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MY TAKE ON IMPORTANT PROPERTY MARKETS FOR THE YEAR AHEAD

by Alexander Karolik-Shlaen

London skyline.

What a year 2016 was! Filled with so many unforeseen surprises. Politics naturally spilled into business, and this affected and will continue to influence the investment and property markets. I will look at some of the major markets that are of interest to Asian investors, and we shall see what we can expect for 2017 and beyond.

UNITED KINGDOM

With Britain going to work out the terms of its exit from the European Union, and city banks considering their options on the Continent, it is tough to predict the outcome of the market as a whole. It seems like there is simply not enough property for self-stayers everywhere in the country.

The British government has announced plans to build 17 new towns and villages across the English countryside in a bid to ease chronic housing shortage. The new "garden" communities, from Cumbria in the north to Cornwall on England's southern-most tip, would be part of a scheme to build up to 200,000 new homes. In fact, there is insufficient accommodation in London, with prohibitively high prices pushing many locals into the city's periphery. I expect overall property prices in England, especially the peripheral areas of London, to go up, while prices in central London will see a downwards trend due to the uncertainty of large businesses and their subsequent actions following Brexit. We can also note that demand for very high-end property has weakened and will continue to remain so.

Despite the foggy outlook for London, four of China's biggest banks have agreed to finance the first stage of a GBP 1.7 billion (approx. USD 2.1 billion) transfiguration of an old East End dock into a hub for Asian businesses. Chinese companies have also invested almost GBP 5 billion in London property last year, beating the 2015 record by a third, according to data compiled by CBRE Group Inc. It seems like big money from China and Hong Kong will still be going into London, a sign of confidence in the city's long-term future.


Victoria Harbour, Hong Kong.

HONG KONG

The Hong Kong government implemented additional cooling measures to control the most unaffordable real estate in the world. Although, it seems the government's work has been rather patchy.

Billionaire Edwin Leong (one of Hong Kong's largest retail landlords) and his family managed to qualify as first-time homebuyers, purchasing three luxury apartments on the Peak for USD 155 million on the same day a couple of months ago. Previously, Leong, worth an estimated net USD 4 billion, didn't hold any real estate in his name despite owning more than 300 other properties including apartments, hotels and shopping malls, through his company, Tai Hung Fai Enterprises Co. He and other wealthy buyers are finding legal ways around government imposed measures. Hong Kong property prices have returned to near-record highs and sales volumes have surged since Chief Executive Leung Chun-ying announced the latest round of curbs on November 2016.

The new tax introduced at the end of last year is the latest in a series of measures implemented since 2011 to assist low-income families in obtaining homes. The measures were supposed to increase costs for investors and foreign buyers. These include a tax that penalizes people who resell within three years, and an extra stamp duty of 15% for foreigners, similar to the measures taken by the Singaporean government. However, what a huge difference between these two government actions. Singapore didn't leave any loopholes and effectively cooled (and in some cases killed) the property market, while Hong Kong seems to be bound to further price increases as mainland Chinese buyers and the local wealthy are still happily snatching the properties there and taking their money out of China.

> *"Hong Kong property prices have returned to near-record highs and sales volumes have surged..."*

SINGAPORE

Speaking of Singapore, there is not much that I can shed light on for this market, frozen as it is by cooling measures. I can only restate that its highest-end property became one of most attractive (price-wise) in the region, if not the world. However, my take is that the government's cooling measures won't undergo dramatic changes as long as interest rates remain low. Furthermore, demand for property continues to persist, supported by the local wealthy population.

Personal wealth per adult in Singapore grew strongly up till 2012. Since then however, it has risen slowly only in domestic currency units, and has declined a little in terms of USD, according to the latest research by Credit Suisse Research Institute (CSRI).

Despite this drop, average wealth remains at a high: USD 276,900 per adult in mid-2016, compared to USD 112,800 in 2000. Singapore is now 10th in the world in terms of household wealth per adult, giving it the highest ranking in Asia. Significantly, it is now well ahead of Hong Kong, which was ranked 10th in the world in 2000, just above Singapore. Wealth per adult in Hong Kong grew at an average annual rate of only 3% between 2000 and 2016, versus 5.8% for Singapore over the same period.

It is also interesting to note that the average debt of USD 54,800 per capita is moderate for a high-wealth country, equalling just 17% of total assets. It supports a point that I have stated for years that the local market is far from being over-leveraged. Wealth distribution in Singapore is only moderately unequal: just 18% of its people have wealth below USD 10,000, compared with 73% globally. Reflecting its very high average wealth, 5% of its adults, or 222,000 individuals, are in the top 1% of global wealth-holders, a very high number given that it has just 0.1% of the world's adult population. This and the fact there is relatively low leveraging, translated to property investing, can only mean that the local buyers have a long way to go before they reach their maximum level of debt financing. Hence my strong belief in the long term continuation of local high-end property investing. Please note that this does not cover lower-end government subsidised properties.


Villa Mayavee, Phuket.

JAPAN

According to CSRI, Japanese wealth grew 19% from 2015 till mid-2016, but only because of the appreciating Yen against other currencies. In Yen terms, total wealth did not change, and wealth per adult rose only 0.1%. This represents a slowdown relative to the progress seen in the preceding five years.

Japan's wealth per adult was USD 191,900 in 2000. Today, average wealth is 20% higher in USD terms, and only 7% higher when measured in Yen. That means the Japanese do not feel much more wealthier now than some 16 years ago. That strengthens my view of a lack of strong local demand for residential property. I feel that most interest for local residential property comes from overseas investors, who assume something magical will happen to Japan during and after the 2020 Olympics. In reality, due to a stronger Yen, the Japanese might be more interested in foreign property than in their own. Also, the demographics do not support the growth in demand as the population doesn't increase and there is still no immigration, and these factors won't change anytime soon.

RESORT HOUSING

Despite a slowdown in transactions in the resort markets, I do notice an increase in new developments and buying of high-end property. The interest from HNWIs is still there. Everybody wants their own place in paradise, especially when there is a good deal or a good location on offer. The newly launched beachfront condo by the Banyan Tree Group in the fabulous Bangtao beach in Phuket saw some half a dozen units snatched up in a matter of hours, which comprises almost half of the 15 units released in the first stage. Out of a total of 18 units released by the middle of January, 13 have been purchased so far. The units are luxurious, spacious, and are each equipped with a swimming pool and unobstructed views of the Andaman sea. Residents will also have access to world leading resort facilities.

On the northern part of Bantao beach lies a new development by the Kajima Corporation, a famous Japanese developer, that offers villas starting from USD 8.5 million. Other new luxury properties in Phuket include Avadina Hills, MontAzure and Villa Mayavee. I have also noted an upcoming project currently in its design stage, located at the northeast side of Koh Samui. It promises villas designed by a super brand and priced at around USD 10 million. Another similar project with dozens of luxury villas is also being planned for the Maldives.

Recovering oil prices means that we can also expect more tourists from the Middle East. Combined with growing Russian-speaking tourists, it means increased rental returns for landlords and investors of high-end holiday homes.

I feel that the high-end and branded property market will be an interesting one this year, with more projects launching. Watch this space, as I will revisit this subject again. With this, we conclude and I would like to wish you all a happy new year and successful investing in the Year of the Rooster. ♛

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