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Go easy on your property investments

In the present economy, it may not be wise to be fully geared in property even if you can afford it

By TAN KHEE GIAP

WHEN the government announced policy changes for the property sector on Tuesday, Minister Mah Bow Tan emphasized that the changes are to ensure a stable market and not to boost values.

However, stockmarket exuberance followed with property and banking stocks registering significant gains almost immediately, while MPs raised concerns about Singaporeans getting overgeared in property and spending beyond their means yet again.

I have three observations to make.

Firstly, potential investors, especially first-time home buyers, would be misleading themselves if they regard the latest measures as yet another government attempt to boost the real estate sector. The relaxation of housing-loan financing by banks to up to 90 per cent of a property's value from the previous 80 per cent is in line with the current economic environment as the previous speculative climate no longer prevails.

What is worrying, however, are the assumptions behind analysts' and investors' positive readings which must have led to the rise in stockmarket prices of related counters despite the minister's repeated clarifications of the government's neutral market position. Still, the exuberance reflects what the market is saying: that housing developers are expected to sell better and banks will do better.

My second observation is that the market may not be wrong after all, as many residents who have gone through four decades or so of steady and sometimes sharp property value appreciation have still not adjusted to the reality that such a scenario may no longer hold true; and for them, gearing up fully in property investment continues to be the natural decision to make.

Typically, this is known as expectation and adjustment lags in the decision-making process, where economic agents fail to behave rationally – at least in the short term – even as drastic changes happen or are taking place.

The argument is straightforward. The Singapore economy has been growing at an average of 8.4 per cent per annum over the first 32 years of independence, and we expect the potential growth for the next equivalent phase (from 1997) to be 4 per cent, or half of what the economy used to be able to drive on.

Continued economic restructuring would mean more uncertainty in job employment for most and findings by the Institute of Policy Studies have revealed a potential worsening of structural unemployment for both white-collar and blue-collar workers aged 45 and above. In this situation, what are the prospects of a repeat of the tenfold appreciation in property prices that we used to see? It could well be a different scenario if population is being doubled to 8 million and if the services sector including the integrated resorts really take off spectacularly.

It is rather strange that most consumers in Singapore, especially first-time home owners, tend to be more concerned about getting low first-year interest rates on a housing loan but are less bothered by the long loan tenure of typically 25 years or more they commit to. For consumers in the West, 15 years or shorter tends to be the norm.

Consider a typical owner's housing upgrading, be it to public housing or to private residential property. Let us look at, say, a $1 million terrace house, with a 5 per cent interest rate on a normal loan tenure of 20 years or longer. In this instance, a doubling of price in two decades simply means breaking even in the investment.

Hence, my simple advice is this: given the expected lower potential growth rate and ongoing economic restructuring, assuming limited upside potential and limited downside risk during this phase of economic development, it would be wise not to be fully geared in property even if you can afford it.

An average prudent resident (as most are) would probably do much better if he or she puts the extra financial resources in an equivalent tenure of Singapore government securities that enjoy a relatively stable 4 per cent return to maturity – assuming, of course, that the present government continues to function in the future the way it is now.

Finally, it will not be surprising that some would find it convenient to blame the government should they find themselves in negative asset return again, especially those new home buyers without the relevant experience.

Should the government continue to have measures to prevent residents from spending beyond their means or committing to full gearing in property? The answer is no. Nor is it realistic to rely on bankers or the HDB to provide consumer restraint.
Market exuberance may continue but it is ultimately your decision in recognition of the challenging new economic environment that matters. How can the government help educate the people? Perhaps it can provide tax incentives to those first-time home owners who take on public housing and lower categories of private housing for a loan tenure of 15 years or less. This could perhaps help to avoid the potential asset poor-cash poor situation in the future.

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