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Real Estate Financing and Market – Singapore

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Die internationale Krise an den Kapitalmärkten lässt auch die Volkswirtschaft von Singapur und damit den Immobilienmarkt des Landes nicht unberührt. Allerdings werden die Auswirkungen in den USA und wahrscheinlich auch in Europa stärker zu spüren sein als im asiatisch-pazifischen Raum, prognostiziert der Autor zuversichtlich. Vor allem Singapur habe in den vergangenen Jahren immer wieder eine beachtliche Krisenfestigkeit bewiesen. Die Asien-Hype bei hiesigen Immobilieninvestoren dürfte also trotz aller misstrauischen Mahner – vielleicht auch mangels Anlagealternative – noch einige Zeit anhalten. (Red.)

On 9 August 2008, Singapore celebrated its 43rd anniversary as a sovereign nation, where this young nation has a lot to be proud of for its remarkable and far-reaching achievements in just over four decades.

Economic strength and political stability

On a land area of around 710 square kilometers (which has de facto been expanded by around ten per cent through land-reclamation in the ocean over the past couple of decades), the island-state Republic of Singapore has developed into both a regional and international hub for shipping, refining, trading, and financing. Its GDP at around 130 billion US-dollars per annum derives from manufacturing, financial services, and business services including real estate, legal, and accounting. Singapore boasts being the third largest oil refining centre, the third largest trading centre, and the fourth largest FX trading centre in the world. On the other hand, with a total population of only 4.5 million (including foreign residents), its sovereign wealth fund at around 330 billion US-dollars is the third largest in the world.

On the back of its strong economic strength, political stability, the well-steered and progressive governmental policies, and a highly reliable legal and administrative framework, the country is rated AAA by S&P with a stable outlook. On the other hand, a low taxation environment (18 per cent corporate tax), no capital gain tax, no restriction on foreign ownership of real estate, and pro-business official policies (i.e. free-trade agreements with many nations), the city-state strives to become a true global and cosmopolitan centre, already attracting – in a big way – both human and capital wealth from every corner of the globe.

Some recent negative historical trends like the Asian financial crisis and the SARS epidemic have made Singapore to be better prepared for crisis situations. Consequently, today, Singapore corporations including property developers are financially stronger, and can better weather the current credit crunch. Also, being aware of competitive efforts by its neighbors in the south-east Asian region, Singapore has been proactive in diversifying its economic basis, through introduction and/or enhancement of such fields as education, R&D, biotechnology, integrated resorts, making Singapore a regional hub for major and high-scale events and a regional and international centre for conventions and exhibitions. These should help a moderate single-digit economic growth over the years to come.

Impacts of the global credit crisis

Nevertheless, Singapore cannot escape the impact of the current global credit crisis, which is also undermining is property market. Conversely, real estate markets – across commercial, residential, and retail segments – had substantially appreciated in value particularly over most of the past three years. Hence, a consolidation is now underway that can be viewed inevitable and perhaps beneficial over the long run.

The statistics show while the investment sales into Singapore real-estate markets in early 2000s hovered between a low of 4.3 billion Singapore-dollars in 2003 and a high of 7.6 billion Singapore-dollars, it doubled year-on-year in 2005 and 2006 respectively to 14 billion Singapore-dollars and then 30 billion Singapore-dollars, before hitting an all-time high of 55 billion Singapore-dollars in 2007. It is however noteworthy that investment into residential in the boom years of 2006 and 2007 has in absolute value terms been higher than the combined values in office, retail, industrial, and hotel segments. As discussed below, this is less positive for the residential sector in the medium term.

Office buildungs

In the office sector, the rents are fast approaching the peak as supply becomes imminent, i.e. the rate of rental increase in the first two quarters of 2008 slowed noticeably from that in 2007. Prime rents rose 7.3 per cent in the first half 2008 compared with an astounding 92.3 per cent for the full-year 2007. Grade A rents have averaged 18.80 Singapore-dollars per square foot/month in the second quarter 2008, up from 18.65 Singapore-dollars per square foot/month last quarter.

In all, Grade A rents rose 9.6 per cent in the first half of 2008 compared to 96.5 per cent in the full year 2007. Relief for occupiers is now clearly in sight! The estimation indicates about 10.2 million square foots of new space will be coming on-stream between 2008 and 2012, of which the bulk (6.7 million square foot) is targeted to be completed in 2010 and 2011.

Approximately 63.4 per cent of the new office supply will be Grade A space within the downtown core area. Worthwhile to note is that the new office space of 10.2 million square foot stands roughly at 18 per cent of the total existing office space. Assuming an annual growth of four per cent in demand, the new supply should be absorbed over the next four years. However, this

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is also a function of global business trend over this period. Against this background, any consolidation in the values, rents, and cap rates of office properties in the CBD (central business district) area can be expected to be fairly contained.

Healthy and stable market

The retail real-estate market of Singapore has been both healthy and stable, where of about 28 million square foot of retail space (island-wise), 42 per cent are Grade A and located mostly in the central (so-called City) area, with an island-wise significantly high 97.1 per cent occupancy ratio as of late. In the medium term, an estimated 6.9 million square foot of retail space are subject to be completed during the period 2008 to 2012, with a bulk of it (around 50 per cent) coming on-stream in 2009. Amid the flurry of expansion and new entrants, retail rents increased in all micro-markets in the second quarter of 2008. However, super-prime space along Orchard Road saw the highest quarterly increase of 5.3 per cent, hitting an average 54.40 Singapore-dollar per square foot/month.

As an essential factor shoring up the retail business in Singapore, in addition to the domestic spending, is the number of visitors to the country. Fortunately, visitor arrival has been brisk, with the number of arrivals in the first five months of 2008 hit 4.26 million, representing a growth of 4.2 per cent year-on-year. It can be optimistically assumed that the long-term trend of visitors to Singapore, though we may see some mild correction over the next few months, is positive and upward. The market forecast calls for an average four per cent growth in prime retail space rents in 2008, which is below the annual average of 5.4 per cent garnered over the last two years.

Among others, the 165 meter tall Singapore Flyer (the largest observation wheel in the world) opened on 1 March 2008, the F1 Grand Prix night car-racing on 28 September 2008, Marina Bay Sands Resort (the completion of which is planned for 2009), and Genting's World Resort at Sentosa (to open by 2010), should help boost the number of visitors. Overall, the retail real-estate market in Singapore could be considered in general as a safe bet, where in terms of the property-clock cycle, the property values could be considered still in the 'growth' phase.

Residential markets less exciting

On the other hand, the residential market looks less exciting – over the medium term – compared to the office and/or retail markets. There are already some early signs of a softening in home prices as seen in the price points of some of the new launches and resale transactions. It seems an over-saturated investment rush into the sector coupled with some unavoidable speculative investment over the past three years have caused an over-valuation in market values at least in some central locations.

Rebound in residentioal prices

Hence, in view of the excessive launch of new condominiums under a competitive trend by developers, the new supply expected in 2009 and 2010 could somewhat ease the demand-supply ratio in the medium term. Nonetheless, while the prices should not see any substantial correction, in terms of the cycle span, a rebound in residential prices could likely take place only after a recovery in other market sectors, i.e. office or retail.

Against this background, amid the current issues challenging the entire world i.e. higher food and energy prices, the worsening economic picture in the US and potentially in some European countries in the near term, which would have its impact though to a lesser extent in Asia-Pacific region, a (mild) consolidation in the interim is deemed inevitable.

On the positive side, since the economic diversification will continue and the long-term objectives of a vibrant city appealing to regional and global investors and companies will be further enhanced and pursued, the current consolidation in the real-estate market should provide opportunities for investment.