

# **Singapore. Paradox of Plenty. How Real Estate Threatens Effort, Meritocracy and Stability.**

What happens to an economy if everyone suddenly got rich without expending much effort or ingenuity? What if the people toiled for decades with some success but then an overriding factor made them rich which had little to do with their efforts? What if the magnitude of this wealth increase, which was uncorrelated, was disproportionately large, accounting for a greater proportion of the increase in wealth than employment and enterprise?

Would not people regard their work and enterprise as inefficient wealth accumulators? Would not people seek to increase their exposure to the single most efficient factor responsible for wealth creation? This would seem to be the logical thing to do.

In land scarce Singapore, real estate, in particular residential real estate, has been that factor. The index of HDB (government subsidized housing) resale prices has risen at an annual rate of 6.6% per annum since 1990. Private residential prices have risen by 4.6% p.a. in the same period. Landed private residential prices have risen by 5.3% p.a. Given that inflation has mostly been hovered at around 2%, these growth rates in real estate prices have been impressive.

The experience of most house owners has been enhanced by leverage since houses are rarely ever bought without a mortgage, and with LTV's as low as 20% or even lower in some cases, (pre cooling measures), returns would have been levered 5X. Couple this with over 30 years of falling interest rates

and the returns and attractiveness of real estate as an investment is easy to understand.

Why have property prices risen steadily over the history of Singapore? A competent government, strong and steady economic growth, a rising population and falling interest rates are some of the main factors. But what happens when growth slows and interest rates stop falling?

Are people sufficiently flexible and able to meet the new challenges? Are they sufficiently motivated and equipped to seek new avenues of growth and wealth creation? Have they had sufficient practice or has the rising property market provided such benign conditions that they have lost their motivation, their so-called hunger to succeed?

Is Singapore suffering from Dutch disease? In economics, the Dutch disease is the apparent causal relationship between the increase in the economic development of a specific sector (in this example residential real estate investment) and a decline in other sectors (like the manufacturing sector or service sectors).

The side effects of a real estate curse are different from those of the resource curse. Whereas natural resource curses tend to result in armed conflict and the undermining of democracy and freedom, the real estate curse has less extreme but no less pernicious effects.

By devaluing effort and enterprise, the real estate curse causes apathy and defeatism, frustration and a sense of injustice, since effort and enterprise do not equate to wealth. Certainly it threatens to dilute the virtues of meritocracy.

And what about interest rates. Current mortgages in Singapore cost about 1.4-1.5% per annum for the first 3 years, rising by a step up to a spread over floating rates from year 4 onwards. At these rates of interest, debt service is highly negatively

convex and can rise very quickly if interest rates rise even slightly. If interest rates were higher, say 5%, a rise to 6% has a small impact on monthly payments, but if interest rates are low, at 1.5%, a move to 2.5% would have a significant impact on monthly payments. An overly leveraged populace adds a layer of complexity to monetary policy.