Singapore Real Estate

An ex-colleague of mine sent me an email today. He was trying to interest me in investing in an apartment in Singapore somewhere near the Singapore River. This was good news and bad news.

Calling the direction of a market is usually a perilous endeavor. When I moved to London in 1999 I thought that the property market was overheated and due for a sharp correction. It turned out that I was mistaken and due for a sharp correction. The market rallied for another 7 years and is still rising. There have been a couple of hiccups along the way but nothing anyone would call even a mild correction. My opinion on London real estate led me to underinvest in 2000. As a result I have been somewhat ‘left behind’ by the London property market. Fortunately I did buy a small apartment to live in which has provided me with some exposure to the rising property market. Today I continue to look at the London property market in disbelief. I do not believe it can go any further and I expect a correction but I have been quite wrong in calling this market, so mine may not be the best advice.

In 1996 I was more fortunate in making the right call. Real estate markets in the Far East, particularly in Hong Kong and Singapore but also in Bangkok and Kuala Lumpur were skyrocketing. My analysis of the nature of demand and supply at the time told me that the market was very stretched. My macro call was to be out of real estate and into cash USD. The timing smacked of luck. I will take a profit attributable to luck or skill or an act of God any day. While many regard the Asian crisis to have been happened in 1997 my view was that this was a a the culmionation of something that happened earlier back in 1994. Asia was heavily in a leveraged carry trade long local currency and short hard currency. When the US Fed raised interest rates in 1994 it signalled the end of the Asian carry trade and cheap funding for Asian corporates. Any leveraged position would have suffered and real estate is a chronically leveraged asset. My recommended position was to go from long to neutral. You didn’t want to be short and levered in an illiquid asset.

Singapore has been through some tough times. In 1997 it discovered that for all its achievements, for all its being first in the class (of Asian Tigers), it was vulnerable when Asia as a region stumbled. By 1998 Singapore was in recession with the rest of the lot. 1999 was a year of recovery although few in Singapore felt it. Many were over-levered in real estate and in negative equity. The rebound in real estate was weak and short lived. In 2000 the US equity market bubble burst. Some bear had gone and frightened the living daylights out of Goldilocks. A global recession ensued. On September 11, 2001, planes flew into buildings and it looked as if things could not be worse. Sars was the localized (to Asia) event that made things worse. Further recession for Singapore in 2003. The real estate market sagged further.

At the time (2003), the then Prime Ministed Goh Chok Tong delivered the government’s plan for recovery. The plan was simple in principle.

Attract wealth by attracting wealthy people or people who could create wealth. Do this by attracting certain industries such as Wealth Management, Private Banking, Gaming, Education, High value added services. On a capacity constrained island, this makes life a bit difficult for traditional industry and manufacturing. Sacrifices had to be made. The Swiss were being hobbled by the need to integrate albeit informally into Europe. China, the Middle East, India, Indonesia needed a new place to process their newfound wealth.

Execution was another matter. I did not have much faith at the time. The government spoke of creating a cachet like London or New York. That takes decades, centuries if you look in Europe. I did not think it would work.

By 2004 I thought I had better put in some research just in case Singapore succeeded. Never write off the Singapore government. They are possibly the most motivated, deliberate and driven people you will meet. When they set out to do something, expect them to achieve a good proportion of their goals.

Real estate markets as represented by the URA’s property price indices bottomed in March 2004. It was difficult at the time to tell if this was another false start in the beleaguered property market. Even today we do not know if it will continue. What we do know is that as of Dec 2006, the index was 15.7% above the March 2004 low.

I could make all sorts of representations about what I believe the market will do. But December 2005 I took a long position. I am revealing my preference. I may be wrong. I hope not but the facts support the hypothesis.

- Singapore is an almost centrally planned economy. How can one say that given that it is clearly a market economy? Simple. The central planner outsources to the market when it is optimal to do so. For the most part, it is optimal to do so. Policy is thus exceptionally effective in Singapore.
- The government is a partner to free enterprise. Again this is because it is effecient to be so in a small economy where information is good.
- The government has restructured the economy from a manufacturing focused economy into a service economy. Of late the focus has been on financial services and wealth management, gaming and education.
- Defined policies, strong fiscal incentives and expeditious regulation and legislation stand behind Singapore’s position for the future. It is likely to be successful.
- GDP growth has recovered from 2003 levels. Inflation has been benign and there is no reason to expect it to rise.

Unemployment is remarkably low. Per capita income is a very respectable 32,000 SGD.
- The economy is now less dependent on the US and more on Asia and Europe.
- Land is in fixed and short supply on an island like Hong Kong and Singapore. Part of the decline in supply in the last 10 years has been led by demand and part by physical constraints but supply has been steadily falling since 1997.
- Vacancy rates rose in 1997 but have held steady at about 8% until mid 2006. It is now in decline. Expect supply to be adjusted through re-development to meet demand.

General conditions are supportive of real estate in Singapore. But there are of course risks. With real estate, leverage is almost always attached and can range from 2 to 10X. The asset is illiquid exacerbating the leverage risk. Prices in certain sectors have risen 30%-50% in the space of 12 months.

This time is not different. Some of the players are different, some of old hands having been taken out for the count in the last dip back in 2003. Nothing lasts forever, neither bull markets nor bear markets. Nothing goes in a straight line. This bull market will see its share of pullbacks, corrections, surging rallies and deadtime.

There were lessons to be learnt in 1997 , 2000 and 2003. Invest with knowledge and not in ignorance. In the earlier half of the 1990s it was easy to make money. Get your maid to stand in the queue at any (and I mean any) new development so you could reserve your unit when the sales office opened. In 1995 even rusty tours looked good. Buy indiscriminately and leverage blindly. (Leverage? What’s that? I don’t leverage, I only use a mortgage… excellent.) Many people got blindingly rich by leveraging into a raging bull market. Many of these chaps lost faith in 2003 and look disapprovingly at the current bull market. Some of their sons and daughters will be looking to flip a couple of apartments just as mom and dad did in their hey day. There is a fine line between investing and gambling. (Please, no jokes about the Integrated Resorts.) In a world where astute investors can be separated from their wealth, gambling is not very viable, a gamble is precisely what the uninformed investor undertakes.