

In a Covid year, new condos' price-income ratio widens

Ratio captures rising prices against first decline in household income in over a decade; mortgage rates are inching up globally

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LIKE several countries across the world, Singapore has seen private housing prices move higher in spite of a global pandemic.

Given this, fresh data shows that the gap between incomes and prices of private non-landed homes continued to widen in 2020.

Specifically, the gap – known as an “affordability ratio” – between prices of new condominiums sold and household income continues to be at its widest in a decade. *The Business Times* analysis of data from Knight

The same data shows the price-to-income ratio staying largely stable for resales, creeping up to 11.2, from 11.1 in 2019. It comes as median prices last year rose for new condos but fell for resale condos.

BT ran more checks by calculating prices based on absolute median quantum – rather than psf prices with an assumed 1,000 sq ft size – against median household incomes. This showed just two straight years of an increasing “affordability ratio” for new sales, though 2020’s ratio of 12.1 grew more significantly over 2019 than the year prior. This ratio is now at its highest since 2010’s 14.8. Colliers research head Tricia Song

Frank, Colliers International, OrangeTee & Tie, Urban Redevelopment Authority and Department of Statistics (DOS) showed.

The analysis uses median property prices covering all land tenures and locations in Singapore, excluding executive condominiums (ECs). To get these prices, the median per square foot (psf) price is multiplied by 1,000 sq ft, which is the methodology used by Knight Frank. Median annual household income is derived by multiplying by 12 the median monthly household income from work including employer CPF contributions.

This price-to-income ratio is one affordability indicator brought to the fore amid market speculation of new cooling measures this year.

To be clear, the price-to-income ratio for new sales has been rising consecutively since 2016.

But in a year of Covid-19, the 2020 ratio stands out as it captures the first decline in household income in over a decade. DOS figures showed Singapore’s 2020 median monthly household income from work falling 2.5 per cent year-on-year to S\$9,189. Despite this, private non-landed home prices are now above their all-time peak in the third quarter of 2013, data from Colliers showed.

The availability of cheap debt, demand from HDB upgraders and Covid-19’s uneven impact are some factors spurring on the private housing market. This is even as consumers are meeting existing regulations to deter over-leverage.

DBS Group Research analyst Derek Tan said the rising affordability ratio is “certainly something to look out for”. A high ratio suggests households have to stretch their finances to buy a property. “This sparks the question of retirement adequacy, especially if one finances the majority of a property purchase with CPF savings.”

The price-to-income ratio for new sales of non-landed private residential properties grew to 15.4 in 2020 from 14.7 in 2019, assuming a 1,000 sq ft unit. That means a household, without spending on anything else, has to save minimally for 15.4 years to buy a new condo unit. In 2010 – the last decade-high – the ratio was 15.9. (To be clear, in 2019, the 14.7 ratio already hit levels set at 2010.)

noted that while median psf prices of all private home sales rose 50 per cent in 2010-2020, median absolute prices went up by just 24 per cent. Median incomes grew 45 per cent in this time. The slightly different scenes painted from the two data sets may reflect a skew from demand for smaller units, which fetch higher psf price but lower absolute quantum.

Private properties, excluding ECs, make up 25-26 per cent of all residential stock in Singapore. In general, private homes have been accessible mainly to the top 30 per cent of earners, analysts have said.

If calculated using the average top 30 per cent household incomes from work each year, the price-to-income ratio for new sales based on median psf prices has trended higher for the well-heeled since 2018. In 2020, the gap between new condo prices and the highest 30 per cent of household incomes was at its widest in over a decade, with a ratio of 6.3.

It has remained stable for resales. For the top 30 per cent of earners, resale condos’ “affordability ratio” in 2020 has been flat at 4.6 since 2018.

This picture likewise indicates the widening price gap between new and resale condos, which “will probably balance itself in time to come”, with either resale prices going up or new sales prices falling, Ms Song said.

The household income data used in BT’s analysis captures only Singaporeans and permanent residents (PRs), while the property price data includes foreigners.

Sing Tien Foo, director at the Institute of Real Estate and Urban Studies at NUS, noted that foreign buyers may pay a slight premium relative to locals. Ong Choon Fah, Edmund Tie & Co’s chief executive, observed too that new citizens and PRs, as well as high-net-worth individuals, are buying homes priced at the higher end of the market.

Knight Frank Singapore’s research head Leonard Tay said the affordability trend, reflecting Covid-19’s impact, might not be of concern if it is short-lived and confined to 2020 and the first half of this year.

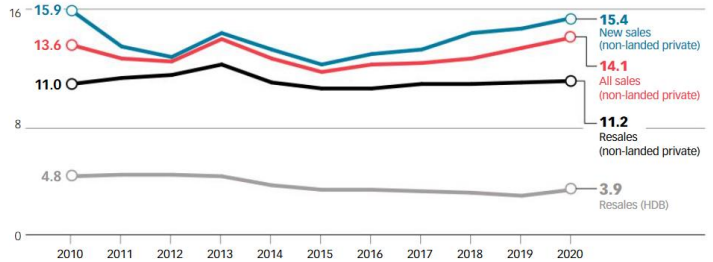
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• **New private home sales plunge 60.5% in February, Page 3**

Are new measures necessary?

Affordability over the years

Based on median household incomes, the affordability of Singapore homes has varied in the past decade



How were the numbers derived?

■ **Price-to-household-income ratio:** Divide full-year median prices for each property segment by the median annual household income. It implies the number of years a household has to save to buy a 1,000 sq ft private home or a HDB resale flat without any other consumption.

■ **Median annual household income:** Multiply by 12 the median monthly household income from work including employer CPF contributions, in nominal terms (before accounting for inflation).

■ **Median prices for non-landed private properties:** Assuming a 1,000 sq ft standardised condo unit, multiply the median \$S psf prices by 1,000 sq ft to get the median full purchase quantum. Includes all

tenures and all locations in Singapore, and excludes executive condominiums.

■ **Median prices for HDB resale flats:** Covers all flat sizes, locations and remaining leases.

Housing affordability ratios based on full-year median prices may not show a clear correlation with every round of policy changes, partly because any cooling effect would be seen only in subsequent quarters and might only slightly depress overall prices for the whole year. Market activity also typically takes a pause right after new measures are announced, as buyers and sellers adapt to the new parameters, said Knight Frank Singapore’s head of research Leonard Tay.

Existing rules

GUIDELINE	DETAILS	WHEN DID THE LATEST CHANGES TAKE EFFECT?
Total debt servicing ratio (TDSR)	TDSR caps the amount that an individual can borrow for a property loan, taking into account their monthly debt obligations.	June 2013
Loan tenure	The maximum loan tenure for housing loans from banks is capped at 30 years for HDB flats and 35 years for non-HDB properties. For loans from HDB, the tenure is capped at 25 years.	Aug 2013
Mortgage servicing ratio (MSR)	MSR caps the portion of a borrower’s gross monthly income that can be used to repay all property loans.	Aug 2013
Seller’s stamp duty (SSD)	SSD is payable on all residential properties bought on or after Feb 20, 2010 and sold within a certain holding period.	March 2017
Buyer’s stamp duty (BSD)	BSD is levied on all purchases of property in Singapore. The BSD rate for residential properties is up to 4%.	Feb 2018
Additional buyer’s stamp duty (ABSD)	Liable buyers, including Singapore citizens, PRs, foreigners and developers, are required to pay ABSD on top of BSD.	July 2018
Loan-to-value (LTV) ratio	The LTV limit determines the maximum amount a buyer may borrow, as a percentage of the purchase price or assessed market value.	July 2018
Maximum allowable number of dwelling units	The maximum number of dwelling units in a new non-landed private residential development outside the Central Area is calculated by dividing the allowable gross floor area by 85 sq m, in most locations.	Jan 2019
Option to purchase (OTP)	Developers are restricted from reissuing OTPs to the same buyers for the same unit within 12 months of expiry, and from providing upfront agreements to reissue OTPs.	Sept 2020