

Looking inwards and outwards

With elevated prices and market consolidation in Singapore, outbound investment is set to continue



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THERE has been a surge in outbound investment into overseas real estate by Singapore-based entities in recent years. This phenomenon is fuelled by a confluence of push and pull factors, coupled with rising liquidity and interest rates that prompted the need to seek higher capital value growth and yields beyond Singapore's real estate market.

Local developers, investment firms and also ultra high-net-worth individuals (UHNWI) stepped up their search for overseas real estate ventures, while foreign direct investments into Singapore property market shrank noticeably. Consequently, the net outflow of capital from Singapore to overseas markets was evident last year.

Based on RCA and Knight Frank Research, it is estimated that total outbound investments of overseas real estate projects by Singapore-based entities spiked by 75 per cent annually

to reach S\$20 billion in 2014. In contrast, inbound investment into Singapore real estate by foreign entities plummeted by 67 per cent within the same period to register S\$2.2 billion, almost one-tenth of outbound investment volume.

Will the existing push factors subside in the near term, leading to a potential recovery of inbound investment flows? Could the pull factors retain their strength to spur outbound investment for the second half of 2015?

The push: domestic policy

A key push factor that led to a spike in outbound investment by Singapore investors is domestic policy. The increased intensity of property cooling measures between 2009 and 2013 to curb speculative buying, as well as the Total Debt Servicing Ratio (TDSR) ruling that prevented excessive borrowing, has significantly curtailed local and foreign buying interest.

In addition, the tighter immigration and foreign workforce policies have also reduced population growth in recent years, resulting in a weaker residential leasing market, as well as lower production and overall

consumption to support the commercial sector. These factors have led to a softened residential market with lower transaction volume and prices over the last two years.

Cognisant of the supply and vacancy level of private homes, the government pared down land supply in the Government Land Sales (GLS) Programme, resulting in a fall in total transaction value of pure residential development sites by 43.2 per cent from H1 2014 to reach S\$1.8 billion in H1 2015. The dearth of collective sale transactions, mainly due to asking price disparities between owners and prospective developers, has also depressed private residential land supply opportunities.

These trends have resulted in a tighter Singapore investment sales market, as evidenced from a fall in overall investment value, from S\$30.6 billion in 2013 to S\$19.2 billion in 2014. Total investment sales value in the residential sector fell by 23.3 per cent annually to S\$6.8 billion in 2014.

Amid moderated property prices and current high bid prices for GLS sites, developers and investors see limited upside in eventual selling prices and profit margins for Singapore projects. Seasoned local developers have adopted a cautious

stance in their offer prices for public GLS tenders and private property opportunities for the last two years with some companies turning their sights towards overseas gateway cities.

Meanwhile, overseas entities' interest in Singapore real estate has also dampened. Mainland Chinese investors were bullish on Singapore property, having garnered a few GLS tender wins, and acquired mainly residential and office developments in 2013. Examples of big-ticket investments by the Chinese include two Upper Serangoon View GLS residential sites for a total of S\$460 million by Kingsford Development, and Grand Park Orchard hotel – including Knightsbridge mall – for about S\$1.16 billion by Bright Ruby Resources.

However, the Chinese scaled down their investments in Singapore since the first half of this year, as they switched their targets to other gateway cities. Their contribution to total inbound investment value in Singapore plunged from 91 per cent in H1 2014 to 12.4 per cent in H1 2015 (see Chart 1).

On the contrary, other foreign investors such as those from the US, Hong Kong, Malaysia and Australia, as well as sovereign wealth funds, maintained their interest in Singapore as one of the choice cities in their property portfolios owing to the country's stable fundamentals. One significant inbound investment is the tender award of Paya Lebar Central GLS mixed-use development site to the joint venture of Lend Lease and Abu Dhabi Investment Authority for S\$1.67 billion on April 1, 2015.

An acquisition of a retail development at 55 Pagoda Street was made by an Indonesian UHNWI for an estimated S\$20 million. For the first half of 2015, a large proportion of real estate acquisitions in Singapore stemmed from Asian-based investors, constituting close to 73 per cent of overall inbound investment value.

The pull: yield play and diversification

With the softened residential market, downward pressure on property prices and yield compression back home, Singapore investors are upping the ante to invest in overseas properties since the second half of 2013. Furthermore, the overall investment quantum is typically smaller in most overseas cities compared to Singapore.

The first wave of outbound investments from Singapore saw sovereign wealth fund Government Investment Corporation, established Singapore developers and Real Estate Investment Trusts (Reits) investing in mainly office, hotel and retail properties in key gateway cities such as London, Sydney and Melbourne.

In the next wave of investment outflows in 2014, interest extended beyond traditional commercial properties and established gateway cities, towards the acquisition of industrial properties and development sites in Jakarta, first-tier China cities, Australia and Germany. Knight Frank has observed that Singapore UHNWIs have acquired office and retail properties in Australia and New Zealand in the last two years.

Australia proved to be the most popular destination for Singapore investors, with an estimated total of S\$5.4 billion worth of investments in 2014. Australia constitutes the highest proportion of out-

bound investment for the last 12 months to mid-2015 (see Chart 2).

Singapore was the largest source of Asian capital with a 42 per cent share in 2013 and 2014, followed by China (35 per cent), Malaysia (9 per cent), Hong Kong (7 per cent) and South Korea (4 per cent).

Australia has been a choice location for Singapore UHNWI, thanks to good building asset quality, a transparent and clear legal framework, higher certainty of secured income and yield realisation, along with a high quality of life and education. However, capital appreciation targets could be eroded with currency exchange fluctuations in the short to medium term, as seen from the recent depreciation of the Australian dollar against the Singapore dollar.

Where to invest next

As Singapore's property market is likely to remain tepid especially in the residential and office sectors, developers and investors are likely to continue their overseas investment drive while keeping their eyes on the domestic market for opportunities. At present, there is a limited supply of "right-sized" properties for sale for mid-cap companies.

Prospective destinations for outbound investments transcend popular gateway cities in Australia (Sydney and Melbourne) and England (London) as elevated property prices weigh down yields in these cities. Asian investors, mainly from Singapore and China, have begun to explore suburban locations in metropolitan Sydney, Brisbane and Melbourne, and other cities such as Perth and Cairns. "New popular" locations are emerging, such as locations in Japan apart from Tokyo and Osaka, other parts of the UK, Germany, India, China, New Zealand, as well as South-east Asia.

The prospect of higher yields has been evident in overseas commercial properties compared to Singapore (see Chart 3 and 4), yet they are a function of higher risk. Macro considerations shape the risk element of new markets, especially political stability, economic development, population growth, and very importantly, clarity of legal and institutional framework.

In terms of overseas property-specific risk, the certainty of realising rental income, ensuring effective asset management particularly in the areas of human resource, finance, administration and facilities management, could be more challenging for Singapore property owners. Engaging professionals in the advisory, agency and asset management roles is critical to jump start the owners' know-how of new locations and property market characteristics.

A prime factor that determines eventual gains or losses in overseas property ownership for the Singapore investor is the strength of the Singapore dollar (SGD). Notwithstanding the near-term likelihood of a weaker SGD against major currencies amid low inflation and slowing domestic economic growth, Singapore's fiscal stability and economic diversification help to reduce volatility in economic growth and underpin the fundamental strength of the currency. Prudent fiscal and monetary policies aid the stability of the SGD over a longer term, offering higher predictability for investors in capital and property markets. ■



Chart 1: Source of capital for inbound investment

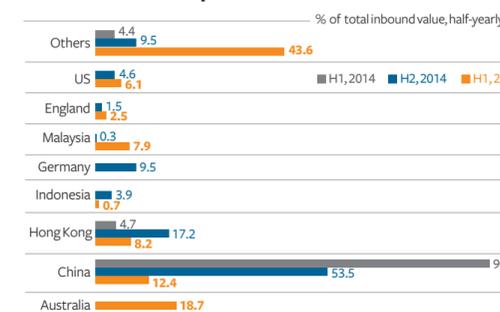


Chart 2: Destination of capital for outbound investment

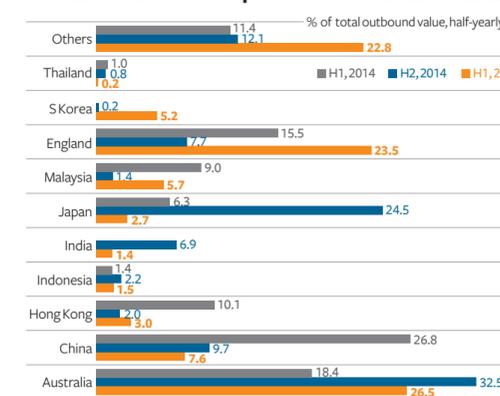


Chart 3: Prime office yields and spread

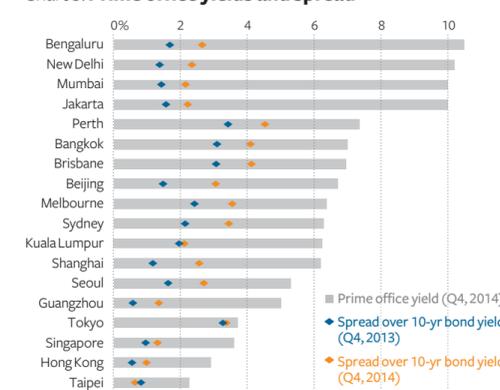
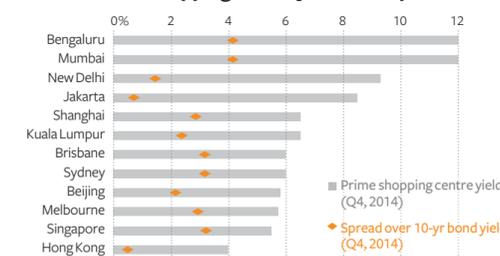


Chart 4: Prime shopping centre yields and spread



Source: RCA, Knight Frank Research

FAVOURED LOCATIONS

(Main pic) Auckland, New Zealand; (right) Frankfurt, Germany. 'New popular' locations are emerging, such as locations in Japan apart from Tokyo and Osaka, other parts of the UK, Germany, India, China, New Zealand, as well as South-east Asia



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