APAC Realty on the alert for shifting regulations; eyes bigger regional presence

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ALBERT CHUA/THE EDGE SINGAPORE

Marcus Chu, COO at ERA Singapore, with CEO Jack Chua. ERA plans to raise the number of agents in Asia Pacific to 20,000 by end of the year

The end of last year's "circuit breaker" saw a release in pent-up demand for all the things Singaporeans missed most. Locals thronged cafes and restaurants in a bout of "revenge dining", shopping malls, cruises saw "revenge spending" and, according to **APAC Realty**, home buyers also fuelled a wave of "revenge home ownership".

On Feb 23, APAC Realty, owner of property agency ERA, reported earnings of $16.3 million for the FY2020 ended Dec 31, 2020, up 17.8% from FY2019. Revenue in the same period was $395.1 million, up 6.9% y-o-y.

"If you look at the full-year results, it is actually a lot stronger than it looks because the first half was almost close to zero, especially in the second quarter," Jack Chua, CEO of ERA Singapore and executive chairman of APAC Realty, tells *The Edge Singapore* in an interview.

The company plans to pay a final dividend of 1.75 cents per share, which will be on top of the interim dividend of 0.75 cent already paid. The total FY2020 dividend of 2.5 cents, which represents a payout ratio of 54.3%, is an improvement from the two cents paid out in FY2019. Year to date, APAC Realty shares have gained 4.5% to close at 46 cents on March 3, valuing the company at $161 million.

Cool about commissions

As one of the largest property agencies here, APAC Realty is engaged by most developers to help market their projects. As developers become more active in trying to move their units, commission rates have reached 3%–4% compared to 1% just five years ago. Small boutique developers are reportedly paying commissions of up to 8% so agents can help move the remaining unsold units in projects that are less popular and see lower demand.

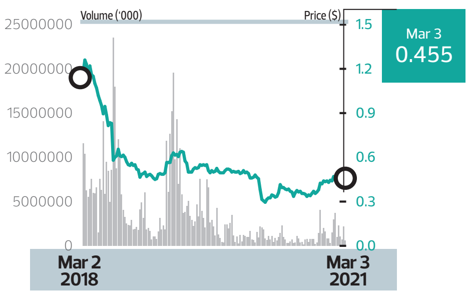
Chua notes that there have been talks of regulations to be imposed on commission, which the government has thus far left to market forces. But if such measures are introduced, he believes 3% is a reasonable rate. He points out that in some other countries, commissions for agents can be more than double that. In the US for example, commissions for resale properties can go up to as high as 7%, as a lot more marketing effort is needed on the part of agents unlike in new launches, when the bulk of the marketing is borne by developers themselves.

Chua is also aware that the government has concerns that commission rates are not transparent. Anecdotally, some buyers have been known to receive rebates from the agents, thereby distorting actual buying prices. "[But] I don't think the government will go to the extent of controlling commission. That is going a bit backwards," he adds. "But they may make developers declare the commissions; so that, at least, as a buyer, you know how much they are."

In any case, the overall healthier earnings enjoyed by the property agencies in Singapore stem from both steady commission rates and higher sales volumes. Last year, ERA rebounded across revenue, gross profit, ebit and net profit. From declining figures reported in FY2019, gross profit recovered 2.5% y-o-y to $47.5 million in FY2020 while ebit rose 10% to $20.9 million.

Last year, primary sales of Singapore private residences increased by just 0.7% to 9,982 units, as border closures continued to shut foreign investors out. Even so, the resale market saw 10,927 units transacted last year, up 18% y-o-y. While the two markets recorded comparable volumes, the secondary market, measured by the value of transactions, was worth nearly twice as much. In FY2020, secondary sales totalled $23.5 billion, compared to $14.9 billion from the primary market.

APAC Realty



Given how buoyant these numbers were in a year that saw the greatest economic crisis in post-independent Singapore, there have been murmurs that the government might again step in with yet another set of cooling measures.

On Jan 18, Deputy Prime Minister Heng Swee Keat said the government is paying "close attention" to the stability of the local real estate market. Similar comments by other ministers have fuelled speculation of another round of cooling measures, which would be the first since July 2018.

Back then, the government raised the additional buyer's stamp duty (ABSD) from 7% to 12% for second properties, and from 12% to 15% for third properties. The government also tightened mortgage terms, increasing the amount of cash buyers had to fork out for their properties. In the year leading up to the surprise cooling measures, private residential property prices had risen more than 9%. In contrast, property prices only grew 2.2% last year.

Barring a fresh round of cooling measures, Chua sees strong demand continuing into the year ahead. That said, talk of the measures have already affected the market, says Marcus Chu, COO at ERA Singapore, as buyers scrambled to avoid the possibility of paying higher stamp duties down the road.

Southeast Asia united

In FY2020, ERA managed 49,255 out of the total transactions of 175,916, representing 28%. This is up from 26.6% in FY2019 when it managed 48,474 out of 182,561 transactions.

In a way, ERA was able to gain market share due to its bigger army of agents, which numbered 7,771 as of Jan 1, up from 6,967 in the year earlier.

ERA is now looking to increase the number of agents in Asia Pacific from more than 18,000 agents currently to 20,000 by end of the year.

Aside from Singapore, APAC Realty has consolidated ERA franchisees in four other Southeast Asian countries: Indonesia, Thailand, Vietnam and, most recently, Malaysia. "My ambition is to group Southeast Asia together. Individually, each country does not have the strength but if we can group them together, that will be good," says Chua.

"We started from the resale market in Singapore, then we went into projects, and that is a big market. So, we bring this know-how to these countries in Southeast Asia, increasing their revenue and profit," he adds.

Nevertheless, there are near-term challenges. In Indonesia, real estate transactions took a hit as the country suffered several waves of Covid-19 infections last year while developers postponed project launches, adopting a "wait-and-see" approach.

Last November, Indonesia approved a landmark bill, allowing foreign investment and ownership of its domestic properties. The bill, which seeks to amend 76 laws, comes amid its bid to propel the country into the top-five economies of the world by 2045.

These developments are expected to benefit Indonesia's real estate market in the longer term, notes APAC Realty. Foreign ownership of Indonesian property is expected to inject between US$5 billion and US$10 billion into its economy every year. This is against the backdrop of Indonesia's economy, which is forecast to expand between 4.4%–6.1% this year.

"They've talked about it for a long time; they cannot be a closed country forever. As a country advances, they have to allow [foreign ownership], because they really need foreign investment," Chua reasons.

In Thailand, the property market is in a phase of contraction, says APAC Realty, with business expected to pick up in 4Q2021. Until then, the company's focus is on expanding its sales team.

As for Vietnam, APAC Realty invested $1.5 million for a 38% stake in ERA Vietnam. In 4Q2020, the group also put in a loan of $1 million for expansion.

Meanwhile, ERA Malaysia is 51%-owned by a country master franchisor. APAC Realty has invested a total of RM490,000 ($160,827) for a 49% stake, and committed to an interest-free loan of RM500,000. ERA Malaysia now has offices in Kuala Lumpur and Johor. With a current agent count of 451, ERA Malaysia plans to hit RM10 million in revenue with 1,000 agents by the end of 2021, its first year of operation.

Real estate trends

Speaking from the company's new APAC Centre in Toa Payoh, which will be the hub of the company's activities, Chu outlines three trends that will shape the property market in 2021. Firstly, persistent ultra-low rates will provide property investors with the impetus to take advantage of lower mortgages to fund their property purchases. Chu also notes declining housing stocks with fewer en bloc sales and government land sales. "Developers are very hungry for land," he adds.

Secondly, constant policy fine-tuning by the government will continue to affect the dynamics of the market. For example, last September, URA restricted developers from re-issuing options to purchase (OTPs) to the same buyer of the same unit within 12 months from a previous expiry.

As a result, the sequence of purchases switched. "In the past, you could buy [a home] first [before selling] to avoid ABSD. With the restriction, the new sequence is to sell your home first before any upgrades," says Chu. As a result, private resale transactions accounted for 61.3% of all sales done in 4Q2020, compared with 49.2% in 3Q2020.

Finally, Chu sees strong demand for exclusive listings, as web portals like the HDB Flat Portal have made the market more egalitarian for both buyers and sellers alike. "The traditional role agents play is already facing disruption and transformation, decreasing the value-add they can provide to their clients. In order to justify fees, we need to further value-add to clients' transaction experience by harnessing technology," reads a slide from his livestream with agents.

"We are beefing up our agents in terms of making sure that the game plan is focused on exclusive listings and also working to harness technology to help our agents to get more leads," Chu adds, with new plans to be announced at an upcoming conference in March. E