



Singaporeans' High Spending on Housing And Its Implications

By [PEARL LIM](#)



Based on *Numbeo's* property markets rankings, relatively, Singaporeans spend a large proportion of their earning on housings. Specifically, in the 2013 ranking (as of 14 March 2013) of “Mortgage as a Percentage of Income”, Singapore comes in at 72 out of 103 countries. For the “Price to Income Ratio”, Singapore fares even worse at 101 in the 103- country list.

Given Singaporeans' high expenditure on housing, it spells disaster during a real estate slump. Particularly so for those who have bought during a real estate boom when prices were sky-high. They might find themselves in negative equity when the valuation of their properties fall below

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their outstanding housing loan.

This has happened in Singapore before. Property prices were at a peak in the second quarter of 1996. Based on a DTZ's report, *Negative Equity in the Singapore Residential Market- Not as Bad as Perceived*, owners who bought during 2Q1996, without utilising their CPF (Central Provident Fund) savings, fell into negative equity by about 8% - 34% during the trough in the fourth quarter of 1998 when prices fell by 45%. For the group of owners who utilised their CPF savings, their negative equity were in the range of 54% - 57%.

In fact, during the trough of 4Q1998, homes bought between the first quarter 1995 and the first quarter 1998 all fell into negative equity, even without the use of CPF and at a loan-to-value ratio of 80%.

Indeed, in the Singapore Democratic Party (SDP)'s white paper, *Housing A Nation: Holistic Policies For Affordable Homes*, released late last year, the authors highlighted some of the causes for Singapore's current runaway housing prices and cautioned about the possibility of a housing bubble burst. They pointed out that current strong demand is fuelled largely by those in the 30 to 50 year-old age group who has both the buying power and the need for bigger housing. But as the population ages, the demand for housing cannot be sustained and with that prices will start to fall. To support their point, they parallel Singapore's present demographic trend with that of Japan's in



the 1990s. For Japan, the housing bubble burst occurred in 2003 when the population composition began to shift to people in their 60s.

“In 1989, choice properties in Japan commanded prices of US\$20,000 per square foot, but by 2003 prices for these same properties had slumped to less than one percent of the values at the peak of the boom.” (*Housing A Nation: Holistic Policies For Affordable Homes*, page 26)

Given Singaporeans' high mortgage-to-income ratio, the consequences of a housing bubble burst will be disastrous. As most Singaporeans dip into their CPF savings to finance their housing purchases, when home values tumble they will also have less CPF balances to fall back on for their retirement or children's educational needs – shall they downgrade their homes.

As such Singaporeans maybe wise to start looking elsewhere to park their cash. Investment portfolio diversification is encouraged to hedge risks. Almost any financial consultant will advise diversification across different asset classes (e.g. real estate, stocks, bonds, etc), and even within each asset class (e.g. different types of stocks: airline stocks and biomedical stocks) to reduce risks.

Why is portfolio diversification important? The correlation of the expected returns between the assets determine the risk of the portfolio. The lower the correlation, the lower the risks. And for different asset classes the returns tend to be less correlated. For example, the Government's property



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cooling measures may well affect real estate stocks and property prices, but Government-issued bonds remain unaffected.

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