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S'pore property prices: Here's a key worry

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With real estate prices rebounding and new launches selling out, is the Singapore property market overheating again?

LAST month, my next-door neighbour dropped by with a requisition to convene an extraordinary general meeting of our condominium. For what else but an en-bloc sale? The dream of some owners and the nightmare of others.

The key to real estate prices is affordability. In the late 1980s, Japanese real estate prices shot up to the point that banks were reputed to have extended three-generation mortgages.

These were loans to be repaid over three generations! Inevitably, the bubble burst and property prices have yet to recover to their peaks.

In the United States, the real estate boom earlier this decade was the proximate cause of the Great Recession. Banks lent to people who could not afford the repayments. Buying real estate made sense only because purchasers and lenders assumed that prices would just continue going up.

What about the current situation in Singapore? Yes, the prices of private housing have shaken off the Great Recession and overtaken the recent 2007-08 peak, and are heading towards 1995-96 levels. However, the incomes of the higher-income earners have also increased.

The red graph in the chart here represents the trend in the price of private property and the green graph represents the 90th percentile of household income (10 per cent of households would have a higher income than the 90th percentile).

Last year, the income from work of the 90th percentile household was $14,495 per month, or about $174,000 a year.

The blue graph represents affordability - the price of housing relative to the 90th percentile of household income. On a relative basis, the situation still looks better than in 2007 and much better than in the heady days of 1995-96.

However, more worrying is affordability on an absolute basis. In the first quarter of this year, the price of the average condo unit sold was $1.497 million. Supposing a buyer puts a 20 per cent down-payment, he or she would need to borrow $1.197 million.

That is 6.88 times the income from work of the 90th percentile household.

By contrast, I recall that when I started my professional life in the US, in the boring days before the sub-prime crisis, a common rule of thumb in lending was that a mortgage loan should not exceed three times a borrower's income.

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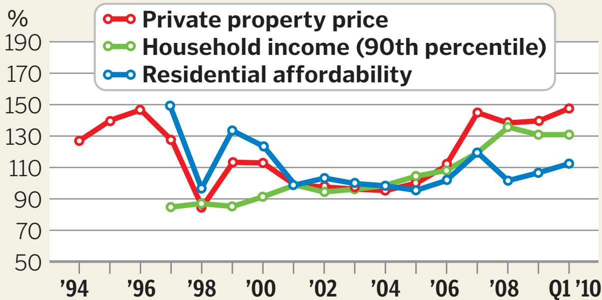

NOTE: Base year is 2001

Sources: DEPARTMENT OF STATISTICS, URA

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