Why you should take ownership of your investment decisions whether in property or stocks

DOUGLAS CHOW, FOUNDER OF EMPOWER ADVISORY PTE LTD SHARES WITH HOMEBUYERS HOW EVERY INVESTOR MUST MAKE INFORMED DECISIONS INSTEAD OF BELIEVING WHAT IS PROMISED

Many times, investors are swarmed with audacious promises of owning multiple properties with little or no money down and high investment returns with little mention of the risks involved, and even whether the mechanism is legal.

When it comes to property investing, many are eventually persuaded by the often-repeated line, "You can't go wrong with buying property." Now, take a few seconds to ponder on this. Is this investment advice true? One example Empower Advisory likes to use is that of Ardmore Park located near the Orchard Road shopping belt. Ardmore Park is regarded as the benchmark of luxurious full facilities condominium living. It has 3 tower blocks, each comprising 28 floors of 4 identical apartments (268 sq m each) on every level and 2 penthouses on the 29th floor. Yet, investors have both lost and made money from investing in this condominium. Per unit, the biggest loss chalked up was S$8 million and the biggest gain was $12.7 million. So what exactly went wrong? Did Ardmore Park turn into ruins overnight for an investor to offload at such a great loss? No. Ardmore Park, a freehold property is well maintained and continues to attract quality tenants.

Deeper analysis reveals that the investor who chalked up the huge loss bought a penthouse unit in February 2000 and offloaded it about 1.5 years later at a loss. If he had hung on to it long enough till 2010, he would have managed to flip it at a very handsome profit.

The lesson to share is that it is not just about having enough financial means to buy into a property, it is also about buying at the right time, at the right price, and having enough holding power to ride out the property down cycle should one get the entry timing wrong. Property investing can then be a zero sum game. The one who makes the most profit usually does so at the expense of someone else who is forced to sell at a sub-optimal price. The one who almost always walk away the winner is the project developer.

How does one get the timing right?

If we had a crystal ball, no property investors would ever lose money. Whether in a property bubble or trough, developers and sales agents will tell you it is a good time to buy. The key then is to step away from the noise and spend some time to do your due diligence or seek advice from a trusted advisor who has no vested interest in your investment decision. Property price, which is essentially the intersection point of demand and supply, moves up and down with local regulations and global events. The greatest falls in property prices seen in Singapore and other parts of the world are the results of external economic shocks such as the dot-com bubble burst in 2000 and the global financial crisis in 2008. Recently we experienced minor ones such as the Syrian civil war that thankfully did not spread to engulf the Middle East, hence leaving major property markets unscathed. At a micro level, local regulations and policies do also impact property prices. Property cooling measures such as loan curbs, additional duties, and foreign ownership restrictions announced not just in Singapore, but also in Hong Kong, Malaysia, and China have moderated the rise of property prices in the respective domestic markets.

A savvy property investor needs to be aware of such macro and micro level factors before making a good investment decision. He also needs to have a good grasp of the demand and supply of units in the pipeline to get a feel if prices are near the top (to exit) or the bottom (to enter). There is no exact science to this as it is not possible to quantify human buying behaviour to an exact number. Most importantly, one should not buy when the market is at its peak, otherwise you will need either a very strong holding power, or find a greater fool to offload the investment to at a higher price. When it comes to property investing, you will be surprised how patience is an understated virtue.

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How does one choose an investment property?

Use your head, not your heart. Rental yield is the clearest indicator – and I mean realisable yield, based on actual supporting numbers, not just promised yields. When your target property can achieve an above market yield, it will appeal to both investors and occupiers. This opens up your buyers circle when it comes to flipping your investment property eventually. For me, I use net yield, not gross yield that developers and sales people use. As a rule of thumb from my experience, net yield is approximately a 25% discount to gross yield (gross annual rental income/purchase price). I use net yield to compare against my other investments such as those in the stock market where it is easy to make double digit returns.

There are different types of investment properties from commercial to industrial to residential with their own characteristics, challenges, and rewards. One cannot assume that it is the same across the different asset classes. To be a savvy investor, one should make an effort to understand these differences.

What about overseas property investment?

My main gripe with overseas investments is that property transaction information can be opaque, making it harder for one to sense if a price is fair or overvalued. For example, in Singapore, Urban Redevelopment Authority (URA) has a fantastic database where one can easily check previously transacted prices and official supply pipeline numbers. Yet, just over the causeway in Iskandar, Malaysia, such information is not available; information is more anecdotal and anyone can come up with unverified statistics to persuade you.

The same goes for property investing in countries as far flung as Brazil, among other countries. Over the past few years, we have seen very aggressive marketing of overseas property investments in all guise and forms. Investors are usually heavily reliant on promoters who will naturally talk up these foreign property investment projects. Investors should do more independent due diligence besides just going on a promoter-sponsored or arranged trip to view the overseas project. Such trips are inherently structured to encourage buy-in. We have had countless scams in Singapore such as the Gold Guarantee and Liquid Premium Assets that were really just scams disguised as investment opportunities. My hope is that investors remember these scams and have courage to walk away from any investment, whether property related or not, when something does not feel right or add up. Bona fide promoters of any investment opportunities should have the integrity to conduct independent due diligence and disclose all the risks involved. For example, I have attended several investment talks on Philippines properties, yet not one promoter mentioned the annual floods that hit Manila and the flood prone areas. I find it very disappointing, to say the least.

When it comes to overseas investing, my advice to my students and high net worth individuals is, always do your due diligence. Do not assume overseas developers are as closely regulated like in Singapore and that recourse actions are easily available. One also cannot ignore capital gains tax, currency, and political risks, as well as changes in government regulations.

Following the Malaysia 2014 Budget announced in late October this year, the minimum price of property that can be purchased by foreigners such as Singaporeans will be raised from RM500,000 to RM1 million. This will impact investors who have bought properties priced between RM500,000 to RM1 million, hoping to flip at a higher price. From my Malaysian contacts, I understand that locals prefer not to purchase second-hand properties, so the potential buyer market for such properties has shrunk, as foreign investors are now omitted from this particular price segment. For foreigners, disposal of property on or after 1 January 2014 within 5 years of purchase is now subject to a flat Real Property Gain Tax (RPGT) of 30%. For disposal after 5 years, RPGT is at 5%. Regulation change has huge impact on one's investment and these cooling measures put forward by the Malaysian government are to moderate property prices in Malaysia and discourage speculators. It is anyone's guess to what extent property prices will soften in Iskandar.

Prior to the announcement of the Malaysia 2014 Budget, I have students who have been asking me if buying a property in Iskandar is a good investment decision. In response, I told them that the pipeline supply of commercial, industrial, and residential projects is so overwhelming that one must go for unique developments to stand out from the rest. Like I mentioned earlier, the realisable rental yield must make sense. The resale market in Malaysia is not as active as in Singapore, so one must also be prepared to hold a property investment for own use, or rent it out if the conditions for offloading the property are not favourable.

What are other alternatives?

Investors should not be overly fixated on property investing. If there are no good deals, do not force it. An attractive alternative to property investing is stock investing. I say this because the principles that apply to savvy property investments are the same with stocks. It is about timing and knowing what good company stocks to invest in – much like identifying a good property. Successful stock investments based on fundamental and technical analysis can give far superior returns than property investments. Today, with restrictions on the amount of gearing in property loans, especially for multiple property investments, stock investments with ease of entry and exit and low online brokerage fees are definitely worth learning to be good at. I consider it a fascinating life skill that one should be equipped with. Imagine benefiting from a company through investing in its shares without actually having to run it! There are many great companies such as Apple and Las Vegas Sands that have made their stock investors very wealthy. That you can invest in global companies around the world via local and foreign brokerages gives you the ability to better diversify your portfolio rather than through lumpy foreign property investments.

Douglas Chow is a Dean's list recipient and graduated with Honours from the National University of Singapore in Real Estate. He also has a Master of Applied Finance from the University of Adelaide. He is a property and stock investor and educator. Prior to founding Empower Advisory Pte. Ltd., he spent 8 years working in the financial and government sector in the areas of banking, advisory and business regulations.

This article is contributed by Douglas Chow, founder of Empower Advisory Pte Ltd. Douglas aims to empower the individual to be able to make good, independent investment decisions in property and stocks. He was previously featured in an article in The Sunday Times' Me & My Money Series, entitled "He's 34 and semi-retired".

For more information, contact Empower Advisory Pte Ltd at +65 8332 4283, or visit their website at www.empoweradvisory.com. Douglas can be reached at ceo@ empoweradvisory.com