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https://www.100test.com/kao_ti2020/500/2021_2022_RealEstate_c85_500435.htm Asia ’s all enduring preoccupation with real estate is undergoing a reality check as a conse-quence of the economic crisis. Private residen-tial property prices in Singapore, have collapsed by over 45% from its peak in for example, 1996. The shock and dismay of die-hard real estate believers is not surprising. For many, however, the rationale that underpinned that real estate investment is showing surprising flaws. Arguments such as "land is finite" persuade in boom years, but are now denounced by some as intellectual garbage. The long-term prospects of real estate investment, while not entirely mis-placed, are subject to investment cycles, interest rates and changes in government policies, like all other forms of investments. Putting all of one ’s investment eggs in the property basket, as many Asians have been inclined to do in recent years, is unlikely to hatch a balanced invest-ment strategy. This article examines the possi-bilities. Real estate investments are very long term in nature and possess two important characte-ristics that are often less than understood: leverage and illiquidity. These factors accen-tuate the capital gains on real estate in boom times and magnify the loss on the downturn. If one were to invest $200,000 (borrowing $500,000) to purchase a $700,000 property for example, a simple 10% rise in property price a year would translate into about a 21% return on the original investment, net of interest expense assumed at 5.5% p.a.. With that same interest assumption, a 10% fall in property price how-ever would translate into a loss of about 48% on that same $200,000 investment, the tragic con-sequence of leverage working in reverse. The illiquidity of real estate is another important factor for consideration. Exiting a real estate in-vestment often requires time and patience, par-ticularly so in a less favourable environment. The average investor needs to consider the sheer amount of the financial investment and the uni-queness of each property asset. The illiquidity limits the flexibility investors have when they need to realign their investments in accordance with changing market conditions or changes in investment needs. The long-term nature of real estate in-vesting requires it to be matched with stable, long-term cash flows. Assumptions on income growth, interest rate trend and rental yields are important, and when they do not materialise as planned (or hoped for), the investment goes awry. In addition, the size of the upfront capital commitment in real estate investing makes di-versification within the asset class difficult to achieve. The real estate investor has the bulk of his investments locked into a few properties. Seen from this perspective, real estate investing can be a high risk venture. The risk does di-minish with a long-term time horizon, but the rate at which Singaporeans turn over their real estate investments suggests a shorter term, high-risk attitude prevails. Asia ’s love affair with real estate has been fuelled by easy money and accommodative government policies. These conditions are not present today. The era of supernormal returns from real estate investing is over. Bankers are licking their wounds from loans gone sour and have turned wary about lending for real estate investment (as opposed to home ownership). Having experienced the effects of an over-zealous appetite for real estate, it is probable that both of these factors are unlikely to be as potent in the future. The new Asia requires that the bold assumptions of old be tempered- stable interest rates, "guaranteed" employment, "guranteed tenants", etc. Price appreciation will be more gradual hereon and more in keeping with inflation. Other investment options need to be considered and matched with one ’ s age, obli-gations and financial aspirations. (The author is Equity Manager of Rothschild Asset Management.)