



Venturing further afield

Our panellists from the property sector shed light on investing in overseas real estate and share their top picks

As Singapore residential real estate remains in a slump, more of the wealthy are investing in overseas properties. Our panel of experts share their insights on the opportunities and the risks.

Genevieve Cua: Since the 2008 crisis, real estate in places such as the US and the UK has appreciated significantly. For those looking to invest, please share your top picks for real estate, with a medium to long-term horizon. Why are these places your top picks?

Ong Choon Fah: My picks are London, New York City and Sydney. Both London and New York City are large cities with a population of over eight million each. They are near-mega cities – gateway cities – where creativity and innovation thrive. London and New York City are resilient cities which have faced near bankruptcies in the past, cities which rose to be international cities once again. Sydney, on the other hand, is one of the top 10 most liveable cities in the world, as ranked by EIU (Economist Intelligence Unit) in its 2015 Global Liveability Ranking.

In the medium to longer term, I believe that large cities will do better in an increasingly volatile and connected world – always in a state of flux, full of known unknowns and unknown unknowns. For example, how will disruptive technology and the Internet of Things change the way we live, work and play – the dynamics of cities and the cities themselves?

As cities get larger, ideas are generated at a faster pace. Creativity does not grow linearly with the size of the city, but super-linearly. As Jane Jacobs, the great American urban theorist, noticed decades ago, “Great cities are not like towns, only larger.” There is something about big cities that makes their residents more innovative across all fields, from finance and technology to the arts and culture.

London, New York City and Sydney are also selected for their relative political stability and safety, access to healthcare and education (although often at a price!), hard and soft infrastructure, as well as transparent real estate investment framework. Real estate markets in these cities are also generally liquid, with a large group of buyers and sellers. This facilitates entry and exit, especially for a lumpy investment, such as real estate.

One of the most critical resources in the future is talent. Talent is mobile and will be attracted to cities which are innovative and/or liveable, creating a positive feedback loop. By virtue of their nature, the probability of London, New York City and Sydney attracting top global talent is higher than others.

As the demand for real estate is a derived demand, a city that constantly attracts talent and reinvents itself will do well, supporting both rents and capital appreciation in the medium to longer term.

Darien Bradshaw: Here are my choices: Inner London, Streatham Hill. Streatham Hill lies in the south of the bor-

ough of Lambeth. Homes in Streatham are now in high demand and the area is experiencing a wave of gentrification and it has a much higher proportion of privately owned and rented homes compared with the rest of the borough. In 2011, the population stood at 14,260 having increased by 4 per cent since 2001.

House price growth across Lambeth has been extremely strong and since the beginning of 2010 has steadily risen higher than the average price of a home in Central London. London overall saw the strongest growth of the post-recession period in 2014, but this was even more pronounced in Lambeth. Prices in the borough increased by 23 per cent last year, compared with 15 per cent across London.

In the district of Streatham Hill (SW2), houses usually sell for a discount compared to the wider borough. In the first quarter of 2015, apartments in SW2 sold for an average of £392,500 (\$857,000), a discount of 13 per cent. This equates to apartments which are approximately £60,000 cheaper in Streatham compared with Lambeth overall.

As a result, Streatham is more affordable compared with other neighbouring areas. It is therefore becoming increasingly popular, especially with young Londoners looking to make their foray into the private home market. This is all driving price growth in the area with the value of an average apartment increasing by 11 per cent between Q1 2014 and the same period of 2015.

Here are my top five reasons to invest in:

Australia

- Above average returns with a hedge against inflation – over 20 years, property has proven to have higher yields than many other asset classes and provides a hedge against inflation. Australian property has enjoyed consistent growth with an average annual growth rate of 7 per cent per annum in the last 40 years.
- Consistent investment performance – having one of the most diverse, advanced economies in the world, Australia’s GDP (gross domestic product) growth is expected to continue at a steady 2.5 to 3 per cent, making Australia an excellent investment location.
- Strong future demand – the increasing population and declining household size will generate demand for an additional 620,000 households before 2030. This expanding demand will continue to push property prices up.
- Australian tax law offers generous tax advantages to property investors – allows for negative gearing, depreciation and deductibles.
- Ability to leverage – high LTV (loan-to-value) ratio, because Australian property is viewed as a low-risk investment with promising capital growth.

Gold Coast/Brisbane

The Gold Coast apartment market historically commences a new property cycle when the Sydney market has reached a peak. This market is well below its former peak in 2008 and in this current cycle will likely surpass the previous peak. Demand for apartments in the resale market supported the rise in the median capital

gain so far in 2015, largely because of the dearth in new apartment projects.

Research suggests the population in Gold Coast is set to increase by 75 per cent between 2011 and 2036, translating to a need for an additional 8,200 homes by 2036. Gold Coast’s workforce is forecast to expand by 51 per cent from 236,393 employees in 2011 to 355,896 by 2031, with healthcare, retail trade, accommodation and food, and construction being major sources of employment.

All these present strong factors for the potential upside in the Gold Coast property market. Some large developers from Asia have purchased sites on the Gold Coast in anticipation, including Ho Bee Land and Chinese developer Dalian Wanda.

Perth

The Perth market has struggled to gain momentum since the 2008 crisis. However, since 2007, Perth has recorded the fastest population growth in the whole of Australia. It is currently the third most populated city in Australia. Western Australia has been the country’s strongest performing economy over the past 10 years, with the average annual growth tracking 4.9 per cent in the last decade. As with many developed cities, the proportion of ageing population is rising, which will in turn spur demand for smaller homes and high density residential projects in the future.

Contrary to popular belief, the major source of employment in Perth is healthcare (11 per cent), followed by construction (10 per cent) and the retail trade (10 per cent), and not mining. Mining only makes up 7 per cent of jobs in Perth. The population in Perth is increasing even with the downturn in mining.

The median price of Perth apartments now stands at A\$442,000 (S\$442,200) – at this level, Perth apartments present excellent value for money with tremendous potential for capital upside. This compares with Sydney’s median price of A\$580,000 and Melbourne’s at A\$445,000. Both Melbourne and Sydney will continue to be on investors’ watch list for their high premium assets, but Perth and Gold Coast clearly will be the next favourites for savvy investors.

Sydney and Melbourne

Property analysts in Australia are suggesting that Sydney is nearing the top of the property cycle. Limited supply and a decline in the Australian dollar (AUD) continue to provide healthy performance

in both the primary and secondary markets despite this. A glowing example was Crown Property Group selling A\$350 million worth of apartments recently at the Infinity by Crown project at Green Square. Sales were achieved in Sydney, Jakarta and Singapore with 70 per cent sold locally in Sydney.

Melbourne also enjoyed an outstanding weekend of auction results at 87 per cent and theoretically is the strongest performing market in Australia. Similar to Sydney, Melbourne has experienced strong price growth in the secondary market. However, the apartment market has seen lower but steadier increases because the Victoria government had done an excellent job via planning, providing a consistent supply of new apartments. Overseas demand remains strongest for Melbourne, however, we are now experiencing an increase in enquiry for the Gold Coast and Perth.

The median asking unit rents in Melbourne increased 1.4 per cent over the March quarter. The increases are thought to be a result of strong population growth in Melbourne. Occupancy levels at Melbourne apartments remain very high, with a low vacancy rate of 1.9 per cent.

Alex Bellingham: Brisbane, Melbourne, Manchester, Greater London and Tokyo are some of the cities that we have identified as safe-haven markets. We believe that these markets will deliver stable, sustainable yields and capital appreciation in the medium to long term as a result of increasing populations, major infrastructure upgrades and economic growth.

A key aspect that investors should consider is the projected demand versus future residential construction pipeline. When supply is not set to meet demand, as we are seeing in all the above markets, it creates an imbalance which drives property pricing up and presents an opportunity for investors.

While London continues to be hugely popular with foreign investors, investors seeking the best returns might want to explore properties near the Crossrail route, particularly in Greater London areas as they seek lower-priced units that offer better rental yields and capital appreciation potential. In fact, Crossrail’s impact is already felt in the market, with sale prices of homes within 1.6 kilometres of planned Crossrail stations rising more than 34 per cent, compared with the London average of 26 per cent, since the announcement of Crossrail in 2009.

Manchester has attracted a wealth of

commercial investment in recent years and with the proposed High Speed 2 (HS2) rail line, it is emerging as a strong investment hub outside the London hot spots.

Lastly, investors who are seeking properties in Asia may find Tokyo an attractive investment. Low interest rates, high rental yields and a strong economic outlook are combining with a weak yen to create a very promising picture for foreign investors in Tokyo’s property market.

Genevieve: What important aspects/risks of overseas real estate investment are most often overlooked by Singapore investors?

Choon Fah: Currency risks – gains in property can be more than offset by loss in currency exchange rate. For example, the exchange rate for AUD was as high as A\$1 to S\$1.3 in 2012. It has now fallen to below par. That is more than 30 per cent in exchange rate loss. Similarly, while most regional currencies have weakened against the Singapore dollar (SGD), both the pound sterling (GBP) and the US dollar (USD) have strengthened against the SGD in the last three years. This can be partially offset by hedging strategies, although it may be more challenging for smaller investors.

Remittance restrictions – some countries have remittance restrictions – limiting the amount that can be remitted out of the country.

Taxes – there are all kinds of taxes an investor must be mindful of as it has a significant impact on total after-tax returns. Besides the usual property taxes, there may be capital gains and inheritance taxes.

Foreign investment and other policies – policies may change from time to time, to address the interest of the local populace or for macro-prudential purposes, such as an increase in the minimum property price that foreigners can buy from RM500,000 (S\$165,000) to RM1 million in Malaysia, effective January 2014. In some jurisdictions, there may be federal and state regulations that foreign investors need to comply with.

Restriction on foreign investors – some governments place restrictions on foreign real-estate ownership to ensure that it assimilates well with the community. In Australia, foreigners must obtain approval to buy residential properties. However, if one buys off-plan and the developer has already obtained approval from the Foreign Investment Review Board to sell to foreigners, the property

THE BUSINESS TIMES’ WEALTH ROUNDTABLE

Genevieve Cua, BT Wealth Editor poses questions to three property experts for their advice on overseas property investments.

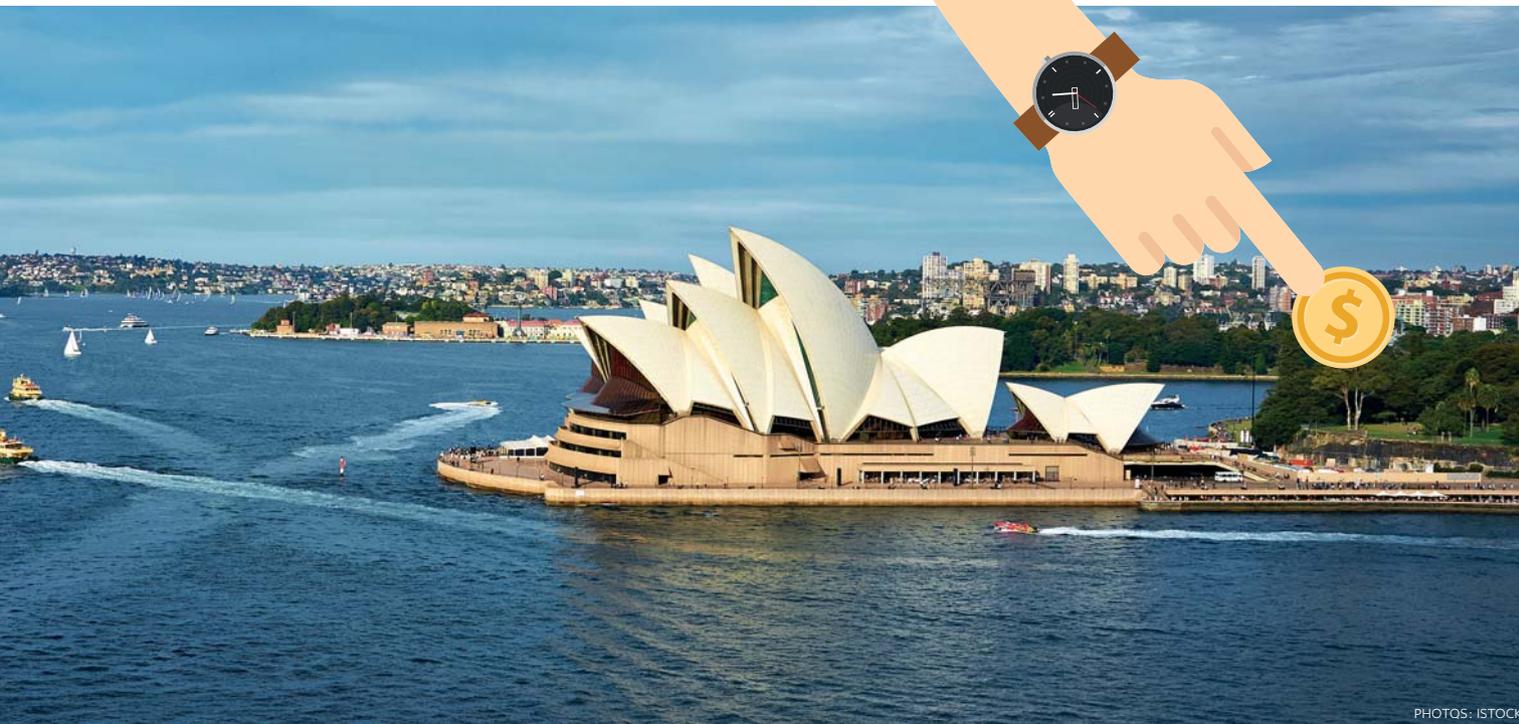
Ong Choon Fah is DTZ Southeast Asia Chief Executive Officer. Ms Ong heads the Consulting & Research practice in the region. She has over 25 years of experience in the real estate industry.



Darien Bradshaw is CBRE Executive Director, International Project Marketing. Darien has over 20 years’ property experience and has overseen more than 100 launches in Asia with a focus on London and Australian property. In the last five years he has been involved in over £1 billion in residential sales transactions. Darien is a family man who also enjoys spending time in the water and watching all types of ball sports.



Alex Bellingham is IP Global (Singapore) Director. Alex takes care of the investment interests of over 2,500 clients, while also frequently offering expert real-estate advice through talks and seminars. In his spare time, he likes Brazilian Jiu Jitsu, boxing, mixed martial arts, climbing, reading and very loud rock music.



PHOTOS: ISTOCK

can then be leased, sold or used by the purchasers.

Ownership rights – know the interest in the property that you are buying. For example, under Indonesian Agrarian Law, foreign individuals cannot purchase properties or own land. However, foreigners can acquire the right to build on/use the land. In Thailand, the rights regarding foreigners buying leasehold properties of longer than 30 years are not clearly spelt out.

Darien: Buying process of the state and countries – buyers need to understand how the different countries have different buying procedures, such as resale restrictions.

The stability of the country in financial and political terms – keep abreast of what’s happening in the economy through reports, news and investment seminars.

Whether rents are sustainable – the quickest way to determine this is to track the GDP of the country; how it has increased compared to other parts of the world. Larger economies may register slower increases, but the key is to assess if growth is steady. In the UK, Australia and Tokyo, GDP growth is slower compared to other countries, but they continue to attract investors because growth is steady and multinational companies continue to expand and open offices there. This will keep rents sustainable.

Whether the local government is investing in infrastructure in the city – how much the government is investing in transport, healthcare and education. Search city reports, accessibility and connectivity.

The demographics of the city – the population, the profile of young versus ageing.

Alex: Singaporeans are generally savvy investors. While every investor has unique goals and varying risk appetites, some may overlook the level of risk of the markets they are entering, reputation of the developer, legal ownership structure difficulties, rentability of the property and exit strategy.

We always encourage our

investors to focus on the long-game and to carefully plan every stage of their investment – from sourcing the property through mortgaging, acquisition, as well as completion and tenancing. We also encourage investors to consider investing in markets with strong returns, reasonable tax rates and lower entry costs.

Genevieve: For potential investments in the region such as the Philippines, Malaysia and Thailand, what criteria do you suggest investors should have (or a list of questions they should ask) if they are to maximise their chances of long-term success?

Choon Fah: The regional real estate markets, like their economies, are generally



less mature than that in Singapore. The real estate framework is also generally not as transparent as that in Singapore. While the risks are higher, so are the returns. The key then, is to manage the downside risks.

As the government has a huge impact on political stability as well as the socio-economic development of the country/city, it is important to understand its manifesto as policies, including those relating to real estate, will take their cue from there. For example, is it foreign-investor friendly? Its track record will give a glimpse, and one has to decide if the risk-return stacks up.

Investors should ask themselves “what is my investment horizon and how much risk can I afford to take, should there be a change in the market environment, which means I may have to hold on to the property for longer than expected?”

Although the SGD has strengthened against most regional currencies and property prices are now more attractive in SGD terms, currency fluctuation is a two-edged sword. If the regional currency continues to weaken, this will translate to lower returns in SGD terms when the funds are eventually remitted back to Singapore.

It is also important to establish if there is an active resale market for investors to sell their investment property.

As our neighbouring countries have huge land masses, supply can theoretically grow quite indefinitely, at least in the near future. To maximise long-term success, one should look for locations where there is a supply constraint, for example, due to the geography or use restriction or some form of control or accessibility.

Where the country/city is large, it may be underserved by public transport and accessibility becomes even more important. What is the current accessibility like, especially during peak hours? What are the future infrastructure plans in the area? What are some of the catalytic projects that are coming up? For example, a new airport or toll road or university in another part of the city may change the dynamics (and hence real estate values) of the city.

What is the profile of the buyers and occupiers in the neighbourhood? This will give you an idea of the safety and security barometer in the area; whether there are also a lot of investors who will also be vying for the same pool of prospective tenants; or, if the property is for owner occupation, would you like to live in the

same development/neighbourhood as these folks?

In some developments where there are a lot of absentee landlords, the development may become less lively/lived-in, or in the worst case scenario, be “ghost” developments. Some investors prefer to buy where there are also domestic buyers, as a reflection of the confidence locals have in the project.

If one is buying off-plan, look into the developer’s track record. There are occasions where the developer is unable to deliver according to specifications on time or even went bust.

If I am an absentee landlord, who will (lease) manage the property for me?

Darien: Track record of the developer – are they financially strong to ensure delivery of product and promise? Do they have a good track record of past developments? Any negative news about the developer floating in the market?

Size of the development – typically investors favour a larger development, unless the product is associated with a renowned brand. Buying a product with scale will mean a more complete suite of amenities/facilities or an integrated development that offers integration of use that generates good rentability.

Location – know the location of the project at both macro and micro levels. On macro level, look at national numbers such as GDP and compare that to other countries. What are its growth engines (main industries), what’s the demographic profile of the population? At a micro level, look at the developments surrounding the project. Other related questions you should ask include “will they provide a good source of tenant supply?”

Look at the master plan, if any. What is the zoning or allowed land use? Is there still ample land supply surrounding the project? What are the project’s surroundings like?

Real estate taxes for foreigners – to be aware and understand the taxes and fees incurred during purchase, holding and at disposal stages – any stamp duties or capital gain tax and also estate fees.

Real estate related regulations for foreigners – for example, what’s the tenure (freehold/leasehold) allowed for foreigners? Any restrictions when selling or transferring the asset?

What is the objective of the investment – do you have excess capital for such investment? If not, are you depending too much on leverage?

Alex: Unlike traditional markets such as the US and the UK which most investors are used to, the Philippines, Malaysia and Thailand are emerging markets with an investment environment that is usually more nuanced and complex. While these markets present some of the most exciting opportunities, investors should be wary of the risks involved.

Key factors that investors should have in mind before entering these markets include transparency risks on the reputation of the developer, the law for foreign property ownership, property taxes, stamp duties, liquidity and political, as well as foreign exchange risks. **W**