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Savills World Research
SIngapore

Asian Cities Report
Singapore Residential

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TABLE 1

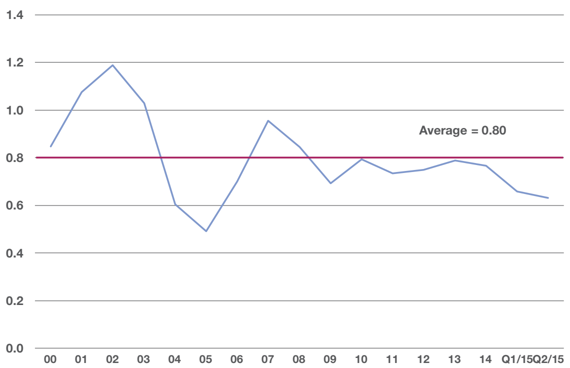
Statistics of Hong Kong and Singapore

Official name	Hong Kong Special Administration Regional	Republic of Singapore
Currency	Hong Kong dollar (100 cents), pegged to the US dollar US$1 = HK$7.752 (Jun 2015)	Singapore dollar (100 cents), US$1 = S$1.3474 (Jun 2015)
Interest rate	3-month Hong Kong dollar interest settlement rate = 0.39% (Jun 2015)	3-month Singapore interbank offer rate = 0.82106% (Jun 2015)
Population	7.26 million (2014 year-end)	5.47 million (Jun 2014)
Average population growth 2010-2014	0.76%	1.86%
Land area	1,104 sq km	718.3 sq km (2014)
GDP per capita	HK$296,152; US$37,968 (2014)	S$71,318; US$53,976 (2014)
Real GDP growth	2.3% per annum (2014); 1.0-3.0% per annum (2015E)	4.4% per annum (2013); 2.9% per annum (2014)
Principal business centres	Central, Wanchai , Causeway Bay, Tsim Sha Tsui and Island East	Raffles Place, Marina Bay, Shenton Way, Tanjong Pagar, City Hall/Marina and Orchard Road

Source: HKMA, MAS, Savills Research & Consultancy

GRAPH 1

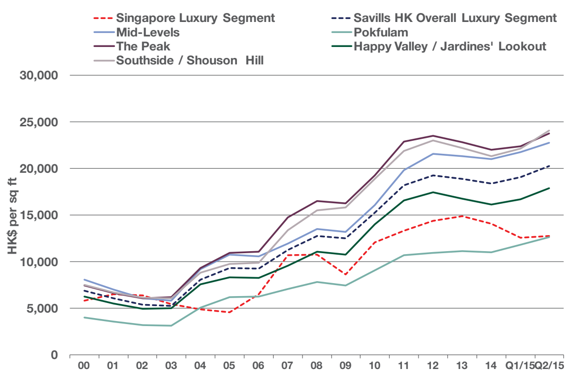
Ratio of Singapore to Hong Kong luxury non-landed property prices, 2000–Q2/2015



Source: Savills Research & Consultancy

GRAPH 2

Prices of Singapore and Hong Kong luxury non-landed properties, 2000–Q2/2015



Source: Savills Research & Consultancy

Singapore versus Hong Kong non-landed luxury residential – mean reversion in the making?

Many academic commentaries compare and contrast Singapore and Hong Kong. From topics as diverse as labour productivity and social mobility to the quality of life for an expatriate, these two economies have been like magnets, drawing contributions from different analytical sources. Of course, this is wholly understandable: both are Asian, coastal cities with high population densities. However, there are subtle and overt differences between Singapore and Hong Kong. For example, Hong Kong has a currency peg to the US Dollar whilst Singapore maintains a strong currency to ward off imported inflation. Also, the GDP per capita of Singapore is about 42%, higher than that of Hong Kong.

This report is a commentary on the contrasting performance of Singapore and Hong Kong luxury residential property prices from 2000 to Q2/2015. This is a top-down analysis of the luxury end of the market.

From 2001 to 2003, Singapore luxury prices recorded a slight premium over Hong Kong, of between 3% to 19%. However, since then, Hong Kong has been inching away from Singapore and by Q2/2015, the ratio of Singapore to Hong Kong had reached 0.63. The Hong Kong premium is even greater if the exchange rate factor is left out. As the Singapore dollar has been increasing against the HKD at a rate of 1.7% pa since 2000, it partially mitigated the widening disparity between the two markets. If the exchange rate had remained at 2000 rates, Singapore's non-landed luxury properties would be trading at just 0.49x to their Hong Kong peers. Over this period, the average is 0.8x.

Some of the latest transactions which have commanded headline prices show that the gap is even greater. For instance, in Singapore, the highest price found in the public domain was S$6,840 per sq ft in 2011, for a unit at The Marq on Patterson Hill. Ever since then, prices for luxury non-landed properties here have fallen shy of this record by miles. Though this transaction set tongues wagging, the fact of the matter is that in Hong Kong, record prices continue to be set even today when even more cooling measures are in place. For example, in June 2015, a 5,188 sq ft unit at Opus was sold for an astounding HK$95,971 per sq ft (S$16,633 per sq ft). That means that even Singapore's highest ever was just 0.41x Hong Kong's high this year. If that widening disparity is still not startling enough, then consider Alibaba Holdings chairman Jack Ma's latest rumoured purchase of 22 Barker Road at HK$151,653 per sq ft (S$27,424 per sq ft). Now Singapore's highest is just 25% of Hong Kong's record.

Which area in Hong Kong do Singapore's luxury prices stack up against most closely? Overall, non-landed luxury prices in Singapore are trading similar to Pokfulam on the south side of Hong Kong Island.

Super luxury, non-landed properties, i.e. those located in the vicinity of the prime Orchard Road district, stack up slightly better. Nevertheless, they are still trading below The Peak, Mid-Levels and Southside/Shouson Hill in Hong Kong. However, in the period 2001 to 2003 and as recently as 2007, Singapore's super luxury properties were trading at a premium to Hong Kong's top end.

Yield wise, Singapore's luxury properties are also quite similar to Hong Kong, both standing at around the mid-2% level.

Whilst records are currently being set in Hong Kong, the situation in Singapore has been looking pretty dour. This begets many questions, one of which is why are high-end properties in Singapore not performing in line with their Hong Kong peers, especially when both cities appear to have implemented almost identical cooling policies? In both cities, there is a higher buyers' stamp duty, to the tune of 15%, levied on non-citizens (Singapore) or non-permanent residents (Hong Kong). On the monetary front, although Singapore has seen its SIBOR increase this year, nevertheless, interest rates in both cities are generally low. In other words, if we have two cartographical and policy environments that are closely matched, so why are prices behaving so differently?

This is perhaps something that requires more in-depth research. For the moment, and given the statistics we have, there are some possible explanations for the divergence. Hong Kong can be said to be a free-market proxy to China, whilst Singapore is a sovereign state with its own social and economic agenda. Hong Kong's role post-1997 could have vastly changed such that it and Singapore could be very different economies. Hong Kong has secured its position as either a proxy or a springboard into China. With China opening up further in the last decade, this plays into Hong Kong's hands and, aside from the property market, is also acted out in the stock market where the market average daily turnover is many multiples that of Singapore. So is it still true to say that Singapore's residential property market lags behind Hong Kong by six months, or do we need to look at the two markets again?

Since 1997, the two economies have become more distinct. For example, in the financial services sector, Singapore had 15% of its workforce in this industry in 2011 compared to Hong Kong's 16.5%. By 2012, Singapore had already overtaken Hong Kong with 19%, whilst it levelled off at 18%. Therefore, if we subscribe to the view that both cities are different, then what are the benefits for overseas (and local) investors in Singapore luxury properties?

Firstly, Singapore offers a compelling diversification destination for real estate or multi-asset class investors. Singapore's strong exchange rate policy means it can manage its risk from periodical turmoil afflicting major global currencies.

Secondly, for those who prefer to time their investments, Singapore's luxury properties are now trading at just 63% of Hong Kong values. This is well below the 15-year average of 80%. With almost similar policies, this technical indicator increases the chance of any mean reversion. In all likelihood the gap may close, with Singapore prices being bootstrapped up rather than Hong Kong coming off.

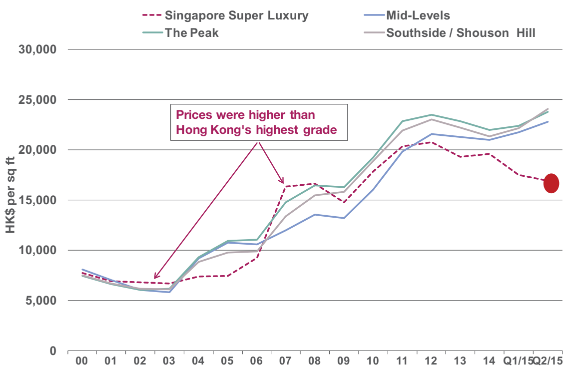
Thirdly, Hong Kong's higher return in the form of capital gains is intriguing as well as amazing. Some of the luxury properties are sitting on fast-expiring tenures. For example, one recent launch has a tenure which runs to 2061. With about 32 years to run before June 30, 2047 (the end of the 50-year Special Administrative Region status) and with limited years of tenure remaining, any capital value increase should theoretically be subdued. Yet it has been defying gravity. Intuitive explanations of this behaviour are in the form of factors such as the strong influx of funds, confidence that post-2047 it will still be business-as–usual, and the assumption that the government will renew leases automatically or upon payment of a premium. As one heads closer to the 2047 milestone, however, or lease expiry dates for more and more projects, there exists the potential for increased volatility. However, for those who prefer peace of mind, in Singapore most luxury properties have freehold tenures and the uncertainty of lease renewal is no longer an issue.

Finally, although investors have previously argued that yields in Singapore are rather low, that is a strong testament to the fact that Singapore is a low risk economy. The recent volatility in global financial and currency markets should encourage overseas investors to rethink their notion of risk and return, in particular the need to weight up on lower risk assets. Should they increase their weighting of safe assets, real estate in a country like Singapore stands to benefit even more from the already high levels of global liquidity.

To conclude, the Singapore and Hong Kong luxury property markets appear to be diverging as the two cities appear to be increasingly driven by their own social and economic agendas. Looking at price and land tenure factors, Singapore does appear to have underperformed more than it should have relative to Hong Kong. This strengthens the case for those exploring the opportunity to invest in Singapore since relative valuations have become more compelling there. This, however, is not a case for reducing their Hong Kong real estate exposure. Hong Kong is for those who can tolerate greater volatility. For Singapore, its investibility merits are its stability and longer property tenures.

GRAPH 3

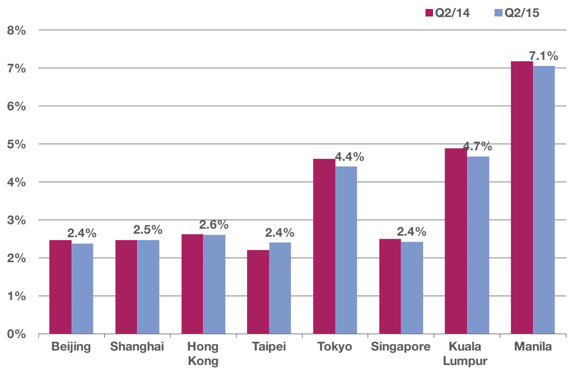
Prices of Singapore super luxury and Hong Kong top ranked luxury properties, 2000–Q2/2015



Source: Savills Research & Consultancy

GRAPH 4

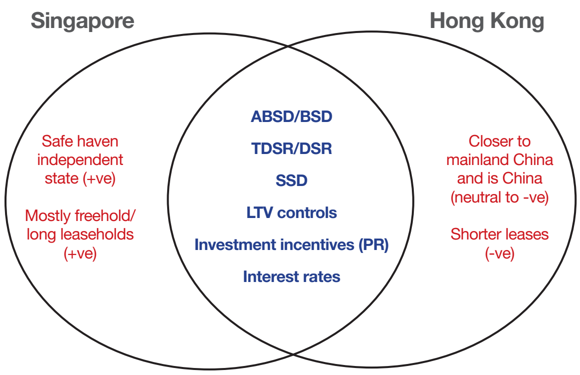
Prime residential yields in Asia, Q2/2015 vs Q2/2014



Source: Savills Research & Consultancy

GRAPH 5

Policy similarities and differences, Singapore and Hong Kong residential markets, Q2/2015



Source: Savills Research & Consultancy

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