CROWNING RETURN

A luxury expert sheds light on Singapore's premium property market which is witnessing a rise.

by Alexander Karolik-Shlaen

In the middle of the 2008 economic crisis, luxury expert Alexander Karolik-Shlaen envisioned the sharp V-recovery of the Singapore property market despite most major financial institutions analysts anticipating a total and continuous price drop. A couple of years later he also predicted that Chinese investors would come to buy Singapore properties and that shop-houses would become more popular investment targets. So far it seems his guesses were spot on. Now, he believes that Singapore's luxury property prices are lagging in similar types of metropolises and have plenty of room to head north. *Palace Magazine* (PM) spends some time with Alex Shlaen (AS) to find out how it all comes together.

PM: What is the Singapore property outlook for 2018 in terms of luxury property?

AS: Given that the luxury property went down and took the biggest hit during the cooling measures, this segment will have the biggest upside among all properties in Singapore.
My take is that the luxury market will go up by some 12 to 15 per cent by the end of this year. The statistics is still not out yet but from what I witness on the market and hear from my investor contacts, it is already up by some 7 to 9 per cent (June 2018). Currently, there are some political processes happening in Malaysia and Indonesia, so I do expect more HNWI and UHNWI (High Net Worth Individuals / Ultra High Net Worth Individuals) moving out their money, and some possibly relocating to Singapore. The problem is that both countries' currencies are at the lowest against the Singapore Dollar and that could be an added reason to buy now to preserve investors' wealth (i.e. If they keep it in their own currencies, it will depreciate and lose the value further). Additionally, the en-bloc (i.e. an en-bloc

collective sales occurs when there is a sale of two or more property units to a common developer) fever has reached some prime districts. This means these older buildings have to be knocked down. It will require about four to five years to erect a new property; therefore, lesser units will be on the market until new ones are built. These older units are usually bigger than the new units on the market. Hence, there might be a shortage of bigger units in prime districts. In addition, there will be thousands of en-bloc multimillionaires who will be looking for properties for themselves. All this is behind my bullish expectation of the price increase.

PM: What are some of the market forces that the property market currently faces? Are some of them avoidable, if so, how?

AS: The market is not in its best of balance which is where the demand and supply curves meet each other. There are several powerful cooling measures that distorted the luxury property market demand and supply equilibrium. And I stress here: I discuss specifically the luxury market as its influencing forces are different from the rest of the market. The luxury property market, particularly condominiums, is affected a lot by foreign investors and the foreigners based in Singapore, including Permanent Residents. However, on the landed property segment, it is totally left in the hands of the locally-rich individuals or UHNWIs.

The locals are rarely the ones to rent the most upscale properties. Locals will tend to buy landed property for self-stay and buy luxury condos for rental returns and investment.

It is known for a fact that there are less visas issued to foreigners in recent years by the authorities and due to reductions in expenses recently by the corporations for their top executives, the most upscale rents got hurt the most. The rental returns in some luxury properties can be as low as 1 per cent if calculated at the current property market value (i.e. people who bought the property long ago for a lower price naturally get higher rental return). Hence, the segment's price dropped the most. It became clearly under-priced and started attracting investors back. The investors understand that they won't get good rental returns for some time but comprehend the game of appreciation of such relatively scarce properties in the longer term.

Earlier last year, the market witnessed "bottom fishers", usually local investors who know prices are soft. A bit later, these investors were joined by buyers who were looking for a timely upgrade. Subsequently, the activity picked up pace due to the wave of successful en-bloc deals that started initially in the middle-range locations and progressed to the prime locations. The en-bloc activity has now solidly moved into the prime locations and will reach the peak by end of this year. So, the investors and self-stayers are now competing for the not-so-large pool of high-end and luxury properties. Evidently, these investors have a clear view that they will have lesser rental returns for another one to two years.

PM: What do you think homeowners are looking for when buying luxury properties in Singapore today?

AS: I would divide such homeowners into two groups: investors and self-stayers. Many self-stayers realise that the best value is in the second-hand market where there are some fabulous properties that are generally bigger than the brand-new ones which developers are pushing into the market. In fact, many of these older properties are at the top locations. The cooling measure period made investors look for smaller quantum and that naturally affected the sizes of the units as the property developers wanted a faster turnaround of smaller units during the "deep freeze" of the cooling measures.

However, when one has the budget and is looking for a more luxurious place to stay, then size matters a lot. In fact, I always explain to investors that luxury starts with the size and not just with location. You can't have a so-called "luxury living" in a smallish apartment, and in general, we would validate a luxury unit as one with a space of 2,500 sq ft and above.

These investors, especially foreigners, come over for short buying trips to look at new properties available. New developments are easier to coordinate a visit if there is a showroom. More importantly, if the purchase process is buoyed by payment conditions usually not involving a full and immediate payment, it does speed things up.

PM: Do you think foreign buyers are still attracted to invest in Singapore? if so, why?

AS: Foreign buyers, and in general, international investors do not like it when governments interfere in the markets. But in the case of Singapore, such interference is partially tolerated because it is a rare triple-A rated market with very stable political and economic environment and these qualities are beloved by investors. Furthermore, foreign buyers know of other international markets and they see prices of high-end property in Singapore becoming more affordable and even attractive despite the harsh 15 per cent additional stamp duty.

International investors, and that includes the well informed local investors, know that world-class business centres and cosmopolitan cities command much higher prices for their luxury properties. In Manhattan, they won't be surprised to pay USD 6,000 psf and it is the same in London. In Hong Kong, the price can be double or even triple, and nobody would be surprised there. However, in Singapore one can buy a luxury property for less than USD3,000 psf and live the high life, something unattainable in the earlier mentioned destinations.

As in all luxury enclaves, the locations of luxury properties are limited, but in Singapore there is a further limit to it as the country is very small and the luxury segment of it is even more limited. This "double" limitation makes investors feel even safer in their purchase of a Singapore luxury property due to the obvious scarcity; it is also a safer investment in the longer term.

PM: Are there unique opportunities to invest in Singapore's luxury property market?

AS: Surprisingly, Singapore has very few branded luxury properties in the ultra-luxury property segment. This niche segment is when the exceptional architectural design meets the top end

luxury interior brands. In Singapore we only have very few such properties and these are mostly related to the top brand hotels such as St. Regis Residences, Ritz Carlton residences. I hope to see some branded properties coming soon, perhaps Aston Martin Residences, very likely on the heels of the ongoing en-blocs in the prime locations.

PM: In your opinion, what are the true tenets of a "luxury property" in Singapore's context?

AS: In its original context, one has to go back to just a decade ago where luxury properties were concentrated in the prime districts of 9, 10 and 11. Plus, the most obvious segment of what is called "Good Class Bungalows" (GCB) – these are the pinnacle of the luxury property market, where the minimum land size is designated to be no less than 15,000 sq ft and is situated in those areas zoned for GCB. There are only around 2,700 GCBs located within Singapore's 39 gazetted GCB zones. The government related agency's guidelines stipulate that GCBs cannot be built more than two-storeys high, with an attic and a basement, to preserve the exclusivity and character of such neighbourhoods.

Alas, foreigners are not permitted to buy these properties because only locals can own landed properties, which leaves us with the three prime districts in the middle of the island. To these prime locations, districts 1 and 4 were added relatively recently; these are the Marina Bay area and Sentosa.

Adding to a unique segment of Singapore property market are conservation shophouses, which again, fall under landed properties if these are gazetted for residential use. This means foreigners are not permitted to buy, too. However, if the property is in the commercial area and can be specified as commercial, then foreigners can buy it without any limitations. Some of these shophouses are sold at a premium price tag, easily competing in their pricing with the most upscale residential property in terms of per square-foot cost.

PM: Do you foresee any geopolitical issues that might affect Singapore's luxury property market?

AS: On the upside, the eventual population growth is likely unavoidable, while Singapore maintains its business competitiveness. The potential regional instability — in certain Asian, ASEAN countries and especially in the big neighbouring countries, namely Malaysia and Indonesia — can push waves of wealthy buyers to the shores of Singapore's luxury property market. On the downside, and in the longer term, if Singapore's competitiveness diminishes and with the government implementing unfriendly policies towards foreigners in the future, that would not bode well. That could significantly damage the luxury property secretor and reduce its value and attractiveness. I think such an outcome is highly unlikely for the stable, meritocratic and globally-focused Singapore.

Immigrants are part and parcel of our history and our identity. And if you look ahead, we need a steady flow of immigrants, not too many, not too few, just right to top up our population.

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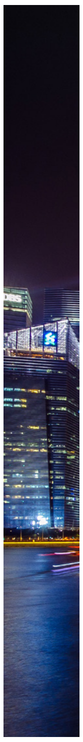
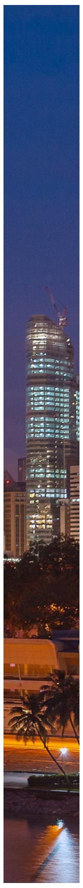
Prime Minister Lee Hsien Loong statement to parliament on 16 May 2018.





FAST FACTS

SHOPHOUSES
Shophouse transactions are at a five-year record in the first quarter of 2018 jumping some 280 per cent Y-o-Y to a total value of USD 356m. Rental yields for commercial shophouses have dropped to around 2.5 per cent due to the steady increase in price that outpaced the rent. The main buyers are private funds, family offices and UHNWI.

FOREIGN BUYERS' IMPACT ON THE CONDO MARKET
They represent:
60 per cent of Duo Residences
56 per cent of Wallich Residences
53 per cent of V on Shenton
51 per cent of Lloyd Sixty-Five
45 per cent of Marina One

A more open immigration policy is absolutely necessary to make good the government's 2 to 3 per cent real GDP growth target over the next decade and to sustain Singapore's economic dynamism,

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Mohamed Faiz Nagutha, an economist at Bank of America Merrill Lynch, said in a recent research note.

ON POPULATION
Singapore is not expected to change its immigration policy, and its population is likely to be "significantly below" 6.9 million by 2030, said Josephine Teo, who is in charge of population matters at the Prime Minister's Office. The figure refers to a projection set out in the 2013 Population White Paper for planning purposes, but which had sparked a public outcry. Mrs Teo also said that Singapore's population is expected to be below 6 million by 2020, as she outlined the strategies to meet the challenges of a falling birth rate and slow population growth. Mrs Teo said the current rate of immigration allows Singapore to achieve close to the same effect as if Singaporeans had a full-replacement total fertility rate (TFR) of 2.1. Singapore's TFR was 1.16 last year.

Last year, 22,076 Singapore citizenships were granted, about the same as in the past five years, while the permanent resident (PR) population remained largely stable at around 530,000, with 31,849 PRs granted last year, she said. But something needs to be done as in 2018, the share of the population that is 65 years old and older will match that of those younger than 15 years old for the first time, according to the data from UOB. ♛

ABOUT ALEXANDER KAROLIK-SHLAEN
Shlaen founded Panache Management in 1995 in Japan, crafting his "East Meets West" style of business management. He was later based in Hong Kong for four years, before relocating to Singapore in 2003 where he has since been based. Shlaen has also served on the board of directors for Brinks Japan, a joint venture between Nissho Iwai Corporation (the sixth largest company in the world at the time) and Brinks Inc (a Fortune 500 US corporation). As one of the few market analysts to predict a property boom at a time when global markets were in decline, Shlaen's expertise is in high demand from prestigious companies to UHNWI investors.

Shlaen's company represents companies that have superb and exquisite products that are outstanding in their niche markets. The company is also involved in real estate and tech investment projects as well as providing luxury interiors and designs for exclusive homes, villas, hotels, offices, private jets and super yachts. He has been writing the Luxury Expert column in *Property Report Asia* and *Palace magazine* since 2009 and has appeared in various regional and global media, TV and is frequently sought to attend established business forums.