

Singapore Housing Market 2012. Singapore Property Outlook

Singaporeans are obsessive about real estate, much like Americans and Britons were before 2008 burst their bubble. However, while other countries' housing markets have failed to recover fully, the housing markets of the emerging markets have rebounded and surged past old highs. What makes Singapore housing special? Housing is all about demand and supply. In Singapore, supply is limited by the fact that it is a tiny island. Demand is dependent on the desire and the ability to buy. A booming economy and overcrowding have fuelled both factors.

There is a two segment market in Singapore, both heavily driven by government policy.

Affordable housing is provided by the Housing Development Board (HDB), which offers subsidized apartments for sale under strict conditions of eligibility and restrictions on the secondary market. At last count in 2010, some 82% of households lived in HDB flats. The HDB's *raison d'être* is creating affordable, quality housing and encouraging vibrant towns and cohesive communities.

Private housing accounts for a small minority, therefore, of households, and represents luxury and high status of its households. Some 11% of households live in private apartments while the remaining 6% or so live in landed properties.

Land supply is tightly controlled by the Singapore Land Authority. HDB supply of apartments is tightly controlled as well.

Singapore housing prices have grown steadily since records were kept in 1966. However, the time series exhibits considerable volatility. 1985 – 1989, 1997 – 2000, 2001 – 2002, and 2008 – 2009 being notable bear

markets with drawdowns of 25 – 30%.

The long term drivers of Singapore housing prices include 30 yrs of declining interest rates and the impact on an extremely long duration asset, improving demographics in terms of a rapidly increasing population mainly as a result of an open door policy encouraging foreign talent and wealth immigration, rising wealth and wages of incumbents and immigrants alike, low taxation across income, capital gains, inheritance, consumption and property taxes, easy access to mortgage credit, robust economic growth and a fixed, finite and small stock of land.

The risks ahead include, an end to secular declining interest rates (which impact on such long duration assets is potentially serious), the low level of interest rates which effectively lengthen the duration on assets, the absence of fixed rate mortgages and an overdependence on adjustable rate mortgages, a slowdown in global economic growth in general and in the Asian region in particular, political backlash against government immigration policy which has resulted in proactive anti-housing inflation and anti-local labour displacement policies (such as the additional 10% stamp duty on foreigners' purchases of real estate, and a tightening of work permit approvals), the advanced age of the Father of the Nation and the transition and political risks when the inevitable happens, the high sensitivity of prices to immigration (in either direction) due to the high proportion of foreigners resident in Singapore (in particular Asian buyers who seek safe haven shelter in Singapore and who thus are especially sensitive to political risks), and space and infrastructure limitations to immigration.

Of the above, the most important driver of property prices are low interest rates and continued strong employment; and the greatest risks to property prices come from rising interest rates and political risks.

Non-financial issues:

While the primary residence has been the most significant source and store of wealth for most Singapore households, it is questionable if household welfare is sensitive to housing values. Even as housing prices

rise, replacement values rise, negating any mark-to-market gains since monetizing these gains require the household to replace their primary residence. Sentiment, however, is and should not be underestimated as an economic driver.

As Singapore continues to develop, overcrowding becomes an increasingly important issue with profound implications on society if not the economy. It may be possible to house an ever increasing stock of humans, however, supplying their subsistence and recreational requirements, as well as transporting them from residence to workplace and other locations is another matter. Already the subway system, the vaunted MRT system has come under pressure and system failures have increased in frequency. Even if infrastructural issues can be addressed, intangible but no less material factors have become an issue.

One can argue that apart from rule of law, security, employment, social security and shelter, a maximum level of population density is a basic human need if not right. Below a certain level of population density, humans seek company (an increase in population density), but beyond a certain level, they seek to reduce it. The threshold is evidenced by increased anti-social sentiment, intolerance of other ethnicities, minorities or other social groups, increased stress levels, and elevated incidence of crime. All of which are manifest in Singapore today.

One could argue that to maintain a certain level of cohesiveness in the community, the government, through its immigration, economic and housing policy needs to target a certain level of population density, both locally and at the national level, a level which has been clearly exceeded by now.

Conventional economics recommends growing the economy by unbounded growth of the population, a strategy clearly impracticable for an island state of such acutely limited land area. Such theories were built in lands where space was not a practical constraint. Even there, concentration issues have rendered the metropolises such as New York, London, Hong Kong, barely habitable. For Singapore, this strategy is not viable in the

long run. Moreover, density levels are so close to undesirable levels that the long run is here today.

Fortunately, or unfortunately, population density can grow further still, perhaps by some 20%, with increased investment in construction and infrastructure, before the social externalities render Singapore uninhabitable.