

# Closed-Door Discussion on

**“Do Singaporeans spend too much on real estate?”**

**Friday, 10 May 2013**

**2.30pm – 4.30pm**

**Oei Tiong Ham Building**

## Do Singaporeans spend too much on housing?

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Institute of Policy Studies Closed Door Discussion  
May 10, 2013

Respondent: Professor Yongheng Deng  
Director, Institute of Real Estate Studies  
National University of Singapore



## Has the United States Overinvested in Housing? -- Edwin S. Mills

The conclusion is that the return to housing capital is about half that to non-housing capital and the housing stock should be about 75% of its 1983 volume.

-- Edwin S. Mills (*Real Estate Economics*, 1987)



## Housing: An Asset Class or a Place to Live?

- **Housing as a consumption good**
  - Housing demand and supply
  - Housing quality
  - Housing affordability
- **Housing as an investment good**
  - Risk adjusted returns
  - Speculation
- **Housing wealth effect**
  - Wealth accumulation
  - Impact on non-housing consumption
- **Heterogeneous housing markets**



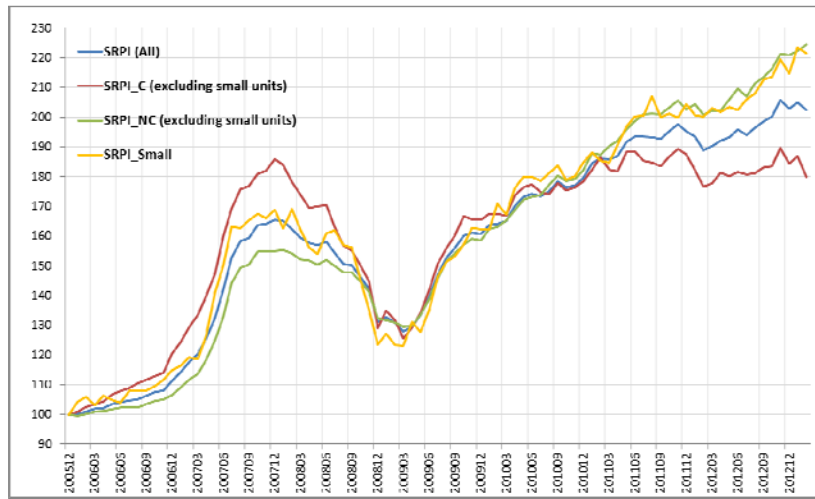
## Professor Phang Sock Yong's Analysis

- **A comprehensive study**
  - Review of HDB-CPF framework
  - Housing overspending vs. supply shortage
  - Homeownership affordability
  - Policy measures for controlling investment and speculative demand
- **Thoughtful design**
- **Large amount of historical and statistical data evidence**
- **Suggestion for additional analysis with alternative perspectives**



## NUS IRES Singapore Residential Price Index

(December 2005 to March 2013; 2005.12=100)

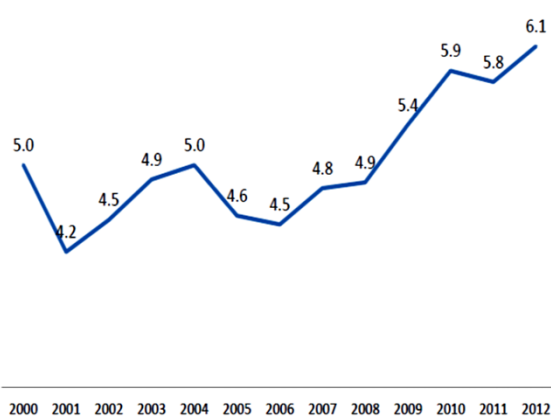


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## Median 4-room HDB resale price to median income ratio



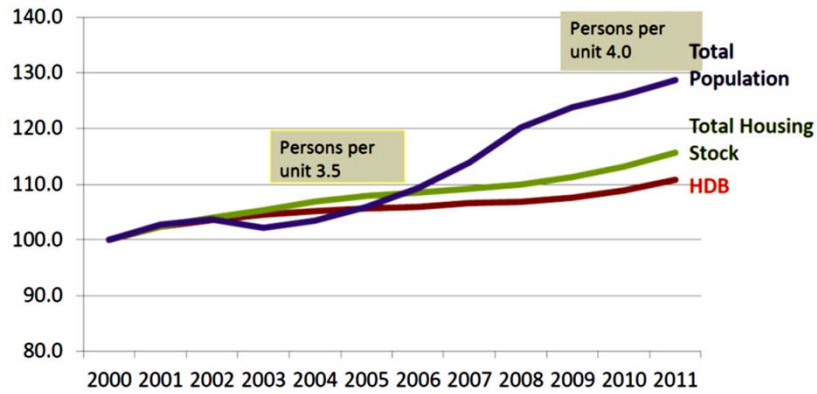
- The average U.S. household devotes roughly one quarter of income to housing expenditures, while poor and near-poor households commonly devote half of their incomes to housing. (Quigley and Raphael, *Journal of Economic Perspectives*, 2004)
- It will take 12-24 years household saving to buy a median priced 4-room HDB flat.

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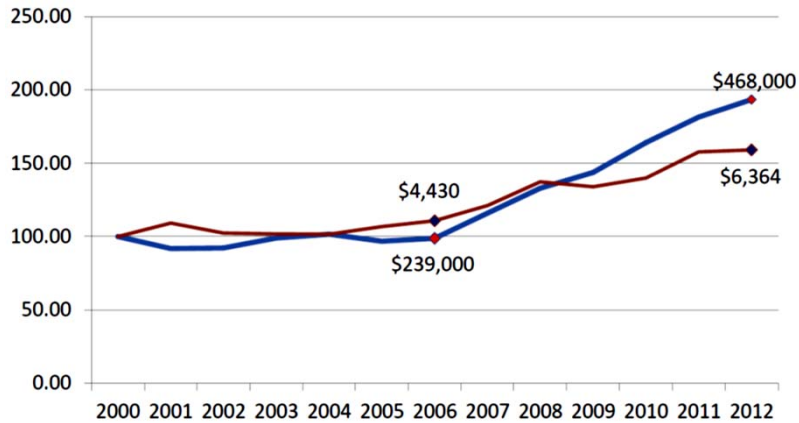
## Housing under-supply?



## Demand–supply for new households



## Median Household Income and Median HDB 4-room Flat Resale Prices

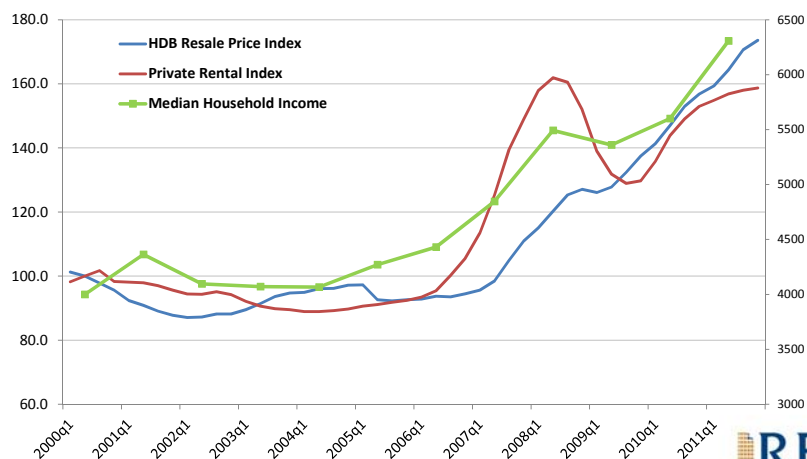


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## Median Household Income, HDB Resale Price Index and Private Rental Index

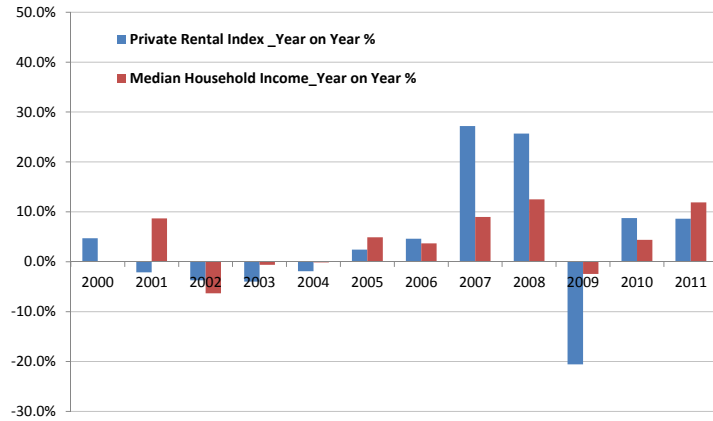


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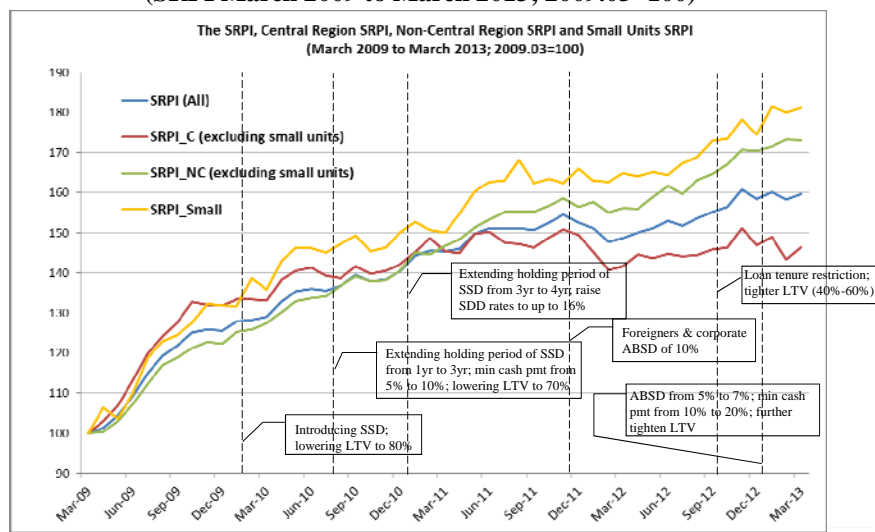
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## Median Household Income vs Private Rental – Year on Year Change%

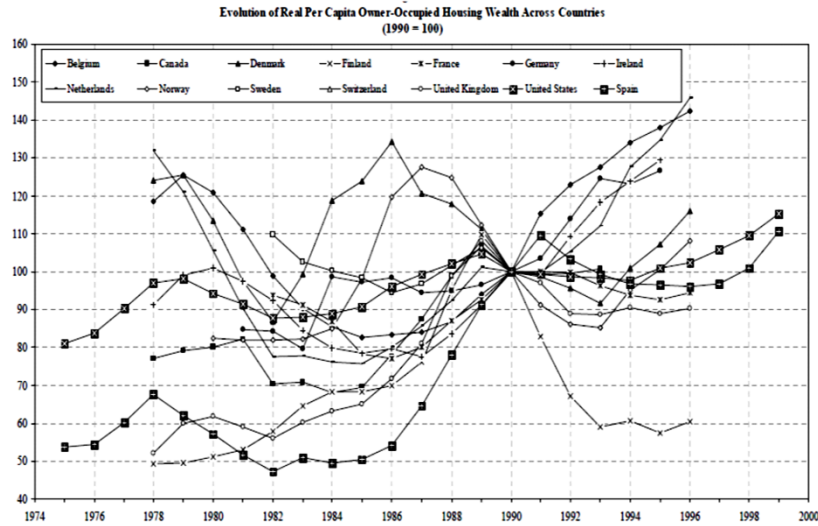


## Major Cooling Policies and their impact to Housing Prices

(SRPI March 2009 to March 2013; 2009.03=100)



## Comparing Housing Wealth Effect – Case, Quigley and Shiller (2005)



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## Comparing Housing Wealth Effect – Case, Quigley and Shiller (2005)

Dependent variable: Consumption per capita

	International Data		
	I	II	III
Income	0.660 (9.69)	0.349 (5.63)	0.287 (3.27)
Stock Market Wealth	0.019 (2.05)	0.002 (0.25)	-0.010 (-0.87)
Housing Market Wealth	0.131 (5.33)	0.110 (7.35)	0.166 (6.90)
Country/State Specific Time Trends	No	Yes	No
Year/Quarter Fixed Effects	No	No	Yes
R <sup>2</sup>	0.9991	0.9998	0.9993

- The international estimated effect of housing wealth on consumption is significant, ranging from 0.11 to 0.17. In contrast, the estimated effect of financial wealth on consumption is much smaller, i.e. 0.02.
- The Singapore CPF data provide us a unique opportunity to study the housing wealth effect in a more direct measure.

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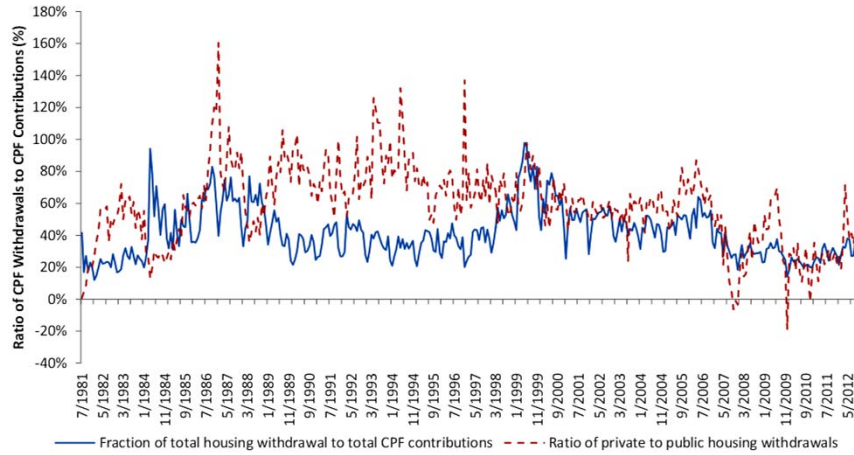
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# CPF Withdrawals for Housing Financing

Deng, Sing and Ren (2013)



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