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Determinates of Foreign Real Estate Investment within Thailand's Special Autonomous Systems (SAS) of Bangkok and Pattaya City

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ABSTRACT

Thailand's real estate laws can at times be difficult to navigate with Bangkok and Pattaya's special legal status for foreign real estate investment even more so. These special autonomous systems, however thrive with both commercial and residential real estate transactions with the Board of Investment and Industrial Estates playing a key role in Thailand's growth. In 2015, Pattaya alone is projected to have 10 million international and domestic visitors contributing \$3.26 billion to the local economy. Japan currently leads international investing but with southeast nation economic integration in 2015, other community members will take a bigger role. As such, the researchers undertook a study to explore the various factors affecting the reasons for foreign real estate holdings. These included government policy, the economy and investment factors and social and environmental conditions. Quantitative survey input came from 301 parents of international school students, expat groups and condominium owners. Qualitative data was secured from 10 senior executives involved in real estate transactions as well as individuals from Thailand's Board of Investment promotion agency. The study revealed that due to limited ability of foreigners to hold property, other mechanisms such as nominees, Thai nationals and wives were commonly used. Additionally, foreigners were sensitive to the 6.3% land transfer tax which they considered quite high. Overall government policy, internal economic factors and the environment (flooding, etc.) and infrastructure (sea and airports, roads, power, etc.) played key roles in foreign investment decisions.

Key words: Real estate, Thailand, Pattaya, Bangkok, special autonomous systems

INTRODUCTION

The 2013 Legatum Prosperity Index, an annual ranking of 142 countries by the Legatum Institute, was released with Norway topping the index which measures such factors as wealth, economic growth and quality of life (Fig. 1).

Traditionally, a nation's prosperity has been based solely on macroeconomic indicators such as a country's income represented either by GDP or by average income per person (GDP per capita). However, most people would agree that prosperity is more than just the accumulation of material wealth; it is also the joy of everyday life and the prospect of being able to build an even better life in the future. The Prosperity Index is distinctive in such a way that it is the only global measurement of prosperity based on both income and wellbeing.

The index notes that since the mid-20th century, countries in Asia have seen rapid economic growth. In the 2013 report, Thailand, Malaysia and Sri Lanka are noted for experiencing big

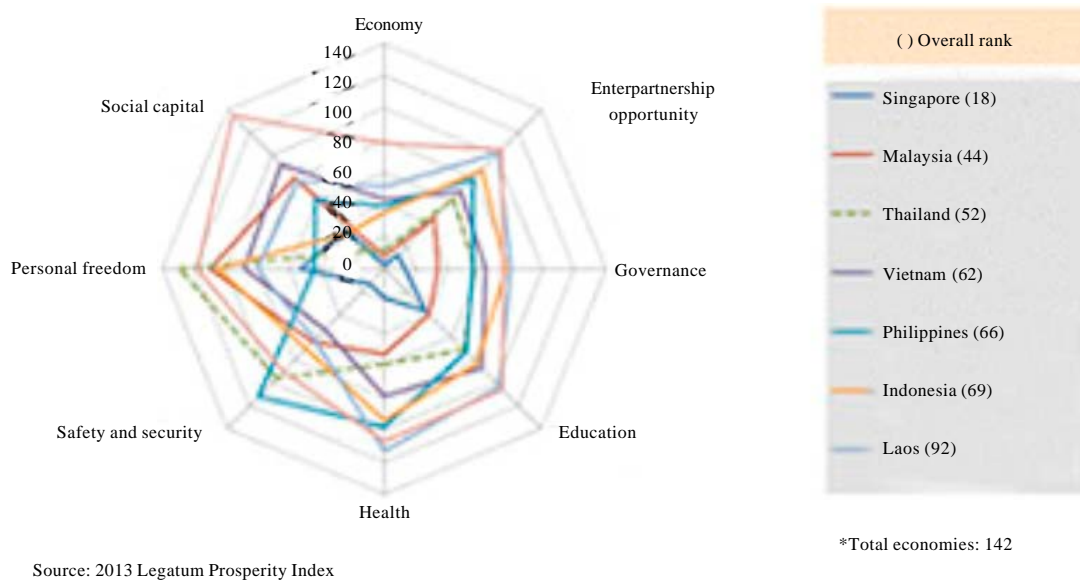


Fig. 1: 2013 Legatum Prosperity Index: ASEAN (TIR, 2013)

improvements in their economy scores. Thailand has improved its ranking by five places to 52nd in overall prosperity since 2009. Since that time it has also improved by eighteen places to 16th in the Social Capital sub-index. In ranking the economy, Thailand scored a 12 which was up from 18 in the 2012 ranking (TIR, 2013).

Along with the growth in well-being, there has been a significant growth in prosperity which has been directly related to property and land rights. Land rights refers to the inalienable ability of individuals to freely obtain, utilize and possess land at their discretion as long as their activities on the land that do not impede on other individuals' rights (Adi, 2009).

The country's urban population has been growing at an average rate of 1.8% (2000-2008). Much of the urban population resides in the greater Bangkok area which had a 2009 population of about 9.6 million. Countrywide, about 8.5 million urban residents live in informal settlements. In 2001, most urban residents had access to safe water (89%) and improved sanitation facilities (98%). However, the population living in informal settlements has been growing at a rate of 20% per year, straining the capacity of existing infrastructure and resources (USDOS, 2010; Ompad *et al.*, 2008; UN-HABITAT, 2001).

Bangkok was given special administrative status in 1972 when it became a province but retained its powers as a thesaban (municipality). Pattaya was also afforded this special status in 1978 as a distinct urban area due to its status as a tourist destination. Until 1998, Bangkok and Pattaya commanded like thesaban authorities with weak authoritative competences due to central control. The Decentralization Act of 1999, however gave thesaban and tambon (sub-district/township) and hence, also Bangkok and Pattaya, specific policy competences with relatively large budgets (TCP, 2007). These policy competences extend beyond the largely infrastructure-oriented tasks and projects of the changwat (province) with Bangkok reflecting the aggregate changwat and municipal competences but without residual powers or control over institutional set-up or police.

Pattaya, reflecting only the municipal increase rather than the aggregate provincial and municipal powers of Bangkok is somewhat weaker than that of the Bangkok municipality (TCP, 2007) with Pattaya city being administered under a special autonomous system since 1978. Since then it has a status comparable to a municipality and is separately administered by the mayor of Pattaya city, who is responsible for making policies, organizing public services and supervising all employees of Pattaya city administration.

THAILAND'S LAND REGULATION LEGAL FRAMEWORK

The following five major pieces of legislation constitute the core of Thailand's land regulation and governance framework:

- Thailand's Constitution provides that the state shall adopt land policies, including policies relating to land use, land distribution, town and country planning and the sustainable protection of land and other natural resources. The Constitution specifically states that land distribution shall be fair and provide farmers with rights to land for farming (KOT, 2007)
- The Land Code of 1954, as amended, is Thailand's primary land legislation. The Land Code identifies various tenure types, including ownership and use rights. The Land Code set a ceiling on landholdings ranging from 8 ha of agricultural land to 0.8 ha for residential holdings. The Land Code imposed ceilings on an individual basis, allowing households to have multiple landholdings by registering various plots in the names of individual family members. The Land Code permits foreigners to hold land in lesser amounts than citizens. By a 1999 amendment, foreigners investing in the country are permitted to make own residential land so long as the land is used as their residence for at least three years (KOT, 1954, 1999)
- The Agricultural Land Reform Act of 1975 was enacted in an effort to address the high rate of tenancy in certain regions of the country, the large number of landless households and the encroachment of public lands for cultivation. The act reaffirmed the state's support for the allocation of state and private land to landless and near-landless households. The act also provided tenants with opportunities to lease or purchase the land they cultivated and allowed for squatters and others who had encroached on state land to regularize their rights (KOT, 1975)
- The Land Development Act of 1983 established a national Land Development Committee to help improve the utilization and productivity of the country's agricultural land. The act authorizes the committee to: engage in land-use planning; develop programs to support farmers; conduct surveys and create plans for the improvement of soil (KOT, 1983)
- The Land Readjustment Act of 2004 governs processes for land re-plotting and development in order to improve land utilization. The act established a national Land Readjustment Committee charged with developing policy and identifying areas for readjustment. The act also set the rules for creation of Land Associations made up of landowners in readjustment areas and Provincial Committees to govern the process (KOT, 2004)

Thailand recognizes the following tenure types:

Ownership: Landowners have freehold rights to exclusive use and possession of their land. Land held in ownership can be freely transferred and mortgaged. Ownership rights are evidenced by Freehold Title Deeds (known by the acronym NS-4). About 71% of Thailand's agricultural land is held in private ownership. The highest percentages of ownership are in the South, where about 83% of land is freehold (KOT, 1954, 2006; Gine, 2004).

Leasehold: Both private and public land can be leased with the terms subject to negotiation between the parties. Leaseholds terms may be up to 30 years, leases over three years must be registered. Between 11 and 30% of agricultural land is under some form of tenancy. About 25% of agricultural land in the central region is leased, while only about 2% of land in the South is leased (KOT, 1954, 2006; Gine, 2004).

Occupancy and use of rights: Several types of occupancy and use of rights are recognized in Thailand. Landholders with an Exploitation Testimonial (NS-3K) certificate and Certificates of Use (NS-3) are usually beneficiaries of land allocations who have made use of their land for a prescribed period of time. Holders of Exploitation Certificates or Certificates of Use have the right to use, possess, sell and transfer their land. The holders can mortgage the land and can apply for freehold title. Preemptive Certificates (NS-2) allow temporary occupation of land and transfers of rights which are limited to inheritance. A Claim Certificate (SK-1) acknowledges possession of land. The certificates are non-transferable, although the land itself can be transferred to another party who then applies for a new certificate. Certificates of Right to Farm (SPK 4-01) are granted to beneficiaries of land allocations. The right to transfer is limited to inheritance. The government has granted Five-Year Usufruct Licenses (STK) for plots up to 2.4 ha encroaching on forestland. The holder cannot convert the license into a title deed or transfer the land, except by inheritance (IRBC, 2008; Gine, 2004; Childress, 2004).

LAND MARKETS AND INVESTMENTS

The real estate industry in Thailand developed quickly in the 1980s after the market reset from the 1997 Asian economic crisis. Today, the country has thriving land sales, land rental and land credit markets. Some innovative schemes have emerged to extend land rights to larger numbers of people. In some urban and peri-urban areas (zones of transition from rural to urban land uses located between the outer limits of urban and regional centers) and the rural environment, for example, developers and prospective residents have entered into land-sharing agreements under which the parties agree to terms such as rights of occupancy and responsibility for development (Burns, 2004; Childress, 2004). Additionally, various schemes for foreign ownership and use have been created over the years.

In Bangkok, land prices have risen every year since 2000. Between 2008-2013, Bangkok in some areas saw a 150% jump in commercial property values (AREA, 2014). During the past 10 years, the lowest increase was in chaotic 2009 (2.9%) while the average yearly increase during 2004-2013 was 4.4% (Bangkok Post, 2014).

Along with this incredible growth and doubling of the population since 1967, the ever increasing visits have been wishing by foreigners to share in Thailand's natural beauty and cultural diversity. This has, in turn, led to the desire to own property and the willingness to invest in both real estate and businesses with both the seaside resort of Pattaya and Bangkok's metropolitan areas, being a central focus of this foreign infusion.

Historically, according to figures from Thailand's Ministry of Tourism and Sports, Pattaya (a major foreigner tourist destination) had 8.3 million arrivals in 2010 which was a 93% jump over 2009. For the period January-June 2011, there were 724,273 Thai and 3,070,635 foreign visitors to Pattaya (WPC, 2012). According to the Chonburi Provincial Administration Organization which oversees tourism development in Pattaya, in 2015, Pattaya is projected to have 10 million international and domestic visitors representing a US \$3.26 billion infusion into the local economy. Understanding this history, attraction and strategic location of both Bangkok and Pattaya is

important to understanding why foreigners have been a key to these areas spectacular growth in the past 20 years. Along with this, there are factors concerning the economy and investment as well as government policy impacting foreign FDI (Foreign Direct Investment) with Bangkok in 2012 being ranked first in the Travel and Leisure magazine's online survey of the world's best cities (TLM, 2013).

Satchanan *et al.* (2009) studied data concerning ownership of real estate by foreigners in Thailand's provinces of Rayong, Chiang Mai and Phuket. In it, researchers explored the types of ownership and the processes through which the properties had been acquired. Findings indicated that although foreigners were the actual legal owners of the property, this was hidden behind the nominee structure of corporations created to hide this fact. In Rayong province, next to Chonburi Province's Pattaya City, legal ownership was granted according to the authority granted by various pieces of legislation mainly under the principle of promoting foreign investment.

However, cases, where Thais were in fact acting as 'nominees' of foreign investors, could be found in all provinces. There was, however, a high concentration in Phuket province due to the scenic beaches which were locations where there were high demands by foreigners. In such cases, foreigners took advantage of the loopholes of the law to acquire land by using Thais as nominees. These nominees could either be their spouse or employees of corporate bodies or legal entities. There were also cases where nominees were actually employees of law firms which assisted foreigners to register as a Thai corporate body.

Satchanan *et al.* (2009) also indicated that foreign real estate ownership can be both positive and negative. On the positive side, the local economies actually benefited by foreigners owning properties as this led to increasing levels of land utilization. The negative impacts, on the other hand, were mainly the loss of revenue of local governments from local taxes and duties. One other negative dimension was also the difficulties of the public sector to control the negative environmental impacts.

Seemingly, in conflict from some Thai government agencies and regulations, Thailand's Board of Investment (BOI) has been given a mission to promote investments by foreign investors with Thailand's BOI in the first quarter of 2014 receiving 197 applications to promote foreign investment projects worth a total of about 202 billion Thai baht (THB) with another 140,498 million baht in expansion applications and 61,468 million baht in new applications. Of that amount, 129 project applications were for expansion of existing projects and 68 new projects. While, the number of projects has gone down from the same period last year, the value has increased by about 22% (TIR, 2014). With these applications, the foreign executives and managers wishing come to own property in one form or another.

As can be seen from this study's overview, the motivation for a high potential return on a real estate transaction investment in both Bangkok and Pattaya has been large but political turmoil and risk has entered into the equation. The mechanism, however, in which these transactions take place by foreigners in Thailand, take on various forms due to the uniqueness of Thailand's laws. This can include purchasing, renting, nominees, investment or corporate. Relevant factors include economy and investment which are variables related to the cost and difficulty of investing. This also includes the economic situation, including interest rates which is related to the Return on Investment (RoI) and patterns of international investment. Other factors include government policy, promotion and governmental support which also include financing, taxes and legal transparency. The above all factors affect the desire and intent to hold real estate in Thailand by foreigners.

FOREIGN REAL ESTATE HOLDING FACTORS

Rungruangphon (2002) conducted research on brand awareness and attitude by both experts and customers in the Thai real estate sector. The research found that factors affecting brand equity were different between the experts and the customers with experts stating that both the house and project's quality and standards were important factors. Additionally, the experts felt that the facilities, security, community member numbers, income, status, after sales service, trade-in liquidity and company stability as well the project's environment and surrounding area were the most important factors.

Customers, on the other hand, felt the house standard reputation, construction company reputation with customers, age of company, market leadership and public relations and advertising were the most important components affecting brand equity. Real estate holdings can be classified either as a purchase or a lease but the decision to purchase or lease affects overall costs as purchasing increases debt load while renting decreases or significantly reduces the cost of the enterprise (Dowden and Humphreys, 2013).

Another form of ownership of real estate is that of the agent or nominee which is an instrument used by a foreign entity to purchase land (Tan, 2004) or establish a corporation (Satjanon *et al.*, 2009). However, the factors that influence real estate holdings take many forms, such as the government policy to promote the use of land are associated with legal factors, land ownership regulations (Camilleri, 2011) and factors of investment characteristics (Lopez *et al.*, 1988) and whether investment are direct or indirect.

Investors need to consider both the opportunities available and the purpose of the investment, such as the selection of a location in which the objectives are different for residential and business purposes. If an investment is to be used for internal factors such as business expansion (expansion, new business, joint ventures with local entrepreneurs), the cost-effectiveness (cost of raw materials, labor, logistics and land rental) and size of business (investment capital and number of workers) and external factors including the attitude of society, infrastructure, tax incentives and maintaining consistency with social attitudes, tax benefits and provincial strategies (Suttapong *et al.*, 2010).

ECONOMY AND INVESTMENT

Economic growth in developing countries requires continued investment and for developing countries, the investment from abroad is considered a critical factor for growth. Its benefits include the transfer of company knowledge and technology, including financial assistance and knowledge transfer to the country of investment. This also increases wages for workers in the manufacturing sector which has a 'knock-on' effect for other benefits and domestic workers. Thus, the liberalization of foreign investments is important.

In a US land holdings research, the study conducted by Adelaja *et al.* (2010) discovered that there is an inverse relationship between the rate of land value appreciation and the demand for land by farmers. In the data from 48 states, spanning from 1950-2004, it was noted that government policies can trigger increases in the rate of appreciation of farmland which may also potentially result in the agricultural hoarding of land. Additionally, enhanced profitability in agriculture due to government programs targeting viability, commodity price support and reduction of regulation or market expansion programs can also potentially affect land retention.

Research from the OSMEP (2012) found that the factors that foreign investors take into consideration for investment are many but include market expansion, investors to create business,

security and confidence of investment and no risk in finding new buyers. A reason to invest in overseas business is the ability to source cheap labor, ready manufacturing supply chains, productivity and ability to expatriate your capital investment, cheap resource materials and the ability to easily sell your product into the local market (Ratniyom, 2013).

Free Trade Agreements allow decisions to invest in property (Omran and Pointon, 2009) which results in many groups in many countries to trade between each other, taking advantage of production, products and services of the same type or not. And in the current era of globalization with its ability to move funds freely, policies and strategies must be considered carefully which can make Thailand a net benefactor of foreign investment.

Krugman (1979) began the theory of imperfect competition to describe the emergence of international trade in the same product in which it is stated that consumers like variety. This enables to move down their cost curves and consumers to buy varieties not produced domestically. Thus, international trade increases welfare not only by the traditional gains from specialization but also from the increased number of varieties available to the consumers. International trade is, therefore, driven as much by increasing returns and external economies as by competitive advantage. Furthermore, these external economies are more likely to be realized at the local and regional scale than at the national or international level. While Intra-Industry Trade is primarily a product in the same industry, there may be a difference in the product. Differential products, which is the difference of the product, will allow consumers to choose the product to be consumed from many different channels, allowing the consumer to, diversity even more and gain from variety itself.

In order to contribute to confidence in economic integration and greater prospects for agreements and trade within the region, there needs to be an agreement between the different areas of concern. Within the ASEAN community, the 7th AFAS package agreed to the following (Dee, 2013):

- To enhance cooperation in services amongst Member States in order to improve the efficiency and competitiveness, diversify production capacity and supply and distribution of services of their service suppliers within and outside ASEAN
- To eliminate substantially restrictions to trade in services amongst Member States
- To liberalize trade in services by expanding the depth and scope of liberalization beyond those undertaken by Member States under the GATS with the aim to realizing a free trade area in services

Under the concept of trade liberalization between member states and 'trade in services', real estate services was also included with ASEAN investors being allowed to hold shares of not less than 70% by the year 2015.

However, members agreed that the option activity under the Central Product Classification or CPC, CPC 8210 (real estate services involving own or leased property) and CPC 8220 (real estate services on a fee or contract basis) contain only one activity which is a commitment to open markets and it is achieved in the AEC blueprint in the field of real estate. Certain AEC countries such as Thailand, the Philippines and Singapore are ready for liberalization in their property and real sector while other ASEAN countries may not be ready and need to revert to their local investment laws for real estate investment (United Nations, 1991).

GOVERNMENT POLICY

The Thai government has formulated a policy to encourage investment which is established by the Board of Investment (BOI) to enhance competitiveness and facilitate investment and conduct business support services. The government also needs to determine monetary and fiscal including the various policies that can meet the goals of the provincial governments.

Study by Kasikorn Research Center (2012) found that government policy measures set a credit limit, conduct land appraisal, create tax incentives for the purchase of housing, legal processes for land ownership which all affects the real estate business direction and affect state policy related to trade and foreign investment.

As mentioned above, research shows that government policy measures to support investment require a combination of several measures, including measures to limit credit or financial measures that affect their access to capital with financing advantages affecting investment decisions.

Study from Suttapong *et al.* (2010) stated that investor investment strategy would affect strategic mergers or acquisitions and the potential development of the company (Cohen, 2010) because the amount of financial sector support affects the real estate pricing models and helps in the decision to purchase the property faster and creates cash flow to market real estate (Roubi and Ghazaly, 2007).

Tax incentives measures, such as tax rates and associated fees, will affect land and buildings cost (Adelaja *et al.*, 2010). If tax rates and fees are low and property prices also not high, businesses will be more lucrative contributing to increased production into the market. Having adequate amounts of real estate in the market will affect real estate prices and their purchase decision (Chan and Chen, 2011).

Real estate and property laws are determined by government regulations and zoning, such as with the textile industry which needs to be located near water (Ratniyom, 2013) and is considered the economic laws in force planning, financial systems related to credit (Mohd *et al.*, 2009) the provisions of legal and legal environment of business operations is a major problem in India (Suttapong *et al.*, 2010).

SOCIAL AND ENVIRONMENTAL CONDITIONS

In the United States, the agency responsible for transportation planning (The Federal Highway Administration or FHWA) has been grappling with the correlation between transportation and land use decisions. Often cited as the reason for suburban sprawl, roadway projects frequently are opposed by members of the general public, who assume that if roads are built, development will always follow. The support for this assumption is most often anecdotal and the FHWA has stated that it does not believe this is always true. Other factors, such as local and regional land use and economic development policies, also play an important role in suburban growth (FHWA, 2004).

Programmed transportation improvements are factored into land use planning and visioning but are not the driving force in these processes. Communities believe that they need to control their own destinies when drafting their plans and not depend solely on transportation decisions to achieve the desired outcomes.

Transportation decisions may be less important to developers' decisions about individual projects because their time frames and planning horizons are so much shorter than the public sector's. For greenfield locations without any meaningful access, it usually is not feasible-from the developers' perspective to wait for the government transportation decision-making process.

Variables other than transportation, such as market demand, site suitability, capital availability, economic feasibility and regulatory environment play a significant role in influencing

the developer's process for determining a development's viability. Transportation has an importance although, indirect-impact on land use decisions. Roadway infrastructure is just one element in the land use decision-making equation from both the public and private sector perspectives.

The real estate development process involves three major groups; consumer group, a production group and a public infrastructure group. Each group benefits from cooperation and a full understanding of the values, short and long term objectives and major limitations controlling the other two groups. Unlike many mass production industries, each real estate project is unique and the development process is so much a creature of the political process (Graaskamp, 1981).

In Thailand, infrastructure and the environmental issues take on other forms such as the continuing saga of flooding which as recently as 2011 caused havoc with the industrial estates and their businesses in and around the Bangkok area (Kate and Raybould, 2011). Of course, the devastating Indian Ocean Tsunami on Boxing Day in 2004 was another environmental disaster of monumental proportions leaving killing an estimated 250,000 people in a single day leaving more than 1.7 million homeless affecting some 18 countries. Even today, emergency warnings and disaster relief from such events are still frequently discussed in the Thai press and amongst government officials.

In combination with the 2011 flooding disaster in Thailand, 2011 was a bad year for economies around the world as according to the Munich Reinsurance Company (Munich RE, 2012), natural disasters in 2011 exerted the costliest toll in history, resulting in \$380 billion worth of economic losses (Munich RE, 2012). In Thailand alone between August 1st and November 15th, there were 813 fatalities leading to \$40 billion USD in damages of which only \$10 billion USD was insured (METI, 2012). And according to METI (Japanese Ministry of Economy, Trade and Industry), Thailand's flooding disaster had five factors as possible causes of the floods other than natural causes:

- There is demand for estate water control measures that are designed for both water utilization and water control
- It has become difficult to secure the flood basin due to urbanization and decentralization
- A unified chain of command of the government was not in place
- Early warning and forecasting system was not fully developed
- Coordination among flood-affected areas disabled the overall flood control

At the "Seminar on Investment in Thailand: Post-Flood Investment Environment Related to Thai Economy and Japanese Companies" co-hosted by the Board of Investment (BOI) of Thailand and JETRO on March 7, 2012, Mr. Chadchard, the Deputy Minister of Transport, in his speech entitled "Water Management Plans" gave five weak points as the causes of the 2011 floods:

- Poor forest and ecosystem in the upstream
- No single command authority
- No long-term water management master plan
- Insufficient database system
- Outdated regulations (METI, 2012)

As it can be seen, both nature and human elements contribute to real estate holdings success or failure with the value being in many cases determined by the environment. With future

disasters, development of infrastructure and public services is important (Camilleri, 2011), such as the development of rapid transit systems and flood protection systems or long-term national water management plans.

From the above conceptual review and development, the researchers have developed the following hypotheses for the present study:

H1: Economy and investment influences Foreign Real Estate Holdings Factors

H2: Government policy influences Foreign Real Estate Holdings Factors

H3: Government policy influences the economy and investment

H4: Government policy influences infrastructure and environment

H5: Social and environmental conditions influences Foreign Real Estate Holdings Factors

MATERIALS AND METHODS

Data collection: This study was conducted from a sample population of foreigners in the Special Autonomous Systems (SAS) areas of Bangkok and Pattaya City as well as from 10 executives from large, international organizations as well as executives from Thailand's Investment Promotion Agency using both quantitative and qualitative research, respectively. Quantitative research was conducted with Stratified Sampling by dividing the sample according to the pattern of land ownership, buyers, renters, nominees, corporations and investments held in the form of joint ventures. Survey questionnaires were obtained from parents of international school students, expatriate association members, condo owners, etc. Simple random sampling was used because this assumes that every member of the population has an equal chance of being selected. The sample size is 20 times the empirical variable which equals 280 but for this study, the sample size was 301 cases. The measurement instrument or questionnaires utilized were prepared from the literature. A seven-point (Likert, 1972) rating scale was employed for this survey.

Questionnaire design: Quality and content was monitored with tools used in the research and as a measurement of quality. Both content validity and reliability was assured by 5 experts in their respective fields with an evaluation index consistent with the content and the purpose of the research. Additionally, the index of Item-Objective Congruence (IOC) developed by Rovinelli and Hambleton (1977) was employed to carry out the screening of questions. The IOC is a procedure used in test development for evaluating content validity at the item development stage. This measure is limited to the assessment of unidimensional items or items that measure specified composites of skills. The method prescribed by Rovinelli and Hambleton (1977) results in indices of item congruence in which experts rate the match between an item and several constructs assuming that the item taps only one of the constructs which is unbeknownst to the experts. The research then proceeded to select items that with an IOC index higher than 0.5 which were considered acceptable.

Questionnaires were constructed to be a tool to measure concept definition and practice. The instrument or questionnaire used the 7-Point (Likert, 1972) as the measurement scale and the conceptual framework for determining the internal consistency measured by coefficient alpha (α -coefficient) of Akron BAC (Cronbach) to calculate the average value of the correlation coefficient. All values lower than 0.50 were eliminated from the measurement. Qualitative research was collected from information from the executives of large international organizations and executives from Thailand's Investment Promotion Agency in order to confirm the model of quantitative research with a sample of 10 executives selected for sampling using non-probability sampling using random sampling (purposive sampling).

Measurement

Dependent variable: Foreign real estate holdings factors (Behav_ten) analysis used as a measurement instrument or questionnaire utilizing a 7-Point (Likert, 1972) and was constructed with the scales developed enabling measurement of Purchasing (Type_te1) and Long-Term Leasing (Type_te3) (Rungruangphon, 2002; Dowden and Humphreys, 2013; Tan, 2004; Camilleri, 2011; Lopez *et al.*, 1988; Suttapong *et al.*, 2010).

Independent variables: Economy and investment (Econ_invest) analysis used as a measurement instrument or questionnaire a 7-Point (Likert, 1972) and was constructed with the scales developed enabling measurement of Economy (Economics), Interest Rates (Interest) and Foreign Investment Type (Invest_type) (Adelaja *et al.*, 2010; OSMEP, 2012; Ratniyom, 2013; Omran and Pointon, 2009; Krugman, 1979; Dee, 2013; United Nations, 1991).

Government Policy (Gov_policy) analysis used as a measurement instrument or questionnaire a 7-Point (Likert, 1972) and was constructed with the scales developed enabling measurement of Financial Incentives (Money_factor), Tax Incentives (Tax_factor) and Legal Transparency (Law_factor) (Kasikorn Research Center, 2012; Suttapong *et al.*, 2010; Cohen, 2010; Roubi and Ghazaly, 2007; Adelaja *et al.*, 2010; Chan and Chen, 2011; Ratniyom, 2013; Mohd *et al.*, 2009; Suttapong *et al.*, 2010).

Social and Environmental Conditions (Social_envt) analysis used as a measurement instrument or questionnaire a 7-Point (Likert, 1972) and was constructed with the scales developed enabling measurement of Infrastructure (Infrastructure) and Environment (Environement) (FHWA, 2004; Graaskamp, 1981; Munich, 2012; METI, 2012; Camilleri, 2011).

RESULTS

Partial Least Squares has been applied for analysis of quantitative data by the researcher. It is analyzed for Confirmatory Factor Analysis (CFA) relating to the determination of manifest variable and latent variable and testing of research hypothesis exhibiting in structural model analyzed by using the applications of PLS-Graph (Chin, 2001). According to the analysis result of scale validity and reliability, scale investigation was conducted using internal consistency measurement coefficient alpha (α -coefficient) of Akron BAC (Cronbach) to calculate the average value of the correlation coefficients which ranged from 0.763-0.926 which is considered to have high reliability.

In case of measure variables with reflective analysis, convergent validity has been conducted. Loading is used as consideration criteria and must be positive quantity and indicator loading has been more than 0.707 and all values have been statistically significant ($|t| \geq 1.96$) representing convergent validity of scales (Lauro and Vinzi, 2004; Henseler *et al.*, 2009) quoted in (Wingwon and Piriyaikul, 2010) and analysis results as shown in Table 1.

Economy and Investment (Econ_invest) factors underlying the external variables influencing the Economy (Economics), Interest Rates (Interest) and Foreign Investment Type (Invest_type) with values of 0.9261, 0.9337 and 0.7552, respectively and a significant level of confidence level of 95 ($t\text{-stat} > 1.96$) which considers such factors highly reliable. It has an effect on Foreign Real Estate Holdings.

Table 1: Statistic values presenting convergent validity of reflective scales of latent variables

Construct/item	Loading	AVE	t-test
Economy and investment (Econ_invest)			
Economy (Economics)	0.9261	0.767	140.0589
Interest rates (Interest)	0.9337		120.6980
Foreign investment Type (Invest_type)	0.7552		22.9337
Government policy (Gov_policy)			
Financial incentives (Money_factor)	0.9102	0.851	64.9166
Tax incentives (Tax_factor)	0.9385		116.9016
Legal transparency (Law_factor)	0.9188		102.4301
Social and environmental conditions (Soc_envt)			
Infrastructure (Infrastructure)	0.9493	0.899	116.6865
Environment (Environment)	0.9465		100.9496
Foreign real estate holdings factors (Behav_ten)			
Purchasing (type_te1)	0.9060	0.681	69.1547
Long-term leasing (Type_te3)	0.7354		17.1335

Table 2: Results of Confirmatory Factor Analysis (CFA) for measurement model

Constructs	CR	R ²	AVE	Cross construct correlation			
				Economy and investment	Government policy	Social and environmental conditions	Foreign real estate holdings factors
Economy and investment	0.907	0.7322	0.767	0.876			
Government policy	0.945		0.851	0.856	0.922		
Social and environmental conditions	0.947	0.6723	0.899	0.736	0.820	0.948	
Foreign real estate holdings factors	0.808	0.5718	0.681	0.733	0.716	0.645	0.825

CR: Composite reliability, R²: Square of the correlation, AVE: Average variance extracted, statistical significance level is at 0.01 and diagonal figures mean \sqrt{AVE}

Government Policy (Gov_policy) factors underlying the external variables influencing financial incentives (Money_factor), tax incentives (Tax_factor) and legal transparency (Law_factor) with values of 0.9102, 0.9385 and 0.9188, respectively and a significant level of confidence level of 95 (t-stat>1.96) which considers such factors highly reliable. These factors affect Foreign Real Estate Holdings.

Social and Environmental Conditions (Soc_envt) factors underlying the external variables influencing Infrastructure (Infrastructure) and Environment (Environment) with values of 0.9493 and 0.9465, respectively and a significant level of confidence level of 95 (t-stat>1.96) which considers such factors highly reliable. These factors affect Foreign Real Estate Holdings.

Foreign Real Estate Holdings Factors (Behav_ten) factors underlying the external variables influencing Purchasing (type_te1) and Long-Term Leasing (Type_te3) with values of 0.9060 and 0.7354, respectively and a significant level of confidence level of 95 (t-stat>1.96) which considers such factors highly reliable. These factors affect Foreign Real Estate Holdings.

The above reflective model in Table 1 shows the discriminant validity of the internal latent variables and the correlation of variables. It also depicts the scale reliability which has been analyzed from Composite Reliability (CR) as well as the Average Variance Extracted (AVE) and R². The CR value should not go below 0.60 and the AVE values should also drop below 0.50 and R² values should not be under 0.20 (Lauro and Vinzi, 2004; Henseler *et al.*, 2009) cited in Wingwon and Piriyaikul (2010). In Table 2, the Confirmatory Factor Analysis (CFA) of the

independent variables of Economy and Investment, Government Policy and Social and Environmental Conditions on the dependent variable of Foreign Real Estate Holdings Factors is shown.

Figure 2 depicts the analysis of factors affecting foreign real estate holdings in both the Bangkok and Pattaya City Special Autonomous Systems (SAS). Analysis revealed of the assumptions stated that real estate holdings of foreigners in both SAS areas that all 5 hypotheses gave such support but the support varied by the level of faith which was strongly different. Hypothesis 1-4 supported the hypotheses with a confidence level of 95% while Hypothesis 5 support the hypothesis at a level of confidence of 90% which is depicted in Fig. 2 and 3 as well as Table 3.

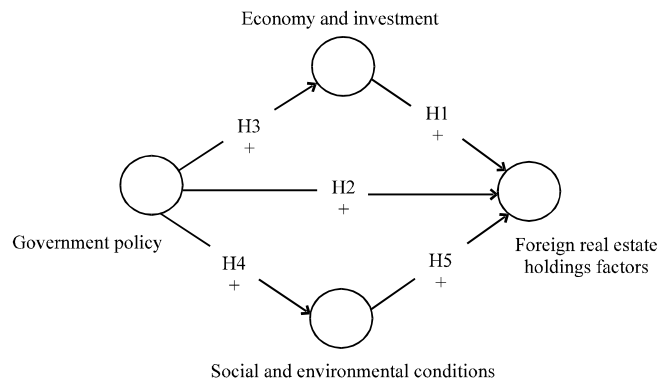


Fig. 2: Independent variable support for foreign real estate holdings in Thailand's SAS areas

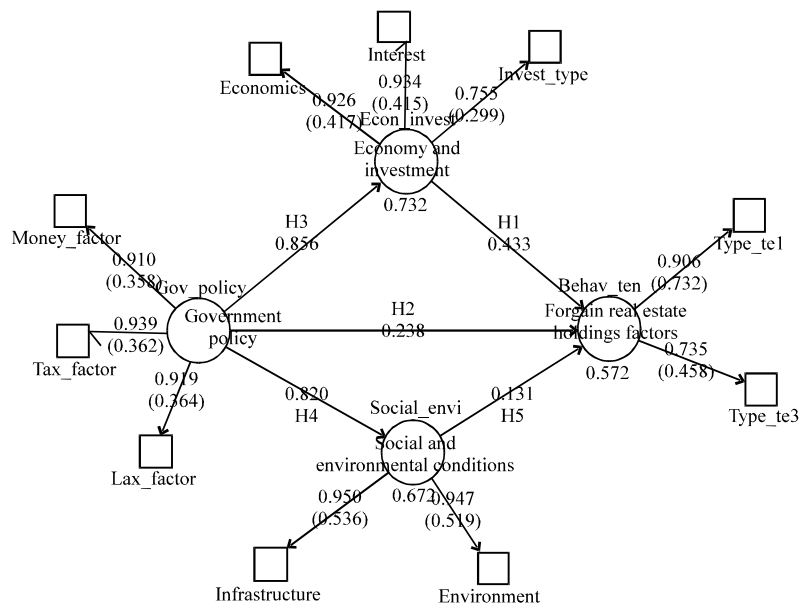


Fig. 3: Final model-analysis of factors affecting types of real estate holdings within Thailand's Special Autonomous Systems (SAS)

Table 3: Hypotheses test results

Hypothesis	Coef.	t-test	Results
H1: Economy and investment have a direct and positive influence on foreign real estate holdings factors	0.433	5.1768**	Supported
H2: Government policy has a direct and positive influence on foreign real estate holdings factors	0.238	2.1011**	Supported
H3: Government policy has a direct and positive influence on the economy and investment	0.856	48.3856**	Supported
H4: Government policy has a direct and positive impact on social and environmental conditions	0.820	36.9508**	Supported
H5: Social and environmental conditions have a direct and positive influence on foreign real estate holdings factors	0.131	1.7325*	Supported

**At confidence level of 90 and 95%, respectively

DISCUSSION

The findings of the structural equation modeling of present study found that various factors including government policies and tax incentives as well as legal and financial measures influence foreign real estate holdings. This is consistent with the research of Adelaja *et al.* (2010) which noted that tax incentives along with other measures will affect real estate prices which is the result of tax rates and fees associated with land and buildings. As was noted in the qualitative interviews for this study, Thailand 6.3% land office transfer fee was repeatedly mentioned by foreigners as an issue with residential ownership by whatever means.

If tax rates and fees are low and property prices also not high, businesses will be more lucrative contributing to increased production into the market. Having adequate amounts of real estate in the market will affect real estate prices and their purchase decision (Chan and Chen, 2011). Unlike many mass production industries, each real estate project is unique and the development process is so much a creature of the political process (Graaskamp, 1981) with the amount of financial sector support affecting the real estate pricing models which helps in the decision to purchase the property faster and creates cash flow to market real estate (Roubi and Ghazaly, 2007).

Property includes land and buildings and the land is classified as a limited natural resource. Today's technology, however, is capable of augmenting this resource to some degree such as building tall towers or filling in sea for expansion and development but overall urban areas are limited and property development has to be carefully considered. The Thai government should create incentives and encourage investment from both Thais and foreigners whose investment aims are residential, farming or industry and manufacturing.

Rungruangphon (2002) conducted research on brand awareness and attitude by both experts and customers in the Thai real estate sector. The study found that factors affecting brand equity were different between the experts and the customers with experts stating that both the house and project's quality and standards were important factors. Additionally, the experts felt that the facilities, security, community member numbers, income, status, after sales service, trade-in liquidity and company stability as well the project's environment and surrounding area were the most important factors.

Real estate holdings can be classified either as a purchase or a lease but the decision to purchase or lease affects overall costs as purchasing increases debt load while renting decreases or significantly reduces the cost of the enterprise (Dowden and Humphreys, 2013).

Tax incentives measures, such as tax rates and associated fees, will affect land and buildings cost (Adelaja *et al.*, 2010). If tax rates and fees are low and property prices also not high, business

will be more lucrative contributing to increased production into the market. OSMEP (2012) found that the factors that foreign investors take into consideration for investment are many but include market expansion, investors to create business, security and confidence of investment and no risk in finding new buyers. A reason to invest in overseas business is the ability to source cheap labor, ready manufacturing supply chains, productivity and ability to expatriate your capital investment, cheap resource materials and the ability to easily sell you product into the local market (Ratniyom, 2013).

However, the factors that influence real estate holdings take many forms, such as the government policy to promote the use of land which are associated with legal factors, land ownership regulations (Camilleri, 2011) and factors of investment characteristics (Lopez *et al.*, 1988) and whether investment are direct or indirect.

This is also consistent with the study of Camilleri (2011) which noted that the development of infrastructure and public services is important with the development of rapid transit systems, flood protection systems or long-term national water management plans being national priorities.

CONCLUSION

As can be seen from this study, the motivation for a high potential return on a real estate transaction investment in both Bangkok and Pattaya has been large but political turmoil and risk has entered into the equation. The mechanism, however, in which these transactions take place by foreigners in Thailand take on various forms due to the uniqueness of Thailand's laws. This can include purchasing, renting, nominees, investment or corporate. Relevant factors include economy and investment which are variables related to the cost and difficulty of investing. This also includes the economic situation, including interest rates which is related to the Return on Investment (RoI) and patterns of international investment. Other factors include government policy, promotion and governmental support which also include financing, taxes and legal transparency. The above factors all affect the desire and intent to hold real estate in Thailand by foreigners.

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