

ARBS Breakfast

Property Investment Performance in the current
environment

Particular reference to pre-August and post-August Election Period

The election cycle: effect on property markets

- ▶ **Slow down in launch of new pipeline of development projects & uptake of existing stock**
 - ▶ until after post election period - wait & see approach to assess political risks (geographic location risks and others from developers, tenants & mortgage buyers)
 - ▶ where investors may assess **emerging political hotspots** and **possible economic fallout (incumbent stability versus change in policy)** of the election and revise their plans to locate their investments in certain areas or at a particular time
 - ▶ **Example:** If August election may be tied in as a variable towards possible variation of interest capping law, private sector credit growth should support
 - ▶ Expansionary activity from private sector - more office acquisitions and relocations + mortgage buyer decisions
 - ▶ Developer finance to unlock new development pipeline - oversupply market narrative notwithstanding
- ▶ **Constrained business & domestic expansionary activities - fewer Tenant relocations in the interim for income producing building owners & mortgage decisions for home buyers**
 - ▶ Good for existing landlords, bad for owners of new stock seeking new tenants from the markets

The election cycle: property investment performance

- ▶ **Slow down in launch of new pipeline of development projects & uptake of existing stock**
 - ▶ **Shrinking investment opportunities** - threats to return forecasts on rents achievable and occupancy levels. Demands for higher development returns for higher risks? >25%
 - ▶ By strategy - direct investments e.g. land banking risks and returns Versus listed CIS e.g. REITs
 - ▶ By geography - zoning of preferred investment destination areas (cosmopolitan / cross ethnic appeal)
 - ▶ By property type - yield compression on rents for new leases to about 4-5% (existing yields not affected by short term events/elections). Non-moving stock for both land and residential property on sale
 - ▶ By Market segment - middle end of both resi/comm markets are more sensitive to election cycles
 - ▶ By Target market - purchase markets are more sensitive to cycles than rental market - rents have 6year cycles that overlap across the political economy's 5year cycle
 - ▶ **In summary:** the August elections don't quite affect the real estate cycles unless they influence underlying economic factors that persist beyond the election cycle

Market Segmentation...

Commercial

Residential

