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Source: *The Business Times,* Front Page
Date: 27 June 2022

SINGAPORE PROPERTY

Shocks to property sector usually stretch beyond the recessions: IREUS

With the exception of the last recession triggered by the pandemic, home prices plunged by more than a fifth of their value in the other 4 earlier recessions

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AN analysis of historical data has shown that real estate downturns in Singapore associated with recessions tend to last longer than the periods of economic decline, according to the Institute of Real Estate and Urban Studies (IREUS) at the National University of Singapore.

Recessions are typically connected with significant declines in home prices, as any contraction would reduce households' disposable incomes and their ability to purchase homes.

And interestingly, Singapore's real estate downturns tend to be longer than the recessions. The first 2 recessions – in 1985 and 1997/1998 – lasted 3 to 4 quarters, but home prices remained depressed over 9 to 10 quarters. The third recession in 2001 lasted 3 quarters, but the decline in home prices persisted for 15 quarters.

The residential market may see a prolonged period of decline when there are a series of intermittent shocks, as seen in 2001 to 2004. The 2001 recession triggered home prices to decline, and prices did not have the opportunity to recover as the severe acute respiratory syndrome outbreak and the second Gulf War occurred one after the other.

Currently, the war in Ukraine and supply chain disruptions caused by Covid-19 have led to high inflation, which central banks around the world are trying to combat by raising interest rates. Fears of a recession are growing.

"The uncertain external environment implies that there is a great likelihood that the next few years would be buffeted with shocks, and this may not bode well for the residential market if the interest rate hikes trigger a recession and corresponding correction in prices," Lee Nai Jia, deputy director of the research institute, told *The Business Times.*

Meanwhile, even as historically, the Singapore gross domestic product (GDP) and prices of private residential properties appeared to move in tandem, there are some notable exceptions due to government intervention or structural changes in the residential market or economy, said IREUS.

With the exception of the last recession triggered by the pandemic, home prices plunged by more than a fifth of their value in the other 4 earlier recessions, while GDP mostly declined by a relatively smaller quantum of 3-5 per cent.

"The effects of recession on home prices tend to be amplified due to leverage and sentiments," said Dr Lee. "On one hand, the drop in income and higher interest payments mean that buyers can only afford smaller loans, which will in turn constrain the prices they can afford. On the other hand, the recession will put buyers on the defensive and they

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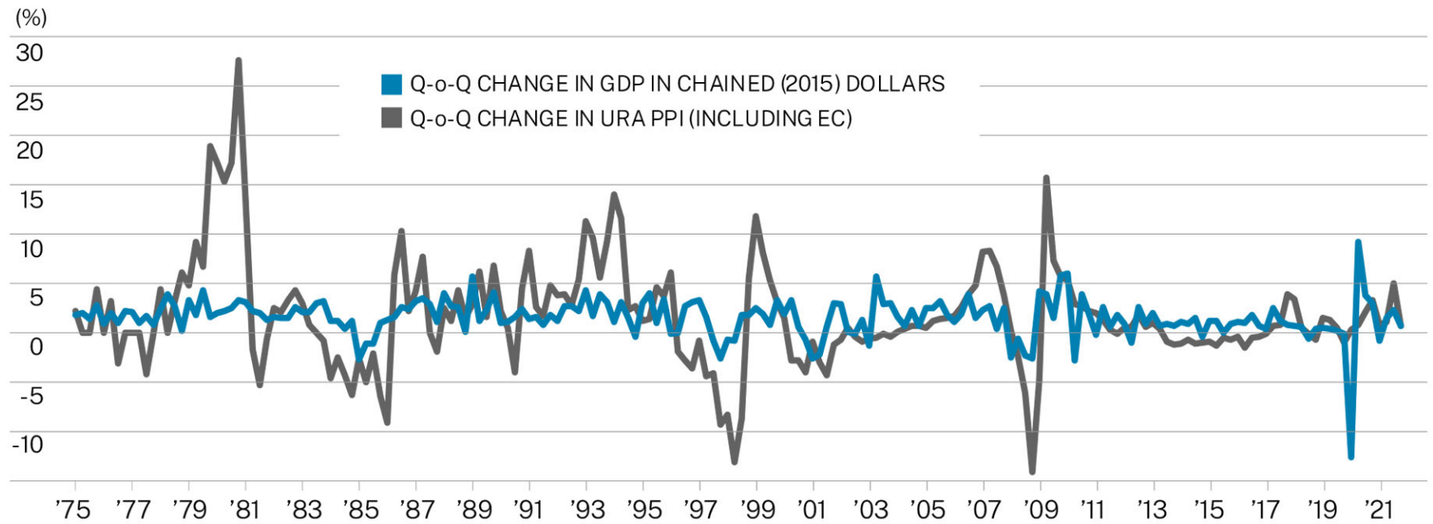
Q-o-Q Private property price index and GDP in chained (2015) dollars



Source: Department of Statistics, Singapore, URA and IREUS, NUS

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will prefer to sit on the sidelines."

In the first 3 recessions (1985, 1997/1998 and 2001), the decline in home prices preceded their respective recessions.

This may be due to demand responding to signals of a slowing economy, said IREUS.

Prior to the first recession in 1985, the quarter-on-quarter GDP growth rate halved in Q2 1984, compared to the growth rates in the 2 preceding quarters. The slowdown in growth coincided with the fall in the Urban Redevelopment Authority's property price index (PPI) in Q2 1984. The Q3 2000 PPI decline coincided with the bursting of the dot-com bubble, which continued into 2002.

Separately, the decline in home prices in 1996, which preceded the Asian Financial Crisis, was more likely in response to the introduction of a package of cooling measures to cool the overheated market.

The first-in phenomenon, however, was not observed in the Global Financial Crisis and the Covid-19 pandemic outbreak as both shocks were unanticipated by buyers.

"The demand and price of the private residential market will only respond to negative shocks if the buyers could connect events to the market. However, this may not occur if the market is doing well. Optimism in the market may downplay the severity of shocks to make them seem innocuous or insulated at the initial stages," explained Dr Lee.

For the Global Financial Crisis, Singapore buyers might have initially failed to connect the delinquency rates from subprime lending in the United States with Singapore's economic growth.

Market players were less cautious when the Singapore economy was expanding and private homes were recording significant appreciation. However, the effects started to spread to Singapore in 2008, when investor confidence in bank solvency began to dip, and credit availability was curtailed as many institutional investors held toxic mortgage-backed bonds. This eventually led to the correction in private residential prices, said IREUS.

The restrictive measures arising from Covid-19 were also unanticipated, which resulted in GDP decline coinciding with the drop in home prices.

However, the economy managed to recover quickly due to government spending. That, together with the need for more space as people worked from home, helped keep the residential market robust, rebounding after only 1 quarter of decline.

Dr Lee noted that home ownership aspirations from echo boomers, construction delays and optimism from the opening up of economies also aided the rise in property prices.

"However, the demand for residential space is now progressively satisfied and construction backlog slowly completed. The government continues to spend, but at much moderated amounts, and the grants have reduced," he said.

Going forward, the hike in interest rates would place downward pressure on the GDP and asset prices, including residential properties, though the recovery of the aviation and service sectors could offset the contractionary pressures.

Given the uncertainty, buyers should refrain from over-leveraging and maintain sufficient funds to tide through at least a year if the economy slows down, he cautioned.

However, real estate agency Huttons Asia, which issued a report titled *How does recession affect property prices?* on June 23, expects property prices in 2022 to remain on the growth path.

This is because developers are more prudent and less leveraged compared to the past, chances of them cutting prices is low and the level of unsold housing stock in the market is also very low.

Meanwhile, "speculation is reduced to a minimum" with the Seller's Stamp Duty, while buyers are prevented from stretching themselves thin with a total debt servicing ratio of 55 per cent and demand for homes remains strong in June.

"Elevated construction costs will result in higher selling prices. Low unemployment, sustained income growth and a rising HDB resale market means that there will be a steady demand for homes," said Lee Sze Teck, its senior research director.

Real estate downturn tends to be longer than the recession

PERIOD GDP DECLINED Q-O-Q	NUMBER OF CONSECUTIVE QUARTERS DECLINE	ACCUMULATED DECREASE IN GDP	URA PROPERTY PRICE INDEX FOR PRIVATE RESIDENTIAL	NUMBER OF CONSECUTIVE QUARTERS DECLINE	ACCUMULATED DECREASE IN PRICE	INCREASE IN HOME PRICES A YEAR LATER AFTER LAST QUARTER OF DECLINE
Q2 1985 to Q4 1985	3	4.9%	Q2 1984 to Q2 1986	9	35.8%	24.3%
Q4 1997 to Q3 1998	4	4.9%	Q3 1996 to Q4 1998	10	44.9%	34.1%
Q1 2001 to Q3 2001	3	3.3%	Q3 2000 to Q1 2004	15	20.0%	2.0%
Q2 2008 to Q1 2009	4	7.8%	Q3 2008 to Q2 2009	4	24.9%	38.2%
Q1 2020 to Q2 2020	2	12.7%	Q1 2020	1	-1.0%	6.6%

RECESSION (YEAR)	REASONS
1985	Slowdown in demand for exports, entrepot trade and structural reasons due to high rent and wages
1997/1998	Asian Financial Crisis
2001	911; Collapse of tech companies; burst of dot-com bubble
2008-2009	Global Financial Crisis
2020	Covid-19 pandemic

Note: SARs and the Iraq War had resulted in decline in GDP in Q4 2002 and Q2 2003. However, as the economy recorded a q-o-q growth in Q1 2003, it does not fall under the technical definition of recession – which requires 2 consecutive quarters of contraction. That said, the events did drag down the economy and corresponding home prices.

Source: Department of Statistics, Singapore, URA and IREUS, NUS