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Wealth Advisory
Wealth Products
The Privileged Life
Banking Benefits & Access
Privilege International
Privilege Conversations

PRIVILEGE BANKING

PRIVILEGE RESERVE

UOB Privilege Times

Privilege Banking > UOB Privilege Times



Fundamentals of Real Estate Investments

With excellent infrastructure, a strong government, and a conducive environment for business, Singapore has become a place of choice for funds seeking to participate in the nation's growth. Real estate has become the preferred investment vehicle for the wealthy looking for stable returns as well as capital appreciation. However, with interest rates at record lows in the West, there are concerns that "hot money" will be flowing into Singapore's real estate market, driving prices up. Like a tidal wave, these "hot monies" can exit just as quickly.



The government has introduced certain "cooling" measures in order to stem speculation. For the "serious-minded" investor, the inclusion of real estate in an investment portfolio makes good sense. According to Goh Teik Cheng, Head of Research & Product Advisory at UOB: "Buying a second property as an investment in your portfolio is a long-term investment that is measured over decades rather than years... (as it) offers a perceived security that is lacking with other asset classes."

So what are the areas that investors should be concerned about?

Market Segments: Who's more affected by price rises?

Commenting on the recent restrictive measures implemented, John Teo, Director of Valuation at CKS Property Consultants, explains that the mid-tier market will react more adversely than the higher-tier one. This is more so as per square feet (psf) prices for the mid and lower-tier market segments have breached their previous highs. The same cannot be said for luxury developments, implying more upside potential for the high-tier segment. This view is also shared by Wing Tai Holdings. According to Ms Lian Siew Lian, General Manager, Property at Wing Tai Property Management: "High-end residential properties will hold well in prices given the high liquidity and low borrowings at the moment. More foreign monies are also expected to flow into the Singapore's luxury property market."

Foreign Funds: Shifting from commercial to residential real estates?

Foreign funds looking to participate in Singapore's growth have been buying commercial real estate along Shenton Way. Goldman Sachs, for instance, has sold Chevron House at a loss to Deka Immobilien of Germany. Other "investment-grade" transactions by a few German pension funds include 12 floors of Springleaf Tower and SIA Building. Will this interest spill over to the residential market? Unlikely, according to Mr Teo, who says: "With the latest round of property tightening measures, non-individuals, that is, funds and companies, are limited to a maximum of 50% loan to value ratio for residential properties. As such, it is unlikely that there will be an increasing trend of funds buying into the residential sector; at least not in a significant way." Foreign funds looking to participate in Singapore's growth have been buying commercial real estate along Shenton Way. Goldman Sachs, for instance, has sold Chevron House at a loss to Deka Immobilien of Germany. Other "investment-grade" transactions by a few German pension funds include 12 floors of Springleaf Tower and SIA Building. Will this interest spill over to the residential market? Unlikely, according to Mr Teo, who says: "With the latest round of property tightening measures, non-individuals, that is, funds and companies, are limited to a maximum of 50% loan to value ratio for residential properties. As such, it is unlikely that there will be an increasing trend of funds buying into the residential sector; at least not in a significant way."

Is an oversupply imminent?

Perhaps it is appropriate to now raise the million-dollar question: Will there be an over-

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supply in the near future?

Many residential sites have been sold in 2010. For the first half of 2011 alone, the Ministry of National Development has announced that there will be a total of 17 residential sites on the Confirmed List, yielding about 8,100 units. On the Reserve List, there are some 13 sites which can potentially yield a further 6,200 residential units. Apart from Government Land Sales, there have also been Collective Sales.

The critical year for oversupply is estimated to peak around 2013 or 2014. However, predictions of supply can be quite difficult as developers may, within limits and subject to penalties imposed, decide to slow down the pace of construction or re-schedule their launch dates, says Mr Teo. With the latest round of cooling measures, the residential property market has received a dousing. Although meant just to curb the excesses of the market, John believes that the overall impact of the measures remains to be fully felt.

To learn more about investing in properties as part of your investment portfolio, please contact your Relationship Manager.

> Back to top



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