Research Highlights / Articles

Property Price Upsurge in Singapore's Mass Market – How the Role of Foreign Capital Affects You

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Foreign Liquidity to Real Estate Market: Ripple Effect and Housing Price Dynamics
Authors: A/Prof. Wen-Chi Liao | Dr. Daxuan Zhao | Ms. Li Ping Lim | Dr. Grace Khei Mie Wong

Article contribution by: Mr. Edwin Heng

Engage in conversation with any resident and the proverbial property ogre would invariably rear its head, sneaking its way into even the most casual of banter topics. Whether we gripe or cheer, there is recognition that the perennial talk of the town in Singapore revolves largely around housing.

Indeed, regardless of creed or social standing, with home ownership on the island state hovering around the 90% mark, housing related issues remain close to our hearts.

To be sure, depending on what you are angling from the market, the property ogre can be perceived either way – friend or fiend. As recent as four years ago, during the period 2010-11, strong global economic tailwinds seemed to have provided the ogre with a pair of wings. Housing prices headed north rapidly and surged past the previous peak last seen in 1998, before the onset of the Asian Financial Crisis. This came on the back of Asia's surging growth, an expanding middle income populace in the region, China's fast swelling affluent class and a global economy awash with liquidity. Correspondingly, the issue of affordability surfaced. Fingers were frantically pointing, searching for a convenient scapegoat to reproach.

This article does not dispute the possibility that a confluence of each of these or more factors may be involved in bolstering the growth of real estate prices in Singapore. Neither is this article a debate about the culpability of any of these factors. Rather, it takes a close and hard look at the extent to which foreign liquidity in general may have played in influencing price movements in the local real estate market.

So, what's the upshot of this?

Simply put, the inflow of foreign money into the central region of Singapore's private property market does not only spark an uptick of prices in the core regions, but also brings about a 'ripple effect' that affects prices in the non-central regions. This 'ripple effect' could account for as much as 25% of the fluctuations in house price growth in these regions. This may extend further outwards and invariably affect public housing prices as well, a segment where foreigners' participation is less active and where over 80% of the population resides.

An understanding of how foreign money affects the price dynamics and how the transmission mechanism operates on our local shores would therefore allow for more informed policy decision making. This is especially pertinent since home ownership in Singapore forms the cornerstone of our public housing programme. In Singapore, the government attempts to influence the flow of foreign liquidity in part to stabilize the nation's real estate market. It does so by adjusting its regulations on foreign investment - easing them in a dull market and tightening them when the market is looking to overheat.

Before we become all edgy, let's take a quick look back at how regulations shaped the housing landscape.

Regulations on foreign buyers' home purchases go back a long way, to 1973. To ensure affordable and sufficient housing for Singaporeans, the Residential Property Act imposed restrictions on foreign ownership of private residential property, namely, that foreigners could only acquire apartments in buildings higher than 6 stories or in approved condominium developments.

Let's fast forward to the 21st century when the market has already developed a certain buoyancy on the back of sustained economic growth.

Unfortunately, several events during this period placed a dampener on the housing market, namely, the bust of the Dot-Com bubble and the outbreak of the Severe Acute Respiratory Syndrome (SARS) epidemic. The housing market took a hit. Its continued sluggishness was not something to be welcomed given that housing asset in Singapore holds the largest store of household wealth for many. This could pose severe financial hardship for a large number of people if not properly managed.

Against this backdrop of what may be described as a somewhat languid, or dismal as what others may term, housing market, a calibrated scaling back on foreign ownership restrictions was initiated:

- In 2004, foreigners were allowed to buy land parcels and completed homes at Sentosa Cove.
- In 2005, the government removed the restriction for foreigners in owning apartments below 6 stories, raised the loan-to-value limit and reduced the cash down payment.

The result?

The percentage of foreign buyers rose from 6% to 10% within 2 quarters and the presale segment increased from 6% to 17%, after the first slew of measures in 2004. From 2005 to 2007, foreign buyers accounted for 10% and 15% sales in the entire private residential market and the presale segment, respectively. Compare that to the period 2000-04 when total sales made to foreigners accounted for only 6%. Overall, between the period 2004 and 2011, private property purchases by foreigners, excluding permanent residents, constituted a share of approximately 11% of all property transactions in Singapore.

As you would have rightly guessed, there is uneven distribution geographically.

Sales to foreigners on average constituted 14% of total sales in the central region, but only 5% in the North-East and North regions. Perhaps due to the low concentration of foreign purchases in the suburban areas, the growth of foreigners' acquisitions in these non-central regions display a smaller price impact on overall property prices in these regions, relative to the more significant price impact in the central region created by the higher concentration of foreign purchases in the central.

That is not all. As mentioned earlier, what is more interesting is that in addition to the direct price impact to the non-central regions created by foreign purchases in these regions, property prices in the non-central regions were also affected by the upsurge of prices in the central regions – the ‘ripple effect’.

Presumably, the reverse holds true and we can imagine the pricing dynamics working in reverse order when converse conditions prevail, setting in motion the property wheels which would again cause some to gripe and others to cheer.

This article attempts to take a crack at examining the hard but real issue of how and the extent to which foreign liquidity can exert upward pressure on asset prices in Singapore. Even as it aims to inform the public, it recognizes that the government has been handed the most unenviable and challenging task of managing people’s expectations, yet treading a fine line of ensuring that its citizenry’s store of wealth in property is maintained, or better still, appreciating year-on-year, and still having to contain possible run-away prices that would rouse the affordability beast.

Selectivity, Spatial Autocorrelation, and the Valuation of Transit Accessibility

Principal Investigator: Dr. Mi Diao

Urban rail transit has been widely considered an efficient and environment-friendly mode of transport to address deteriorating urban transportation conditions. However, in recent years, the increasing development, operation and maintenance costs of urban rail transit have imposed significant challenges on governments and transit agencies worldwide. With shrinking state and local budgets, innovative financing mechanisms are needed to support the sustainable development of urban rail transit. Thus, the feasibility of funding transit systems through land value capture has attracted interests from many researchers and policy makers.

The primary rationale for value capture is that the beneficiaries of transport investment are not limited to direct users but also include landowners and developers who benefit from enhanced location advantages. Following the benefit principle that the cost paid by a contributor should be proportional to the benefit received, it is possible to recoup part or all of the land value increase to support public transportation. Various policy instruments have been developed that aim to capture the land value increase attributable to infrastructure improvements, such as land value taxation, special assessment financing, and tax increment financing. The effective implementation of these policies demands reliable estimates of the value-added of transit accessibility.

The dominant technique in valuing housing attributes is hedonic price analysis. However, hedonic price analysis may suffer from two limitations. First, Hedonic price models are typically calibrated using samples of sold properties. If the sold properties are a non-random sample of the housing stock, the hedonic price model may generate biased estimates for the population of properties. Second, a hedonic price valuation of housing attributes can be misleading when spatial autocorrelation exists.