction period (**usually 3-4 years**), investors just need to serve minimal interest based on progressive payment claimed by the developers. Usually the property price will appreciate **10%-20%** on the purchase price upon completion.

Another important advice is “**Follow where the Government Invest**”, always buy properties close to the Government’s mega-projects, like international financial hub, infrastructure etc., as an example, the upcoming Tun Razak Exchange (**TRX**) in Kuala Lumpur will have benefits and potential opportunities not just **TRX** itself, but will benefit the nearby properties too.





Chapter Three

Management: 3rd Phase of PILC

In this article we will explain what management actually means when it comes to **“Property Investment Life Cycle”** and share some examples for you from our previous experiences in **“Investment Strategy”**.

The management of the property to a greater extent will decide the endmost value of the property once the property is developed. The potential price gain of the property will be affected if the property is poorly managed and not maintained in a well manner. Similarly, the property prices will increase further when managed appropriately and well maintained as the demand will then increase.

In this post, We would like to share one of our very rare, yet interesting investment portfolio under this segment. This involves a rare opportunity of managing commercial car parks in close proximity to international airports in **UK**. I will illustrate how this can turn out to be an excellent investment opportunity with secured capital gain and assured rental returns.



Investment Strategy

There are numerous interesting highlights and characteristics that categorise **UK** into such a productive and secure investment sanctuary. One of the numerous ways to invest in **UK** is in their commercial property segment.

Commercial property is a critical resource to consider as a way of spreading or bettering your chances in a speculation **portfolio**, in comparison to conventional resource classes, such as **values and bonds**. Commercial property proceeds to supply financial specialists with strong streams of rental income and consistent returns. It's not a segment that private financial specialists should overlook.



Student Accommodation

A property without a tenant is rather pointless as there will be no source of income, while a property with organic tenant, the value of the property may increase but it will not increase in a short period of time.



Take student accommodation for instance.

Not all property unit are suitable to be a student accommodation. For example, an empty unit will be of **zero** value for both the tenants and the investors. A studio apartment may not be suitable to be a student accommodation as the bedroom and living room is connected together.

This shows that the **layout of the unit is important for a student accommodation**. A student accommodation should have rooms with bathrooms for the student's convenience.

Moreover, the design of the unit should also be considered for a student accommodation as to whether it is appropriate for the management team to manage the unit. The question that should be asked is if the units are fully furnished or is the investors required to furnish the unit for the **students**. Fully furnished units have more added value for the student rather than an empty unit as mentioned earlier.

On top of that, it's usual for parents to worry about their children's safety. Hence, a unit with high security system are often more reliable for student accommodation as the student's safety is guaranteed and parents will usually purchase this units. This can result in investors enjoying the economy of scale while managing 10 units compare to 1 units.

Conclusion

The **UK** is a developed country and has the world's 7th largest economy by nominal **GDP** and **9th** largest by **PPP** (Statistic Time, 2019). Besides, **UK** remains a great control with impressive economic, cultural, military, logical, and political impact internationally. Commercial property investment in **UK** gives great returns with low risk and secure long term future. Investments in airport car parking include up to a interesting opportunity to contribute in a market where demand exceeds supply.





Chapter Four

Renovation: 4th Phase of PILC

The previous steps were testing our skills in finding the perfect location, the suitable team for construction and design and our capabilities in long term planning and management.

These phases have led us personally to my favorite part, where the grand vision is finally starting to form a shape. Well, at first it usually comes with plenty of dust and dirt, but as we say; **“If you want to build, you gotta destroy first”**. Occasionally a site visit could turn into a great team building or stress-relieving program if the builders let you borrow a sledgehammer.

If the renovation of a property is done correctly, it will come with much better facelift’s functionality and changes the overall look of the property, which subsequently increase the property price or rental. Some experts in this area once quoted, **“Renovation is like adding the soul into the body”**.

After the **United States of America (U.S.) 2007** Credit Crunch Crisis, there are many houses badly maintained and damaged, or abandoned, or urgently need to sell, which can be renovated to livable standards. The facelift given to these distressed properties is intended to resell and match the upgraded specifications for a totally new look that is affordable enough for the home buyers to obtain mortgage loan.

In view of the current lower property prices compared to buying land and building new ones, renovating the shortlisted existing ones for the potential single-family or multi-family houses segment in certain part of the **U.S.** can certainly give higher capital appreciation and rental yield.



Investment Strategy

The **U.S.** residential property advertise as of now presents a solid opportunity for investment as house prices are rising from historical lows and the country's overall financial climate proceeds to move forward. The current state of the economy has made an exceptional opportunity within the genuine estate market. With housing costs at bargain levels, the time to purchase is now. One of the best areas to invest in private property is Detroit, Michigan.



Case Study on U.S. Housing Investment

There are numerous property developers or builders in **U.S.** that gives their administrations in housing investment who specialized in Detroit property markets.

They will first act as a conduit between local bothered property sellers and interested investors who are looking for capital appreciation. As the recuperation within the **Metro Detroit** marketplace gathered force and the neighborhood rental market reinforced, they will commence a program of restoring and renting out the obtained single-family homes before reselling them as income properties to property investors.

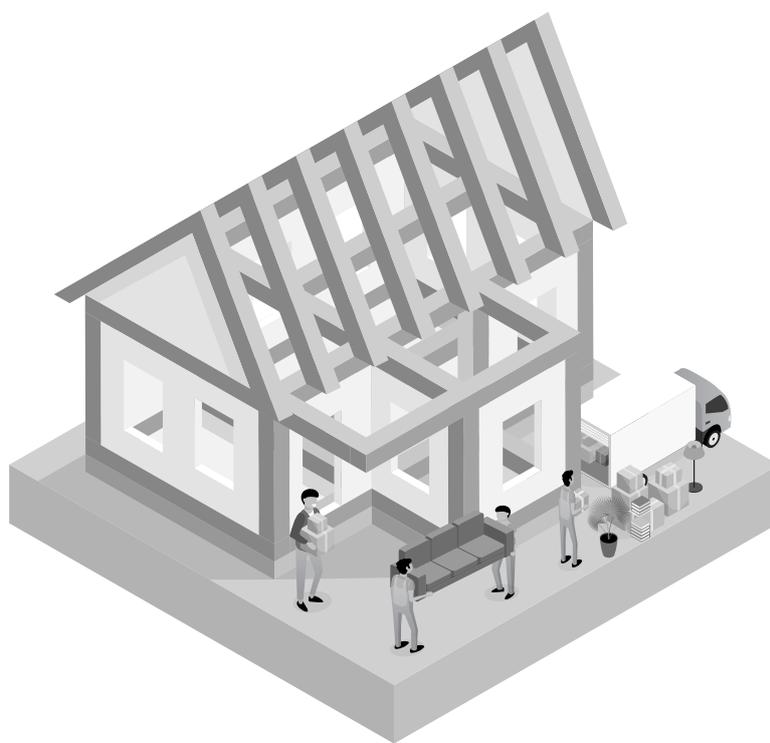


The **Metro Detroit** domestic owner market is presently appearing huge strength in exchange volumes, reduced days on market with amazing cost appreciation.

Meanwhile, the speed of the investors to acquire these single-family homes at distressed costs, and to commence a program of upgrading the homes to a more significant degree and re-selling the homes to local **Metro Detroit** domestic owners will determine the profitability of the investors.

“Renovating isn’t just restoring the house, but it restores new tale and tell for new hope that meet your purpose.”





Chapter Five

Refurbishment: 5th Phase of PILC

If you have been following our work and reading our blogs regularly there is a possibility that you already know what's coming. Yes, it is the **5th phase** of the Property Investment Life Cycle or **PILC** for short. It may not sound as exciting as the previous topics as the word itself reveals quite a lot about its nature; **"REFURBISHMENT"**. We all been there, we all have done it one way or another in our life. - I can hear it already - like your thoughts are scraping the inside of my skull: **"interior design, colours, furniture, wooden floor, modernizing, upgrade, re-purpose, recycle, annoying contractors, way too much dust"** and so on.

Well, somewhat you are on the right track but what if I tell you that you are overlooking the most important aspects of this step. What if I tell you that, there is much more to this **PHASE** than what meets the eye at first glance?

In this episode I will guide you through all the details using my experience from previous projects taken place in **Germany** to paint a clear and exciting picture to you, just like how **Paul Klee** would have done with his paintbrush.

Over time, property can become beyond repair especially if it is not properly managed or if it has been abandoned for a long period of time. In certain countries, like the **UK** and **Germany**, there are a lot of historical buildings that are either abandoned or the owner does not have the financial capacity, or expertise, or both, to refurbish it into sustainable conditions. Also there is a list of things that can and can't be done to a building that is classified as a **heritage/protected building**.

For example: the original façade must be restored to its original state and cannot be replaced by modern cladding – just to highlight one.



“Heritage is our legacy from the past, what we live with today, and what we pass onto future generations”
(UNESCO)



Quick History Lesson:

After world war two, **urban planning strategies** gave precedence to transport **infrastructure** and many historic buildings were destroyed to make way for new developments. As **Germany's** economy was on a rise new housing areas, new roads, new town and new city structures were planned. This growth in the economy led to a rapid expansion of infrastructure, such as the construction of roads and other transportation networks, industrial buildings and new houses, and consequently many historic buildings were destroyed (**more than were destroyed during World War Two**) to make way for these new developments.

In **1975**, efforts were made to ensure that the general public became more aware of the cultural, social and economic heritage and value of historic monuments, old buildings and sites of special interest in both urban and rural regions. In **Germany**, heritage protection became an important aspect of urban planning and in the creation of attractive cities and villages.

<source: *Preserving Germany's Cultural Heritage through Legislation, (RICS Research 2007)*>



So, how does this relevant to us you may ask?

In **Germany**, there are still a lot of abandoned or rundown listed (**heritage**) building which can be purchased at a much lower price than market which later can be refurbished into modern and luxury apartments to be sold at much higher prices, especially those located at prime locations.

On top of that, that German government has also introduced special tax incentives that allow the **German taxpayers** to depreciate the costs for **refurbishing** or **modernising works** carried out on **Monument Status buildings** to reduce their tax as an option to encourage the German citizens to buy and refurbish those listed buildings.



Investment Strategy

The opportunities given by the **property market in Germany** are becoming overpowering due to the numerous advantages in this economy. In this segment, listed buildings **refurbishment projects** are utilized as the investment technique.

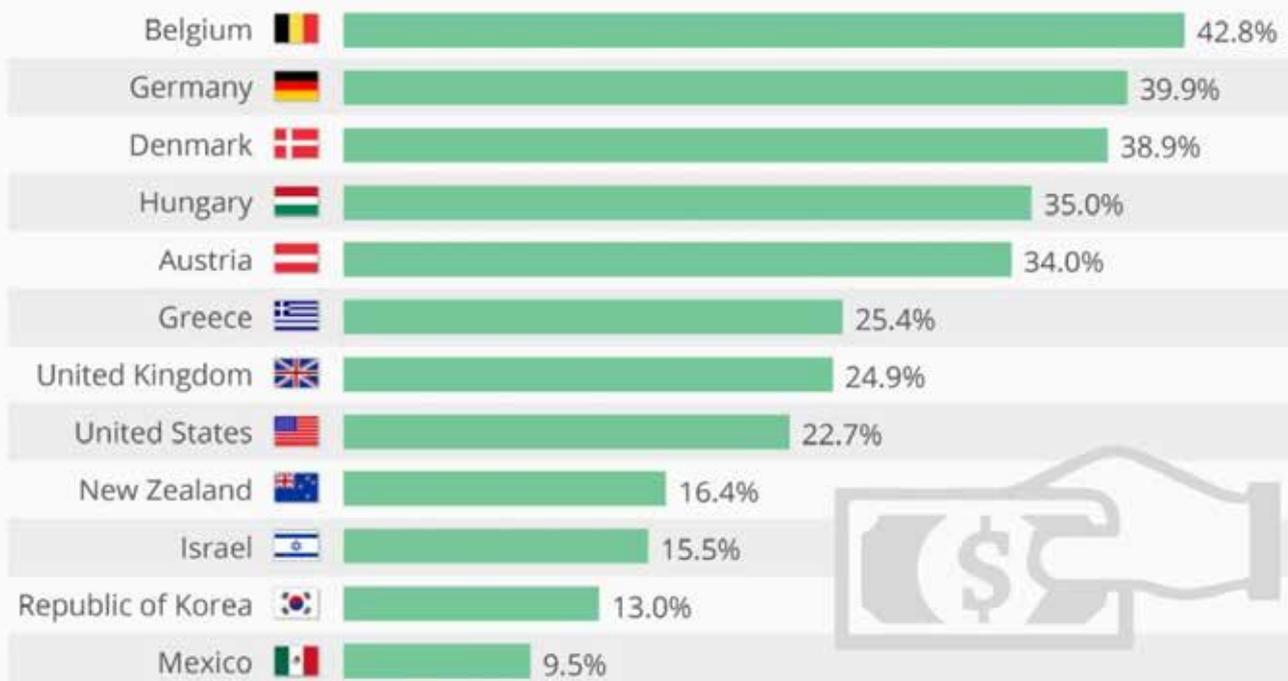


Tax Incentives

The **German tax framework** is comparative to those of other western nations. On the list of the most noteworthy assess rate within the western nations, **Germany is positioned 2nd** right behind Belgium. Germany features a social security net against more economic growth. The **minimal assess rate** of an normal salary laborer is **39.9%** as for in **Belgium it is 42.8%**.

Where Do Workers Pay The Highest Income Tax?

% of earnings paid in income tax/social security contributions in selected countries*



* Single people on an average salary without children – latest available year



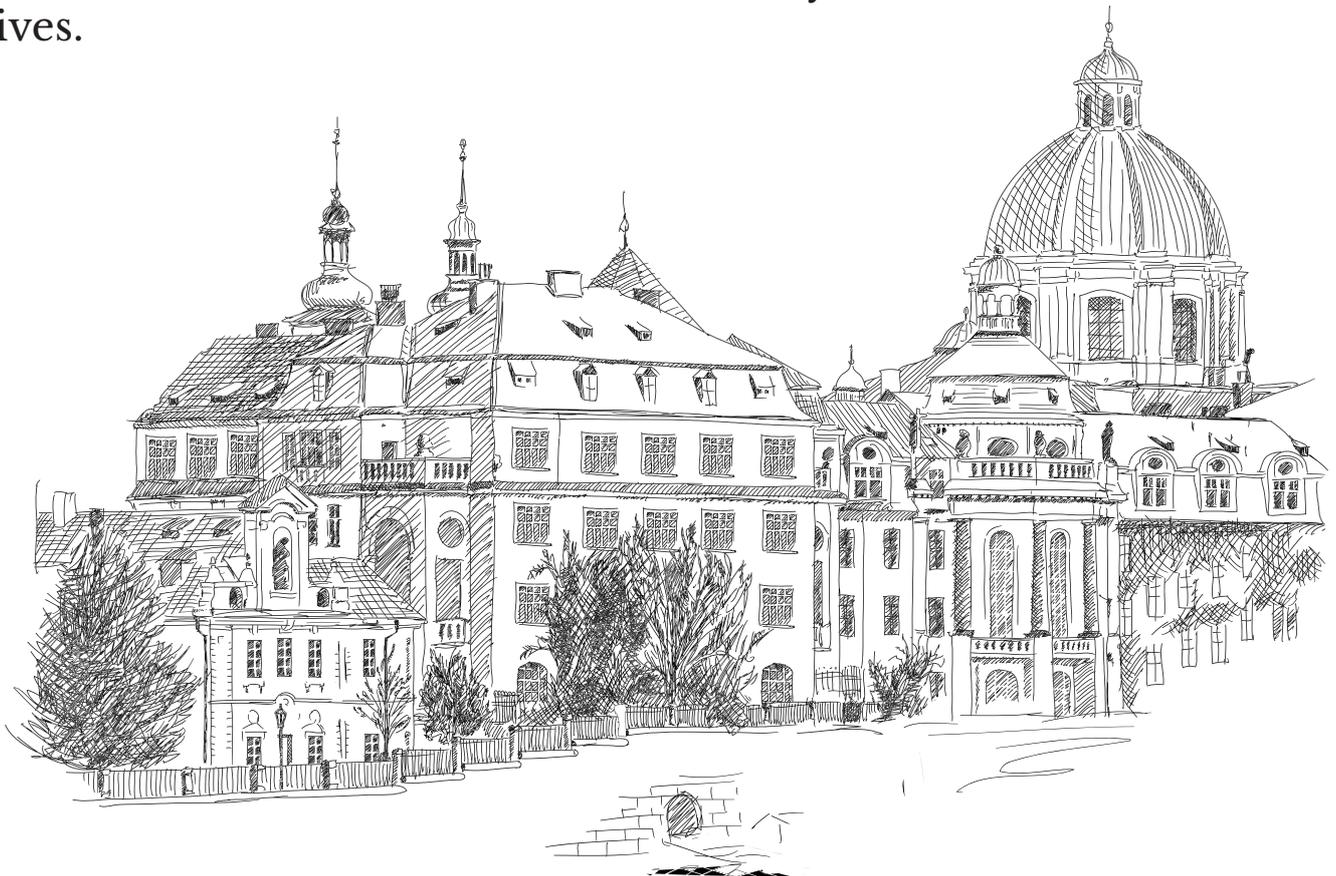
Source: OECD

Forbes statista

The conservation of monument buildings is a **priority** for the **German Government**. By restoring and obtaining such a building German buyers may get a **unique tax advantage**. It is expressed within the **German Tax Laws** that German buyers are able to reclaim **100%** of their **investment over the next 12 years** as a deduction from their tax charge. They can deduct **9%** cost from their tax charge each year amid the 1st to the **8th year**. After that, they can deduct **7%** from their tax charge for the remaining **4 years**.

To encourage Germans, the purchase and renovation of these buildings are intensely incentivised with **tax advantages**. Due to the high taxes Germany (**up to 46% charges**), by acquiring the listed apartment it gives the perfect opportunity for them to diminish their taxes. German Tax Law permit German citizens to devalue the costs for **refurbishing /modernizing** work carried out on a **Monument Status building** as takes after one of the most straightforward ways to invest within the **German Listed Building Refurbishment project** is to collaborate with dependable nearby developer.

There are a lot of developers that specialized in listed building refurbishment projects and also in urban regeneration, building reputation for making **homes that outperform desire** in term of plan, quality of development and vision for maintainability improvement. Refurbishment is used in Germany because of the tax incentives.



Why German Listed Buildings Refurbishment Projects are the way to go?

Germany has created many ancient monuments over the last couple of decades.

Also known as **HERITAGE BUILDINGS** and these are protected by the government.

Listed buildings are protected under the **Monument Protection Act** which classifies the property as cultural heritage.

Less than **1%** of all buildings in Germany are listed buildings.

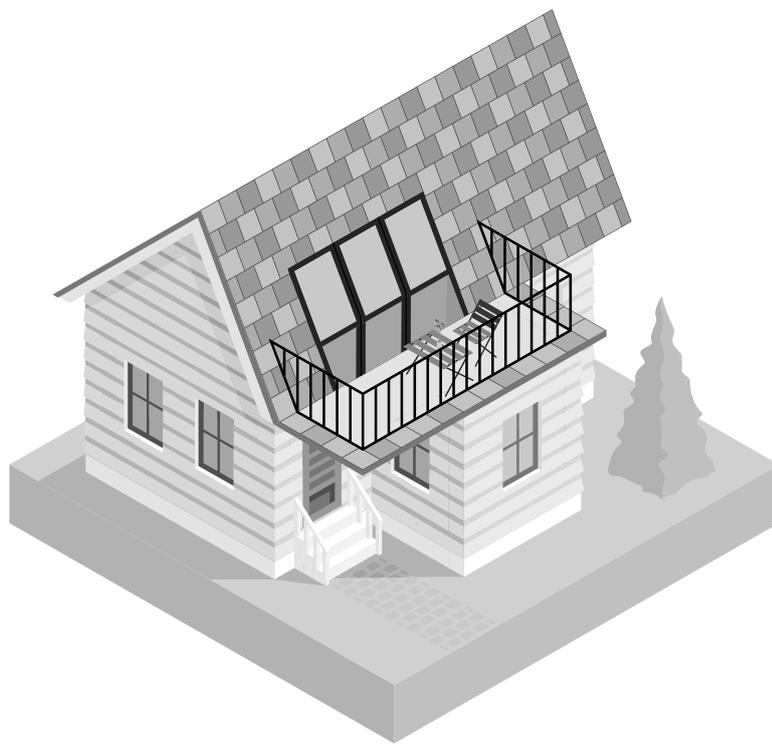
They are **refurbished by initial acquisition** through planning, designing, building and finally marketing development. At each stage the developer has to undertake detailed **risk assessment**, taking into account the relevant sustainability issues, and the changing culture of the market place. Developments combine leading edge design while maintaining and renovating key elements from German architecture heritage.

Conclusion:

Listed / Heritage status of a property is administered by a proper government registry and act, for example **Listed Property Act** which classifies the property as cultural heritage. Most of the buildings are in ruins due to war and age. Hence, there's incredible potential to contribute in their heritage buildings. By repairing and obtaining such a building, the buyers may get a **special tax-incentive**.

Did this article answer all your questions regarding the **REFURBISHMENT** stage? If it didn't, please don't hesitate to get in touch with us.

“**Omnium Rerum Principia Parva Sunt**
– **“The beginnings of all things are small.”**”



Chapter Six

Re-Development: 6th phase of PILC

Like many of you, including myself were waiting for this moment for quite some time now. It has been a long journey but here we are, we have arrived to the last piece of the puzzle, the final step of the **PILC (Property Investment Life Cycle)**. This stage is called **REDEVELOPMENT**.

When finding potential projects to invest in around the world, they may fall into one of **6 stages**.

- **Land Acquisition**
- **Construction/Development**
- **Management**
- **Renovation**
- **Refurbishment**
- **Redevelopment**

Depending on what you're interested in, as well as your risk profile and investing tendencies, the **PILC** is a good framework to give you a head start in understanding a project.

Today we are going to put the final stage under the microscope, using our flagship project in **New Zealand** as the example to share in-depth details with you.



What is REDEVELOPMENT?

Redevelopment is any new construction on a site that has pre-existing uses. These can be small or much bigger scale improvements made by a land developer.

For example: adding new facilities, structures, erection of additional buildings or technically anything that would improve the existing site.

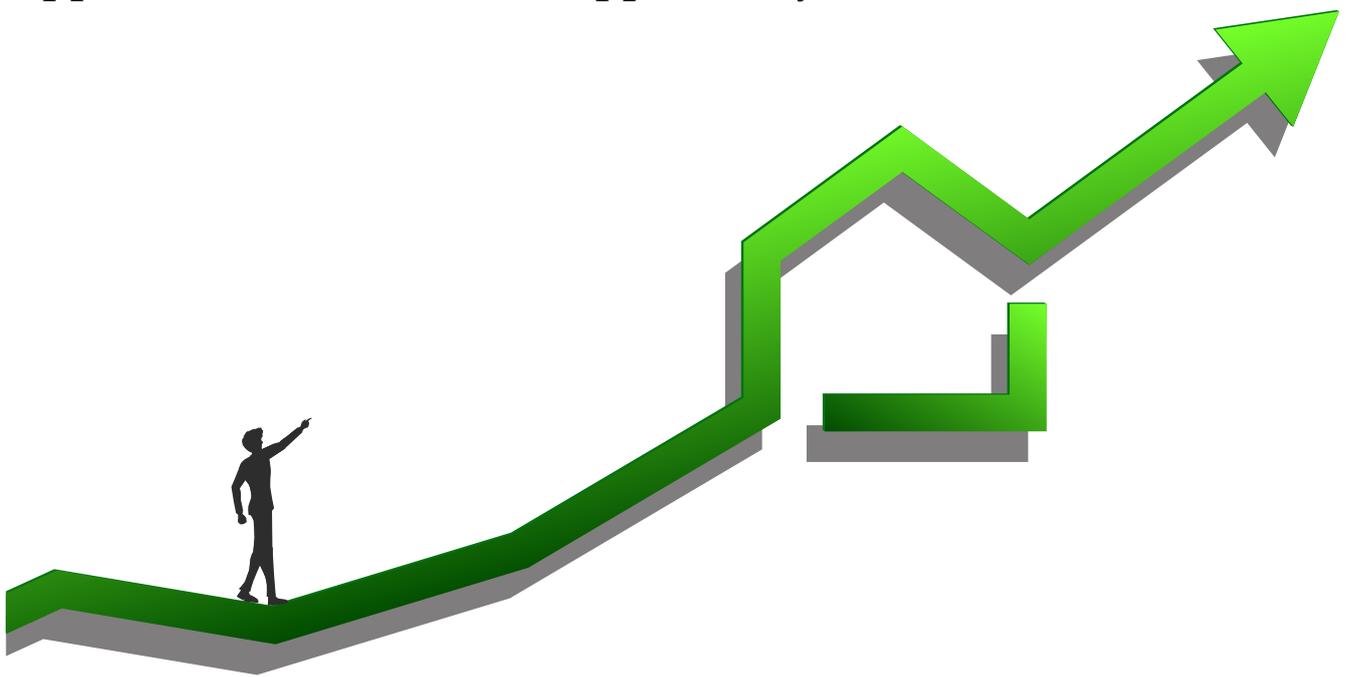
Many times, redevelopment of the **entire property is required to fit** the current market demand or because the properties were completely destroyed due to natural disasters like **earthquakes, volcano eruptions or due to man-made accidents such as fire.**

This is exactly what happened in our case. Christchurch were struck by two earthquakes between **2010 – 2012.**

These events caused considerable damage to the city and the surrounding buildings, including residential houses. However, this incident also created an opportunity to rebuild the city and residential houses. The demand has surpassed the supply and in turn created the opportunity for rebuilding into highly profitable and safe investment. Although the **PILC** investment strategies may seem easy to learn and follow, implementing the right strategy in various stages of the **PLC** is also very much dependent on the area, country and most important, the timing.

Always bear in mind that the investment strategies may work successfully in one country but may not fit in all countries. For example, buying cheaper land to build mid-end sell-able condominium may work in **Malaysia** but may not be workable in **HK or Singapore** as the land cost is too high, sometimes going up to **40-50%** of the **Gross Development Cost**.

Most importantly, it also depends on the individual or companies' financial strength, risk appetite, risk exposure, and crisis management. One should always be prepared for the worst, so when a crisis happens, it can turn into an opportunity rather than disaster.



Investment Strategy (New Zealand)

The minority **National Party Government** elected in November 2008, and re-elected in November 2011, aims to elevate the semi permanent performance of the economy through **five key policy drivers: building a stronger economy**, investment in top-tier infrastructure; more developed public services; reconstruction of **Christchurch** after the earthquakes; and overall building a safer **New Zealand**.

The earthquakes have given **Christchurch** a revolutionary opportunity to remake it into an international city. **Christchurch** is the world's first composition of blue skies development; the chance to combine rich natural and cultural heritage, a deep economic base where **21st century urban design** is best practice; in an established, developed region.

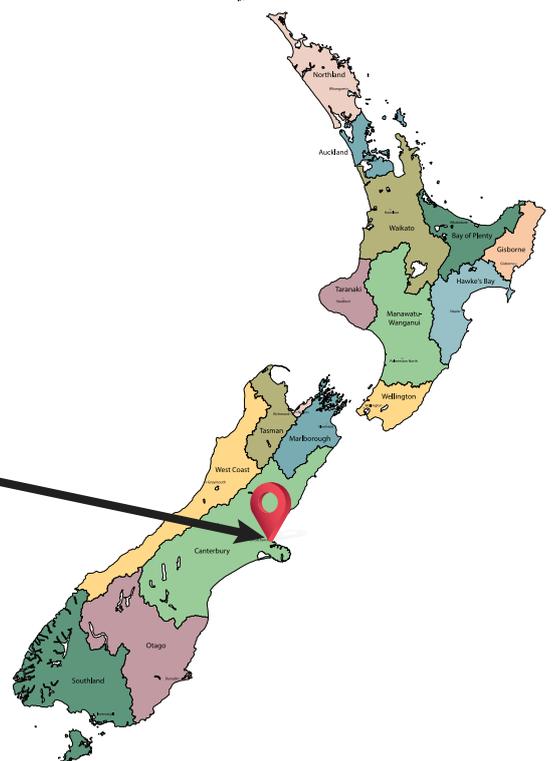
Christchurch Central Recovery Plan And Land Use Recovery Plan (LURP)

Following the earthquakes, the city have been experiencing rapid growth with the central city rebuild, which is outlined in the **Christchurch Central Recovery Plan** in **2012**. There is a massive growth in the residential sector, with around **50,000** new houses expected to be constructed in the Greater Christchurch area by **2028**, as outlines in **LURP**.

The aims is to use altered reinforcement rules to deliver **8,000** to **10,000** new residence in **Christchurch City** within the next **5 years** (Voxy, 2013). The only thing that will ease Christchurch accommodation pressures is by getting more lands and houses to market sooner. This enables for the clear direction on where and how new development can occur, in a manner that best assists our region's **recovery**.

The economy continues to perform well and the fundamental physical and social infrastructure remain strong despite the damaged caused by the earthquakes. **Christchurch** is still exceptionally well placed to continue contributing significantly to the national economy. Therefore, there are rational economic reasons to invest in the **recovery**.

In short, below are a few important factors to consider before making any concrete decision:



1. Location - Location - Location
2. Demand and supply - what, when, how, etc
3. Population Density - to ascertain the available land surrounding, inflow population, etc
4. Demographics - age, sex group, working class, income, etc
5. Infrastructure - public transportation, banking services, hospitals, etc
6. Political Stability - how frequent is the change of government and policies, etc
7. Economic Conditions - the fundamental domestic economy, etc
8. Taxes - capital gain tax, property tax, income tax, etc
9. Segment - land, residential, industrial, commercial, etc
10. Strength and experience of the developers, builders or contractors
11. Governance (Real Estate Law) - federal, district, zone, etc

And by this closing statement we arrived to the end of the **PILC**. I hope you have enjoyed this exploration of the **Property Investment Life Cycle** with us and if you have any question or theory you would like to discuss please don't be hesitant to drop us a message, a text, a comment, a DM, an email, or even a pigeon post if that's what you prefer. We would be honored to be at your service.



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