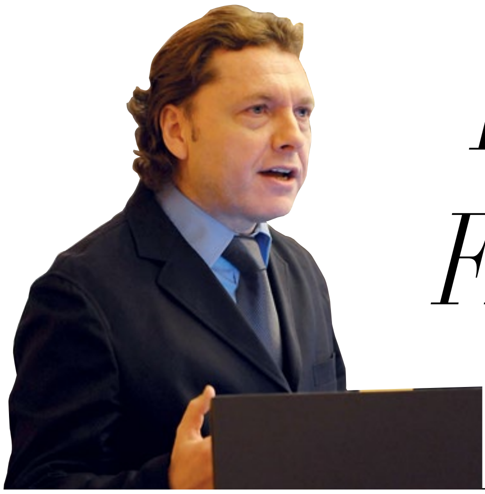

LUXURY MARKETS FACE UNCERTAINTY

by Alexander Karolik-Shlaen

In the current luxury property markets there is unprecedented uncertainty. Uncertainty is everywhere, investors might say. In financial markets the uncertainty became almost a 'new normal'. But it is not so normal for the luxury markets.

The two most important buyer groups of high-end property are having problems in their home base. They are Chinese and Russians.

In addition to this double-whammy destabilizing factor we got our own political and economic situation in South East Asia with lots of mixed factors that affect the property market.

Lets look into these components to understand the implications on the luxury property market in the world and specifically in the region.

CHINA

China is in a slowdown, as we all know it. This slowdown turns out to be the most important element of all, not just for property business, but for the economy of the whole world. Even the FED in the US delayed their interest rate hike due to this factor.

Much of this slowdown is self-imposed. It is part of the ruling Party's effort to replace an old model based on trade and investment with a more self-sustaining growth driven by domestic consumption.

I don't think China is going towards the hard landing. I can see the Mainland Chinese are getting the feel of disappointment from the financial markets, while witnessing the breathtaking rollercoaster of local stock markets, at some points wiping out hundreds of billions of dollars worth of wealth. What will they do next? They will do the obvious for any Asian investor: they will go back to a good old, most beloved asset class of all, property.

HONG KONG

Hong Kong remains one of the most desired Chinese city for Mainland Chinese to live in. In China they define cities into tiers, where tier 1 are the most developed and in a way most desired cities to be based, be it for quality of life, amenities or work. China's first-tier cities usually count Beijing, Shanghai, Guangzhou and Shenzhen - "The Big 4". Second-tier cities include Tianjin, Wuhan, Chongqing, Chengdu, Xiamen, (...). Hong Kong is a sort of super-tier city, a league of its own.

Given that China is creating over a 1,000 or maybe even many more millionaires every day and a billionaire every week, even if just a few percent of them inspire to move to Hong Kong, it promises the high-end properties there to be in ever increasing demand for many years to come.

Meanwhile Chinese cities are becoming more expensive as the gap between them and Hong Kong continues to narrow, making Hong Kong property more affordable and even more attractive for Mainlanders. China indeed is in a slowdown but given it's enormous size and it's population's relentless drive to have a better life, in the mid to long term its economy is bound to rise and a lot.

Hong Kong already has the highest number of multimillionaires in the world, even higher than New York and London, more than double that of Singapore.

Unless the Hong Kong authorities and the Government of China will somehow block the PRC citizens from settling in Hong Kong, the prices will continue to rise and will probably go further up in the mid to long term. Hong Kong property market continued to defy government cooling measures so far but eventually some correction is in place in this best performing major property market in Asia.

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RUSSIA AND CIS

Russian property investors are facing a very different situation in their home base. Russia's political clashes with the west and the western economic sanctions, combined with the collapse of oil prices devalued the Russian currency. That triggered currency of various oil and mineral rich central Asian nations such as Azerbaijan and Kazakhstan to follow suit with a 30-40 per cent devaluation of their currency.

Referred to as "Russians" in the west, these luxury properties buyers were big players in London, the French Riviera, Manhattan, Phuket, Singapore and other prime locations. The purchasing power of this segment has diminished significantly and their buying activity has been reduced to a dribble. Unfortunately, I do not see a potential near end to the current situation in Russia. Although things change for the better once oil prices start recovering, giving a much needed economic boost to countries in Central Asia and therefore getting their citizens back into the luxury property market.

I do see a nice compensation of this 'lost segment' being replaced by the luxury buyers from the Indian subcontinent. The Indian economy is posed to be a star performer this year with over 7% growth. South Asians will be buying more properties overseas, that is additional to their traditional love for the UK market in general, London in particular. I can see more potential buyers from the sub-continent buying into Singapore and Hong Kong residentials as well as Phuket and Bali resort properties. Watch this segment increase year by year, as they may also become large players in the property market of Bangkok and Myanmar.

Now lets look into the background economics of South-East Asia.

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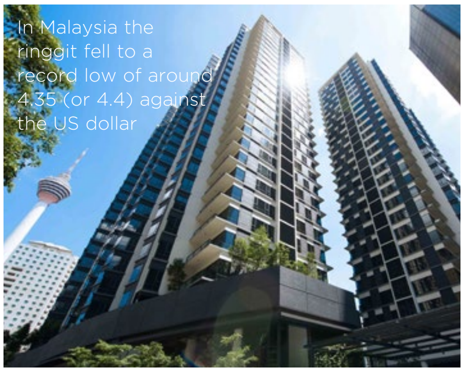
PHILIPPINES

The Philippine Peso continues to be one of the strongest currencies in its region, and even in the world. Even so, the Peso has not been immune to the recent currency turmoil.
The Philippines currency has been dragged down by the general strength of the US dollar and by the contagion in Asean currencies. Since topping out in 2013, the peso has weakened by 15.6 percent against the US dollar and that in relative turns shows its strength. More Filipinos are buying properties in the region, mostly in Singapore and Hong Kong. On the other hand, the ASEAN investors who bought properties in the Philippines see a nice appreciation due to the exchange rate, relative to their weaker currencies. Philippines' economy is doing relatively well compared to the rest of the region. It is attracting more foreign investment. More corporations are beginning to realise this and now look into this 100 million strong country for its big potential market.

Philippines might be one of the few economies that is safe from the interest rate hike in the US as it may actually boost demand, which would then drive the country's exports and services industry amid the country's close ties with the US. >>


In Malaysia the ringgit fell to a record low of around 4.35 (or 4.4) against the US dollar

>> The demand for residential properties, and I am not talking just about the luxury condos in Manila, but mass market condos, is seeing an increase in demand from the growing middle class in secondary cities - a trend that might accelerate further with increased economic expansion.

The readers from USA, Switzerland and Norway should take note: it might be one of the rare opportunities to enter the attractive Singapore luxury property market for the mid to long term gains.

SINGAPORE

The Singapore dollar is considered a safe currency, but capitulated when the Chinese yuan devalued last August due to the fact that China is its biggest trade partner and top export destination.

But the weakening of the Malaysian and Indonesian currencies is expected to affect Singapore's economy with a reduced income from tourism and more expensive exports to these neighboring countries, which are the Republic's major trading partners.

Singapore dollar has given back almost 18 percent against the US dollar, since topping out against it in 2011; although much of the move was made after the devaluation of the yuan. That makes Singapore cheaper for American and Swiss buyers.

Coincidently, citizens of these countries as well as those of Iceland, Liechtenstein, Norway are eligible for additional buyer stamp duty (ABSD) remission under Free Trade Agreements – to simply put it, they are of the very lucky few foreigners who can buy into Singapore residential property without any additional taxes, which are levied on other foreign buyers. And we are talking fifteen percent (15%) here, a whopping discount to already 'discounted' market in US Dollar and Swiss Franc terms. The readers from these countries should take note: it might be one of the rare opportunities to enter the attractive Singapore luxury property market for the mid to long-term gains.

MALAYSIA

In Malaysia the ringgit fell to a record low of around 3 against the Singapore dollar. Malaysian tourists, who make up the third-largest number of visitors to Singapore, declined by 5.2% as the ringgit depreciated. It made Malaysia very cheap for all, but unfortunately due to political situation the country is not perceived attractive for property investors and most are waiting to see the fix to the political situation in this big and aspiring rich country. On the other hand, it seems like some Malaysians move their money elsewhere, mostly to Singapore and even buying residential properties despite the ABSD.

THAILAND AND INDONESIA

Thai and Indonesian currencies also weakened quite significantly against USD. Thai economy is going through a slowdown period but it is known for its resilience. Thailand is a very attractive destination for holiday-makers. Almost 30 million foreign visitors forecast to visit Thailand this year, an eye-popping figure. That keeps Thai hospitality and hotel property stable despite the political situation and economic slowdown in the region. There will be probably fewer arrivals from Russian speaking countries this high season but it will be compensated by ever growing arrivals from China and India.

Regional investors will also be looking closer at Indonesian properties as they became very attractive due to drastic local currency devaluation.

Thai and Indonesian resort islands of Phuket, Samui and Bali are still shining bright and attracting more high end tourists and with it the investors. ♚

Alexander Karolik-Shlaen, economist and real estate investor, is the CEO of Panache Management—a luxury brands and property investment and advisory


Anantara Bali Uluwatu Resort & Spa


Maikhao Dream Resort and Spa, Thailand