

The Size of the Pie :

Is this the Time for a Real Estate Trade Association?

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Business is a good game - lots of competition and a minimum of rules. You keep score with money. Atari founder Nolan Bushnell



There is quite a lot of talk about forming a real estate industry association for Hua Hin. But should it have teeth? In other words, should it be just a club that everybody in the industry joins? Or should it be something that imposes some standards and polices its own? The answer to these questions is embedded within two factors: first, the nature of the competition and second the standards that the association sets.

Let's say you're a developer in Hua Hin. Or an estate agent. Who's your competition? Why it's the others in town, you say. But if you said this you are wrong.

Your real competition is elsewhere in Thailand, and more importantly elsewhere in Southeast Asia. Here's why. Though we in the industry don't like to admit it, there have been some consumers who have been burned by real estate deals in Thailand. And the more these are played up in the press and on the Internet the fewer foreign real estate buyers that will come. This has softened the market.

But what if Hua Hin could somehow make it seem it less likely in Hua Hin than elsewhere for a buyer to get cheated, and this fact became common knowledge. Of course foreign buyers would flock to Hua Hin, to the great detriment of your real competitors-those in Phuket, Samui and Pattaya. By the time these competitors in other areas did the same thing and evened out the competition, Hua Hin would have boomed for years. But the competition in Thailand doesn't even matter in the long run. If Thailand itself could then attract potential buyers away from Indonesia, Malaysia and even Vietnam, the pie would only get bigger. And so would your slice.

Let's assume for a moment that you're on board with the idea that the way to really increase the customer traffic is to make Hua Hin's image special. How would we do this? The cornerstone would be the association mentioned above, though there are lots of other ways that I will discuss in later articles. But here's the trick. The association has to be "real" enough to demonstrate results. If this happens, the press and others who call the shots in terms of public opinion will tell the world. And make you rich.

Of course, the model for the club association is out there. It's where everybody's a member and there are congenial meetings every so often but no standards. With clubs like these there is a lot of high minded talk after each scandal, with people saying pointedly "why isn't so-and-so here?" So-and-so is the person who's accused of pulling off the scam. But don't worry; he'll be back in a couple of months.

In short, the club model won't achieve our objectives

because nobody outside the club will pay any attention. And industry groups outside Hua Hin are already forming these. What we need is something that will be picked up by the press and the Internet and cited there as being really beneficial to the consumer. And if we really have this we don't have to sit around and wait for the world to discover us. That's what public relations firms are for.

So what standards for an industry group would be necessary to make Hua Hin special? In truth, and given the mediocre competition, it wouldn't take that much. If you had nothing more than an association that mediated and screened complaints, had very minimal engineering standards and had standardized contract clauses it would be more than anyone else was doing, and would be perfect food for public relations.

My God, you say! Have I heard right? You mean the estate agent down the road is going to stand in judgment of my performance and impose all kinds of strict requirements on me?

No, this isn't what's going to happen. For one thing, the estate agent down the road won't ever try to impose anything on you that will hurt him. This is human nature. For another, the trade association concept has a huge track record in all kinds of fields, including real estate development and sales. There are plenty of ways to impose standards that make the public feel very secure without ruining the business. I'm going to focus here on the standardized contract clauses, because they're what I do every day. I think I know what you're thinking, though-that what you're selling is so different from what the others are selling around here these contracts couldn't be standardized. Also, what's the point in having the contracts the same as the developer's down the street? Doesn't this show too many cards to the potential buyer?

First, in Hua Hin practically every home sale to a foreigner falls into just a few simple categories:

- Free standing home sold as a construction contract with progress payments for the as-yet un-built house and a lease of the land.

- Free standing home sold as a house sale agreement for an already-constructed house and a lease of the land.

- Free standing home built or un-built in the name of a company in which the shares are sold to the buyer. The house may be the subject of a separate contract of sale.

- Free standing home built or un-built sold to a company in which the buyer owns shares.

- O f f - p l a n condominium with progress payments.

- Already built condominium.

There are lots of what some in town think of variations, but which are no more than footnotes. And there are issues unmentioned, like the fact that some lots are mortgaged before sale and the mortgages have to be released. Or the land's not in the developer's name, but his brother-in-law's. These may seem like

deep, dark secrets to some, but in fact are easily dealt with and have little to do with the contracts themselves.

So, if we really only have a few kinds of contracts, why couldn't most or all of the clauses in them be approved by the association and the same for all members of the association? Of course the developers of the association would give up a few little quirks that favor them they've buried in the contracts, because a buyer could easily compare advantages and disadvantages between members.

A buyer could look at a standard progress payment clause, for example, and determine that one developer in the association requires only a 10% payment at the time of commencement of work, while another requires 25%. And maybe the ability to compare will show another level of advantage. In the same example, perhaps the developer that requires 25% at the outset allows the lease to be transferred before the construction is complete and this is something that some buyers prefer. What both developers would gain, however, is that a lot more buyers would be looking at their houses and buying at their developments because they are members of an association that has a few teeth.

* Remember, the objective of the trade association model with teeth is to increase the business that comes to members of the association. Time-honored experience has shown that it is always successful. At the outset, however, what is required is a Kierkegaardian leap of faith. Or at least a skip. Before this happens, let's not rule anything out.

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