



# HONORING COMMITMENTS

*Condotels are proving popular but the question remains whether developers can actually pay the guarantees pledged.*

■ **Mr. MICHAEL PIRO**, Chief Operating Officer at Indochina Capital and Director of Indochina Strategic

There are tremendous opportunities in Vietnam for condotel products, which typically find themselves on resort properties; a holiday destination option that has become increasingly popular in the country. Vietnam has more than 3,000 km of coastline, so naturally you're going to find a lot of hotel and hospi-

tal development by the beach. This is what makes it an attractive destination for condotel products - offering a great deal to both developers and buyers. There are concerns, however, with the speed at which condotels are progressing and whether it is happening too quickly.

## MATTER OF GUARANTEES

The key driver for success and sustainability in this market is transparency. Developers need to be very open with buyers to make sure they are clear on both

the risks associated with these types of purchases but also the rewards. Overall, the market has a lot of potential, given that Vietnam's coastline and hospitality market are extremely exciting and still have a lot of untapped potential. However, there will always be some winners and some losers in this industry. I look at the guarantees that are being given out in the market and I understand, as a hospitality professional, the economics of hotels. More specifically, how the revenues are derived and how the net income is disbursed, and I look at some

cash effectively and to know when it is time for their customers to get paid the 10 per cent they have been guaranteed at the start of the transaction. I do not want to be negative, since I do love condotels and I think it is a great product when managed responsibly and transparently, but I do believe that over the next two to three years, and in some cases this has already started to manifest, you will start to see some developers who can no longer honor the commitments they made when they originally sold the units. This is worrying.

## UNIQUE ISSUES

What Vietnam is experiencing right now with the condotel market is not that much different to what happened in developed markets. In the US or in North America, where I come from, these types of products became extremely popular, which resulted in a lot of buyers purchasing them without really understanding what they were buying. This led to a lot of issues with condotels that we see today and which pushed the government to create a legal framework around the second-home and condotel market. Thus, I believe that this is the same transition that Vietnam is going through right now. In Vietnam, condotels are getting a lot of attention from the government, from buyers, and from investors, which is a perfect storm for the establishment of a strong legal framework and more stringent regulations. Most of these regulations are going to be in favor of the buyers and you will see laws being created to be much more protective of condotel buyers. Therefore, developers will have to be even more transparent, declare what they are doing with the money they are collecting from buyers, and have a greater obligation to explain how they are going to pay them back. What we are currently observing is the intersection between finance and real estate. The new way of selling condotels in Vietnam has become a way of financing development opposed to just selling lifestyle properties. It will be very interesting to see how this all plays out in the short term.

The pros are fairly well-pronounced. Developers are able to sell units relatively quickly, even those that do not have that much experience in the market, due to the fact they are offering guaranteed returns. Buyers are willing to buy, because of the

financial implications. This gives the less-experienced developers a chance to enter the market, while being able to achieve relatively good sales results. It is a good way to speed up sales, but it is only beneficial if you plan properly for the future, because there will come a time when developers will have to start paying back. The key is to manage your money properly and to work with the right operator. That brings us to my second point, which also has a big impact on the success of the development: working with the correct operator who understands these types of products.

By getting the right management partner involved and being careful about money management, the developer can make sure that they honor their commitments in the future. At Indochina Capital, we were the first to develop a condotel product here in Vietnam. We did it without a single guaranteed return. In my opinion, you should sell the lifestyle. It should be about a choice someone makes to improve the quality of their life and not about making money. The market is always going to go up and down; there is no way around it. Some people are going to win, some are going to lose, but overall, the development of condotels is going to be good for the country, good for the hospitality market, and good for future investment in Vietnam.

In other countries, I don't think there is a distinguishable line between condotels and traditional real estate condominiums. In Vietnam, there is this problem of how to categorize condotels - is it a serviced apartment or is it a hotel? This issue is unique to Vietnam. In other countries, it is very clearly a residential product and you would get a residential product title for owning it. They do not have the same issues that we experience here in Vietnam. We are struggling to determine how to categorize this type of real estate product. In Vietnam, the reason why this is happening is because it is tied to land use rights. This forces us to ask the following question: is it freehold land, commercial land, residential land, or a hotel? This explains why it has become difficult to navigate Vietnam's real estate regulations, because of how we classify land use rights, taxes, and annual land payments. These issues are unique to Vietnam, so you will not find the answer in the US or Europe.

of these offerings on the market and I worry about the developer's ability to fulfill their guarantees. I am concerned that too much is being offered to buyers and perhaps not all developers will be able to deliver and repay customers. While it is a great product, I would say to people out there who are considering the purchase of a condotel to really pick your developer carefully, because there will be clear winners and losers in this industry.

When looking at numbers like 8-12 per cent being guaranteed for anywhere between 8-10 years, it concerns me. These large guarantees are unique to Vietnam's condotel market. No one in the world is offering returns on this level, which makes Vietnam a bit of an outlier in that sense, as these returns are clearly quite aggressive. I know from owning, running and managing hotels that it is very difficult in the four years of operations to be able to generate those types of returns organically, so I think it is really a question of cash management. Buyers need to trust in the developer's ability to manage



Mr. Michael Piro is a well-rounded real estate professional who brings nearly 15 years of property sales, marketing, and development experience in both North America and Asia to his role as Indochina Capital's Chief Operating Officer. Michael has directly overseen the sale and leasing of over \$700 million worth of high-end Vietnamese properties, while also being actively involved in the planning and development of nearly \$1 billion worth of high-end real estate development in Vietnam for ICC. He became an ICC board member in 2016. Michael is a chartered surveyor who holds a degree in Urban Land Economics from the University of British Columbia and a diploma of Technology with a major in Commercial Real Estate from the British Columbia Institute of Technology.