MANAGING THE PROPERTY MARKET

1. **Property Market.** In Singapore, property market stability is closely linked to macroeconomic and financial stability. Property is the largest component of household wealth, representing about half of total household assets. Mortgage loans account for some three-quarters of total household liabilities, and property-related loans form a substantial portion of banks’ loan books. In addition, housing affordability is a key concern for the Singapore public (Lum, 1996 and 2011; Phang, 2015; Phang and others, 2013). Therefore, when property prices rose rapidly shortly after the Global Financial Crisis (GFC), the Singapore authorities responded with a series of macroprudential measures, including fiscal-based measures, to promote a more stable and sustainable property market.

2. **Macroprudential Framework.** While the Monetary Authority of Singapore (MAS) actively manages the exchange rate to address inflation and growth, macroprudential policies (MaPs) target potential financial system vulnerabilities arising from capital flows, credit growth, and asset prices. Several macroprudential tools, related to the housing market, have been used by the authorities in recent years. These have been aimed at safeguarding financial stability and encouraging financial prudence among households. In particular, unsustainably high and rising property prices could create financial stability risks given households’ and the banking system’s exposure to property. In addition, the combination of low global interest rates and high, and rising, asset prices could lead some households to over-extend themselves financially when purchasing properties, without sufficient regard to longer term debt servicing ability.

3. **Housing Market Segmentation.** Singapore’s real estate market is dominated by public housing. While the share of private housing has increased over the years, public housing still accounts for about 74 percent of the housing stock. The government’s Housing and Development Board (HDB) builds apartments on government-allocated land and sells them at subsidized prices to eligible Singapore citizens. Apartments can be resold after a minimum occupancy period of five years to other eligible citizens or Singapore permanent residents. In 2015, about 80 percent of residents lived in HDB

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houses. Therefore, the demand in the private housing segment is primarily driven by permanent residents, immigrants, foreigners as well as investments from Singaporean residents.

4. **Macroprudential Measures, including Fiscal-Based Ones.** Since 2009, the MAS has implemented a wide range of measures. These can broadly be grouped into demand and supply side measures. On the demand side, MaPs, including fiscal-based measures, have been used. These measures include loan-to-value (LTV) ceilings, minimum cash payment requirements, caps on loan tenors and the total debt service to income ratio (TDSR), and seller’s and buyer’s stamp duties. This has been complemented by supply-side measures in form of increased government land sales. Furthermore, these measures were tightened in an incremental and targeted way. Tighter limits are applied to riskier segments of the housing market, such as housing not occupied by its owners, owners of multiple properties, companies, and foreigners. Since a significant share of private housing is owned by foreigners and permanent residents, some measures that targeted riskier segments of the housing market have in effect targeted them. Finally, the authorities view these measures as having both cyclical and structural components. While some measures such as LTV limits and stamp duties are cyclical, the TDSR framework is a structural measure.

**Policy Effectiveness**

5. **Macroprudential Measures.** An incremental and targeted approach was undertaken. Between 2010 and 2013, the LTV limit was brought down to 80 percent for housing loans taken with financial institutions and tightened further for borrowers with multiple loans and corporates. In June 2013, the Total Debt Servicing Ratio (TDSR) framework was introduced for all property loans to encourage financial prudence among borrowers and strengthen credit underwriting practices by financial institutions. MaPs, such as LTV limits and the TDSR framework, have directly constrained mortgage lending. These measures also impacted property transactions and property prices through the credit channel. Since the implementation of the MaPs, the share of borrowers with multiple housing loans and the share of housing loans with high LTV ratios have both been decreasing. The TDSR framework has been particularly effective, contributing to prices in the private housing market to decline consistently since 2013:Q4. Monthly private residential property transaction volumes have fallen to about half of the levels during the two years preceding the introduction of the TDSR framework. Finally, new housing loans for private properties have also contracted.
6. **CFM/Macroprudential Measures, including Fiscal-Based Measures.** A seller’s stamp duty (SSD), which applied to both residents and non-residents, was introduced in 2010 to discourage speculative flipping of properties. This was followed by an additional buyer’s stamp duty (ABSD) in 2011, which applied differentiated rates to residents with multiple properties, and non-residents, in response to a significant surge in inflows to the real estate market. The ABSD rates were raised for both residents and non-residents in 2013 (in combination with the significant further tightening of the macro-prudential measures). Fiscal-based measures as a whole have directly constrained property transactions, with attendant effects on property prices and mortgage loans. The lower share of sub-sales and sales to foreigners suggests that investment demand has been reduced. Furthermore, the differentiated ABSD was associated with a sharp drop in foreign buyers’ share of private residential properties in the first quarter of 2012.

7. **Supply-Side Measures.** Land supply, which refers to the government land sales program, has also been an effective tool to manage property prices, with possible spillover effects on property transactions and mortgage loans.

8. **Overall, macroprudential measures, including fiscal-based ones, were tightened incrementally, and in a targeted fashion, also in view of uncertainty about their transmission.** Pure macroprudential measures and non-discriminatory fiscal measures had been tightened significantly before discriminatory fiscal-based measures were introduced. The authorities’ targeted approach is informed by efficiency and effectiveness considerations.

9. **International Comparison.** In Hong Kong SAR, Singapore, and Taiwan Province of China, property tightening measures in recent years have achieved different results. Since peaking in 2013, house prices in Singapore have declined gradually to 2010 levels. The impact contrasts with Hong Kong SAR, where prices have continued to rise and mortgage growth has shown no clear downward trend. House price growth has also remained rapid in New Zealand and Australia where tightening ...

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1 Because of differentiated tax rates on the basis of residency, the additional buyer’s stamp duty rates in Singapore is a capital flow management/macroprudential (CFM/MPM) measure that was introduced to address risks stemming from flows into the real estate market. It has been undertaken in tandem with Singapore’s macroprudential policy framework to address systemic risks coming from the housing market and so it is also considered a macroprudential measure. The use of CFM/MPM was targeted at reducing demand from foreigners.
began in 2013 and 2014 respectively. Hence, there is significant liquidity in the regional markets calling for continued vigilance and careful calibration of the measures to guard against speculative capital inflows that can hamper financial stability.

10. **Risks.** While the macroprudential measures, including fiscal-based measures, have been effective in managing property prices in Singapore, the overall financial cycle seems to have turned and employment and credit in the construction sector has been falling. The challenge is therefore to determine the order and speed at which some of these measures could be relaxed. This is important in light of the sustained decline in private residential property prices, subdued economic conditions, a weakening labor market, an increase in the vacancy rates and a large supply of new housing set to come on the market in the coming years. The macroprudential measures, including fiscal-based measures in Singapore have comprised structural (TDSR) and cyclical (LTV limits, stamp duties) features. While the structural elements should be maintained (with possible revisions to limits), cyclical elements could be phased out gradually. In this context, the authorities’ decision to lower the seller’s stamp duties by four percentage points for each tier (to range from 4 to 12 percent) is welcome. In line with the Institutional View on the Liberalization and Management of Capital Flows, further relaxation of cyclical measures, particularly the discriminatory ABSD, could be considered as systemic risks stemming from the housing sector continue to dissipate. Finally, since household debt remains elevated, property market developments should be monitored carefully and structural measures should not be relaxed until conditions improve markedly.

11. Finally, **Singapore’s banks are well-positioned to withstand shocks from the property market,** partly as a result of macro-prudential tightening. Average loan-to-value ratios are low, loan-loss coverage is adequate, and capital and liquidity buffers are strong. Households also have healthy balance sheets and well-diversified assets.
References


