The Curious Case of Singapore, Economics & Real Estate

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Singapore Commercial Space
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I am sure most of us are expecting the real estate market to crash or correct significantly in the 2nd half of 2020. Prices in the core central region (CCR) fell the most, down 2.2 per cent compared with -0.5 per cent and -0.4 per cent in the rest of central region (RCR) and outside central region (OCR) respectively in the first quarter 2020. The extended "circuit breaker" to June 1 has led to economists lowering again their forecasts of Singapore's full-year gross domestic product to between -5 and -10 per cent. The International Monetary Fund has also said that the world is heading towards the worst recession since the Great Depression. A fair correction in prices is expected in 2020, but not to the magnitude of the 25% per cent plunge over four quarters during the Global Financial Crisis (GFC) 2008-2009. During GFC, the total transaction volume in 2008 plunged by two-thirds from 2007. This was due to a highly exuberant market in 2007 when 40,654 private homes changed hands. In contrast, the total transaction volume in 2019 was only 19,150 units, largely due to the cooling measures being in place. Almost the entire property game has changed in the last 10 years due to introduction of Additional Buyer's Stamp Duty (ABSD) / Seller's Stamp Duty (SSD) and Total Debt Servicing Ratio (TDSR). (credit: straits times)

Let's analyse the significance of each of these rules before we analyse the drop in property prices.

<u>ABSD: Additional Buyer's Stamp Duty</u> *(the SHIELD)*

ABSD is an additional tax charged on second and subsequent property purchases. The charge differs depending on the residency status of the buyer, meaning whether you’re a Singapore citizen, permanent resident or a foreigner. This was the first time the Singapore government created a shield to differentiate between foreigners / PRs and Citizens.

SSD: Seller's Stamp Duty

The Seller's Stamp was introduced to stop the business of flipping in property. SSD was introduced on 10th February 2010, although its nature has been heavily revised since then. At present, the SSD is a tax that applies when you sell your residential property, if you sell your property within three years of buying it. SSD is a percentage of the valuation or price of the property you sell, whichever is higher. The earlier you sell your house, the higher the SSD:

- Sell your house within one year of buying it: 12%
- Sell your house within two years of buying it: 8%
- Sell your house within three years of buying it: 4%

TDSR: Total Debt Servicing Ratio *('Thanos' for Property Investors)*

TDSR is part of the government’s efforts to ensure financial prudence among both Singaporeans and the banks. TDSR places limits on the amount a person can borrow and the maximum amount a bank can lend. TDSR is not an isolated measure. It is part of a framework that includes the Credit Bureau and the Mortgage Servicing Ratio (MSR). If you ask property agents, nothing has impacted their business more than TDSR.
What’s the impact of TDSR?

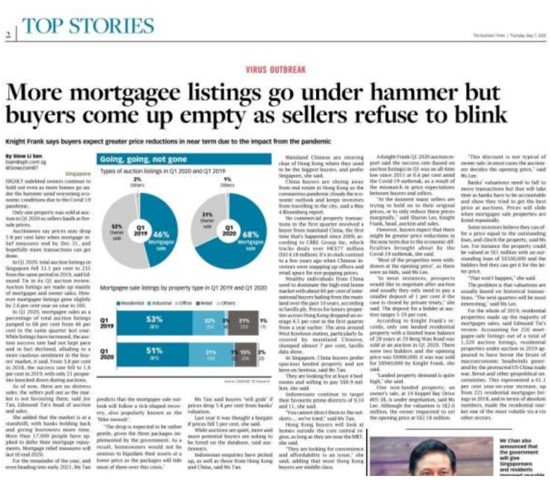
Simply put, it limits the amount you can borrow to 60% of your gross monthly income. So, if you earn $10,000 per month, the total amount of monthly loan repayment cannot exceed $6,000. $6,000 for monthly repayments may seem like a big amount. But when you factor in all your outstanding loans, you will be surprised at its effect. The loans that are considered include:

- *Home loans*
- *Car loans*
- *Personal loans*
- *Credit card balances (including 'interest-free instalment plans')*
- *Student loans*

For people with variable income, the amount is even lower as you have to bear with a 30% 'haircut'. This usually applies to self-employed people like insurance and property agents who work on a commission basis.

THE IMPACT OF COVID-19 ON SINGAPORE REAL ESTATE

- Singapore has taken long-term stress out of the picture by introducing TDSR, ABSD & LTV limits in past 9 years. I really don't understand why people keep comparing 2020 with 2008 on the basis of transactions because we have seen a structural change in the way real estate transactions are done in Singapore.
- Short-term stress is also out of question because people can defer their home instalments up to December 2020 and the government may even extend the deferment for another 12 months up to 2021. Therefore, the short-term liquidity problem is solved or deferred.
- Banks are instructed not to do any repossession to safeguard people who may lose jobs or have cash flow problems. Even at auctions, banks can't sell below market valuations. (see image below)



2 TOP STORIES

VIRUS OUTBREAK

More mortgagee listings go under hammer but buyers come up empty as sellers refuse to blink

Knight Frank says buyers expect greater price reductions in near term due to the impact from the pandemic

By Siow Li Sen

Going, going, not gone

Types of auction listings in Q1 2020 and Q1 2019

- Singaporeans predominantly only believe in one asset class - Real Estate. After losing money in 2008 (Equity) and the recent losses in Bonds most Singaporeans only believe in Real Estate. I think it's in their DNA! The average Singapore usually does not care about stock markets, in fact, a majority of Singaporeans do not even have a trading account! This is probably why retail participation in SGX is so low.

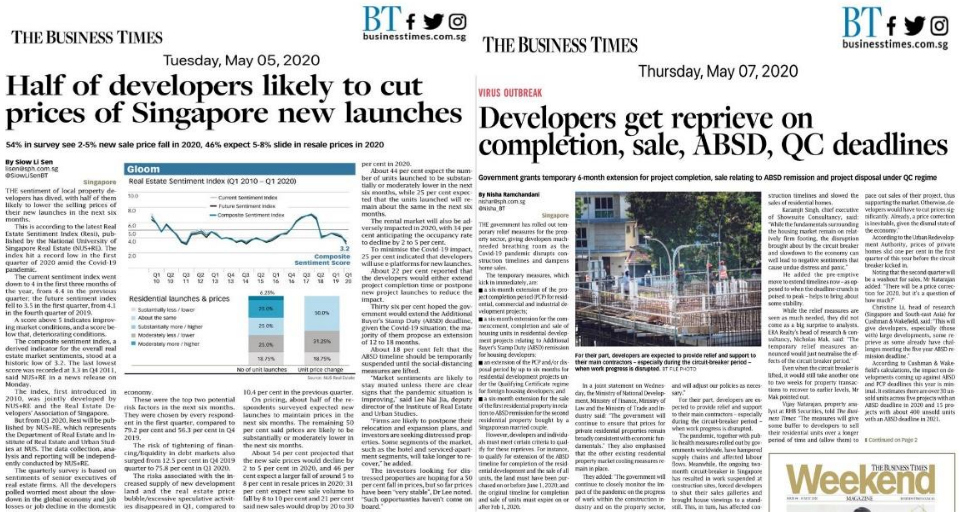
- This is where it starts getting crazy - Singaporean household incomes are much higher than anywhere else in Asia and their savings are quite high too. The power of liquidity is such that all the equations of economics sometimes make no sense in this city. We call it a city of millionaires and most of it is because of Real Estate.

National Income

	Gross National Income	Per Capita GNI	Gross National Saving	Gross Domestic Product
		(at Current Market Prices)		(in Chained (2015) Dollars)
	Million Dollars	*Dollars*	*Million Dollars*	
2014	385,070.0	70,400	189,022.4	411,540.3
2015	394,551.3	71,283	180,254.1	423,444.1
2016	408,820.3	72,909	194,330.0	435,987.9
2017	434,805.5	77,474	208,116.3	452,118.5
2018	457,982.8	81,222	218,474.6	466,312.6

- People who talk about SARS and compare it with COVID forgot that between these two events there was another event - the 2008 Financial Crisis, and that changed everything. Central banks have injected so much liquidity in the last 10 years that money keeps coming back to Real Estate (matured and safe markets). Please don't use the examples like 'History repeats itself" because Singapore is not part of the history books yet.

- If the property market crashes, it is the local banks and the economy which will suffer. The Government won't even blink to change the ABSD structure / TDSR / or even the loan limits for 2nd / 3rd property purchases... or reducing stamp duty for Permanent Residents. A crash in property prices is not good for anyone in Singapore. Check out the article below with dates and see how quickly the government reacts.



THE BUSINESS TIMES

BT businesstimes.com.sg

Tuesday, May 05, 2020

Half of developers likely to cut prices of Singapore new launches

54% in survey see 2-5% new sale price fall in 2020, 46% expect 5-8% slide in resale prices in 2020

THE BUSINESS TIMES

BT businesstimes.com.sg

Thursday, May 07, 2020

VIRUS OUTBREAK

Developers get reprieve on completion, sale, ABSD, QC deadlines

Government grants temporary 6-month extension for project completion, sale relating to ABSD remission and project disposal under QC regime

- Brahmastra - 'The Ultimate weapon': Immigration - All it will take to bring demand back to market (in case it falls) is to increase the number of new PR's and Citizenships issued and that would be good enough to take over the demand supply equilibrium. It's a known secret among all real estate consultants, the biggest spenders of luxury assets in Singapore are new Permanent Residents and Citizens.

- Singapore Shining: If there is one country which has won the hearts of the ultra-rich in the world in the last 5 years, it has to be Singapore. People call it the city of the future. It's a magnet for the ultra-rich from China and South East Asia but now its emergence as an IT hub for companies who wants to run its operations in Asia take Singapore ahead of any competition from Hong Kong. (see article below).

- Singapore is one of the most efficient countries in the world, they can make tough decisions very quickly. They have learnt from past mistakes and the best part is that accept their mistakes and always deliver... that's why it has been called the 'City of the Future'.

I assume if you are still reading this, you would have realised that even though the global market may suggest long term pain but to expect the same impact in Singapore may be a little short-sighted. Property prices may correct in the 2nd half of 2020 but the actual drop in prices based on percentage (%) could be as low as 5-7%. The window of opportunity for bargains would not be very long (if the market corrects) due to government control and quick intervention. In fact, Singapore may give you a major surprise with an asset inflation if the Chinese money starts moving from Hong Kong to Singapore quickly.

Just in the past 2 months (Apr & May 2020), we have seen two major investments by Chinese Tycoons into Singapore.

- April 2020: Perennial Real Estate Holdings divested its entire 30-per-cent stake in 111 Somerset, known locally as Triple One Somerset, to gambling mogul Stanley Ho's Shun Tak Holdings.
- May 2020: Chinese technology giant Alibaba Group Holding acquired a 50 per cent stake in AXA Tower in Singapore, in a deal that values the property at S$1.68 billion (US$1.2 billion).

I have been living in Singapore since 2010 and all I can say is that there is no safer place in the world than Singapore in the current situation. Just observing the way things are being handled and the care and empathy which the government shows towards its people is just beyond imagination. Not only for innovation, technology, safety, architecture but for mankind... Singapore should be the future of all cities in the world.

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