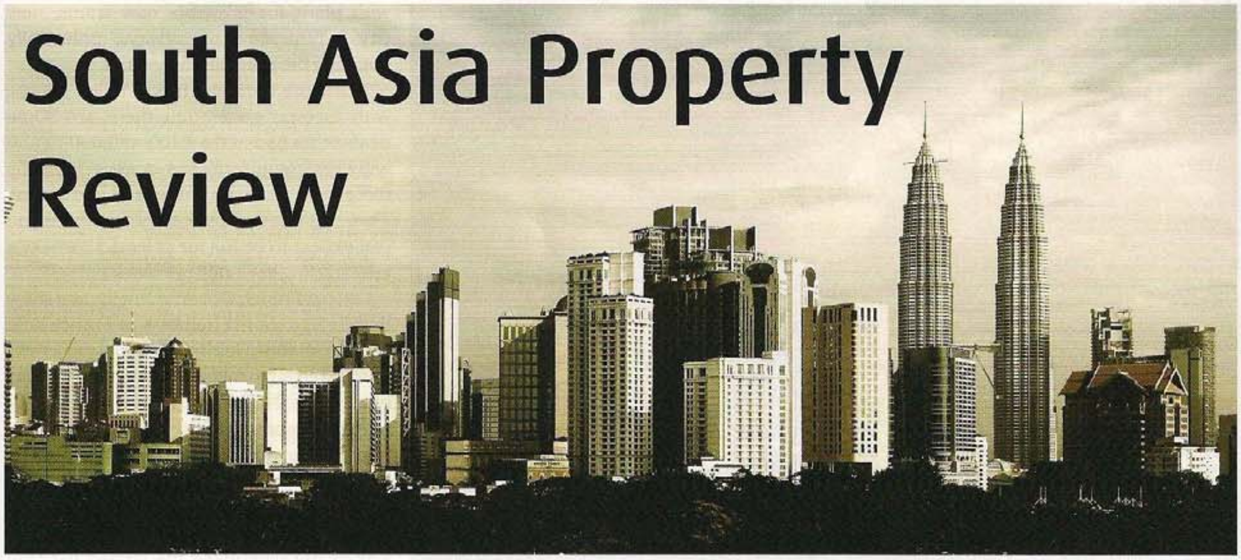
South Asia Property Review



Peter Hemple reports on the economies and property markets in Malaysia, Thailand, Singapore and the Philippines

According to the World Bank (WB), the countries in South and East Asia have not escaped the forces of global recession. The initial global credit crunch resulted in a sudden reversal of foreign direct investment (FDI) in the middle-income economies and in some cases a depreciation of their currency. More recently, the region-wide decline in exports is triggering widespread factory closures, rising unemployment, and lower wages.

The WB reports that 'the best chance of a revival for these economies is a return to stronger economic expansion in China over the next 12 months, but nothing would be more beneficial than Europe and USA coming out of recession.' Alas, this looks unlikely for the time being.

The bank adds: 'Thailand, Malaysia, and the Philippines initially withstood the financial turbulence at the end of 2008 because they were better prepared after the 1997-98 Asian financial crises. As a result, over the last decade, these countries have strengthened their external balances, increased foreign exchange reserves, reduced government debt and improved banking supervision.'

But what is the state of their economies and property markets now that the worldwide economy has plunged deeper into a recession this year? Let's look at each country individually.

Malaysian economy

The economy started to lose steam at the end of 2008. For the year as a whole, growth slowed from 6.3% in 2007 to 4.6% in 2008. This slowdown is primarily attributed to growth grinding to a halt in the last quarter of 2008. The manufacturing sector contracted -8.8% in the last quarter of 2008, and worse is likely to come as exports fell -7.5% in the same period and a hefty -28% in January 2009, which is the largest drop in decades. The electrical goods industry is leading the contraction.

Real GDP is projected to decline -1% in 2009, held up by domestic demand, while external demand is expected to drop considerably from -3.8% in 2008 to -21.8% in 2009. The outlook beyond 2009 obviously remains uncertain.

Several factories, particularly in the electronics sector, have had to close or reduce operations and there have also been sizeable job losses in hotels and restaurants, and in the financial services sectors. The unemployment rate was at 3.7% in 2008 but could well rise to over 5% this year. This increase in unemployment would be larger than the one observed during the Asian financial crisis. Where FDI inflows were reasonably high in 2008, this is unlikely to be the case in 2009.

Claire Brown at Claire Brown Realty says: "The economy in Malaysia is not wholly reliant on exports although for many years their major customer was the US, which was clearly the key factor in the export decline in January this year. However, the amount of domestic and regional demand is very healthy.

"The banking system is robust, with cash adequacy levels at over 20% and this forms the basis for the economy to remain sound when in other countries (in the West) the downturn will continue for some months or years.

Over the past 12 months, the Malaysian ringgit has appreciated against sterling by over 15% from 6.35 per pound to 5.38 (at the time of writing), and the overall picture for the financial sector in Malaysia remains one of strength. Banks are sound and have the capacity and liquidity to support private sector borrowing. The central bank has cut its key policy rate from 3.5% in November to 2% and 12 month inflation fell to 3.7% in February 2009 from a peak of 8.5% in mid-2008.

Regarding stimulus packages, the authorities announced a first one in November 2008 of RM7bn (£1.3bn) and a second one in March 2009 of RM60bn (£11.2bn), both of which combined will total around 10% of GDP.

Tourism and property

The prospects of the Malaysian tourism and property markets were given a boost in

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April this year with the announcement that Air Asia X had started a new service offering flights five times a week from Stansted to the Malaysian capital, Kuala Lumpur. The company has reportedly sold 50,000 tickets priced between £149 and £199 one way, compared to typical prices of £300 charged by other airlines.

John Scott, finance director at Asset Property Brokers (APB), said: "This is good news for those thinking about investing in property or seeking a holiday home in Malaysia. The launch of this new airline service will boost Malaysia's tourist industry, driving up occupancy rates and yields of well located property."

A record 22m people visited Malaysia in 2008, an increase of 5% over the previous year, making it Southeast Asia's top tourist destination. Thailand, its nearest competitor, attracted over a third less visitors at 14m. However, it is not known how many of these visitors were just visiting the vastly expanding Kuala Lumpur airport, on route to other destinations.

APB is selling villas at Golden Palm Tree Resort, a hotel development forming the shape of a palm tree that will stretch out almost one mile into the Straits of Malacca, near Kuala Lumpur. Investors are provided with a 15-year rental package starting at 8% net with up to two weeks' free stay a year.

Expected to be completed in 2010, the Golden Palm Tree resort is 75 minutes from Kuala Lumpur's central business district and 30 minutes from the International Airport and the Sepang Formula One race track. Prices start at £190,000, for a 2-bed/2-bath villa.

Brown continues: "Until very recently the pound has been weak against all currencies but that shouldn't put investors off (from buying in Malaysia). Currently it is trading at $5.4 RM to £1. However, the Malaysian property market is an ascending market - steady, reliable growth and good yields for well located, well developed property. I have just invested in a condo in KL (Kuala Lumpur) because I can get 80% LTV mortgages (through Alliance Bank) and the developer absorbs all stage payments until completion.

"I am investing within a syndicate so we have a 15% discount from list price meaning for just 5% down I now have a large apartment in a 5-star condo development in one of Asia's most dynamic capitals. You just can't find these deals in the UK or elsewhere. I will never understand why investors want to go into markets that are dropping when they can go into markets that are ascending and into economies that are robust. The (Malaysian Ringgit) is one of the best performing and most stable currencies in Asia, especially because it cannot be traded outside of Malaysia so speculators cannot weaken it.

"Foreign buyers can choose to obtain mortgages from a great number of banks including Maybank, CIMB, UOB, Alliance etc. Interest rates are as low as 1% during construction moving to circa 4.88% principal and interest once properties are complete. CIMB have even started refinancing for our clients who bought properties with us two or three years ago and now have equity to release.

"Tourists are coming via direct flight links from Sydney, Tokyo, Hong Kong, Seoul, Singapore and KL. The property buyers from UK are mainly investors but other nationalities are buying for lifestyle reasons, or a combination of the two. There is a diverse mix of South Africans, Australians, New Zealanders, expats of all nationalities from the region and also a great many from the UAE. UK based people make up less than 10% of purchases."

"The (Malaysian Ringgit) is one of the best performing and most stable currencies in Asia"

Brown believes that Malaysian Borneo is the place which offers investors the best potential as there is huge demand for real estate and very little supply. She says: "Tourism has increased there by 20% year on year since 2000 and high-end resorts are at maximum occupancy. We are selling 400sqm units at Kudat Riviera, Sabah, in Borneo on plots of 2,000sqm for US$990,000. The same property in Bali would cost $3m and in Phuket $7m."

Just 32 villas will be built at the beachfront 6-star resort and guests are expected to pay from US$695 per week to $5,000 per week in the peak season. Brown expects net rental yields of 14% and Maybank is offering buyers 50% LTV finance.

Philippine economy

Officials in the Philippines have lowered growth estimates for this year to around 2%, down from a previous forecast of 3.7% to 4.4%. Economic growth slowed to 4.6% in 2008 following years of sustained expansion and from 7.2% in 2007. Despite this, confidence in the country's economy has remained strong.

Inflation reached a decade high of 9.3% in 2008 largely due to the rapid increase in food prices and to a lesser extent fuel prices. Rice inflation accelerated and peaked at 50% in July 2008. The cost of finance is still expensive and borrowing spreads, which had fallen below 200 basis points in 2007, had increased to 500 basis points by the end of 2008 under tightening bank credit conditions.

Over the past 12 months the peso has appreciated almost 16% against sterling from 84 to 72.5 to the pound. However, exports of electrical goods and automotive parts which account for 60% of total exports have seen demand fall by as much as 60% in recent months, according to the World Bank. The unemployment rate increased to 7.7% in January when 120,000 job losses were reported.

Property market

Brown says: "The Philippines is the most promising of all Asian countries. It has a steadily growing economy, is politically stable, massive increases in FDI and a young workforce all speaking excellent English and helping Manila to become the South East Asian trading post of choice for multinationals. There is also low taxation, strong consumer demand coupled with a rising middle class, a mature tourism industry and a locally driven, undervalued property market.

"Investors ruling out the Philippines because of the standard misconceptions - it's dangerous and unstable etc - have clearly never visited the country. I have been four times to the Philippines this year, always travelling alone and it is a wonderful place. I have bought two properties this year - one in Manila and one in Cebu. I will also be investing in Palawan. Investors who wait a few years before buying into the Philippines will find real estate to be much more expensive than it is today."

According to Brown, the Philippine Peso is a stable currency which cannot be traded outside of the Philippines (the rate at the time of writing was 74 pesos to £1). She adds: "HSBC will lend up to 60% on certain projects, such as Raffles Manila. Most financing for foreigners is vendor financing - this is always a good acid test as to the liquidity of the developer. If they can ▶

afford to offer vendor financing and their pricing stacks up against comparables, they are probably in pretty good shape."

With regards to the most popular tourist resorts, Brown says: "Boracay (Island) has traditionally catered to regional expats and now also middle class people from Manila. Accommodation is quite expensive on Boracay compared to other parts of the Philippines so yields tend to be good, typically 12% net. The most successful Philippines resort in terms of volume is Cebu. Cebu has an international airport with direct flights from Vladivostok, Hong Kong, and Seoul, China, Singapore and now Delhi as well as many more Asian cities.

"Koreans are the biggest group with arrivals up 133% from Jan 08 to Jan 09, then Chinese with arrivals up 108%, Russians are the third group and since the new route opened with Delhi, Indian's make up the fourth group. The hotels are pretty cool in Cebu and Miami-chic is the prevailing style but the best thing of all is getting guaranteed yields of over 19% as the tour groups have block-booked rooms up to five years in advance because a tour operator's biggest challenge in Cebu is securing the rooms they need.

"Palawan is an archipelago dedicated to eco-tourism. Currently there are just a few high end private island projects such as Aman Pulu, Banyan Tree and Cacao Pearl but more projects are coming soon. It is the most beautiful place on earth!"

Claire Brown Realty is selling studio units at $70,000 in Lancaster Atrium, a 5-star condotel in the central business district of Ortigas in Manila. She says: "Yields will be around 9% net and capital growth should be 15% per year if not more. Prices have doubled in the last three years but they are still very early on the growth curve." For maximum returns she recommends holding a unit for 5-10 years.

The Blue Coral development in Cebu is offering 1-bed condo-hotel rooms for US$105,000 with rental yields guaranteed at 19% net for the first five years. Brown says that vendor financing of 60% LTV over 15 years is available with interest rates fixed at 10% for the duration. If the 60% finance option is taken up you will need to put down a deposit of $43,860, however, after mortgage repayments of $8,649 per year there will still be an annual income of $13,251 from the net rent guarantee, which equates to an annual net return from your cash investment of around 30%.

"This is unbeatable and I have invested personally in both projects", she adds.

Thai economy

Aside from the ever changing political situation, the Thai economy is in a bad way and shrank by -6.1% in the last quarter of 2008, the largest contraction since records began in 1993. This was followed by a further -1.9% decrease in Q1 2009. The economy is not being helped by falling tourism numbers, a result of the large public displays of anti-government sentiment in the country.

Meanwhile, the ratings agency Standard & Poor has cut one of its ratings for the country, saying that the prospects of a near-term return to stability in the country looked remote.

While Thailand's financial sector was mostly insulated from the financial crisis, export volumes contracted in October for the first time in six and a half years. Meanwhile, political unrest and the shutdown of the two airports in Bangkok in late November severely affected tourism and consumer confidence.

Real GDP is projected to contract by -2.7% in 2009 but growth is expected to resume in the fourth quarter of 2009 assuming a better outlook for the global economy in 2010.

Inflation has been easing with the slowdown in economic activity and the decline in oil and food prices. After peaking at 9.3% in July 2008, 12-month inflation fell to only 0.4% in December. Export volumes are projected to contract -16% in 2009 after a 6% expansion in 2008. Tourism receipts (around 8% of GDP) will also be heavily impacted by the slowdown in arrivals from advanced countries (40% of total tourists).

As inflation rose rapidly in the first half of the year, the central bank hiked its policy rate by 50 basis points to 3.75%. The decline in inflation facilitated cuts to 2.75% in December 2008 and 1.5% in February this year.

Thai property

It was quite surprising then, that Knight Frank announced in its Global House Price Index Q1 2009, that Thailand was the fastest rising property market in the first three months of this year, up 2.7% on Q4 2008, (but down -1% compared to Q1 2008).

Brown says: "The pound is at an all time low against the Thai baht so based on currency alone this is not the best time to invest. However, most developers are sensitive to this and are re-pricing accordingly or offering contracts in sterling or Euro's for example. No banks in Thailand will lend to foreigners so the only option is vendor financing, which again, is a great way to smoke out underfunded developers. As there is no bank finance underpinning the international property markets in Thailand, of course that means no foreclosures took place during the credit crunch. In fact aside

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from the odd distressed hedge fund manager looking to sell a villa for a little bit of a discount, the Thai property market has held up extremely well.

"We are very bullish on Koh Samui. Now Nikki Beach has opened the first beach club on the island (jet set only!), Four Seasons have opened a flagship hotel and W Resort is under construction, the island is truly the place to be seen in Asia. Property prices are robust and yields are higher than average due to the 52 week per year season. Prices start at £100,000 (with 50% vendor financing) for a 120sqm, 2-bed villa with 6% uncapped guaranteed yields. Our favourite project is Infinity Samui, which opens in November this year. Properties start at £300,000 for a 160sqm villa with high yield expectations."

Regarding the political unrest, Brown says: "Tourism dropped during the airport protests quite simply because planes couldn't land but overall tourism has been largely unaffected. Flights to Samui and Phuket are direct so Bangkok can be avoided anyway, for those travelling regionally. The property market also has been largely unaffected too and rumours that it is a buyer's market and being able to 'name your price' on properties is simply not the case. Investors waiting for the market to bottom out will have a long wait on their hands."

She concludes: "There is not a country in the world where GDP grew in Q4 2008 and it was the worst quarter in living memory across the board and so it is unfair for the performance of Thailand to be singled out. South East Asia is the one region in the world where we are getting on with business as usual without the drama. Stock markets are up, currencies are holding up. Intra-trade amongst the Asian nations is healthier than ever. Aside from the drop in export demand, the economic outlook is good. Investing in Asia is one of the smartest ways our clients are protecting their wealth."

Singapore economy

Singapore has entered into a very severe recession and the country witnessed a -20% contraction in its economy in the first quarter of 2009 alone, compared to the previous quarter and -11.5% down from a year earlier. This downturn was led by the 11th straight month of a decline in exports (exports fell by 17% in March) since exports account for about 60% of Singapore's GDP.

Singapore announced in mid-April that it expected its economy to fall by at least -6% and possibly -9% this year, which would be among the steepest declines predicted for any country in the region. Their sober forecasts reflected concerns that economic recovery in Asia remained some way off, despite tentative signs of a turnaround in China.

Singapore, one of Asia's most open economies and one of those most reliant on the financial sector, has been hit especially hard by the global financial crisis and a regional slump in exports. Manufacturing sector activity slumped -29% during the first quarter of 2009 from a year earlier.

At the end of April the Singapore Central Bank warned that the country is poised for a slow recovery rather than a rebound.

Singapore property

According to Knight Frank property prices in Singapore fell 23% in the year ending Q1 2009, the third worst performer on its Global House Price Index, behind Latvia and Dubai. The company reported that prices fell by 16% in the first quarter of this year alone.

However, Ella Sherman, managing director at Worldwide Investments in Singapore, says it is not all doom and gloom for the property market in Singapore. She comments: "High-end new projects are selling very well right now since prices have dropped dramatically from SG$2,500sq ft to SG$1,500-1,600sq ft. Foreigners are eligible to buy most condominiums, making it legally safe for foreigners to invest here. However, foreigners are not allowed to buy landed property like houses or bungalows.

"Expats like being seconded here as its Asia's most westernized country. It's English speaking, green and clean, has good schools, great medical care, excellent public services, and low crime. Singapore is a small island so land is scarce. Therefore, if you have holding power the property market will definitely come back.

"There is a strong rental market, particularly in the prime districts 9, 10 and 11, which are favoured by wealthy locals, expatriates and corporate lets. You can expect to achieve a rental yield of 5-8% a year. Some retirees are moving here because it is an ideal place for elderly people to live with its warm weather and first class medical facilities. Mortgages and/or developer financing is available to foreigners subject to status." PIN