NUS National University of Singapore

Source: *The Business Times*, p12
Date: 8 September 2021

Freehold's premium may provide clue on valuing infrastructure spend

The research also suggests that buyers still place a clear distinction between freehold and 999-year leasehold – which could span several lifetimes – albeit at a smaller premium of 3-5 per cent. BT FILE PHOTO

Buyers are willing to pay a premium of 15-20 per cent for freehold tenures over a 99-year leasehold condominium

By Nisha Ramchandani
nishar@sph.com.sg
@Nisha_BT

Singapore

PROPERTY buyers in Singapore value freehold tenures enough to dish out a premium of 15-20 per cent over a 99-year leasehold condominium, going by findings from a study by the National University of Singapore (NUS).

From studying condominium transactions in Singapore over 1995 to 2015, the researchers found low and declining long-run discount rates, with market discount rates declining to levels below previous estimates.

Likening property to infrastructure, the NUS researchers believe their findings could guide policymakers in using cost-benefit analysis in other areas, such as valuing expensive infrastructure projects or policies seeking to mitigate climate change.

This could include projects such as high speed rail links and electric buses for public transportation or policies aimed at the decarbonisation of the shipping industry.

Such investments may be costly upfront, but like housing, can ultimately deliver benefits to society over the long-term.

The researchers used statistical models that compared the prices paid for properties with varying lease lengths – 99-year and 999-year leasehold, as well as freehold properties – to ascertain the discount rate.

Based on non-linear panel regression analysis, discount rates are estimated at about 2.5-4 per cent per year for the first 100 years, but ease to 0.5-1.5 per cent per year by the fourth century. Less discounting of the future suggests buyers attach greater value to the property.

Hence, buyers are willing to pay a premium for freehold property since the lifespan goes beyond just 99-years or 999-years.

The data showed that freehold property generally goes for a premium of 15-20 per cent above a 99-year leasehold property and around 3-5 per cent more than a 999-year leasehold property.

It also suggests that buyers still place a clear distinction between freehold and 999-year leasehold – which could span several lifetimes – albeit at a smaller premium of 3 to 5 per cent.

Associate Professor Eric Fesselmeyer, who is among the team of researchers, said: "Singapore's residential property buyers show us through their actual choices that they are surprisingly patient, that they value the future, and are willing to pay a premium for very long-run assets.

"It is like paying a premium out of today's consumption to safeguard the environment in the future – and in this case, it is their housing in a safe, clean, and liveable Singapore."

He was formerly with NUS and is currently with Monmouth University in the United States.

The discount rates in the study were also found to be "significantly lower" than the rates typically used to evaluate public policy.

NUS' Assoc Prof Alberto Salvo added: "Our finding of discount rates declining to 0.5-1.5 per cent per year implies greater value for public investments made today that provide returns to society many years in the future."

He added: "This is important because using a constant discount rate of say, four per cent yearly means that benefits realised in just a few decades from now are rendered worthless in today's dollars in a cost-benefit calculation, incorrectly undervaluing the benefits of slowing climate change or investing in long-term infrastructure."