8-2013

Academic Paper Supports Housing Curbs for PRs, Foreigners

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Singapore Press Holdings

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Citation

Tan, Mindy, and David Lee. 2013. "Academic Paper Supports Housing Curbs for PRs, Foreigners." *Business Times*, August 8.

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8 August 2013

Business Times Singapore

One suggestion is for foreigners to also seek government permission to buy condo units

The authors of an academic paper have backed the implementing of curbs on housing ownership and investments by permanent residents (PRs) and foreigners as a way to manage demand in the property market.

In fact, they have suggestions on how some of these policy tools might be expanded in reach for greater effectiveness in tamping down demand and runaway property prices.

Making it mandatory for foreigners to seek permission to purchase housing and the tweaking of existing property tax structures, for example, could be effective in discouraging foreign and multiple-unit residential ownership, say the authors of the paper who are from the Singapore Management University (SMU) and Savills Singapore.

Phang Sock Yong of the School of Economics at SMU was the lead author of the paper, which was presented at the Singapore Economic Review Conference 2013. The three-day event at Mandarin Orchard covered areas such as applied economics, China's economy, macroeconomics and monetary policy, with 188 papers presented over 58 sessions. It ends today.

The authors suggested, for example, making it mandatory for foreigners to also seek government permission to buy apartments or condominium units, instead of only for landed properties, as is the case now.

They also suggested removing owner-occupancy property tax concessions for foreigners and implementing a progressive property tax structure for multiple- unit owners who are PRs and foreigners.

Another idea they floated was that the government consider levying an additional seller stamp duty on Housing Board (HDB) and private transactions involving foreigners, regardless of the length of holding time; this will nudge PRs and foreigners towards becoming citizens in order to enjoy the tax benefits of citizenship, they said.

In addition, the authors called for real estate to be excluded from future Free Trade Agreements (FTAs) and future tax and cross-border investment agreements relating to the Asean Economic Community.

At the moment, nationals and PRs from Iceland, Liechtenstein, Norway and Switzerland, as well as US nationals, enjoy the same stamp duty treatment as Singaporeans, as a result of two FTAs.

The authors pointed out that imposing policies to stabilise the housing and financial sector is not a foreign concept: Australia and governments across Asia have implemented various curbs and restrictions which make foreign ownership more costly; they also restrict foreign buyers to a specified segment of the housing market and attempt to reduce liquidity for the foreigner-sector of the real estate market, such as by mandating that they sell back these properties only to citizens.

David Lee of SMU's Lee Kong Chian School of Business, another author of the paper, said: "It's simple, you need to increase supply. But as a small country with physical constraints, it's very difficult to increase supply in a short period. In the meantime, you must manage (the situation of accelerated house prices), which is why we talk about negative discrimination."

However, he pointed out that foreigners and individuals of high net worth - those who contribute to this country - should not be made to feel that they are not welcome here.

"But in the short term, you need to cap demand. You need to have technical policy instruments so you can manage expectations and demand in the short term until supply catches up."

The authors suggest that a solution to the housing crunch and spiralling prices may lie in the setting up of a housing REIT, which will not only provide an alternative investment option, but will develop an efficient and affordable rental sector.

"Positive discrimination - which is the REIT - will take care of both demand and supply; negative discrimination only takes care of demand," said Prof Lee.

Prof Phang suggested that, in addition to ramping up supply, the housing-supply regime should target an overall effective vacancy rate encompassing the HDB and the private sector. This will provide a short-term buffer against sharp increases and decreases in prices.

She noted that the vacancy rate for the private sector ranges from 5 per cent to 10 per cent, depending on the cycle. There are no official figures for the public sector, but the general perception is that it is very low. This market disequilibrium is reflected in the small rental segment and the high rental yields in the HDB sector.

An estimated 1,760 HDB flats were rented last month, up 13 per cent from the 1,559 rentals the month before, going by SRX's July flash report.

Resale volumes in the public sector remained flat, with 1,270 flats exchanging hands last month, similar to June's 1,266 resale transactions.

Overall resale prices slipped 0.5 per cent in July, marking the third consecutive monthly drop. Significantly, overall cash-over- valuation fell $4,000 in July to reach $20,000, the lowest since January 2011.

In the private segment, resale prices of non-landed residential units inched up 0.1 per cent. Core Central Region prices slipped by 0.5 per cent and mass market prices, by 0.4 per cent. Homes in the rest of the central region rose 1.2 per cent. An estimated 670 non-landed homes were transacted in July, slightly more than June's 640 units.