

SE PORTFOLIO
HD **A perilous paradise in Australia**
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While the Great Barrier Reef is never likely to offer returns on a par with, say, Manhattan, at current prices, buyers might at least be able to get their money back Billionaire William Han perches at the stern of Silver Fox II, his 20-meter powerboat, as it weaves through the kaleidoscopic coral wonderland that is Australia's Great Barrier Reef.

In these pristine tropical waters in 1954, then-27-year-old Queen Elizabeth II and her consort, Prince Philip, escaped official duties to swim and spearfish during a six-month post-coronation world tour. Sixty years on, the secluded headland off which Their Highnesses frolicked is part of Han's kingdom.

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"Welcome to my **island**!" he says, leaping onto a wooden jetty leading to a sandy shore. After paying A\$12 million (\$10.9 million) for lovely Lindeman in 2012, the **Chinese**-Australian entrepreneur plans to spend more than A\$200 million building a luxury resort on the 8-sq km **island**, while keeping a prime secluded **site** for his own vacation retreat.

"When you first see the Great Barrier Reef, it blows your breath," he says in cheerfully fractured English. "Buying Lindeman was a bargain. It took me 10 minutes to make up my mind."

How much of a bargain is a source of debate within the cloistered world of private **island** sales. Although the Great Barrier Reef is one of the planet's most beautiful and precious places, it has a perilous history.

Over the past 80 years, investors have poured billions into resorts, only to discover that the reef can be as treacherous as it was in 1770 for British explorer James Cook, whose HMS Endeavour ran aground near a spot he aptly named Cape Tribulation.

Iconic Islands

In the past three years, four of the most iconic islands, including Lindeman, have been **sold** for a total of A\$25 million — a fraction of their former valuations. Today, the most prominent **property** agents are divided over whether the Great Barrier Reef market has finally bottomed out.

Farhad Vladi, founder of Vladi Private Islands GmbH, says, "In the past, the market was artificially inflated by greedy real **estate** agents and overly romantic buyers. Only now, when we're seeing forced sales, is the true value revealed. I think prices will continue to go down."

Hamilton **Island**

For one devotee, a A\$500 million investment in a 7.4-sq km dot called Hamilton **Island** has fulfilled his wildest **island** fantasies. Not only has billionaire Australian winemaker Robert Oatley, built what is quite possibly Australia's toniest resort, he's also developed the lavishly appointed Hamilton **Island** Yacht Club.

For numerous other investors, however, the music of waves lapping against coral turned out to be a siren song — their dreams run aground by a disastrous combination of cyclones, unsympathetic bankers, astronomical overheads, overcapitalisation, a soaring Australian dollar and competition from cheaper Asia-Pacific resort locales such as Bali, Fiji and Phuket.

Even rich foreigners eager to **buy** private islands find the distance formidable, according to broker Krolow.

"Eighty per cent of buyers come from the US, Canada and Europe," he says. "Simply getting them here to show them what's available is a challenge. The distance is insane."

One of the tiniest of the islands has alone devoured at least A\$150 million of investments by successive owners over the past 20 years. Its name: Daydream. Vaughan Bullivant, Daydream's present owner, is a native New Zealander who **sold** his vitamin supplements business in 1999 for A\$135 million. He has spent A\$75 million creating a 300-room resort with amenities ranging from an elaborate spa to a wedding chapel.

'Nightmare'

"Daydream became Vaughan's nightmare," Casey says. He has since succeeded in turning around Daydream's business.

The resort delivered a net profit of A\$2 million on revenue of A\$28 million for the fiscal year ended June 30, 2013, and has no debt.

However, Bullivant wants out, and has been trying to sell for a fraction of the A\$150 million replacement value.

Although Casey won't disclose the asking price, he says Bullivant recently turned down offers of more than A\$30 million.

When he does finally walk away with inevitably lighter pockets, Bullivant will be in illustrious **company**.

Even Rupert Murdoch, Australia's most famous entrepreneur, managed to lose money on a Great Barrier Reef investment in 1998, when a **company** he half-owned, **sold** Hayman **Island** for A\$61 million, a fifth of the A\$300 million it had splurged on the resort barely a decade earlier.

'Half a chance'

While the Great Barrier Reef is never likely to offer **property** returns on a par with, say, Manhattan, the current generation of **island** buyers might at least escape with their shirts, according to Ron de Wit, founding partner of consultant AHS Advisory.

"When you spend the sort of money people used to pay, it's very hard to get your money back," de Wit says. "But at these prices, you've got half a chance."

Han and I trek to the **island**'s highest point. Down at sea level, the old Club Med resort is barely visible. "Come back in two years, and you won't recognize the place," Han says. In surroundings like this, it's hard not to be optimistic. Bloomberg

Daydream to nightmare

Investors' dreams have run aground with cyclones, astronomical overheads, and competition from locales such as Bali, Fiji and Phuket

Fishing at the Reef

Once high, prices are now trending down

Selling at fraction of former valuations

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