

Adding value to investments



(File pix) Renovation grants new functionality and enhance the appearance of a property.

By **ADJ. PROFESSOR MAX SHANGKAR** - October 2, 2017 @ 1:10pm

PROPERTY investment is always one of the favourite options for the high-net worth individuals to preserve their wealth and it is arguably the safest asset class.

With skyrocketing house prices in Malaysia since 2010, common investors stampede into property investment to ride on the wave of fortune.

However, the implementation of cooling measures from the Malaysian government in recent years has brought investors back to reality.

Property investment requires a lot of knowledge. Asymmetry of information allows the experienced investors with trained eyes to tap the invaluable opportunities that the common investors are unable to identify.

Investors need to master the pragmatic part of investing, to make a successful property investment.

Instead of investing in property and passively hoping for its capital appreciation, there are more things than we can possibly do to achieve better investment returns.

To start with, we need to understand what are the Property Investment Life Cycle (PILC) investment strategies.

RENOVATION

Renovation is like adding the soul into the body. It grants the new functionality and enhances the appearance of a property. This strategy is one of the investors' favourite as it can drive high profits within a short period of time.

In fact, there are many disrepair buildings due to owners' neglect. To shake the dust off the owner's feet, they are willing to let go the property at a discounted price. By picking up these properties, we make a profit by renovating the property and reselling.

REFURBISHMENT

When an ageing property, especially heritage building in some countries, is occupied over some years, it may appear to be rundown, severely damaged and not liveable anymore.

The deterioration of the abandoned buildings sometimes goes beyond renovation works.

This type of buildings require large funds for refurbishment. Due to that, some owners do not have the financial capacity to refurbish the building, these buildings can be purchased at much lower prices than the market value.

REDEVELOPMENT

In some special occasions e.g. natural disasters (earth quake, volcano eruption, fire, etc.), outmoded, or change of the market demand, the accelerated depreciation of the property value made redevelopment a sensible decision.

Through redevelopment, previously existing buildings are demolished or partially demolished and new buildings are constructed.

At the final stage of the PILC, the said piece of land is given a new life to meet the local demand, thus boosting the value of the property.

Not all the six PILC strategies are applicable in all regions or countries. To apply the PILC strategies effectively, we need to understand the market's supply and demand conditions, government support, local regulations, taxes, financing costs and currency exchange rate of the country.

In short, with the right knowledge and proven strategy, investing in property can be a lot easier.

MCM Holdings Ltd group chief executive officer Max Shangkar will be speaking at the NSTP MyRumah Property Showcase 2017 which will be held at The Curve, Mutiara Damansara, from October 6-8 (10am to 10pm).

Delving into the fundamentals of property, we noticed that PILC is very similar to a human's life cycle: people are born, grow up, get sick, age, and die. It makes no difference when it comes to property investment life cycle. By adding value to a property according to different stages of its life cycle, investors can enjoy continuous profit, regardless of the market situation.

Following are the six key stages in PILC and how we can make significant profit in these stages:

LAND ACQUISITION

Buying land is usually significantly cheaper while it is underdeveloped than land that has useable structure constructed on it. To term it clearly, land is the raw material of any property development. Thus, the saying, the best investment on earth is land.

Land is always a scarce resource as it is non-produceable. Hence, developers are constantly on the look out to increase their land banks. Acquiring the right type of land (agriculture, industrial, residential, commercial, etc.), the right size (density, plot ratio, type of usage and development, individual unit size, etc.) will ultimately help decide the potential value of the land.

PROPERTY DEVELOPMENT

This is the stage where a property is "born".

Property development is the real crown among the six stages, as it contributes the biggest profit making ratio within a short period in the PILC.

Traditionally, developers acquire a parcel of land (or sometimes join venture with the land owner) and build multiple units on the same title. Once the construction is completed, developers will market the end units to the public at a premium price.

Due to the high barriers of entry, huge capital and expertise involved, only large corporations and conglomerates are able to participate in this lucrative segment. However, by deploying the joint-development strategy a common investor can now invest together and earn like a developer too.

MANAGEMENT

To enjoy a constant property value appreciation, a good property management always plays a pivotal role. Once a property is constructed, it needs both the building management and tenants' management to keep it in tip-top condition and attract quality tenants.

To some common investors, management is a nightmare in the journey of property investment.

To experience investors, there are a lot of hidden gems in managing a property.

On the other hand, some special purpose property management strategies are able to reap high profit margin compared to the ordinary property investment. Airbnb, co-working spaces, commercial car parks, student hostels,

short stay accommodations, to name a few, are some proven strategies in property management.