

Opportunities in an integrated Asean real estate market

The Asean Economic Community facilitates unfettered flows of labour and goods across member countries

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THE Association of Southeast Asian Nations (Asean) was founded in 1967 as a regional-based association to promote government-to-government co-operation in areas including economic, social, culture, technical and education.

As a key step towards forging closer cooperation and integration, the Asean Economic Community (AEC) was officially launched in December 2015 as one of the three pillars of the Asean community.

As a regional economic bloc and alliance, AEC aims to create a single market and production base with a combined GDP of US\$2.7 trillion, which is the seventh largest economy in the world.

The AEC is intended to promote regional cooperation and economic integration, but unlike the European Union (EU), the AEC is neither meant to be a single customs union, nor a single political union, nor a single monetary union.

The member states in the AEC will retain their sovereignty in political system, currency, and central bank system. However, the member countries need to further bring down trade barriers on cross-border flows of goods, labour and capital, although tariff barriers have been removed for intra-Asean countries' trades on selected non-sensitive goods through the Asean Free Trade Area (AFTA).

What's in store for a single AEC real estate market?

Real estate by nature is immobile. In a production-based economy, real estate (building and land) is usually treated as a residual component of factor inputs in a production function, which consists of labour, materials and capital.

Real estate provides physical space needed to support the production processes of firms. The demand for industry space, such as factories and warehouses, is directly correlated with growth in output and labour.

Growth in production outputs generates multiplier effects that translate into demand for commercial and office space for the expansion needs of firms providing supporting services such as banking, financial services, legal, accountancy, logistics and transportation.

The production economy yields new value-added employment opportunities, and stimulates income growth within the region.

Families with stable jobs and income, while increasing their consumption, will invest part of their income in housing assets. Housing demand increases with household income and more houses are also required to meet demand generated from new family formation, child-births and immigrants.

More neighbourhood shops, as well as shopping malls in regional, suburban and city centres are built to provide space for retail businesses, such as restaurants, fashion stores, pharmacies and supermarkets, to meet the consumption needs of families. In addition to the production sector, consumption of goods and services in a local economy could drive output growth.

Consumption demand could also be derived from external consumers such as tourists and business travellers, whose spending helps



The Kuala Lumpur-Singapore High Speed Rail project is an excellent example of how countries in the Asean Economic Community can benefit from greater integration. FILE PHOTO

support rentals in city retail space.

Effects on Singapore

Singapore is the largest cross-border real estate investment market in Asean, attracting about 77.83 per cent of local and foreign real estate capital into its real estate market between 2001 and 2015. Real estate investments outside Singapore are also the largest, making up about 81.56 per cent of the total real estate capital outflows from the Asean countries.

The AEC could bring new real estate demand through production-related multiplier effects, and consumption activities from both the local and external economies within the AEC region. When the barrier of entry is further lifted, greater competition could have significant impact on real estate capital flows into and out of the AEC real estate markets.

Industrial sector

As a single production base, firms will move production plants and activities closer to sources of raw material and labour supply to minimise transportation costs.

Firms in manufacturing activities that are cost-sensitive and labour-intensive, such as food processors, producers of consumer goods and others, will relocate factory space to countries with lower rents and abundant labour supply, such as Indonesia and other countries in Indochina.

For the high-value industries, such as precision engineering and semi-conductor manufacturing, Singapore faces strong competition to attract these firms to set up plants from its Northern neighbours, such as Malaysia and Thailand.

Singapore, however, still retains its competitive edge in high value-added and knowledge-intensive sectors, such as biomedical, pharmaceuticals and medical technology, because of the first mover advantage and also its huge investments in R&D in this sector.

However, facing land scarcity constraints, Singapore needs to use its limited industry lands more creatively to support economic growth. The challenge for Singapore is to ensure that integrated value chains and industry networks can be developed that can benefit other AEC nations through economic spillovers from the high value-added activities of Singapore-based industries.

Retail, warehouse sectors

Except for Singapore and Brunei, with

per capita GDP that exceeds those of Japan and EU, there is ample room for further increase in income for many AEC countries. With a population size of more than 662 million with different age and income profiles, income growth could have significant impact on local consumption of goods and services.

Demand for new shopping and warehouse space to support retail activities and distribution of goods and merchandise is likely to increase. Singaporean developers have already seized the opportunity to build new shopping malls in some Asean countries.

The pro-active tourism promotion strategies, coupled with major tourist-drawing events, such as the Singapore Grand Prix, the Great Singapore Sale, and the two integrated resort projects (Marina Bay Sands and Resorts World Sentosa) could draw more tourists and business travellers, and further strengthen Singapore's position as a "shoppers' paradise".

A joint and an organised effort to promote the AEC as a single destination of choice for tourists from other countries is useful.

Commercial sector

The outward-oriented economic growth coupled with the regionalisation efforts by the AEC countries would increase intra-region and international trades between Asean and the world.

Demand for professional services such as banking, trade financing, risk management, insurance, legal and accountancy, by firms involved in international businesses will expand rapidly over the years.

Singapore, leveraging on its position and reputation as the regional financial hub, can play an instrumental role in supporting other AEC firms dealing with international trades. More importantly, Singapore can become a gateway to connect foreign firms to the markets in AEC.

Demand for new office space by Singapore-based and foreign professional service providers is likely to increase, and more offices are also likely to be set up in major Asean cities, increasing office demand in the markets.

Residential sectors

It is not the intention of the AEC to create the like of "Schengen Area" covering 22 of the EU countries, where border control and passports are removed. The AEC, however, tries to

create a more porous border that facilitates freer flows of labour and goods across the Asean countries, especially highly skilled professionals who seek better-paying jobs.

Singapore, as an established financial and R&D hub is expected to attract more talent to work and live here. Labour mobility and migration across the Asean countries' borders could have an impact on demand for private residential properties.

If AEC pushes further forward to adopting a Common External Tariff on non-member countries, it would have implications for local taxes on foreigners' residential property purchases, which include additional buyer's stamp duty and seller's stamp duty in Singapore, and various levies imposed on foreigners' purchases of residential properties in selected Malaysian states such as Johor and Penang.

Related tariffs or taxes on residential property investments may be a barrier for capital flows into local residential markets in Asean countries. The steep price differentials between Singapore's residential sector and the markets in other Asean countries are an appealing factor that may draw Singaporean investors to other Asean residential markets.

However, with the Total Debt Servicing Ratio rule still in place in Singapore, it is unlikely that there will be large outflows of Singapore's investments to the AEC in the near term.

Real estate capital markets

Currently, there are only three AEC member countries – Singapore, Malaysia and Thailand – that have set up real estate investment trust (Reit) markets to allow developers to tap on an alternative source of real estate capital.

The AEC will facilitate free flows of investments and more efficient matching of capital between regions with shortage of real estate capital and those regions with strong demand for indirect investment opportunities. Developers can access new funding sources by bringing assets from rapidly urbanised cities in Asean to the Reit market in Singapore.

Banding resources together through setting up a unified market and production base gives economies of scale for Asean member states. Developing an economic growth model to harness their respective competitive advantages and complementing each other's shortages without imposing excessive costs on one another is important.

Given the diverse stage of development of the Asean countries, it would be a challenging but not impossible task to realise the goals of the AEC blueprint. The broader level of AEC integration may need time to shape up, but the local level cooperation has already taken place through inter-governmental initiatives, such as the Kuala Lumpur-Singapore high speed rail (HSR).

The HSR project is a good example that can be emulated by other Asean countries in the spirit of AEC. Strong political will from the Asean leaders are needed to collectively make the AEC integration a reality.

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