The Singapore Housing Market. Contingency Plans.

Singapore’s property market has surged since 2008 when it had previously halved from the highs of 2007. Low interest rates, easy credit and an influx of foreigners and foreign capital have propelled housing prices in the past 4 years. Money printing in desperate developed markets have also overflowed into capital attractors like Singapore fueling general inflation as well as asset prices. The state defined contribution scheme, the Central Provident Fund, is the largest creditor to the Singapore government and is the largest buyer of its bonds. This systematic deployment of the compulsory contributions of Singaporean workers is also a de facto form of quantitative easing which has probably fueled inflation to some extent. Singaporeans concerned about the credit worthiness of the CPF are also encouraged to buy property, depleting their CPF funds to reduce their credit exposure to the CPF. This adds to real estate demand on the tiny island state.

How stable is the property market and the economy? Most mortgages are floating rate mortgages or adjustable rate features, otherwise known in the US as ARMs. This makes the market especially vulnerable to rising interest rates.

Moreover, an over-dependence on foreigners in the economy creates a leveraged effect since a slowdown in the economy may well trigger an exit of work permit holders and to a lesser extent, permanent residents. By managing Singapore on purely commercial terms, the government has not fostered loyalty and stickiness among citizens. A case in point was the exodus of internationally mobile talent in the early 2000s when Singapore struggled with a weak economy. At that time senior members or government lamented the quitters and lauded the stayers. It can happen again.

It makes sense to have contingency plans in case of a property bust whether triggered by higher rates or weaker growth and resultant emigration.

A property bust is likely to also see debt service problems. A systematic program for the refinancing of positive equity properties is necessary. A nation wide scheme for standardized loan modification will avoid delays and uncertainty which would only create collateral damage and drawing out the price discovery and recovery process.

Where property owners face negative equity, there should be a scheme of forbearance under which home owners may sell their properties to a state sponsored special purpose vehicle, at market rates, while lenders will take a partial hit. The homeowner would crystallize a loss but face no further recourse. The state would put up the financing to purchase inventory and lease the same back to occupiers at controlled rates of rent. Homeowners would be given a free option to buy back their properties at the same price they sold into the scheme. Such options may be tradable subject to constraints, and certainly may be bequeathed to offspring.

These are merely initial ideas for a scheme which would address uncertainty and hopefully help avoid a disorderly market should the unthinkable happen.