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Property on investors’ radar

GIVEN the volatility in the equity and financial markets since late last year, investors, both retail and institutional, are looking for safer places to park their money. Inflationary pressure also plays a role in where the money goes.

Property is an asset class that, in recent times, has entered the radar of investors seeking capital gains, yields or as a hedge against inflation.

For example, in tandem with economic growth, the property markets of Ireland and Spain were booming until recently while in metropolises such as Hong Kong, London, Mumbai, New York, Shanghai, Singapore and Sydney, commercial and residential property prices have risen due to their roles as global or regional financial hubs.

However, this asset class is complex, as street and market sentiment count for a lot. For residential properties, investment is based heavily on location while for commercial properties, economic growth and business sentiment are important factors. Supply and demand also influence the price, capital gains and yields.

Property prices in certain markets might have levelled off or fallen on account of the mortgage crisis in the US and the subsequent turmoil that has ensued but if ever there was a time to purchase property it might be now in those markets that have seen falling prices such as in the US.

The US Federal Reserve's move to cut the federal funds rate - the key interest rate that influences consumer credit, has also fuelled a property boom in Asia where interest rates have been kept low in tandem with the Fed's.

Due to this comparatively low-interest rate regime across most of East and Southeast Asia, there is a good spread or gap between returns and financing of properties.

Australia on the other hand is facing higher interest rates but due to the lack of supply in the residential component of the property market, there might be a property boom although not till two years down the road when pressure for housing builds up, according to a February report by an economist with an Australian bank.

The equity markets in Australia have also not been spared the turmoil that has hit other markets, he said, adding that this has provided added impetus, outside of the high interest rate regime, for investing in property.

He said most investors do not chase yield but capital gains when looking at property. A property boom may be around the corner due to the lack of housing supply in cities such as Melbourne, Perth and Sydney in recent times, he said.

Hall Chadwick Asia Sdn Bhd chairman Kumar Tharmalingam said the general rule of thumb in managing portfolio of investments is 20% in cash, 30% in property and 50% in equities and bonds.

“In the current scenario, the 30% investment in property is very stable because rental is determined over entire term period and not based on the market's current volatility,” he told *StarBiz*.

Kumar said owing to the recent volatility in the equity markets, it might not be a good idea to take positions, “but there may be opportunities to take profit.”

He said the consequences of the financial crisis in the US would be higher borrowing costs, as banks turned cautious on borrowers. “We're going to be affected by the sub-prime crisis by association due to tightening of credit worldwide,” Kumar added.

He said capital gains on property are also seen as a hedge against inflation. “Its a good time to own property if you've debt-free real estate or existing debt on easier terms that is also fully-led,” Kumar said.

Regroup Associates Sdn Bhd executive director Paul Khong said investors would only look at sizable investment grade-type commercial properties when looking for yields or capital gains. “Luxury residential properties led the way in transactions until a year ago when commercial properties started to see transactions in the RM1,000 psf range. Before that it was between RM500 psf and RM600 psf,” he said.

Since then we've seen values of commercial properties soaring, Khong said, adding that until the advent of real estate investment trusts and their emphasis on yields, most investors did not acquire properties to look for yields.

“Now, we're looking at an industry average net yield of between 6% and 7% within the Klang Valley for choice office properties while it is 8% for industrial properties,” he said.