

DEMOGRAPHICS, CONSUMPTION AND BIG ASIAN MONEY

We are in the midst of a major process that is going to affect almost every country in the world.

by Alexander Karolik-Shlaen

In the next fifteen years or so, many baby boomers will be retiring. This is a significant factor that will influence wealth and spending patterns.

Baby boomers in Asia are both wealthy and numerous. They will be increasingly investing in second homes and resorts to retire in.

They will require more comfortable surroundings, personal services,

amenities, quality leisure facilities such as food and beverage, golf clubs, boating facilities, as well as top notch medical service. These expectations are already driving property developers to create luxurious, multi-purpose residential communities, both in cities and resort destinations across the region.

Another group that will determine a change in lifestyle and consumption in

Asia is the “nouveau riche”. Mainly in China and in a lesser way, those in India. The average millionaire in China is more than 10 years younger than his or her counterpart in the West, with many of China’s wealthy only in their late thirties. The men in China consume luxury products on a par with women. Some data suggests they spend even more money than women to pamper themselves. In the West



however, men account for only around a tenth of the luxury goods consumption. Women spend a significantly larger portion of their income on items such as bags, jewelry and shoes.

In China, about a third of supercar buyers, are women. In the US, however, only about 10% of Ferrari buyers are women. These unique consumption patterns will drastically change the lifestyle picture of Asia in years to come. Being able to estimate such trends will make investors a fortune.

CHANGING TIMES

The luxury lifestyle is evolving. In the 1960's and 70's, people who could afford Gucci shoes were easily recognised as millionaires, only the most successful and rich could afford them. Today, what I call 'mass-luxury' is consumed by 20 year olds. Many of them sport Gucci shoes, LV bags and Hermes belts. The consumption of such brands went into overdrive in recent years and I am certain that the

super-rich are moving into much higher-end consumption. In order to be in the more exclusive 'zone' of luxury, their purchases include limited edition super-cars, limited edition watches, second homes and resort properties, and superyachts.

In Asia, property is still at the top of the list. Luxury investors choose top class penthouses, villas and resort properties first, followed by expensive time pieces, cars and art. Asia's HNWI also increasingly looks for more exclusivity, finesse and personalisation. On vacation, they hire or buy their own resort villas to stay away from the 'mass' luxury crowd, who are generally staying in 5 star hotels. Most HNWI want privacy, so villas are often the preferred option, whether as a holiday rental or a second home.

Asian buyers are also changing the markets and sometimes even the demographics globally. On my recent visit to Vancouver, it was obvious how much prosperity is brought to this west Canadian city.

With numerous luxury stores and

excellent restaurants, Vancouver has around half of its population originating from Asia.

This prosperity is especially reflected in the property market.

Vancouver is now sporting the dubious honour of being the most expensive city in North America, with its US\$2.3 million average price tag for a detached home. Boasting an excellent infrastructure, healthcare system and well connected network of flights to the Far East, it has become the perfect place to have a second home or to retire.

Naturally some locals are priced out and the surging property prices have triggered protest movements by younger professionals and other groups.

On the contrary, it has made a lot of local home owners multi-millionaires and brought modern development and a cosmopolitan feel to a rather small city of 2.5 million.

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Formitalia luxury interior

the world, after Hong Kong, according to a study of major property markets. The annual Demographia International Housing Affordability Survey ranks real estate markets in Canada, the United States, Australia, China, Ireland, Japan, New Zealand, Singapore and the United Kingdom. The survey calculates affordability by comparing median house prices with median incomes – the higher home prices relative to incomes, the more unaffordable the market.

But note that even more spectacular than the rise of property prices in Vancouver is the descent of the Canadian dollar – near 13-year lows vs USD. Canada's property market remains completely open to foreign investors, which furthers its attractiveness. If we compare it to Australia, another super magnet for Asian investors, it is clear that Vancouver prices might continue their rise. Australia imposed various limitations on foreign purchasers. These only allow them, once approval is obtained, to purchase apartments or townhouses in a proposed development, or in a development which has just

A spectacular rise in residential property prices of over 20% in 2015 alone, has made Vancouver the second most unaffordable housing market in the world, after Hong Kong

been completed, but has not yet been occupied or sold. If a foreign investor buys an off plan property, when built, the property can be rented out, sold or used by the purchaser.


The Australian Government insists that all applications from foreign citizens or companies to buy residential real estate (either already developed - such as houses and apartments - to be developed, to be redeveloped or existing only at plan stage) are put before the Foreign Investment Review Board (FIRB). It takes around 30 days to get the approval.

Nevertheless, Asian investors are pouring their money into the Australian property market. Several developers from Asia, notably from Singapore, are stepping in and

building more developments.

I expect prices to continue to increase, especially in Sydney and outperform Vancouver and most of other classical targets for big Asian money. While Singapore and Hong Kong are in the midst of the draconian cooling measures by their governments, I do not expect them to attract too much attention. Hong Kong is just starting its decline, while Singapore's high-end property will start attracting investors. Its exceptional value for money will present itself during the later part of 2016.

The slowdown in China might push even more wealthy Chinese overseas to look for second homes and more price records will surely be broken.

Watch this space. 

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