THE FUTURE OF REAL ESTATE

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PREFACE

It has been three and a half years since the publication of my fifth book, *Preparing for a Property Upturn*. A relatively long break considering that the first book, *Real Estate Riches*, was published in early 2011 and by late 2017 the fifth book was already on the shelves. Six years to roll out the first five books and more than three years for this one.

I was happy with the success of *Preparing for a Property Upturn*, particularly Chapters 1 and 2 which highlighted the long-term issues of retirement for our ageing population coupled with the decaying values of old HDB flats with short remaining leases. Many readers and their families have benefitted from having deeper and wider discussions about their lifelong savings stuck in home ownership vis-à-vis their retirement adequacy. As more readers and families are concerned about this topic, I have included a few more chapters on public housing, including a policy proposal crafted with Prof Tay Kheng Soon and ex-Chief Economist of GIC Mr Yeoh Lam Keong, in this book.

Chapter 3 of *Preparing for a Property Upturn* presented challenges and proposals for the future of real estate. As Singapore's planners will be reviewing the country's Concept

Plan in 2021, I highlighted the need to look at our land use plans by considering the combined impact of new technologies that will disrupt our urban landscape in the next 20 to 30 years. The effects of two or three technological leaps will not be sufficient to force significant changes in the urban landscape. A dozen technological advancements in combination, say in the areas of 3D printing, autonomous vehicles, 5G communications, drones, education, e-commerce, blockchain, etc., will exert a strong demand on cities to adapt buildings and the urban landscape. Even the Chinese government's recent policy announcements for China's "14th Five-Year Plan for National Economic and Social Development and the Long-term Goals for 2035"[1] repeatedly stressed the importance of "in-depth integration" of technologies and industries, encouraging mergers and reorganisations for the sharing economy. Policy planners have started to recognise that policies need to take into account the combined impact of technological and societal changes rather than amend policies piecemeal based on each particular trend.

In the next two decades, the cities that are able to morph themselves to enjoy the benefits offered by the entire suite of new technologies will be the ones that thrive. The rest will fall into redundancy. Urban regeneration will be my key research focus area in the next few years. I will also embark on investment projects for the revitalisation of historically significant old towns in Japan, and possibly Europe.

In the past three years, I busied myself with real estate related work, attending to clients in Singapore and overseas markets through brokering transactions and providing research, consulting and advisory services. Some readers may know that I regularly post my observations during site visits as well as provide commentaries about the economy and real estate market on YouTube http://bit.ly/KSYYouTube and Telegram http://bit.ly/KSYTele. Click subscribe and follow these channels for updates about the market.

Being an active real estate broker and analyst allows me to publish and create teaching materials for investors, full-time students and fellow real estate practitioners.

With the Singapore Management University, I was honoured to be able to jointly develop and teach the subject of real estate investments and finance with Emeritus Professor Francis Koh, a renowned professor of finance. With his support and four semesters of appreciative students, I was awarded the Lee Kong Chian School of Business Dean's Teaching Honour List Top Adjunct Faculty for two consecutive academic years.

In Ngee Ann Polytechnic, I developed and taught the module of real estate market research and statistics for three years. I also assisted the faculty members with developing educational materials for full-time students and adult learners. Two of the courses are on the mobile learning platform Gnowbe, which allows property agents to fulfil their Continuing Professional Development requirements through their phones and other mobile devices anywhere, anytime.

More recently, after the Circuit Breaker, I developed two new courses. One for adult learners who prefer to take online courses at their own pace named "Singapore Real Estate Fairy Tales – What's New After Covid-19?" on the Heuta Learners e-learning platform. (Readers who are interested in the Heuta Learners course may look at https://www.heutalearners.com/singaporerealestatekusweeyong)

Another course was created jointly with renowned Trust Specialist Mr Lee Chiwi of PreceptsGroup International. Titled "Wealth Transfer with Real Estate", we created this course in response to the demand

1 "14th Five-Year Plan for National Economic and Social Development and the Long-term Goals for 2035", The State Council The People's Republic Of China, 3 November 2020, http://www.gov.cn/zhengce/2020-11/03/content_5556991.htm

from bankers and financial advisors who are assisting the growing numbers of retiree families drawing up their inheritance plans.

Starting in 2021, I will be reaching out to Community Centres around Singapore to conduct short talks on “Wealth Transfer & Your HDB Flat” and “Outlook for Singapore Real Estate after Covid-19”. I hope to make information about real estate investments and wealth transfer widely available at an affordable cost to the general public.

Creating and delivering lessons in real estate and finance has contributed to my growth, as it has allowed me to learn a lot from my students. Everyone around me are my teachers, including the people I observe during my site visits, or when I am chilling out at Holland Village, or when looking at the retirees and families seated across Tanglin Halt Food Centre.

This tumultuous pandemic year has offered many of us a great opportunity for personal growth. For those of us not stuck in menial jobs, and those of us whose eyes are open, wide awake and with full awareness, this era of great learning will grow each of our souls tremendously, compensating for the stagnation the past 50 years of economic success has brought.

For those who are just stepping out of school, and attending virtual graduation ceremonies, the world wants you to continue learning. Despite half the world going into slow-motion in mid-2020, an abundance of lessons unfolded right in front of our eyes and lessons will continue to reveal themselves well beyond 2021. This will be a period of great learning and realisation. We need to assimilate our knowledge gained in school, with what is happening around the world now. Fresh graduates should continually reflect on the differences and similarities between the learning in schools and that beyond, and choose your next steps wisely.

For those who have been dealt an unkind blow by this pandemic, struggling with losses or looking for directions, I encourage you to continue growing your soul even as you mend your losses. The devil in this world will not go away until leaders learn to love the citizens and citizens learn to love the world. We have a long way to go before this world is healed.

This book would not be complete if I do not express my appreciation for everyone who has supported me with my work, my research, my teachings and my learnings: Catherine Thoo Sin Ling, Emeritus Professor Francis Koh Cher Chiew, Lai Yeu Huan, Alvin Mah, Tan Kok Keong, Elaina Olivia Chong, Chan Mun Wei, David Liew Yean Sin, Kannan Chandran, Yeoh Lam Keong, Professor Tay Kheng Soon, Makoto “Micky” Kojima, Valerie Toh Jao Jin, Vina Ip, Justin Chong Hou Shin, Hazel Tan En Lin, Pamela How Rui Ying, Joshua Toh Yi Xing, Joel Kam Jia Chuin, Swastik Agarwal, Soh Yun Yee, Law Yin Kai, Tan Guan Wei, Brandon Koh Yee Swee, Krystle Ng Ren Ying, Jolene Ng Hui Yi, Xavier Ling Shang Zhi, Yeoh Theng, Aloysius Ng Shi Hao, Dara Hanson, Benjamin Tan Ting Cher, Rachel Chan Min, Esther Ng Li Ting, Justin Wong Yi Jie, Sophia Chow Hui Ru, Wang Sijie, Yoon Zhen Yu and Tan Kit Yee.

In addition to the students who assisted me with research, analyses and writing, I would also like to thank editors Melvin Neo and Yeo Suan Futt for going through these pages and helping me to stay focused. Any errors or oversights in this book are probably mine. Since the passing of the anti-fake news law, better known in its short form as POFMA, I have decided to stay away from media interviews. Readers who wish to follow my market updates are welcome to contact me through social media and stay in touch on YouTube http://bit.ly/KSYYouTube and Telegram http://bit.ly/KSYTele.

Ku Swee Yong
January 2021

PART 1

NEW TECH, URBAN PLANNING, SMART CITY

1. Future of Singapore's Real Estate

Perhaps my views are expressed a tad too early. My analyses, forecasts and market calls are perhaps one to ten years ahead of their time, especially on the issues of ageing demographics and public housing.

Why am I doing this? I am simply trying to save investors from getting themselves into unprofitable investments. I hope to help investors avoid regrets.

In my second book *Building Your Real Estate Riches* published at the end of 2012, I discussed the risks and potential downsides of investing in small-sized strata non-residential properties such as small shops, small industrial units, small medical suites and small offices. From my third book *Real Estate Realities* published in mid-2014 to my fourth and fifth books, I warned about the hype of the High Speed Rail to Jurong, the Rapid Transit System to Woodlands and the excessive supply of properties in Malaysia, especially those in the Iskandar region.

For both the above forecasts and subsequent reminder-warnings that I wrote about, I received criticisms from unhappy property agents and even threats of legal action from developers.

But the facts speak for themselves. Even without Covid-19, many landlords of small retail shops, medical suites, industrial units and offices were suffering from long periods of vacancies and weak rentals. The Malaysian political flip-flops killed their housing market and those who have bought into the fluff of Jurong and Iskandar are mainly middle-income Singaporeans with lofty dreams and building castles in the air.

Most of the people who dislike my research label me as "negative" or "pessimistic". Occasionally, I get comments from trolls and people who deflect the discussions off at a tangent. For example, on the difficult discussions around retirement adequacy of retirees living in old HDB flats with deteriorating values, the trolls will alter the discussion by calling me divisive, accusing me of causing a rift in society. But these trolls have no ability nor interest to contribute to the discussions around the retirement adequacy of our ageing population staring at declining values of their old flats.

I am not doing this for extra clicks and likes. I am doing this to save investors and their families from financial pains. And that is the biggest motivation for me to keep writing and producing content, such as those on my Telegram channel (http://bit.ly/KSYTele) and Youtube channel (http://bit.ly/KSYYouTube).

So here I go again. In this lead chapter of my sixth book *The Future of Real Estate*, I will set out my forecasts for Singapore's property scene over the next 10 years by explaining the four key forces impacting, and imposing changes on, real estate.

1. Demographics and our ageing population

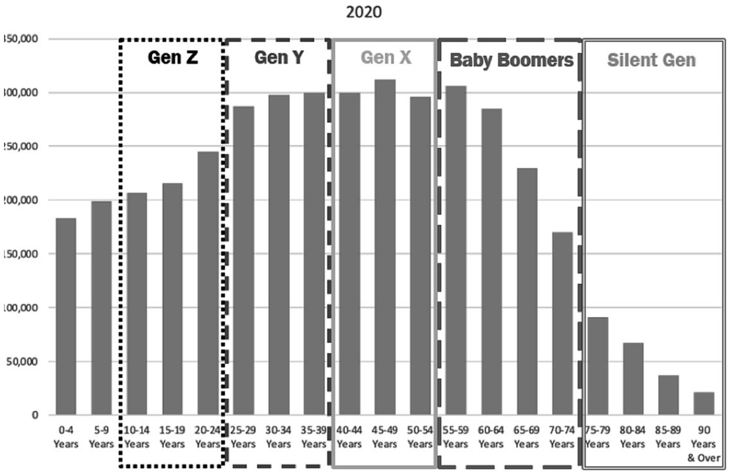
Within the next 10 years, we will see Generation Y (also known as the millennials) and Generation Z (i.e. the zoomers) dictate the rules about consumption and spending habits. According to broad definitions, in the year 2021, the millennials will be around 25 years to 40 years of age and the zoomers between 10 to 24 years of age.

By the year 2030, the millennials (around 34 to 49 years age) will be at their peak income, the zoomers will be mostly in the labour force, while Generation X (the generation after the post-World War 2 baby boomers and born between 1965 to 1980 who will be about 50 to 64 years old) will be stepping into retirement and beginning to draw on their CPF reserves.

Also in the year 2030, the baby boomers will be about 65 to 85 years old and will already be drawing down on their CPF Retirement Accounts. The generation before the baby boomers, also known as the "Silent Generation" that lived through the Great Depression and World War 2, will be passing on in larger and larger numbers. According to statistical models produced with several students from the Singapore Management University, we believe that by the year 2030, Singapore will see as many resident-deaths as we have resident-births (of about 30,000 each year). Beyond 2030, the number of deaths each year will exceed the number of live births. Note: The phrase "Singapore resident" refers to both Singapore Citizens and Singapore Permanent Residents.

Figure 1 shows the cohorts of population, segmented by generations. We can see that all the cohorts from "25-29 years" to "60-64 years" number above 250,000 per cohort. This means that each year for 40 years from 2020 till 2060, more than 50,000 Singapore residents will celebrate their 65th birthday. In some years the number of additional 65-year-olds will increase by more than 60,000.

Figure 1: Five-year age cohorts of Singapore Residents segmented by generation groupings.



Source: Singstat, International Property Advisor

Why are these numbers important?

Apart from the often-touted concern about the rapidly declining "old age support ratio", we have a seldom-mentioned issue of real estate wealth transfer.

The Gen Y and Gen Z will face a heavier and heavier burden as the old age support ratio declines. This is defined as the number of residents between the age of 20 to 64 (considered economically active) who will support each resident above age 65 (considered economically inactive). In the year 2020, there are 3.7 residents between age 20 to 64 supporting each resident above age 65. When we arrive at 2030, there will only be 2.4 residents of age 20 to 64 supporting each resident aged 65 and above.

The sharp drop from 3.7 to 2.4 is due to a combination of a large increase in the number of residents aged 65 and above and a decrease in the number of residents aged 20 to 64. This has serious consequences for the drawdown of CPF funds versus the contributions to CPF funds. In addition, I am concerned about whether we have sufficient capacity for healthcare services and facilities to meet the big increase in demand from retirees. We need to ramp up building more healthcare infrastructure and improving our capabilities and services immediately or we will be caught off-guard with a lack of capacity and sky-rocketing healthcare costs. Keep in mind that many of our doctors, nurses and healthcare workers are also in the ageing baby boomer and Gen X groups and will leave the workforce.

I digress. The CPF and healthcare issues are critical but they fall outside the realm of real estate.

The biggest issue that is caused by the rapidly ageing society and which affects a vast majority of families is this: real estate wealth transfer. For the last five decades, our grandparents and parents have been using their homes as the main store of retirement wealth. With the swelling numbers of retirees ageing towards their demise (median age of death being about 86 for those who are alive at age 65), I am expecting to see a lot more inherited properties that are put up for resale.

Resident-deaths have increased from 17,600 in the year 2010 to about 21,400 in 2019. As explained earlier in this chapter, by the year 2030 the annual number of resident deaths is forecast to exceed 30,000. Within the next 10 years, we should expect to see a total of about 250,000 deaths. What will happen to the "store of wealth" belonging to those who pass away?

On average, 90% of us are home owners and 80% of residents own and live in HDB flats. The passing away of the second parent would, in high probability, result in a HDB flat that would be transferred to the surviving children. And in all likelihood, the surviving children are also owners of private properties or HDB flats. Based on current laws, no one is allowed to have their name registered in more than one HDB flat. This and other considerations mean that most families end up selling the flats bequeathed by their parents, so that the beneficiaries can share the cash proceeds from the sale of the flats. And by that time, how many will be in the market to buy these, probably 20 to 30-year-old flats?

First time home buyers in the year 2030 will be largely made up of zoomers with a few late buyers from the millennials group. With reference to Figure 1, it is clear that the total number of zoomers who are eligible and can afford to buy homes might count for fewer than the 30,000 deaths of baby boomers and Silent Gens.

Furthermore, the millennials, followed by zoomers, are less inclined than the generations before them to marry before 30, to have children or rush to own a property. My grandparents and parents would save as much as they can and forgo luxuries in order to own a flat as soon as they can afford. The millennials and zoomers will probably prioritise holidays and enriching their life experience before saving up on the downpayment required for their homes. These generations will have different lifestyles, hoard less material goods and prefer living purposeful lives rather than chasing papers or financial wealth. They also view renting and home-sharing more favourably than being handcuffed to a long-term home loan.

There is also the question of affordability. Given that the iron-rice-bowl jobs of yore have been replaced by an increasing proportion of short-term contract work, the millennials today and zoomers in 2030 may not be able to afford a property until they have worked longer to save up for their first home.

Conceivably home prices could drop significantly, due to the degradation of lease, allowing more zoomers to enter the residential market early. In addition, inheritance handed down from Silent Gen and baby boomers could be passed on to zoomers to help them with downpayments for their first homes.

No matter how we slice the numbers, two outcomes are certain from the ageing demographics trend.

The passing of Silent Gen and baby boomers will release thousands of resale flats and private residences to the market every year, and we do not have sufficient demand due to the lower demand from the relatively small number of zoomers. We could of course open our doors wide and welcome more foreigners to take on citizenship here. But foreigners will come in droves only if we can create jobs. At this point, the outlook of the post-Covid-19 economy and our ability to generate a lot more jobs than before 2019 to attract quality foreign talent, is at best murky.

The second outcome of the ageing demographics is a shortage of affordable good quality senior housing. On this front, the government's efforts seem tentative at best. In 2014, Kampung Admiralty was launched by HDB as Singapore's first "integrated retirement community" project.[1] It also won several international accolades. However, there were only 100 flats in the development. HDB recently launched the first "assisted living HDB flats" for seniors over 65 years old which included basic healthcare services.[2] But as a trial, it is limited to 160 flats. For the past decade, HDB has also launched more studio apartments, 2-room flats and 2-room Flexi flats catering to seniors who wish to "right size" their abodes. At just below 3,000 units a year, it could have been sufficient for the last few years but compared to the more than 50,000 residents who

1 "Kampung Admiralty", Wikipedia, https://en.wikipedia.org/wiki/Kampung_Admiralty
2 Michelle Ng, "Singapore's first assisted living HDB flats for seniors to launch in Bukit Batok in Feb 2021 BTO exercise", *The Straits Times*, 10 December 2020, https://www.straitstimes.com/singapore/housing/singapores-first-assisted-living-hdb-flats-for-seniors-to-launch-in-bukit-batok-in

will celebrate their 65th birthday each year from 2020, it might not be enough.

Policy makers could have one concern. If the supply of old-age housing were abundant and affordable, it could lead many retirees to downsize and encash their old 4-room and 5-room flats. This could add even more downward pressure to the diminishing resale value of old HDB flats and affect the valuations of all public housing islandwide. This could be a consequence the planners want to avoid.

Further details will be discussed in Chapter 6 on public housing, where Singapore's ageing demographics and its impact on the public housing resale market are further elaborated and explained.

2. Politics and external market environment

When we gaze into the crystal ball about Singapore's real estate, we need to pay close attention to the economy, to jobs growth, to demographic trends and to what policy makers around the world are doing. Singapore being a very open economy with a tiny domestic market will be susceptible to major actions taken by the global heavyweights. For example, when the USA decided to pull out of the Trans-Pacific Partnership, it was negative for Singapore's status as a trade hub. And when the USA tightened up on Chinese companies operating in the USA, Singapore could conceivably benefit if Chinese companies expanded their operations here.

However, it would be far-fetched to link every action taken by the economic superpowers back to their impact on the Singapore real estate market. Most of these ripples will just flow by although a fraction may gather strength and turn into waves, affecting us in the immediate term, some over the long term. A fraction of them will impact the Singapore economy, such as our attractiveness for capital and for global talent. And a smaller subset will eventually impact real estate. What is important is to be cognizant, to be aware, of what is happening around us outside of Singapore.

A recent major development for Asia came in the form of the RCEP, or Regional Comprehensive Economic Partnership. This agreement signed between Australia, Brunei, Cambodia, China, Indonesia, Japan, Laos, Malaysia, Myanmar, New Zealand, the Philippines, Singapore, South Korea, Thailand, and Vietnam is the first trade agreement between the three North Asian economic powers (China, Japan and South Korea). These 15 countries account for 30% of the world's population (2.2 billion people) and 30% of global GDP (US$26 trillion).[3]

Being a very open economy and a long-time proponent of free trade, Singapore may not derive a lot of direct benefits from the RCEP. On the other hand, if this deal increases trade between the other 14 nations north and south us, trades and goods will still flow through the Singapore hub. Then again, not everything is hunky dory as we have recently witnessed the trade spats between Australia and China, two members of the RCEP.

Developments within China will get even more interesting in the next decade. The institutional real estate world has been waiting for Beijing to approve the listings of China Real Estate Investment Trusts or C-REITs. The market value of C-REITs is estimated to be over US$1 trillion. C-REITs will initially be limited to infrastructure real estate such as toll roads, data centres and utilities assets.

Announced in November 2020, China's 14th Five-Year Plan for National Economic and Social Development and the Long-term Goals for 2035 is what I would describe as bold. The policy planners are proposing "in-depth integration" of industries such as artificial

3 "Regional Comprehensive Economic Partnership", *Wikipedia*, https://en.wikipedia.org/wiki/Regional_Comprehensive_Economic_Partnership

intelligence, internet, big data, advanced manufacturing, etc. What struck me was the recognition that the future sharing-economy and platform-economy requires a multi-disciplinary approach and Beijing is strongly promoting this point across all industries and services sectors.

The demand for new generation infrastructure and services will drive jobs, which will stimulate consumer demand. New infrastructure such as next-generation data networks, 5G telecommunications and applications, charging and battery swap stations for vehicles, clean energy, etc. combine real estate with science and technology. Such investments will help China to further modernise and upgrade the country's capabilities. The introduction of C-REITs will be a major source of financing for the new infrastructure roll out.

While China plans her growth in the new world, many other countries are wary of China's capabilities, financial prowess and international influence. The new President of the United States, Mr Joseph Biden Jr, is one who is wary about China's ascension on the world stage. Biden is way more diplomatic than Trump and is expected to improve US foreign relations that were soured under Trump's leadership (or lack of). But we should expect trade spats between China and the USA to continue as long as Biden feels the threat of China expanding its influence and control over on the Asian side of the Pacific Ocean.

The rise of China's influence is both a positive (e.g. a very wealthy and growing consumer market) and a worry for her neighbours: South Korea, Japan, Taiwan and Hong Kong. Political leaders are keen to do business with China but are concerned about their exporters' strong reliance on the Chinese market. Australian wine and agriculture exporters paid the price recently when import duties were slapped on their products.

Over in Japan, the longest serving Prime Minister, Mr Shinzo Abe, resigned in August 2020 after implementing major economic reforms known as "Abenomics". His successor, Mr Yoshihide Suga, is likely to continue with opening up the Japanese market to the world but having taken over in the midst of the Covid-19 pandemic and with trillions of Japanese Yen spent on the Olympics, will he be able to steer the country to continue growing? Thus far, he has responded swiftly to the economic pains by calling for a third supplementary Covid-19 budget of over JPY10-15 trillion (S$128-193 billion) for Green and Environment funding, digital transformation and the promotion of urban to rural migration. Reversing migration flows by allowing more people to work remotely in rural areas, outside commercial hubs will bring major benefits in decongesting big cities and improving lifestyles. As I am involved in a project to revitalise a 1,400-year-old town, this is a positive step which I will be watching closely. Investors who are keen to join me on this journey can contact me for a discussion.

International trade spats will not be limited to China and the USA. Or China and Australia. Post-Covid-19, many countries have become more nationalistic and inward-looking, seeking to protect their domestic markets over cheaper imports. We have also witnessed a very long-drawn impasse between the United Kingdom and Europe over the terms of international trade after the UK leaves the European Union. The fallout of Brexit, its repercussions on labour, goods and services moving between the UK and Europe, demand in the UK real estate market, etc. will play out over the next two years.

Nearer home in ASEAN, there are many pockets of flux. The political situation in Thailand is worrisome. Malaysia's politics is likened to flipping roti pratas and the spread of the coronavirus seems unstoppable even as we cross into 2021. The pandemic is also causing a slowdown in the major consumer markets of Indonesia and the Philippines. It seems that Cambodia and Vietnam are

8. Addressing Singapore's Key Public Housing Problems: Asset Protection, Affordability and Access

First published on FutureofSingapore.org, 8 December 2019

Singapore has a stellar reputation in having achieved the most extensive, high quality and successful national housing programme in the world. First published on the Future of Singapore website, an independenent think-tank and non-partisan research and discussion forum, the following proposals seek to address the key potential long-term crises in HDB-managed housing and to improve upon it. There are two major problems facing HDB housing today.

Firstly, HDB flat owners have no security of tenure beyond 99 years, and the capital values of their flats will sharply diminish towards the end of the 99-year lease. As a result, their life savings will depreciate significantly as they age.

As things currently stand, the value of HDB owners' flats will become zero at the end of their 99-year lease, unless they are fortunate enough to qualify for Selective En bloc Redevelopment Scheme (SERS) midway. However, for the bottom 50% of income earners, the vast bulk of their net worth or life savings is in the value of their HDB flat. For most of them, when their flats go beyond the 40-50 year old mark, the value of HDB flats tends to decline rapidly, just when the owners need to capitalize on their flats' value to fund their retirement the most. Neither the proposed Voluntary Early Redevelopment Scheme (VERS), the Shortlease Flexi-Flats nor the Lease Buyback Scheme (LBS) currently adequately addresses this problem.

Secondly, the current cost of HDB flats for first-time buyers of BTO flats relative to their incomes is very high, with the result that it typically takes about 25 years for home buyers to pay off their housing loans. This effectively means that for the greater part of their working lives, many Singaporeans are channelling a significant part of their disposable incomes to paying off their HDB flats, leaving insufficient savings for retirement, medical expenses and education upgrading. The problem is exacerbated for the lower, irregular or uncertain incomes that makes home ownership difficult.

The challenge is to craft reform proposals which not only address the concerns identified above, but which are also affordable, fiscally responsible and do not destabilize the existing housing market. To this end, we propose four major reforms to HDB managed housing that will address these problems and greatly improve the well-being of all Singapore citizens.

Proposal #1: Extension of lease

In order to preserve the value of older HDB flats, our first proposal is that the Government should do a one-time automatic top up of the leases of all HDB flats owned by Singapore citizens back to 99 years once a HDB flat is 50 years old. This immediately addresses the problem of declining residual values of old HDB flats with short remaining leases. The lease top-up cost should be priced affordably at around 3% of the price of a new resale flat, with support for low income families to enable all citizens to afford it, much like current HDB upgrading schemes.

Proposal #2: Replacement of aged flats

The first proposal above brings with it a technical issue which needs to be solved: all reinforced concrete flats need to be torn down and rebuilt on a 100-150 year horizon for structural safety reasons. Accordingly, our second proposal is that the Government funds the rebuilding cost of all HDB flats every 100 years. The total bill for such a nation-wide exercise is estimated at $150-200 billion dollars over 100 years. While the cost of this programme is large over the long term, it is nevertheless eminently affordable and sustainable when amortized over 100 years.

It is proposed that the Government funds this exercise by setting aside $1.5-2 billion annually (a mere 0.3-0.4% of current GDP) into a sinking fund for this purpose. As with the current SERS, a fresh 99-year lease should be given to all HDB flat owning citizens after rebuilding.

Proposal #3: New pricing policy of new flats

The third proposal is that all new BTO flats be sold at around construction cost of $150-200 per square foot. Such flats will not be eligible for sale in the resale market for the first 15 years to help effectively safeguard the price of current resale flats. One family can only own one such flat at a time. Flat owners older than age 65 should also be allowed the option to downgrade once to a smaller, low-cost BTO flat to further boost retirement adequacy.

Proposal #4: Social rental housing

The fourth proposal is that for citizens who still cannot afford home ownership, sufficient numbers of good quality, subsidized rental flats be maintained with a reasonable security of lease tenure. This is needed to ensure that housing is affordable to all, especially for the less well-off in the gig economy with increasingly unstable employment.

Fiscal Implications

These reforms are eminently affordable and fiscally sustainable, and will leave substantial fiscal resources available for other important major budget items. The proposals will preserve the life savings of the population invested in HDB flats, especially the bottom 50% of income earners, thus reducing the need for what would otherwise be larger state retirement income support.

Long-term Positive Macroeconomic Impact

At the macro level, these reforms will greatly help overall retirement adequacy, especially for our elderly poor. It will boost domestic demand through lower “forced savings” and therefore greater consumption. There is also the fiscal boost of continuous rebuilding of the housing stock which will be renewed to best architectural standards every 100 years. Additionally, these proposals will also ensure all new flat buyers will be able to afford high quality flats that they can fully pay off in 10-15 years. This will release more savings for retirement and entrepreneurial activity which are currently locked up in housing while minimizing the negative impact on the values of resale flats. The proposed reforms are not expected to destabilize either the existing HDB resale market nor the private housing market.

Social well-being and intergenerational benefits

At the level of social well-being, these reforms will not only ensure Singapore citizens the very significant security of being able to both afford and live in the flat they purchase until the end of life but will also enable them to preserve their flat’s value as either an asset to monetize in retirement or a bequest to the next generation. This further helps sustain the social networks needed for happy ageing in-situ as well as for long-term community building. The rental reforms will also address the basic housing needs of the less well-off in the uncertain labour markets of the future.

14. Sir James Dyson Sucking Up The Losses?

First published on Storm-Asia.com, 26 October 2020

About 15 months ago in July 2019, the real estate industry in Singapore was celebrating and trumpeting the sale of the largest non-landed residential property in Singapore — the triplex penthouse in Wallich Residence.

Developer Guocoland sold the penthouse for S$73.8 million, attractively discounted from a sticker price of $108 million.

The lucky buyer — none other than the high-profile Sir James Dyson, one of the richest Britons today. The ultra-secretive man whose name is attached to expensive bagless vacuum cleaners and hairdryers. And he wanted to build electric cars in Singapore.

The investment made waves in Singapore. It was hyped up in the local media and was earnestly dissected and discussed amongst property industry players. One could say it was the talk of the town.

The international media ensured the buzz spread to key cities such as London and Hong Kong.

By October 2019, the electric car idea had run flat.

And a year later, Singapore's *Business Times* revealed that Sir James had sold the globally famous penthouse for $62 million. In the midst of a viral pandemic that is in its third wave in many countries, a single dwelling transacted at a price of $62 million would catch most people's attention. More so if the seller had taken a capital loss of $11.8 million and an estimated total stamp duty bill plus agents' fees of more than $12 million.

An investment of $73.8 million that resulted in a loss of about $24 million after 15 months? That should easily make its way into real estate investment textbooks as a case example of 'What Not To Do'.

I am puzzled by this series of event

First off, the neighbour downstairs must be fuming. Just one floor below, apartment #61-01 was transacted in January 2020 for $4,987 psf.

Sir James' penthouse #62-01, which has 21,108.2 sqft of strata area, was sold at $2,937 psf, or 41% less.

My second concern has wider implications.

Taking a 16% loss on this penthouse over a 15-month period does not bode well for Singapore's reputation as a global financial hub for high net worth individuals and the private banking sector. Many observers brushed it off lightly, saying that this loss is no big deal to a multi-billionaire.

But does a multi-billionaire flush money down the toilet?

Prior to investing in the penthouse, was Sir James ill-advised by his financial planners and his property agents? Did his business run into deep trouble within the last 15 months such that he was no longer able to hold on to this internationally high-profile investment?

Would a person who is paid $200,000 a year, buy 10 packets of $4 chicken rice and then dump the 10 packets into the nearest rubbish bin simply because he can easily afford $40?

The third observation, based on comments from the market, suggests that Sir James might be able to write off the $24 million losses against his income taxes. If this were true, does it set an example for other ultra-high net worth Individuals who could similarly take advantage of Singapore's prime real estate, dumping them for significant losses (including hefty stamp duties) so that income taxes in their tax-resident countries may be reduced? Would such actions raise the ire of HM Revenue & Customs or other tax authorities?

Reputational risk

From a capital markets viewpoint, this example of value destruction is something that Singapore's reputation does not need.

Our real estate and finance industries pride ourselves as a preferred listing destination for Real Estate Investment Trusts (REITs), with more than 40 REITs listed on the Singapore Exchange, and counting. We can ill afford a billionaire Lord or Knight buying $100 million retail malls or office blocks and dumping them after a year for $30 million losses, to save on taxes or otherwise. The valuations of many assets in the small island of Singapore will be affected by such value-destructive actions.

While the authorities earnestly protect Singapore's real estate from speculative investors to prevent overheating and avoid property bubbles, we need to protect capital values from plunging due to the actions of speculative investors. Our reputation as a safe haven for real estate investors took decades to build. Real estate speculators who can afford to splurge on losses and on property taxes will dent our good reputation.

The last time an international high-flyer sold a penthouse with a big loss was billionaire Katsumi Tada from Japan. He took a $15.8 million loss on a 6,017 sqft penthouse at St Regis Residences in 2015, having held the investment for eight years across the Lehman Crisis. The stamp duties paid were less than $1 million which meant that his total loss was $16.8 million.

An investment holding period of eight years is reasonable in real estate circles and within that time frame, Japan's fortunes changed for the better and his investment priorities could have shifted elsewhere.

In contrast, even though Sir James' spokesperson provided reassurances that he remains committed to investing in Singapore, the magnitude of a $24 million loss over a 15-month period seems colossal.

But wait. Do we know that Sir James actually lost money in this deal?

I am unable to find any articles that quoted the buyer, the seller, the agents or anyone involved in the transaction that the purchase price was indeed $73.8mil.

There was also no price data for the transaction of this 62nd floor penthouse in REALIS, the Urban Redevelopment Authority's database. Most of the news articles in Singapore and across the globe can be traced back to the *Business Times* article which stated "BT understands…" without being able to confirm the purchase price.[1]

1 Kalpana Rashiwala, "Dyson owner forks out S$73.8m for Singapore's costliest penthouse", The Business Times, 10 July 2019, https://www.businesstimes.com.sg/real-estate/dyson-owner-forks-out-s738m-for-singapores-costliest-penthouse

We do know from REALIS and caveats filed on this property, that the apartment was sold for $62 million.

Is there a possibility that Sir James purchased the penthouse for at a much sweeter price than $73.8 million and therefore, he did not lose $24 million? However, neither Sir James nor his spokespeople confirmed or denied that he took a massive loss on this short-term property play.

In any case, with this supposed $24 million loss on the penthouse coming a year after his electric vehicles venture was scrapped with over $300 million written off,[2] what Sir James has signalled is that his investment managers might need to relook their real estate strategy. Or perhaps that he needs the services of a solid team of real estate advisors.

2 "Dyson has scrapped its electric car project", BBC News, 11 October 2019, https://www.bbc.com/news/business-50004184

PART 4

COMMERCIAL (OFFICE & RETAIL) AND INDUSTRIAL

22. Real Estate Versus Inflation: A Problematic Narrative

In Singapore's real estate market, one of the longest surviving old wives' tales must be "real estate is a hedge against inflation".

When we were younger, playgrounds dates were a thing and dating meant finding the courage to ask someone out in person, face-to-face. Yes, and policemen wore bermudas then. Most of that has changed, a lot. Teenagers now busy themselves with gadgets while computer games and dating apps have changed the entire scene altogether. As we progress, we accept new concepts and adopt new ways of doing things.

Yet for some reason, we remain stuck with a folklore that seems immovable.

Investment blogs such as Dollars&Sense,[1] news commentaries[2] and academic literature[3] also perpetuate this folklore.

1 Dinesh Dayani, "4 Investments That Naturally Hedges Against Inflation In Singapore", *Dollars and Sense*, 27 February 2018, https://dollarsandsense.sg/4-investments-naturally-hedges-inflation-singapore/

2 Sing Tien Foo and Chia Liu Ee, "Commentary: Did aggressive land bidding by Chinese developers push up Singapore property prices?", *ChannelNewsAsia*, 11 August 2019, https://www.channelnewsasia.com/news/commentary/land-bidding-chinese-developers-singapore-property-rising-cost-11764932

Accommodation costs account for nearly 23% in the basket of goods used for calculating Singapore's Consumer Price Index (CPI). The CPI – All Items index is one measure of inflation and I urge readers to familiarize themselves with the basket of goods and their various weights in the CPI by reading the educational material on this topic provided on the Department of Statistics' website.[4] Other major components of the CPI include Food (21.7%), Healthcare (6.2%), Private Transport (15.8%) and Education (6.2%).

To tabulate the costs of accommodation, statisticians track residential rental data. Accommodation can be split into both rentals and owner-occupied homes. About 90% of Singapore Citizen and Permanent Resident (collectively known as "Singapore Resident") households live in owner-occupied homes. The cost of housing for this owner-occupier group is not directly observed for, unlike those who live in rented homes. As a result, the cost of accommodation for the owner-occupier group is proxied using rentals instead. However, the people who generate demand for rented homes are, by far and large, NOT Singaporeans.

Of the 10% of Singapore resident households that live in rented homes, the low-income households that rent the roughly 60,000 small-sized HDB flats form the majority.

As a result, the "Accommodation" component of the CPI is mainly contributed by foreigners renting homes in this country. And if their demand for rental homes goes up or goes down, and it moves the

3 Dalina Amonhaemanon, Marc J.K.De Ceuster, Jan Annaert and Hau Le Long, "The Inflation-hedging Ability of Real Estate Evidence in Thailand: 1987-2011", Procedia *Economics and Finance*, Volume 5, 2013, Pages 40-49, https://www.sciencedirect.com/science/article/pii/S2212567113000075

4 "Singapore Consumer Price Index (CPI)", *Department of Statistics Singapore*, https://www.singstat.gov.sg/modules/infographics/consumer-price-index

CPI, does it directly impact Singapore resident households who are living in owner-occupied homes?

So what are the origins of the folklore? How much truth is in the underlying message? Is the statement still relevant in this day and age?

In this article, we present some of the reasons why this message is no longer relevant and why we think it should stop being propagated.

First off, what is inflation?

"Inflation" refers to a general increase in prices of consumer goods and services, which leads to a fall in the purchasing value of money. Simply put, inflation is the reason our Hokkien noodles and kopi-O lunch cost $3.80 ten years ago, but cost $5.00 today. The price increased due to demand factors from consumers, and cost factors from ingredients, wages, rent and equipment, or a combination of both higher demand and input costs.

Should demand for consumer goods and services rise faster than supply, inflation would occur. Similarly, if costs of input items of goods, labour, overheads, compliance, rent and services rise, vendors would be forced to increase prices to stay afloat. Hence inflation.

Real estate has its own demand and supply factors which need to be considered. Within the real estate sector are different segments, for example: residential, office, retail, hotels and industrial. Each segment has its unique drivers for demand and supply.

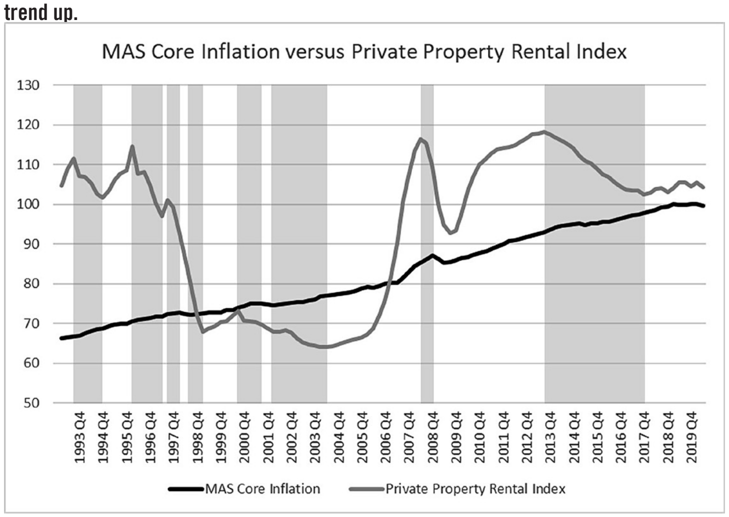
For residential properties, the primary demand comes from people who need a place to live in. They could purchase their own home. Or they could pay rent to those who purchased a dwelling unit as an investment. The point is subtle and I wish readers to take note: the primary demand for a residential property comes from someone who needs to live in the property. That primary demand may be satisfied by someone buying a residential property for his own use or by renting the property from someone who had purchased it as an investment. A property that is purchased while it is still under construction does not satisfy the primary demand for <u>housing</u>. It satisfied the primary demand for <u>investment</u>.

On the other hand, the supply or availability of residential properties may be measured by how many housing units are available for rent and actively looking for tenants. It could also be measured by the number of residential units available for sale by property developers (this source is considered the primary supply market), as well as the number of units available for sale from owners who are not developers (i.e. the secondary market).

Many external factors can cause increases or decreases in both demand and supply, and therefore affect property prices and rents. For example, an economic crisis could cause investors to postpone their purchases, therefore decreasing demand and widening the demand-supply gap. Housing prices are pressured downwards when the demand for housing falls more than supply. The same economic crisis will also lead to lower incomes such that tenants will negotiate for lower rents. The converse is true: prices and rents will increase if demand exceeds supply, or if supply falls off while demand remains.

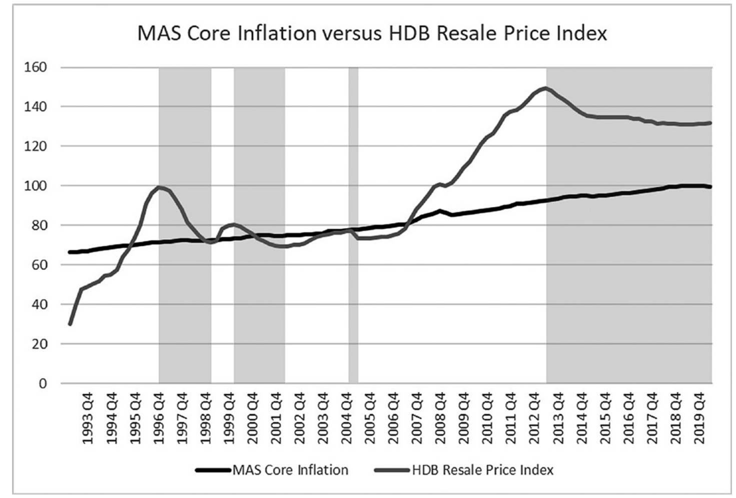
However, inflation can remain positive during an economic crisis. In fact, in many developing countries, economic downturns usually depress the exchange rates of the countries which leads to increased inflation as the costs of imported ingredients jump. During such periods, inflation continues to rise while tenants seek lower rentals such that inflation and rents go in opposite directions. Which means that as the owner of the property, you will be collecting lower and lower rents while dealing with higher costs, such as during the period from late 2013 to late 2017 (see Figure 1). Due to the oversupply of residential units and declining rentals, owning a private residential property is hardly a hedge against inflation.

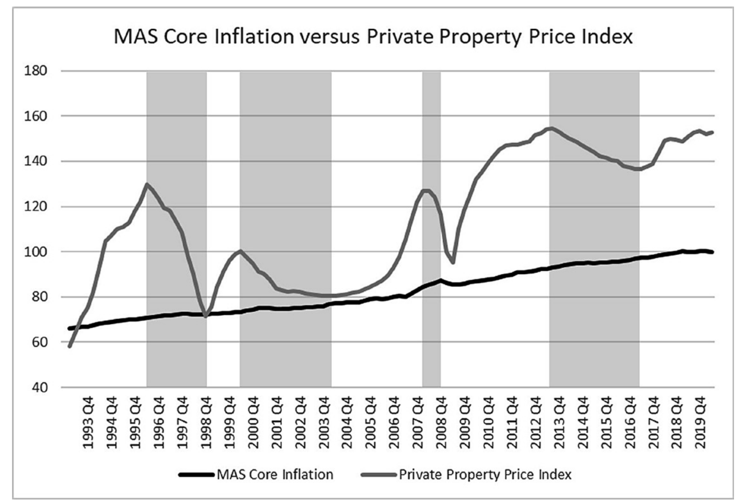
Figure 1: Graph showing the increase in MAS Core Inflation index and Private Property Rental index from Q1 1993 to Q2 2020 [data before 1Q1993 not available]. Shaded areas indicate the periods where rentals were dropping while inflation continued to trend up.



Source: Singstat, International Property Advisor Pte Ltd

Figures 2 and 3: Prices of resale HDB flats and private properties moved contrary to inflation about a third of the time during the last 28 years.





Source: Singstat, International Property Advisor Pte Ltd