PALACE

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THIS APARTMENT ON PASEO DE GRACIA IN BARCELONA IS FOR SALE **Pg 48**

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BOOMTOWNS AND THE BUCK

A CATALYST FOR FUTURE GROWTH IN THE REGION IS THE RISE OF VERY WEALTHY TOURISTS WHO WILL DEMAND DISTINCTIVE, VALUE-ADDED EXPERIENCES, FASCINATING DESTINATIONS AND HIGH-LEVEL SERVICES

by Alexander Karolik-Shlaen

As a property investor I am constantly observing the macroeconomic component of various markets in order to learn about their upturn and downturn. I am very keen to learn if any reliable predictions can be made based upon such observations.

Currently, there are probably only two economies in the developed world where the property market held up well during the economic crisis of 2014. One is in our region and the other is in the Mediterranean Middle East. They are Australia and Israel.

Australia, supported by China's voracious appetite for its minerals, literally dug itself out of the crisis. Despite the Chinese economy being in a severe slowdown currently, its ample demand for raw materials is sustained. However, Australia's current stability comes at a price: its manufacturing sector is declining as cost of production rises and currency requirement pushes it to dig for more. Despite this, the quality of life in Australia, its positive economic outlook and its currency attract foreign investors to acquire property there. When I visited last January, I noticed that more Chinese citizens are investing down under.

Some predict that the slowdown in Chinese economy would mean a significant slowdown in their investments overseas. Well, there might be some slowdown but take note that the Chinese have had their fingers burnt in the financial and stock markets and that they have lost trust in such 'westernised' investment tools. While entire investments can be reduced to zero in stock markets, such a calamity is unlikely to happen in real estate. Chinese citizens decide with their legs and purses and it's not going to stop anytime soon.

Therefore, my take is that there is going to be only a temporary slowdown in Chinese investments. The Chinese, and Asians in general, love their property so much that the proportion of property investment is significantly higher in Asia than in the West.

Meanwhile, in a further sign of Australia's booming property market, the most expensive home is listed on the market for just over US$90 million. If sold, this Victorian mansion in Sydney will nearly double the previous high of US$47 million.

Sydney Harbour, Australia

Victorian mansion in Sydney


Israel

Meanwhile, In Israel

Relating to Chinese investment, I was in Israel this April, looking for targets to invest in various technologies, pharmaceutical and biomedical companies on behalf of New Headline Group, a Leng Yun Gang special economic zone operator, which is based north of Shanghai. I was brought in as an external director and adviser.

And why are they so interested in Israel?

When the world was in the throes of the worst financial crisis since the Great Depression, home prices in the US, Europe and Asia came crashing down; many individuals and banks went belly-up but Israeli property prices rose. The property sector picked up speed as the crisis dragged on in many leading Western and Asian economies. It was as if Israel were a world unto itself. The situation was driven by highly local, internal factors, namely, a very conservative behaviour by banks that was imposed by the Central Bank.

An enormous money-making machine of innovation, research and development, and technology, Israel is the world's leading start-up nation. And the money that made local entrepreneurs rich has found its way to property.

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In Israel I visited the site of a villa – or rather a palace – that is being built in the beautiful, Rothschild family-managed town of Caesarea by the Mediterranean Sea. A Russian oligarch Valery Kogan is building this beach home at an eye-popping US$120 million on 1.4ha of land. The building is designed in a style resembling the White House, with lavish features that include US$6,000,000 of gold leafing, a 1,000-sqm entry hall with glass dome for viewing the night sky, a 10-car subterranean garage, and a $2 million solid gold entry gate to the property.

While I was there, I was told that another oligarch, Roman Abramovich, the owner of Chelsea Football club, rented out a whole luxury boutique hotel in the south of the country for his family and friends for a week. I think you would have got it by now why the Chinese sent me there to search for investments.


Roman Abramovich

Back In Singapore

Now let's look at the factors that move Singapore property. In early 2009, peering into my crystal ball, I predicted that Singapore would eventually create a pull factor for the international jet-set to visit for various fun activities, including the development and attractions of Marina Bay and Sentosa.

During that year, Singapore received 9.7 million visitors, representing a 4.3 per cent decline from 2008. Tourism receipts also declined 15.7 per cent in 2009 to S$12.8 billion.

Fast forward to 2014. The transformation of Singapore and its fun-factor (or pull-factor) has been beyond my predictions.

Marina Bay Sands and Genting Singapore PLC's Resorts World Sentosa have become the world's most profitable casinos.

Singapore tourism revenues in 2013 are north of US$20 billion while its visitor arrivals are over 15 million. These mind-blowing figures are more impressive taking into account that the number of visitors is almost thrice the population of this resource-poor citystate. Furthermore, Singapore has no natural wonders to marvel at, so the vast majority of attractions are man-made.

According to the World Economic Forum's (WEF) biennial report, Singapore ranked first in Asia in terms of competitiveness, according to the travel and tourism industry. It ranked tenth among 140 countries and regions around the world.

But this stratospheric rise in tourist arrivals and revenues from tourism cannot continue much longer at this breakneck pace. Singapore's land and manpower constraints mean the Lion City needs yet again to invent something new – another 'world's first' attraction – to find freshs ways to do more with less. The next phase of tourism growth would then come from increasing

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Marina Bay Sands, Singapore

yields through higher visitor spending, rather than just visitor numbers. This means targeting higher income, higher spending tourists and providing them with higher value services and attractions.

Singapore property mirrors the rise in the city-state's attractiveness for the wealthy of the world. Property prices, from commercial to residential, have soared to new highs since 2009. Furthermore, owing to economic deterioration in other parts of the world, Singapore property shines even brighter by comparison. That has not escaped the attention of many wealthy visitors who have bought some of the most expensive properties in town.

Let's look at the macros: Further targeting higher-end tourists while not increasing human resources will mean increasing marginal product, i.e. realising higher margins and incomes will in turn result in higher productivity. This will create higher incomes for hotels, F&B and labour markets, and eventually attract more investments in the hospitality business. This will push up overall costs that will in turn effect a rise in property prices, residential or commercial. That is, if all goes as planned.

The local government is overseeing this transformation and believes the change is timely because, externally, the expected rise in Asian tourism over the coming years presents an opportunity to attract ever-richer Asian travellers seeking distinctive and value-added experiences and fascinating destinations.

Other major destinations in our region, such as Bali and Phuket, are looking to attract the same higher-value tourists, with Phuket doing it more successfully with a myriad high-end attractions, fabulous golf courses and world-class marinas that attract more high-end property buyers.

Eventually, we will see more money going into luxury property and more record-breaking properties throughout the region. ♚

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Resorts World, Singapore