

# Singapore's housing market through the various crises

By Chia Liu Ee and Sing Tien Foo

THE world entered the 21st Century with its fair share of turbulence, ranging from the dot-com bubble-burst in early 2000, the 911 terrorist attack of the US World Trade Center in 2001, to the Iraq war in 2003, among others. There were also two major pandemics (Sars and Covid-19) and a global financial crisis that have caused significant economic disruptions.

## 2003: Sars

According to Centers for Disease Control statistics, the Severe Acute Respiratory Syndrome (Sars) epidemic broke out in 2003, infected 8,098 people and caused 774 deaths in 26 countries including Singapore and other Asian countries.

In Singapore, the first imported Sars case emerged in March 2003, and the number of infected cases rose rapidly to a total of 238 cases reported as at May 5, 2003. There were 33 deaths. Singapore was declared free of Sars by the World Health Organization on May 30, 2003. The world was fully cleared of the Sars outbreak on July 5, 2003.

Beset with global uncertainties coupled with oversupply and weak demand, Singapore's private housing markets entered a prolonged period of stagnation in the early 2000s.

The Sars outbreak further exacerbated the already weakened housing markets. From January 2003 to the end of the Sars outbreak in May 2003, the total monthly sales in the private housing market averaged 551 units and new sales at 159 units, having plummeted by 71 per cent and 88 per cent, respectively, compared with the same period in 2002.

The private housing market rebounded significantly after the Sars epidemic ended in May. The total and new private housing sales increased to 1,368 units and 776 units in June, and 1,950 units and 1,271 units in July 2003, respectively, quadrupling the average sales volume during the epidemic.

The Urban Redevelopment Authority's (URA) private residential property price index showed quarter-on-quarter (q-o-q) declines of 0.85 per cent in Q1 2003, and 0.61 per cent in Q2 2003. Unlike the strong rebound in sales volume, no upturns in housing prices were observed.

## 2007-2008: Global Financial Crisis

The root cause of the Global Financial Crisis (GFC) was associated with the large-scale default of subprime mort-

gages in the US. These subprime mortgages were granted to high-risk home buyers, who may not have otherwise been given access to the loans in the 2000s. The crash of US housing prices was caused by capital flight from the residential mortgage backed securitisation market in the mid-2000s.

The subprime mortgage default in the US triggered the collapse of Lehman Brothers, one of the oldest and largest investment banks with a history of more than 100 years in the US.

The effects rippled across regional financial markets and dragged down the global economy. The US government injected liquidity to the tune of US\$700 billion in October 2008 to shore up the financial system. The Treasury Department and the US Federal Reserve also stepped in to bail out the two major US mortgage securitisers, Fannie Mae and Freddie Mac, and insurance giant, AIG.

As an open economy, Singapore was hit by the GFC, and the finance, trade and manufacturing industries felt the hardest impact by the crisis.

The private housing market was also impacted with sharp falls of 25 per cent in housing prices from the peak in Q2 2008 to the trough in Q2 2009.

During GFC, the total and new private housing sale volumes shrank sharply, averaging 625 units and 200 units between October 2008 and February 2009.

Compared with the average total and new sales volume during the peak from April to August 2007, the sales volume dropped by 86 per cent and 85 per cent, respectively.

The private housing market made a recovery in March 2009 with the average total sales and new sales surging by more than 400 per cent and 600 per cent respectively for the five-month period from March to August 2009.

The URA price index showed a V-shaped rebound by 38.2 per cent year-on-year (y-o-y) from the trough in Q2 2009 to Q2 2010, reversing the y-o-y decline of 25 per cent from Q2 2008.

## 2020: Covid-19

As at Nov 25, 2020, more than 60 million people worldwide have been infected with Covid-19, with 1.4 million death cases reported.

The impact of Covid-19 is far more widespread compared to Sars both in terms of the geographical spread of the virus, and also the number of reported infection and fatality cases.

During Singapore's circuit-breaker



During the circuit-breaker periods in April and May, new private home sales declined by about 78.1 per cent and 60.6 per cent, compared with sales in February. PHOTO: REUTERS

period in April and May, new private housing sales declined by about 78.1 per cent and 60.6 per cent, compared with sales in February.

The URA private residential property price index fell by 0.98 per cent and 0.65 per cent in the first and second quarters of 2020, compared to the price level in the last quarter of 2019.

Since the lifting of the circuit breaker in June, the strong pent-up demand resulted in the total sales and new sales in the private housing market to increase during three consecutive months, culminating in a high of 2,503 units in total sales and 1,253 units in new sales in August.

These sales numbers are 78 per cent and 69.3 per cent higher than the combined total sales and new sales of 1,406 and 740 during the circuit-breaker months.

Unlike the declines in private housing prices after the Sars epidemic, the private property price index swiftly recovered by 0.3 per cent and 0.8 per cent after the lifting of the circuit breaker in the second quarter and the third quarter of 2020, respectively.

The Covid-19 outbreak led to lockdowns around the world that inflicted damage to world economies. The Singapore economy had also contracted, with job losses reaching 8,130 in the three months up to the end of June 2020.

The government intervened swiftly by setting aside nearly S\$100 billion in four different budgets to protect jobs and help businesses weather the Covid-19 pandemic impact. Compared to the government's economic rescue budgets of S\$230 million and S\$20.5 billion during the Sars and the GFC periods in 2003 and 2009 respectively, the 2020 Covid-19 budgets are unprecedented in both the scale and also coverage of the packages.

The three crises occurring at differ-

ent phases of the economic cycles also bring differential impacts on private housing markets.

First, Sars and Covid-19 are public health risks that cost human lives, whereas the GFC had involved financial risk affecting liquidity in the capital markets.

The 2007-2008 GFC financial turmoil saw a surge in mortgage foreclosures in the US. The US government via its quantitative easing programmes removed non-performing mortgage securities and bank debts from the markets, and injected liquidity back into the financial markets.

When the market liquidity improved, investors regained confidence, driving the stock and the real estate markets on a V-shaped recovery path.

The Sars epidemic also occurred when the housing market was going through a prolonged depression of nearly three years before it rebounded in 2006. The Sars impact on housing prices was relatively marginal, as housing prices were already near bottom in 2003.

However, the GFC and Covid-19 occurred at the up-cycles of the housing market in 2007 and 2019, respectively. While the GFC caused a knee-jerk price reaction followed by a quick recovery, Covid-19 led to a price impact of just -0.9 per cent during the circuit-breaker period – the price declines were more than offset in two consecutive price rises of 0.3 per cent and 0.8 per cent in the following quarters.

In addition, Covid-19 has impacted more severely sectors such as aviation, tourism, hospitality, retail and food services, and transport. It has also created new opportunities for emerging industries, including technology, biomedicine, health care, precision engineering, logistics and e-commerce.

The pandemic has changed the

“work, live and play” behaviour of people, which may have more a persistent impact on housing space needs.

Some analysts attribute the strong pick-up in housing sales to factors such as the low interest rate environment, pent-up demand coming from HDB upgraders, genuine home buyers not affected by the pandemic, local and foreign investors with liquidity at hand.

Unless the Covid-19 virus is contained, and the development of vaccines against the virus can be accelerated and made available sooner, it is too early to ignore or underestimate the potential impact of the pandemic on housing markets. In the long term, a sustainable housing market should be built on firm economic fundamentals.

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