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[>> Back to the article](#)**March 6, 2007****Private real estate remains affordable****By For The Straits Times, Ivan Png**

REPUTEDLY, an Englishman's home is his castle. A Singaporean's home is his largest economic asset. Housing also figures prominently in Singaporeans' economic aspirations. It counts among the famous 5Cs that encapsulate our dreams - cash, car, club, credit card and condo.

We work hard to achieve our aspirations. For such incentives to be effective, the aspirations must be achievable. Accordingly, the prices of private residential property are a sensitive political issue in Singapore.

In Parliament recently, MPs Alvin Yeo, Zaqq Mohamad and Jessica Tan queried Minister for National Development Mah Bow Tan about real estate prices. Mr Mah assured Parliament that the market had not inflated to bubble proportions. As evidence, he cited the proportion of sub-sales of new property units, that is, sales of the sale and purchase agreement from one buyer to another.

In the fourth quarter of 2006, sub-sales comprised 9.7 per cent of private residential transactions in prime areas and a lower proportion in other areas. By contrast, in 1996, at the previous peak of the last Singapore real estate boom, sub-sales comprised 28 per cent of all private residential transactions.

Mr Mah added that the government was 'monitoring the situation and making sure that the property market stays healthy'. Mr Mah's assurance does beg the question of how to identify a bubble. He pointed to the proportion of sub-sales, which is some indication of the demand from end-users as compared with speculators.

However, the proportion of sales to end-users vis-à-vis speculators doesn't directly address the key issue of whether Singaporeans' aspirations are achievable. The real issue is the affordability of private residential property. Very roughly, the issue is the level of real estate prices relative to personal income.

For instance, housing may be more expensive in Hong Kong. But this is not an issue to the extent that Hong Kong people earn more than we do. Likewise, housing prices may be lower in Beijing but are still relatively more costly because the average family earns so much less.

I have developed the Residential Affordability Index (trademark application pending) to address precisely this issue. This index tracks the price of private residential property relative to household incomes.

Only 15 per cent of Singaporeans live in private housing, with the remaining 85 per cent in HDB flats. Accordingly, I used the 90th percentile as the measure of household income. (The 90th percentile measures the income of households who earn more than 89 per cent of other households.)

In the accompanying chart, the blue series depicts the evolution of the index in 1990, 1995 and from 1997 onward. The red series depicts private

residential property prices, while the green series depicts the 90th percentile of household income. Years 1991-94 and 1996 are omitted as the statistics on household income were not available for those years.

Referring to the chart, if the Residential Affordability Index is higher, then property is more expensive (less affordable), while if the index is lower, then property is less expensive (more affordable).

To gauge the predictive power of this index, it helps to review our experience in the 1990s. Between 1990-95, private property prices almost tripled, while household income increased by only 36 per cent. As the chart shows, affordability plunged. Clearly, the real estate boom was not sustainable. Not surprisingly, it set the stage for a painful crash.

By 1998, following the crash and with continued increases in household incomes, affordability had returned to almost the 1990 level. Real estate prices stopped falling. Since 1998, affordability has fluctuated but remained close to the 1990 level.

What about the recent acceleration in real estate prices? Referring to the chart, private property prices have been increasing, but the price increases have closely tracked the growth of household income. Hence, affordability has been not much affected.

So, the bottom line is that Mr Mah is right. There is no cause for alarm. Private real estate is still affordable. Singaporeans' aspiration to upgrade to a condo continues to be achievable. Government ministers and MPs can sleep well.

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