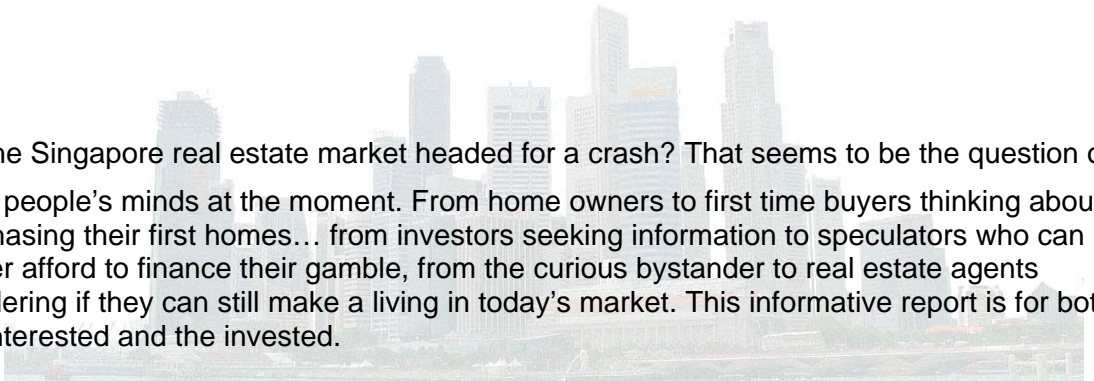


# Is the Singapore real estate market headed for a crash?

A peek into the factors that could affect land price-movements within this country.

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Is the Singapore real estate market headed for a crash? That seems to be the question on most people's minds at the moment. From home owners to first time buyers thinking about purchasing their first homes... from investors seeking information to speculators who can no longer afford to finance their gamble, from the curious bystander to real estate agents wondering if they can still make a living in today's market. This informative report is for both the interested and the invested.

The discussion contained herein is to provide some insights regarding Singapore's real estate market in this ever-changing world.

First of all, when we talk about 'Singapore', let us discuss the government. Singapore's government consistently ranks amongst the most efficient in the world. From China to the Middle East, countries seeking development are often engaging the government of Singapore to impart to them a thing or two about city-planning and nation-building policies.

In a short 43 years, Singapore has transformed itself from a small undeveloped town into a world class city, gaining respect from nations across the globe. Singapore's accomplishments as a nation are well documented with track records across diversified fields such as a world class seaport which ranks as one of the busiest in the world, shipping line, shipyards, marine and offshore engineering, rig building (Keppel and SembCorp Marine are the World's Number 1 and Number 2 oil rig builders, even though Singapore has not even one drop of oil within her territories), oil refineries, generally incorruptible government, healthcare, first class airport, airline, competitive export industry, financial services, R&D, law enforcement, etc. Even the Singapore Zoo is renowned in many parts of the world.

Singapore's literacy rates, employment levels, GDP, among others, are among the highest in the world, shoulder to shoulder with the other developed nations, hundreds of years ahead of her in nation building. Singapore is also one of the easiest and best countries in which to set up a business, not to mention safest.

Singapore may not have much land, but she has the brains to keep what she has going. Since Singapore does not have much land... are land prices going down, ever? Quite unlikely.

Despite experiencing recessions, the Asian financial crisis, the dot-com bubble burst, retrenchment, SARS, sabre-rattling of yesteryears from the neighbouring government, ripple effects of US involvements in wars, etc.... and all other kinds of economic related fears all these years... the question remains:

Are land prices in Singapore cheaper today then compared to 30 years ago?

The answer is clear. In the long run, land prices always go UP.

[Fun Fact: Manhattan Island in New York, USA, was purchased with trinkets such as beads, cloth, buttons, etc... worth a total of US\$24 at that time of 1626].

As an example here in Singapore, let's cite a Housing Development Board (HDB) 4-room flat. In 1970, a HDB 4-room flat in Marine Parade costs S\$20,000. In that same year, a clerical staff should earn no more than S\$500 per month. In fact, in 1970, the monthly income of 60% of the entire working population in Singapore was less than S\$500.

Today in 2008, that HDB 4-room flat in Marine Parade now costs S\$400,000. A local clerk's salary today ranges from S\$1500 to S\$2999. An average of these two figures would yield S\$2250. That means, in the last 38 years, (going from \$500 to \$2250) salary is multiplied by a factor of 4.5 times. However, during the same period, property prices increased 20 times.

The prices of individual homes here may fluctuate during periods of economic adjustments, or there are instances of certain sellers who need to exit their position by urgently selling cheap. Despite all these, land prices, especially Freehold land, are unlikely to go down.

Simple logic: There are more and more people coming to Singapore. Can there be more land?

Basic economics states that when demand exceeds supply, prices go up. And since we all know that the earth will never be able to create more land, prices of land will always increase.

And it is the same with lands all over the world. Especially in world cities. Think London, Tokyo, New York, Monaco, Hong Kong, Moscow, etc.

And Singapore is poised to become a world-class city.

It is fact that the Singaporean government excels in long term, long ranging goals (the MRT was envisioned by Mr Lee Kuan Yew in the 1960s). It is assuring to know that the government has in store, many plans that will move Singapore towards this goal of being a world-class city.

What is in store for Singapore as a country? (And how may these plans affect land prices)?

Since we know that the Singapore government is good at what they do and that they seldom take uncalculated risks, here are some facts that I have put together in a format that makes it easy for the reader to understand the many plans that are taking place in Singapore right now. (As well as those that will be taking place, so as to allow the reader a snapshot of the future).

This is to enable the investor/purchaser to line up his investment/purchase goals with the plans of the government so as to extract maximum benefit when investing, especially in the long term.

## What are the developments in store for Singapore and in which direction will the property prices be most likely to head in the coming future?

When solving a crime, detectives look for clues and signals. To answer the question above, here are just some clues to take note of when considering Singapore's future:

Master Plan. Firstly, let us consider the Government's aim of recreating Singapore into a Financial Hub, Wealth Management Hub, a Medical-Tourism Hub, a Research & Development Hub, a Bio-Medical Research Hub, a Tourism hub, an Educational hub and the goal to revamp the City of Singapore into an attractive place to Live, Work and Play. Let us go through these plans in more detail, followed by other activities and facts.

- Let's start with the most obvious:  
The Integrated Resort - Billions of dollars are injected into this venture. Why would foreign casino groups who are already successful do that? Do these conglomerates fool around with their money? Of course not. They know it is going to be profitable for them. With this huge project, there are the executive management, the middle management and all the other staff who need housing = rise in real estate and rental prices around the region of the IR. This is already the reality now, at the time of writing.
- The transformation of Marina Hub and Waterfront area. The Master Plan states that this area is to be totally transformed to complement the government's goal of being a regional Financial Hub – by doubling the size of the existing CBD and adding millions in sq ft of office spaces available. The buildings to be built there are already taking shape and foreign banks like HSBC, Swiss bank Julius Baer and Standard Chartered have already snapped up prime office spaces at Marina Bay and the HarbourFront.
- The coming F1 race. The first Night Race in the entire history of the F1. Certainly to impact the reputation of Singapore in the eyes of everyone around the world, helping to transform the country into a 'fun' place to live, work and play – a cosmopolitan city.  
Another clue: gradual changes to the rules regarding censorship of the media.
- Law changes such as the abolishing of Estate Duty. This will attract wealthy individuals to bring their money to Singapore for investment purposes since the wealth can be passed on to the next generation without taxes. This move will also entice the rich local family enterprises which have been traditionally investing their money overseas to relocate their funds back into Singapore.
- Land planning and regulatory changes to allow more residential and mixed developments in the CBD area (white sites) to promote inner city living. Live, work and play in the city.
- The government's aim of eventually having 6.5 million citizens. Coupled with the low birth rates of Singaporeans, it means a floodgate would be open to allow migration into Singapore. It is not very difficult to find a job in Singapore nowadays, but only those who qualify are able to become citizens. And to qualify, it means that they have to contribute to Singapore in certain ways or are able to do so in the future. And all these people, be they high-flying executives, white collar clerks or visiting scholars... all need a place to live in. That simply translates into demand for real estate across all price levels.



- Singapore's Sovereign Wealth Fund (SWF), managed by the Government of Singapore Investment Corp (GIC), is worth more than US\$300 billion and is ranked the 3<sup>rd</sup> largest in the World. By comparison, USA's SWF is only at US\$40 billion, and Canada's SWF is only at US\$15 billion.
- GIC's investments into foreign banks such as Citigroup and UBS. With 9% of shares in total, Singapore is the biggest single shareholder of UBS at the moment. The Swiss banking giant UBS is the largest Private Banking Institution of all private banks in Singapore and Hong Kong, single-handedly managing 1/6 of a total of US\$600 billion of private banking funds in Asia, outside of Japan.

Other than GIC's investments, keep in mind also Temasek Holdings' investments into Barclays Bank and Merrill Lynch.

Why would the government do that? The answer is, in order to recreate Singapore as a world-class financial hub, we need the headquarters (Pan-Pacific region) of major banks to be located here. Being a shareholder, we would have some decision-making muscle. That said, within the region, in view of political stability, general safety and sound business environment... Singapore has no equal. It is common knowledge that most MNCs in the world take Singapore as a first-choice consideration when creating their regional headquarters for the Pan-Pacific market.



- The government is opening up more land parcels for hotels. (Tourism Hub Master Plan). Even places like Balestier and Jurong are up for tender. Why is that? Are the hotel owners gambling with their funds? Or do they know better? The government has systematic plans in place for creating the necessary tourist numbers to justify the lands slated for hotels and for the hotels to justify their investment. These hotel groups are no fools. They are wealthy conglomerates who know their sums well.
- The transformation of Kallang riverside area into a city-fringe waterfront residential and commercial estate. Other than parks and amenities, there will be 3000 hotel rooms and more than 4.3 million sq ft of available space for offices, shops and entertainment venues (seen as a cheaper alternative but still extremely) close to the city centre. Note: In the CBD area, even though commercial office rental prices are now at an all-time high, vacancy rates are still extremely low due to a very strong demand.
- Step-by-step upgrading and expansion projects are also in place for the Jurong Lake District, with more 'edutainment' facilities, dining and lifestyle destinations, and parks. A new, world-class Science Center will be built next to the Chinese Garden MRT Station. New boardwalks and boating facilities, more parks and park connectors. The MRT line is to be further extended westwards. New schools and educational institutions will be built. In total for the West of Singapore, 46,000 new homes will be built over a period of 15 years in the estates of Jurong East, Jurong West, Hillview and Choa Chu Kang. A proposed new general hospital within the Lake District will also be completed within 7 years from now.
- The Woodlands Regional Centre and the Tampines Regional Centre will also be expanded to be self sufficient satellite towns in the coming years. These satellite towns would have increased number of homes, play areas, entertainment and cultural facilities, schools, offices, commercial shop spaces, parks and nature zones as well as designated industrial locations in certain areas. MRT lines across the entire country to be extended.

- Clear goals to transform Singapore into a leader in the field of Biomedical Research. The Biomedical Research Hub - Biopolis, situated in the west of Singapore in the vicinity of Buona Vista, is a key component in the Government's goal of being a world-class leader in the field of Biomedical Sciences' R&D. Biopolis, a research compound of more than 2.3 million sq ft, has a take-up rate of almost 100% at the time of writing. Tenants include government research agencies as well as international firms such as GlaxoSmithKline (GSK), Vanda Pharmaceuticals (USA), Paradigm Therapeutics (UK), Isis Pharmaceuticals, Swiss Giant Novartis - The Novartis Institute for Tropical Diseases (NITD), Invitrogen Corporation, among others.



- After the success of Biopolis, comes the soon-to-be-launched Fusionopolis, a Physical Sciences and Engineering Research facility. This is a facility that is slated to be launched in October 2008 to cope with research programs in fields such as infocomm and media, high performance computing, manufacturing, microelectronics, data storage, and chemical and materials science. The scientists, researchers and representatives of companies who come to this area will yet again need homes.
- The sound government in Singapore makes it a highly secure place for overseas investors to buy property, especially when compared to the neighbouring countries in terms of stability. This sentiment is especially true for investors who are buying their first investment properties outside their home countries – i.e, the nouveau riche generation. (Newly rich).
- The sound educational system in Singapore. It attracts a lot of students from the region to study and eventually make their homes here. These students are traditionally financially better off than their peers to be able to afford to study here. Or they could be academically gifted students or researchers who are offered scholarships. Whether they contribute financially or academically, they all need a home. That all leads to increasing demand.

More foreign universities and international schools from Scotland to Australia are setting up campuses all over the island. These will accommodate the existing local and foreign students here as well as attract more to Singapore for the purpose of higher education, in line with the goal of creating Singapore as an Educational Hub of the region.

New educational paths and courses available in Singapore: 10 years ago, who would have thought that Computer Gaming would become a school curriculum in Singapore? Now, it has become a study path for students who wish to delve into this profitable industry. Big names of computing-related studios that have either set up Development Studios here or made Singapore their regional headquarters include Electronic Arts, AvNet, 10TACLE Studio, LucasFilm Asia, Koei, Google and Digipen, among plenty of others.

All these create a breeding ground for local talents as well as attracting talented foreigners.

- Investment sales of properties hit a record high in 2007. (Investment sales refer to major investment transactions such as shopping centres, office buildings, land sites for redevelopment, collective sales, Government Land Sales and strata-titled properties worth at least \$5 million each. Other single property purchases by individuals are not included). In 2004, the total investment sales figure was valued at \$7.92 billion. In 2006 it was \$30.57 billion. In 2007, this figure is \$50.78 billion. Institutional money is pouring into real estate investments and developments, reflecting the sentiment and confidence about Singapore's future economy on the whole.

- New highs and more foreign buyers. The prices of high-end condos hit the S\$5000 psf. mark for the first time in local history in 2007. A penthouse unit at The Orchard Residences was sold for S\$21.36 million in July 2007, at exactly S\$5000 psf. In the same year, foreign buyers account for more than 25% of all transactions, the highest in 13 years, due to the increasing numbers of expatriates. Institutional buyers are picking up real estate in Singapore in a big way as well - big names include Goldman Sachs, HausInvest Global under Commerzbank of Germany, Macquarie Global Property Advisors, Wachovia Development and German pension fund SEB, among others.
- Singapore's property prices in comparison, is still a distance away from international cities like Tokyo, New York, London, and our nearest neighbor, Hong Kong. Are we complaining about smaller room sizes of condominiums built in recent years? Then we haven't considered Hong Kong or New York yet. Smaller rooms at higher prices within the city centers. This is the new trend and trend-to-be. In the near future, only the truly able individuals will ever have properties with large rooms and huge compounds for their family within city centers.
- In world class cities, the land prices between the city and suburbs have a huge divide, by hundreds of percentage points. For example, in the more affluent streets of Kensington and Chelsea, an area in the heart of London, the average price of a condo unit costs £835K (S\$2.24million) while a same sized condo in Bexley, a suburb of about 26km away, costs a mere £153K (S\$411K). That price difference is 5.45 times. The distance of 26km is about the same distance as travelling from Woodlands to Shenton Way in the CBD, a daily commute by many.

Do we see this divide of 545% yet, between these two areas in Singapore?

(A 12-month average of the price of a few close-by condo projects in the Woodlands area works out to just S\$501 psf. at the time of writing. While the average price of units in One Shenton works out to S\$1981 psf. Difference in price - just about 3.95 times).

For this example, the ultra-expensive condominium units in London have been purposely removed to balance the figures. (If included, the ratio would actually be much higher).

- To bring some perspectives to the real estate prices of World Cities when compared to Singapore, here are some figures. Reported in March 2008, the most expensive apartment in London (St James Square) has now exceeded £115 million (S\$310 million), effectively displacing the £100 million record (S\$269 million) set in 2007 by another London penthouse overlooking Hyde Park.

Closer to home, in Hong Kong, at HK\$55,491 psf. (S\$9,679 psf.), the most expensive home in Hong Kong was sold at a price of HK\$240 million (S\$41.86 million).

The attributes of this property? A three-story detached house with a total of 4,325 sq ft.

S\$40 million for a 4000 sqft bungalow or S\$300 million for a penthouse in Singapore? I don't foresee that coming anytime soon. Maybe in a few decades? Surely there is room for more growth. In a World City, the individuals who can afford properties of these prices are people who can afford to live anywhere at anytime. Price is usually not a barrier at all.

US\$ £ ¥ S\$ RM € HK\$

- As we talk about all this record prices of properties in other world cities that are taking place now, did you realize that the really 'rich money' from Russia, Middle East and India are not even here in full force yet? Think about London, a cosmopolitan city with large investments from all corners of the globe, where certain segments of the economy are wholly controlled by Indian or Middle Eastern investors. That has not happened here, yet. Singapore is gearing itself to become a world class city. When that happens, properties in the city center will likely become more expensive than it is today. Growth certainly takes time. But Singapore already has the right fundamentals in place and the government is now creating the infrastructure to make it happen. In comparison to other World Cities, there is definitely a lot of room for growth in terms of industry, opportunities and prices.

After the abolishing of Estate Taxes, private bankers are already receiving calls regarding advice on relocation of funds into Singapore. Change is already taking place... .

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### **A word from the author**

**During the period of uncertainty generated by the quiet market sentiments and later, the banking disaster known as the sub-prime crisis that was beginning to affect the USA at the time of writing, I had many conversations with my clients as well as investor friends of mine.**

**Some of them, even though they are certain that Singapore has all the right fundamentals in place, were still apprehensive about the long term outlook. I began to do some research before deciding to agree with the negative views or to disprove them. And through my own research about historical events around the world with focus on the USA, I have found that nothing much has changed all throughout the recent financial history of nations. There were strikes. There were wars. Material shortages. Famines. Social unrest. Disease outbreaks. Financial troubles. Market crashes. Basically the same news that we read today, everyday, can be found in the news from the 1900s or even earlier. It's all the same thing. Just happening in a different year. I bet the fear experienced by the earlier generations should be no different to what we feel when we experience similar events.**

**However, as history demonstrates, life goes on. This research experience provided me with a deeper understanding of social issues as well as the world at large. Through my findings, I noticed one thing - in the long run, land prices continued to rise no matter what happened in the short term. I shared the results of my research with my investors and they immediately began to be less affected by the negative news, almost as if awoken by logic. If this information is welcomed and enjoyed by my investors, perhaps everyone else in Singapore might also be interested in it too. Hence, I decided to compile all the information into a more 'arranged' format, focusing point-by-point on the ongoing and future developments in Singapore so that it can be appreciated by a wider local audience.**

**Singapore has strong fundamentals and should be able to withstand any financial turmoil and regain its position once the storm blows over, if it even blows this way. (In the event of an actual financial crisis taking place... if Singapore cannot withstand the effects, no one else within the South-East Asian region would be left standing - this is my personal belief).**

**My confidence in Singapore's strength is the reason why I am still right here in the business of helping clients like you buy and sell properties. If any country in this entire region of more than 570 million people (S.E.A) is to survive the ripple effects brought on by any foreign country-led financial crisis, it definitely has to be Singapore.**

**To get rid of uncertainty brought on by a continuous stream of bad news, first focus on what ought to be done. Decide on your investment objectives, do your research, seek out competent advice and then firmly apply your plan. The results you generate through this method of application will speak for itself. In fact, opportunities present themselves more obviously to those with a trained eye during times of general uncertainty and moments of chaos, when most of the public are in panic. Learn to take advantage of the panicking masses in the market.**

**'In 5 years, Millionaires in Asia would have more combined wealth than those in Europe',  
~ Head of Wealth Management (S.E.A.), Merrill Lynch, Kong Eng Huat.**

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**Putting aside fears generated by the media and replacing it with common sense, we shall now look at property purchase in Singapore. When purchasing property, it always helps to further your vision by holding to a long-term view. That is because as time goes by, the effects of speculation goes down and the real market emerges. However, that is not to say that it is not viable to make money from 'flipping' properties. Just that the risks are higher since you would have to time the market. When you plan for the long-term, there is no need to time the market. (Flipping = buying a property and holding on to it for a short period of time, sometimes only on paper and then reselling it to the next buyer for a quick profit, possibly even before actual construction is completed). It is definitely possible to make money that way and many emerged profitable from flipping during 2006 – 2007, even in 2008. As long as you are adequately advised about the future prospects and demand of the location, you will be able to make a profitable and educated purchase-and-selling decision.**

**So why hold the long-term view in mind when you can also profit by flipping? It is because the longer you hold a property; the more likely you will be able to victoriously ride out of the property price cycles, bringing down the risks significantly. The capital appreciation brought about by time negates the short-term risks, especially during pockets of inactivity within the market. Another benefit of looking at the long-term is so that you will have thoughtfully planned your financial commitments and therefore be less likely fall into the trap of being overstretched. Those are the benefits for having a long-term outlook generally speaking, but of course there can be exceptions. There is profit to be achieved adopting both the short-term and long-term investment methods.**

**No matter which timeframe you prefer and whatever risk appetites you may have, the key is to apply prudence to your planning, and being aware of the financing side of the property purchase. Pay attention to your financial strengths and do not overstretch. Make decisions according to what you are comfortable affording over a longer time frame than you actually intend to hold the property for. This will prove to be a blessing should anything unforeseen occur in the short term. Prudence and careful financial planning is of utmost importance and I can't state this enough. Planning right and investing within your means makes it easier for you to profit and harder for you to lose. When you plan right, you also plan for unforeseen contingencies, allowing you to withstand tremors in the market.**

**To this end of financial planning, I have also compiled another simple write-up titled: "Picking the best home loan package". It should help you better understand terms used in home loan banking like 'Board rate VS Fixed', 'Sibor', 'SOR', etc. Send me an email, SMS or call me for a copy of this write-up.**

**Alternatively, if you would like to speak with the banks, I will be happy to personally recommend competent Personal Bankers who will advice you professionally, at your convenience.**

Well, I hope you have enjoyed the report thus far. I hope it helped shed some light on the current cloudy market sentiments. However, as all of us have already noticed, even though the market was quiet for the first quarter of 2008, the prices have not come down a whole lot. That is due to one simple reason – Singapore has sound and strong fundamentals in place and EVERYONE knows that, including the sellers. And a majority of these sellers do have the holding power (careful planning). And since every cloud has a silver lining, sales have already been picking up for certain property launches and I have also begun noticing more developers advertising again on TV and the newspapers like they used to. For HDB properties, it is simply business as usual.

Here's wishing you the best in your property-purchase decisions, be it your first property or your multiple investment holdings.

Thank you for your interest.

**Bernie Lauchlan**



The author welcomes any questions or discussions regarding the property market or any information contained within this report. You are invited to write to him at [bernie@erasingapore.com.sg](mailto:bernie@erasingapore.com.sg). Alternatively, Bernie can also be reached at 9229 1950. (Callers from outside Singapore: + 65 9229 1950).



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