

REAL ESTATE VOLATILITY AND ECONOMIC STABILITY: AN EAST ASIAN PERSPECTIVE

Fact-finding mission to Singapore

Man Cho, & Kyung-Hwan Kim
(February 7-9, 2012)

- Institutions, interviewees, and main topics discussed

- National University of Singapore
 - 10:00 – 11:30, Feb 8th (Wednesday)
 - Professors Ong Seow Eng and Kwan Ok Lee, Department of Real Estate, National University of Singapore
 - ① Discussed the mortgage market regulation in Singapore: Its evolution, changes during peaks and troughs of housing price cycles; and Impact of GFC (Global Financial Crisis)
 - Introductory session about the Singapore's housing market and policies since its independence in 1959
 - ② Discussed housing price indices used in Singapore (underlying data, methodologies, and so on)
 - Similarities and dissimilarities between the price indices used for public (or HDB, Housing Development Board) housing vs. those private housing

- Central Provident Fund (CPF)
 - 14:00 – 17:00, Feb 8th (Wednesday)
 - Mrs. Ramlah Moiz Tyebally, Senior Deputy Director, Mrs. Lam Soon Pong, Senior Assistant Director, Ms. Nyang-Ngiam Su Ying, Senior Deputy Director, and Ms. Christine Seow-Yeo Swee Lian (all from Policy Studies in CPF)
 - ③ Discussed the role of CPF in providing affordable housing finance in Singapore
 - Introduction on the Singapore's multi-pillar framework of social security (including the downpayment assistance program for home mortgage)

lending since 1968)

- Specific rules governing how much consumers can withdraw from their retirement funds to use as mortgage downpayment, interest rate structure, and mortgage underwriting criteria
- ④ Discussed multiple CPF assistance schemes and their social objectives, including retirement, home purchase, and healthcare
 - Examples of contribution-withdrawal schemes, along with specific programs run by CPF (e.g., Housing Leaseback (or Monetization) Scheme for senior households, and Mortgage Insurance Program for fire or other catastrophic events)
- National University of Singapore (NUS), Department of Real Estate
 - 10:00 – 14:00, Oct 17th (Thursday)
 - Professors Yongheng Deng, Director of the Institute of Real Estate Studies, Shi Ming Yu, Chair of Real Estate Department, Yuming Fu, Vice Dean (Research), Lum Sau Kim, Associate Professor
 - ① Discussed housing price cycles in Singapore – their patterns, causes and consequences, and policy responses
 - Process of the financial liberalization in Singapore and its impact on housing market (with Lum Sau Kim)
 - Different housing price dynamics between HDB flats (public housing) and private condominiums (speculative demands being quoted as underlying reason for a more volatile housing price process in Singapore)
 - On-going research projects as to interactions between housing price and mortgage lending in Singapore and other countries (with Lum Sau Kim and Yuming Fu)
 - ② Mortgage lending sector in Singapore: Mortgage products, underwriting criteria, funding method, and regulations in Singapore (with Lum Sau Kim, Yuming Fu, and Shi Ming Yu)
 - Almost all adjustable-rate mortgages (ARMs) with teaser rates and prepayment penalty, with no rate adjustment cap; But government-assisted loans having subsidized interest rates (2.6% APR) and fixed-rate features
 - Funding based on bank deposits (for private mortgage loans), bond

issuance (both public and private loans), borrowing from commercial banks (HDB, or government, loans), and direct funding by government; No MBS market yet

- Supervision of private mortgage lenders by MAS (Monetary Authority of Singapore), which regulates both soundness of financial institutions and consumer protection; DTI and LTV being used as counter-cyclical policy instruments (to cool down or stimulate housing prices)
- ③ Discussed future research collaboration with NUS, in particular, with the Institute of Real Estate Studies (IRES) (with Yongheng Deng)
 - On-going research between IRES and Bank of International Settlement (BIS) on macro-prudential regulations in real estate markets; Future collaboration in related research areas being discussed
 - Contacts from private mortgage lending institutions, in particular, those in DBS (Development Bank of Singapore) to be introduced by Yongheng Deng, to have further interviews about the mortgage lending sector in Singapore
- Housing Development Board (HDB)
 - 15:00 – 17:00, Feb 9th (Thursday)
 - Mrs. Koo-Lee Sook Chin, Head of Policy Research and Development Unit, and Mr. Tan Tiah Yeow Andrew, Head of Land Sales & Lease Admin Unit
- ① Discussed HDB's public housing (mostly for home ownership) and housing finance programs
 - 82% of Singapore population living in HDB's public housing programs (and over 95% of them owning their housing units)
 - Various HDB home ownership schemes and their eligibility rules (HOS) discussed (e.g., HOS for low-income families, Studio Apartment Scheme, Schemes To Promote Family Ties, and so on); Public Rental Scheme also being discussed
 - HBD housing loan programs and their eligibility rules discussed (along with underwriting criteria and funding methods)

Attachment.

- **Background:** Korea Development Institute (KDI) launched a research project, entitled as "Real Estate Volatility and Economic Stability: An East Asian Perspective" to analyze the growth and transformation of the real estate sector across East Asian countries over the past decades until today. It will examine the interactions between volatility in the sector and the overall stability of the economy, in particular during the Asia financial crisis of 1997-98 (AFC) and the global financial crisis of 2008-09 (GFC). The countries included in the analysis will be China, Hong Kong, Japan, Korea, Singapore and Taiwan, all representing fully urbanized (except China), high-income, and highly global economies. The duration of the project is one year, June 2011 through May 2012, and the output will feed into a book to be published by Wiley in English. In order to enhance our understanding of the countries covered by our study, we plan to have a fact-finding mission to each country. This document describes our planned mission to Japan scheduled for October 17 and 18, 2011.

- **Purpose of the visit:** Two researchers involved with the project – Man Cho, and Kyung-Hwan Kim (Sogang University) - will visit Singapore to meet with real estate experts from academia, public sector agencies and industry, for the purpose of collecting data along with market and institutional issues on the following topics:
 - Aggregate real estate market trends, with a special emphasis on housing:
 - Demographic and income characteristics and trends
 - Housing price and rent trends (national and city-level)
 - Composition of annual new construction by types of residential and commercial real estate
 - Construction volume (e.g., housing starts, permit issuance, transactions, national and if possible by market size)
 - Composition of the existing stock (types, size and age)
 - Mortgage lending, both amount outstanding and new origination by periods
 - Other relevant macro and regional economic factors (a list of quantitative indicators will be used for data collection)

 - Housing sector institutions, real sector
 - Property right issues (e.g., restrictions on ownership, use and transactions)

- Breakdown by tenure types and by income
 - Taxes on holding, transactions, capital gains and rent (including tax deductions, loans and subsidies)
 - Land use regulations, building regulations, land conversion law, density controls
 - Rent control, and regulation on sales price of new houses
 - Organization of the construction industry, including the size distribution of private and public players, factors affecting current trends, leading financing methods major sources of funding, leading commercialization factors (e.g., presale arrangements), cyclical factors
 - Role of government – national and local - in social housing supply (e.g., public rental housing, housing voucher, and so on) and scale of involvement
 - Visiting association (e.g., construction association), urban regulator (national and local levels)
- Housing sector institutions, financial sector:
- Mortgage (residential) finance institutions and market structure (e.g., types of lender, market share, institutional evolution, regulatory or market milestone events)
 - Typical mortgage products (interest rate variability, principal amortization, maturity, and other product characteristics)
 - Underwriting conditions (DTI, LTV, consumer credit, documentation and other requirements) and market segments
 - Funding method(s) (deposit-based, bond-based, and MBS/CB-based)
 - Safety and soundness regulations (e.g., Risk Based Capital, loss reserve, and other supervision issues)
 - Risk-sharing arrangement (e.g., public and/or private mortgage insurance)
 - Other banking-sector issues of relevancy such as competitive trends
 - Visiting association (e.g., banking association), government financial sector regulator