pulse Economic Insight

JONES LANG LASALLE®

SINGAPORE • DECEMBER 2006

Singapore Financial Centre Revisited

Dr Chua Yang Liang

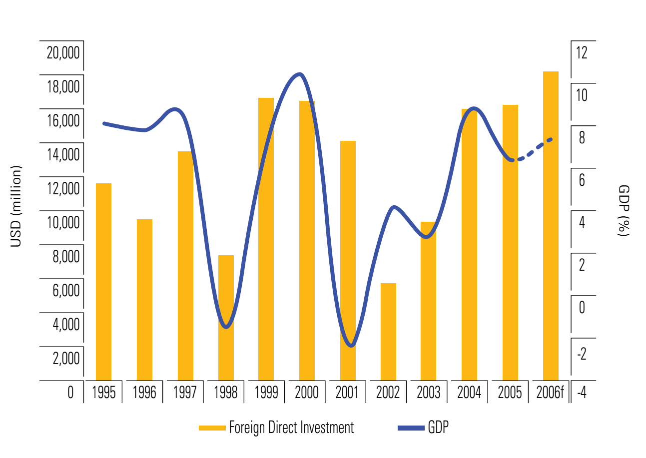
FOREIGN DIRECT INVESTMENT

Foreign direct investment (FDI) traditionally plays a vital role and continues to have a strong correlation with Singapore's overall GDP growth rate. Since the tech-stock bust in 2001, investors have been gradually returning with renewed confidence in the economy. While FDI contribution to GDP is at a more moderate 15% today, direct investment volume for the past two years has reached the level achieved in 2000 and is expected to exceed that by 2006. The current economic growth appears to be more broad based than that in 2000.

While the level of FDI contribution to GDP continues to decline, it is forecast to remain between 11% and 13% for the next few years.

Foreign investments in the financial and banking services have been rising steadily since 2002. A survey on the level of FDI in Singapore, released by the Department of Statistics in August 2006, indicated that the FDI growth between 2000 and 2004 averaged 8% per annum. The top investor countries were UK, US and Japan.

Figure 1: Sustaining GDP Growth with Rising FDI



Source: Economic Intelligence Unit, Jones Lang LaSalle

KEY POINT

- Foreign investment plays a key role in economic growth. Singapore has benefited from continual foreign direct investment (FDI), especially in the real estate market. Strong investor interest, especially in the wealth and financial services sector in Singapore, has driven the demand for office as well as luxury prime residential properties.

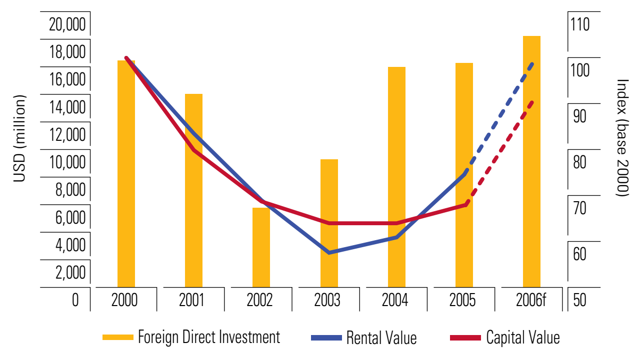
As for investments by industry, FDI in financial services is second only to manufacturing, taking about 35% of the total amount. This proportion has gradually risen and is likely to remain, if not rise, given Singapore's economic transparency and political stability – the key ingredients for the country's attractiveness as a wealth management centre.

The headquarters and professional services cluster attracted the largest share of commitments and will likely continue to be the main contributor to the FDI in the financial services sector. According to the Ministry of Manpower, financial services is the second-largest sector and employs over 12% of the total manpower in the service-producing industries in 2Q06. While there are no official statistics on the exact number of foreign expatriates, it is estimated that over 100,000 expatriates live in Singapore.

FDI IN THE FINANCIAL SERVICE SECTOR AND THE REAL ESTATE MARKET

The real estate market has benefited from this continual growth in foreign investments, especially from the headquarters and professional services cluster. With over 500 local and foreign financial institutions providing a wide range of financial products and services, these investors have been the key drivers

Figure 2: Rising Office Rentals Backed by Increasing Foreign Direct Investments



Source: Economist Intelligence Unit, Jones Lang LaSalle

behind the demand for real estate in Singapore since 2004. Properties are needed not only to house the daily operations of these wealth management firms, but also for their relocated employees as well.

Financial services accounts for 35% of the total FDI. This has gradually risen and is likely to remain, if not rise, given Singapore's economic transparency and political stability — the key ingredients for the country's attractiveness as a wealth management centre.

Mirroring this trend is the gradual yet strong growth in capital and rental values of prime office buildings, which began with the return of strong foreign investor capital in 2003. Rentals of Grade A office buildings in the CBD have since been on the rise at an average rate of over 23% per annum. Capital values have also risen, albeit marginally lower, at an annual average of over 13%. Likewise, demand for private residential properties has also increased. Since 2003, both rentals and capital values registered an average growth of over 12% and 13% per annum, respectively.

EFFECTS FILTER TO OTHER SECTORS AS WELL

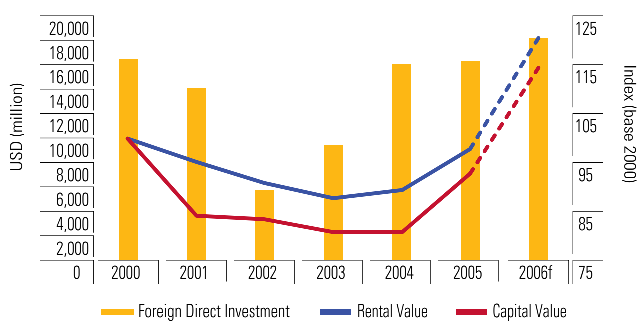
Similarly, the return of FDIs has largely fuelled corporate purchases of luxury prime residential units. Since 1995, the purchases of prime residential units by corporate buyers have moved in tandem with the level of FDI, accounting for a hefty 4.3% of the total number of purchases back in 1999. There is a noticeable return of corporate buyers since 2005, which takes up over 1.3% of the total transactions recorded for the first nine months of 2006. Our initial estimate is that this percentage will continue to rise to about 1.4% by year-end.

There are concerns over whether an economic slowdown in the US will have an impact on the local property market since the US has traditionally contributed to the bulk of capital investment in Singapore's financial market. The US housing market has shown signs of slowdown, and economists expect a gradual slowdown in the overall economy. In the short term, Singapore may feel the pinch if the US economy consolidates.

The concern that the slowdown in the US may send the world economy tumbling stems from the traditional view of the American consumer as the engine of the world economy. Any shift in the US financial market is also thought to affect the major financial markets around the globe.

However, continuous inflow of FDI will help sustain Singapore's economy along with the luxury end of the residential market. The Economist Intelligence Unit forecasts that foreign investment in Singapore is expected to rise at a rate of 8% for the next few years. Investor demand from the emerging economies of China and India may pick up some of the slack left by US buyers.

Figure 3: Rising Luxury Residential Backed by Increasing Foreign Direct Investments

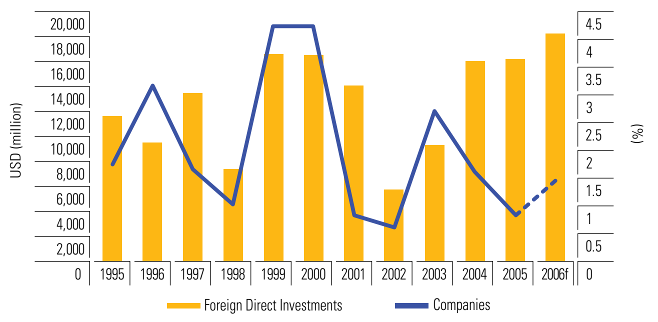


Source: Economist Intelligence Unit, Jones Lang LaSalle

The Singapore prime residential market remains driven by Asians, and this trend is likely to continue, with buyers coming not just from neighbouring countries, but from emerging powerhouses of India and China as well.

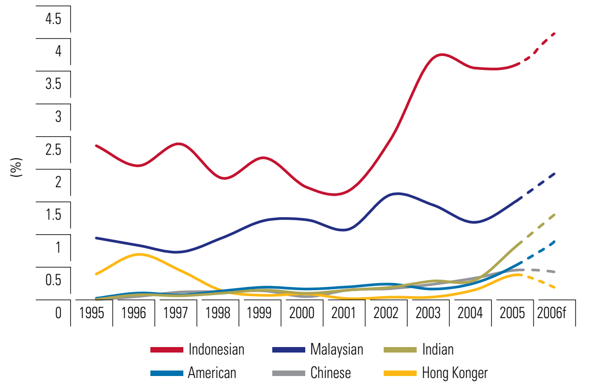
This trend is especially noticeable in the buyer profile of Singapore's luxury residential market. For the first nine months of 2006, the prime residential market was driven largely by Asians. Excluding Singaporeans, the top six buyers were Indonesians (5.5% of total purchases), Malaysians (5.2%), Indians (2.7%), British (2.2%), Chinese (1.9%) and Americans (1%). This trend is likely to continue, with buyers coming not just from neighbouring countries but also from the new economic powerhouses of India and China as well.

Figure 4: Increasing Foreign Direct Investments Driving Purchases of Prime Luxury Residential by Corporate Buyers



Source: Economist Intelligence Unit, REALIS, Jones Lang LaSalle

Figure 5: Continual Dominance of Prime-District Purchases by Asian Buyers, Especially from India



Source: REALIS, Jones Lang LaSalle

author

About the Author

Dr Chua Yang Liang

Head of Research, South-East Asia

Jones Lang LaSalle

Dr Chua Yang Liang leads the Jones Lang LaSalle Research team in the South-East Asia region, encompassing Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam. Trained as an urban planner, Dr Chua brings to the Firm a different perspective of the fundamental research on the property market. He publishes original research on regular property market updates, rental and price indices, topical property market matters as well as consultancy assignments.