Market may correct in 2015/6: forum

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The property market here could correct significantly in 2015 or 2016, when higher interest rates are expected to coincide with a large increase in housing supply, economists said yesterday.

Making presentations at the 20th Singapore Economic Roundtable, they indentified this as one of several medium-term challenges and risks confronting the Singapore economy, the others being over-leveraging in certain household segments, lower cost-competitiveness and obstacles to productivity growth.

The forum, jointly organised by the Institute of Policy Studies and The Business Times, is held twice a year under the Chatham House Rule - under which participants agree to keep each other's views anonymous to promote frank debate.

The event attracted more than 30 academics, private-sector economists and policymakers.

Citi economist Kit Wei Zheng said that property prices are likely to fall 10 to 15 per cent over the cycle in the next few years, which could materially reduce households' net worth.

The discussant for his presentation, Barclays economist Joey Chew, said she expected an even larger correction - 20 to 30 per cent in 2015 and 2016, which is when the US Federal Reserve is expected to raise its interest rate after tapering off quantitative easing.

But Mr Kit said that the housing supply in the pipeline should not be under-estimated, noting that the potential private housing supply till 2017 has risen to 32 per cent of the existing stock of private residential units. This will push vacancy rates up, especially since population growth is slowing.

Ms Chew estimated that vacancy rates could surge to more than 10 per cent in 2015 and 2016 amid curbs on foreign demand, given that the secondary market has weakened following the government's multiple rounds of macro-prudential measures to cool the property market.

On the demand side, overall home ownership levels have risen to 90 per cent from the 10-year low of 87 per cent at the end of 2010. This suggests that pent-up demand for housing to live in has already been met, Mr Kit added.

Both economists noted that the risks of rapidly rising household debt in Singapore are ameliorated by the fact that households are not just asset-rich but also cash-rich, but Mr Kit noted that property has accounted for almost 80 per cent of the growth in household net worth since 2006. "It follows that a fall in property prices in the next few years would also erode household net worth significantly," said Mr Kit.

Also, the distribution of debts and assets may be important: Recent figures from the Monetary Authority of Singapore (MAS) and the Credit Bureau show that rising debt burdens among those in their 30s to 50s and debt levels rising past the peak income age of 50 may signal that individuals are borrowing on their assets. If such loans are being used for investment properties, that could amplify the downward pressure on prices, said Mr Kit.

One participant pointed out that MAS has said that it is prepared to unwind some of the measures introduced when the property market cools, although others, such as the total debt servicing ratio, are longer-term ones to ensure prudent lending.

But others said that reversing such demand measures, while necessary, may be insufficient. One participant said: "Once a condo is built, the supply is there. It's not clear to me that investor demand will come back; immigration policies are being tightened.

Another said: "I'm not sure how much the government can do to support the market. It's already reached a bubble situation. I'm not sure how much can be unwound."