NUS Real Estate Public Lecture 2018

This Lecture forms part of a series of Public Lectures organized by NUS Real Estate. These Lectures also serve as platforms for industry leaders and subject matter experts in the academia to come together to share insights and perspectives. Aside from the dissemination of knowledge and the sharing of viewpoints, enabling common interaction spaces would also facilitate the cross fertilization of ideas, and encourage the development of applicable and industry-relevant tools that can help guide and improve decision making and strategic planning outcomes.

Singapore's International Real Estate Experience and Beyond

Date/Time: 30th January 2018, 12pm – 1.30pm
Venue: Shaw Foundation Alumni House Auditorium

This Lecture on 'Singapore's International Real Estate Experience and Beyond' looks into the evolution of the real estate industry in Singapore and the trends and factors that could shape its future. Many intertwined trends and forces over the years influenced and helped accelerate the developmental trajectory of the local real estate sector. Increased cross-border opportunities, asset class diversification and the integration of real estate with capital markets are among the confluence of factors that continually set the stage that shape Singapore's experiences and responses. New global trends, including technology, changing demographics, expanding middle-class, wealth accumulation and geopolitics are reshaping the real estate industry.

Speaker:
Dr. Seek Ngee Huat
Chairman of the Institute of Real Estate Studies at the National University of Singapore, where he is also Practice Professor of Real Estate. He is also Chairman of the Urban Land Institute (ULI) Asia Pacific and Global Logistic Properties Limited. He was previously President of GIC Real Estate Pte Ltd. *Read more ...*

Video Excerpts: *Lecture* / *Q&A Session*

Key Messages

A. Transformation of Real Estate Industry in Singapore

- **Global Developments in Real Estate**
  The quantum leap in the flow of funds into commercial real estate was aided by three game-changing global developments:

(1) Internationalisation of Real Estate in 1990s, which allowed Singapore to move from local to global,

(2) Integration of bricks-and-mortar with capital markets, which increased investment choices, and

(3) Establishment of an institutional investment market for real estate, mostly in developed markets, which set the stage for globalisation and capital market integration.

- **Trajectory of Developments in Singapore**

Singapore's development in real estate followed a similar trajectory, though lagged that of the American market. The U.S. observed a shift from owner-occupation to institutional investment markets in 1970s to 1990s, with flow of funds into corporate real estate (CRE) increasing from USD$5B to USD$200B.

Reasons include: (1) institutional investors looking for higher risk-adjusted returns (in high inflation and interest rate environment), (2) application of Modern Portfolio Theory encouraging the inclusion of property as a strategic asset class into a multi-asset portfolio to diversify risk, and (3) passing of Employee Retirement Income Security Act of 1974 (ERISA) which facilitated a massive flow of institutional funds into CRE. The market responded by building more investment grade properties and training more RE professionals. This development phase of an institutional investment market completely by-passed Singapore, which at the time did not have home-grown institutions.

- **Singapore's Urban Renewal Programme**

However, unlike the West, which was driven by institutional demand, Singapore was instigated by the government's Urban Renewal Programme. Two main regulations, the Land Acquisition Act (1966) and Controlled Premises (Special Provision) Act (1969), assisted the Urban Renewal Department to achieve its objectives. It successfully tendered out 47 parcels within a short span of three years from 1967-69.

- **Responses to Constraints**

Singapore's developers responded to major constraints of a lack of institutional funding support and lack of capital by developing strata-titled commercial buildings for sale and listing public companies to raise capital. They also leveraged on changing global trends to overcome the market size constraint.

- **Globalisation – Cross-Border Investments**

Assisted by globalisation: (1) establishment of institutional investment market (e.g. GIC) (2) growth in organised savings (3) expansion of investment universe with more markets opened to foreign investors and increased investment choices (4) growth of intermediaries, including services providers, fund managers and other professionals, Singapore's cross-border CRE investment grew, strengthening its position as a regional hub in Asia. It is aided by its strategic location, stable political environment, tax concessions, a pool of finance-related investment talents and reliable soft and hard infrastructure.

- **Innovations and the Integration with Capital Markets**

Innovations in the commercial real estate markets emerged during the Savings & Loans Crisis of the 1980s and early 1990s in U.S., allowing 'bricks-and-mortar' real estate to integrate with capital markets. The debt and equity components in the capital structure became tradable in both the public and private markets with the development of commercial mortgage backed securities (CMBS), public REITs and real estate private equity funds.

B. Future Opportunities and Challenges

- **'Crystal-Ball' Gazing:**

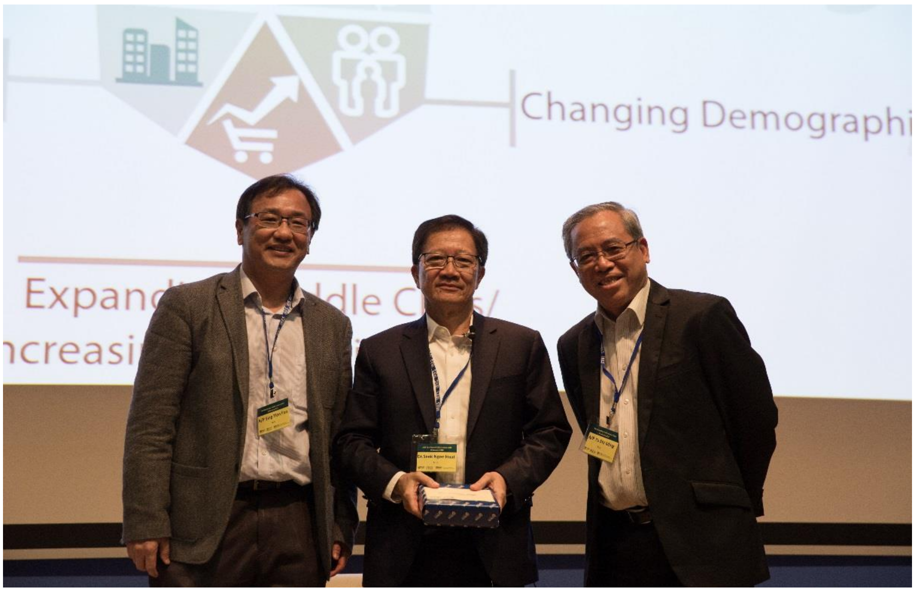
(1) Globalisation to continue, leading to increased competition and pushing the investment frontiers in search of higher risk-adjusted returns.

(2) Strong institutional allocation to real estate continues, both in percentage as well as absolute terms, if returns from low fixed income (bond) remain relatively low to meet future liabilities. In the longer-term, more national savings may have to be directed to the needs of a society with an ageing population and an increasing dependency ratio, leaving lower surpluses available for investment than in the past.

(3) As the debt markets are under-developed in Asia, Singapore has the potential to develop into a regional hub for debt products.

(4) The continued growth of the S-REIT market may be limited by the size of Singapore's real estate market, and if the neighbouring countries succeed in establishing their domestic REIT markets, Singapore may need to take steps to strengthen its leading regional position, including transcending itself to become a global exchange for REITs.

- **Impact of Six Major Forces**
  - Technology will continue to disrupt the way we live, work and play. The real estate business needs to adapt quickly and embrace the opportunities that it creates, which include building/repositioning for the future to meet new trends, such as the impact of the sharing economy and automated valuation models (AVMs). Possession of proprietary data, in spite of changing technologies, in the new economy remains a key to enhancing the competitive prowess of a business.
  - Continued urbanisation will put increased pressure on the urban fabric of cities, but also generate more real estate opportunities.
  - Growing middle class in the emerging markets in Asia with increasing purchasing power will hugely impact the demand for the quantity and quality of all types of real estate not only in their domestic markets but also foreign markets.
  - Changing demographics – labour scarcity from an ageing population can place pressure on price inflation (and negatively affects investments), although to some extent, mitigated by technological substitution effect. Millennials will account for 27% of global population by 2020, so their lifestyle preferences and total immersion in digital world will set the tone for the economy to meet (e.g. homes in CBD vs in suburbs).
  - Climate change/sustainability focus by regulators can cause non-certified buildings to be seen as less leasable compared to green buildings. This will change property owners' perspective from one of "cost" to 'revenue generating'.
  - Liquidity, interest rates, and asset prices: Since the GFC, high liquidity has led to abnormally low interest rates and an increase in global debt to more than 300% of GDP (which is higher than the pre-GFC peak in both percentage and absolute terms), the combined effect of which is asset price inflation. As the developed economies continue to grow steadily and with falling unemployment, wages will rise. Rising wages leading to higher inflation, accompanied by increasing interest rates and investment yields, could have the reverse effect on asset prices.



From left: A/P Sing Tien Foo (Director, NUS IRES); Dr. Seek Ngee Huat (Chairman, NUS IRES); A/P Yu Shi Ming (Head, NUS Department of Real Estate)