

Singapore Non-landed Private Residential Market Review 2023 and Impact of ABSD Hike

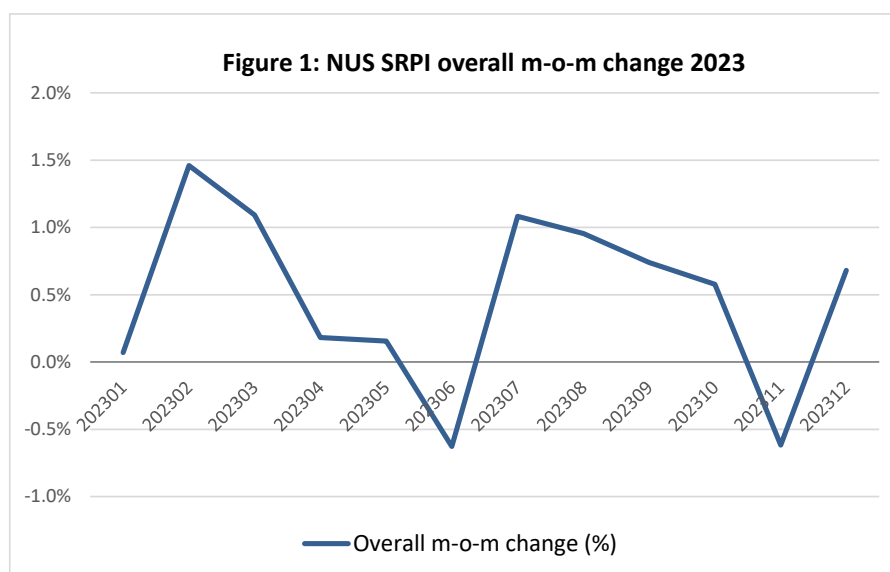
General market review 2023

Based on the NUS Singapore Residential Price Index (NUS SRPI), the overall resale price of non-landed private residential properties (excluding executive condominiums) increased by 5.8% in 2023, moderating slightly from the 6.0% recorded for 2022.

The SRPI sub-index for the Central Region increased by 4.7% in 2023, higher than the 2.7% increase in 2022. In contrast, the Non-Central Region slowed to a 6.7% increase in 2023, lower than the 8.1% increase in 2022. Likewise, the SRPI sub-index for small units slowed to 5.0% for the same period, down from the 6.5% increase of the year prior.

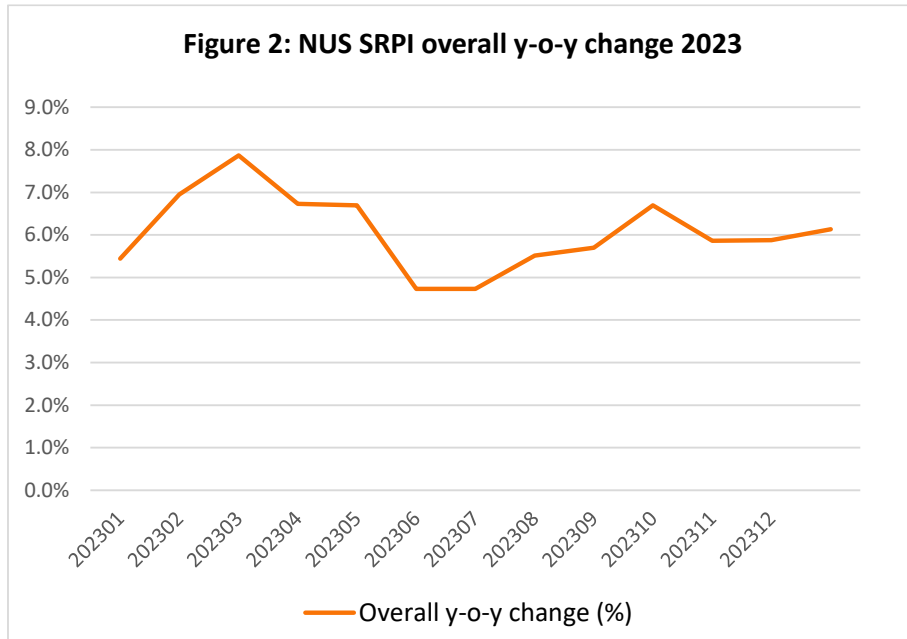
Apart from the Central Region, softening prices in other areas have contributed to an overall deceleration in price growth for 2023.

The monthly movements of the NUS SRPI overall index for 2023 is shown in Figure 1. Monthly resale price growth reached the highest of 1.4% in February 2023, and saw deepest drops of 0.7% in June and November 2023. While the dip in November could be attributed to the seasonal year-end lull, the drop in June could be due to property cooling measures rolled out earlier in April, which this paper will investigate further below.



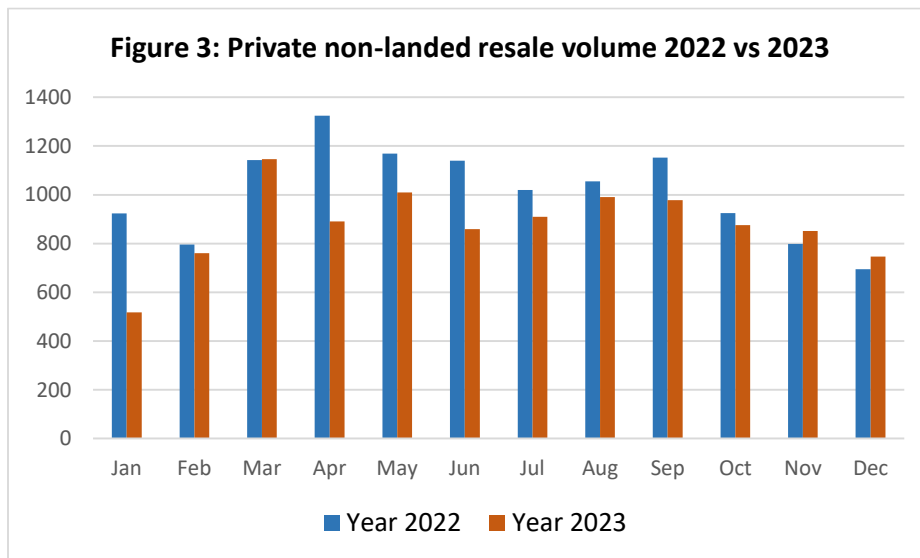
Source: URA Realis, NUS IREUS

On a year-on-year basis, prices reached the highest growth rate of 7.9% in March 2023 (Figure 2), but bottomed with the deepest drop of 4.7% in both June and July 2023. The overall index recovered to the median of 5.9% growth rate in October and November 2023.



Source: URA Realis, NUS IREUS

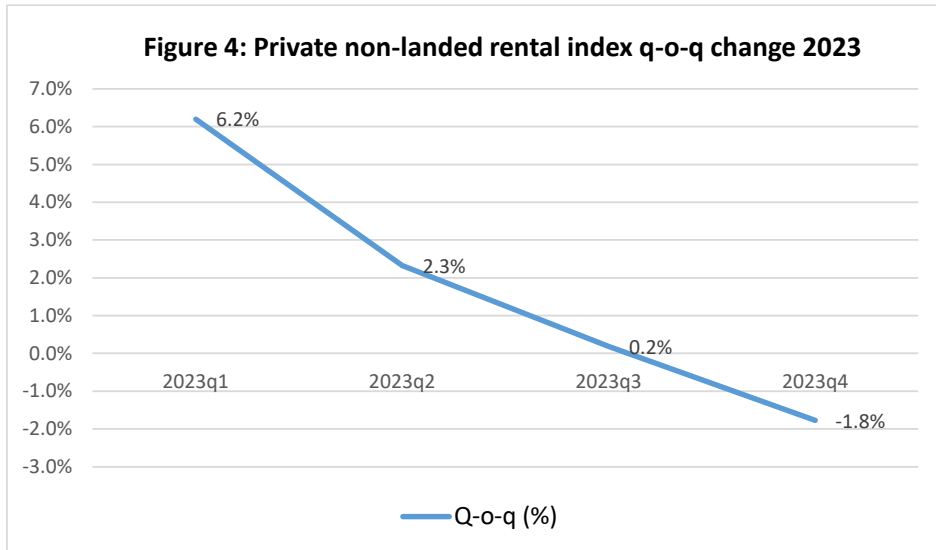
Non-landed private residential resale volume in 2023 was 10,534, about a 13% drop from 2022. Monthly resale volume trends in 2022 and 2023 are shown in Figure 3.



Source: URA Realis, NUS IREUS

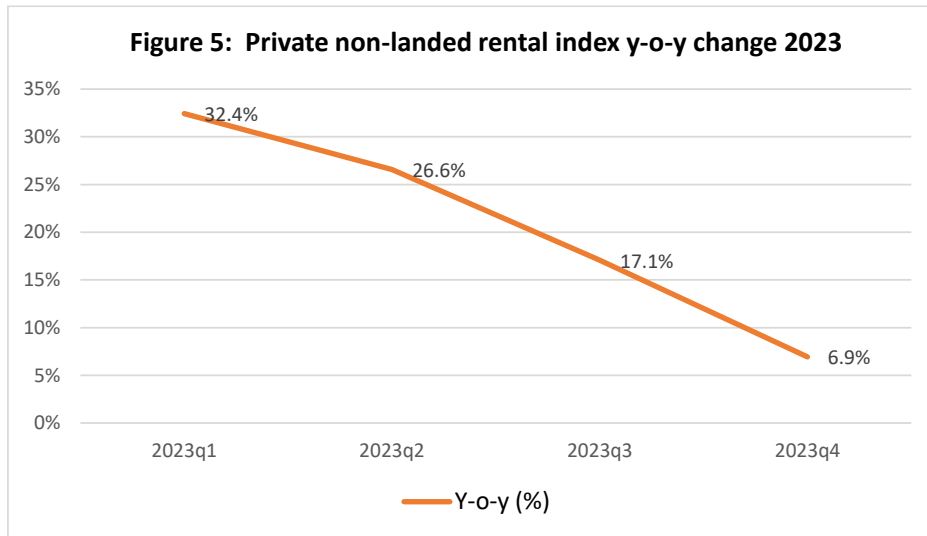
Slowing substantially, the non-landed residential rental index grew only 6.9% over the year, much lower than the 29.8% increase in 2022 based on URA time series data. The 29.8% increase recorded on the index in 2022 was the highest yearly growth since the last peak of 18.4% in 2010.

Figure 4 shows quarterly changes of the private non-landed residential rental index in 2023. The rental index dropped by 1.8% in the 4th quarter of 2023 from previous quarter, the first q-o-q drop since the non-landed rental index fell 0.1% in the 4th quarter of 2020.



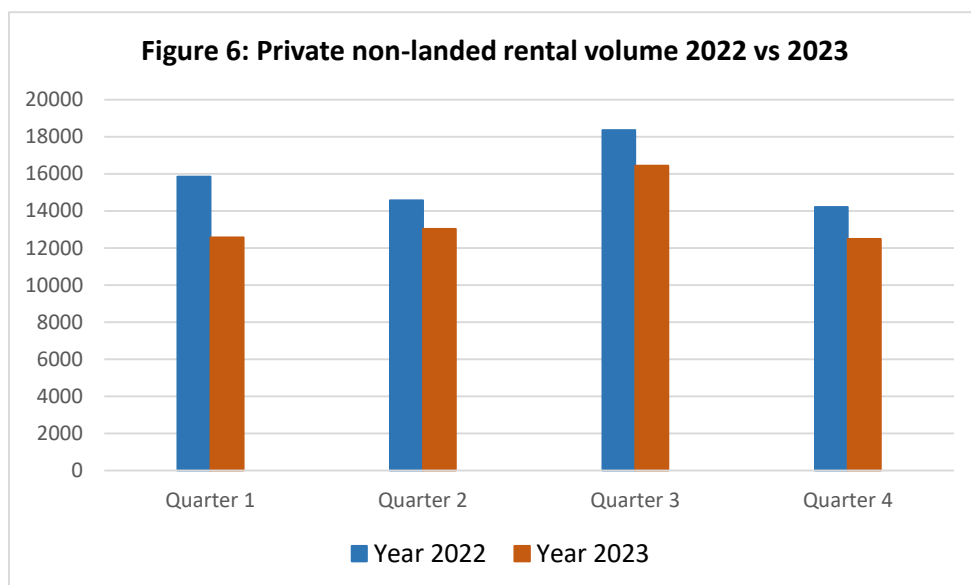
Source: URA Realis, NUS IREUS

Figure 5 shows that year-on-year rent growth in 2023 slowed from 32.4% in the 1st quarter of 2023 to 6.9% in the 4th quarter of 2023.



Source: URA Realis, NUS IREUS

The number of private non-landed residential rental contracts in 2023 was 54,556, a decrease of approximately 13% from 2022. As can be seen from Figure 6, demand for rental housing has weakened in 2023.



Source: URA Realis, NUS IREUS

The impact of the April 2023 cooling measures – preliminary data observation

On 27 April 2023, the government implemented property cooling measures, raising the Additional Buyers' Stamp Duty (ABSD) rates as follows:

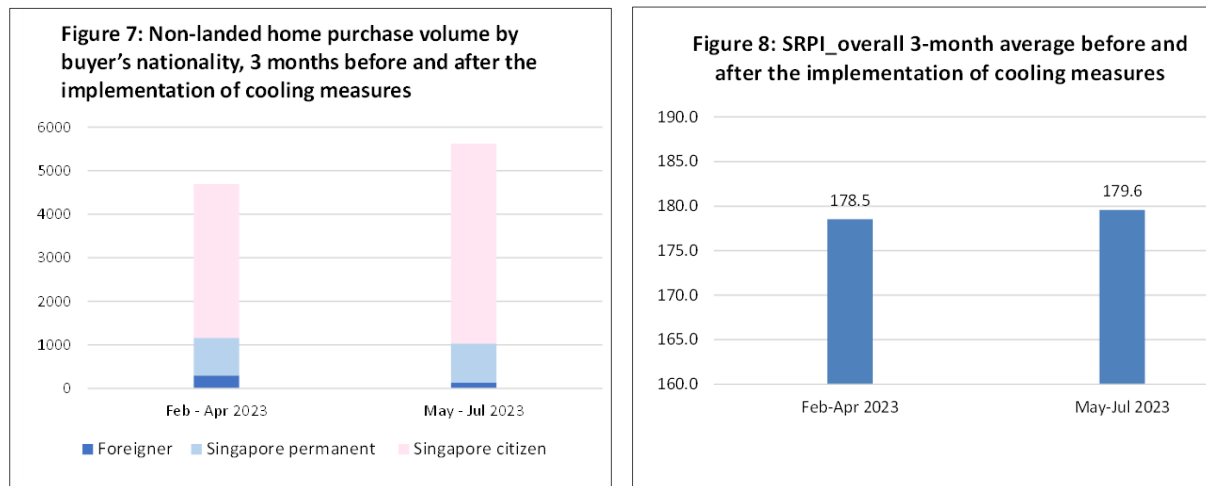
- a. Raised ABSD rate from 17% to 20% for Singapore Citizens (SCs) purchasing their 2nd residential property;
- b. Raised ABSD rate from 25% to 30% for SCs purchasing their 3rd and subsequent residential property, and Singapore Permanent Residents (SPRs) purchasing their 2nd residential property;
- c. Raised ABSD rate from 30% to 35% for SPRs purchasing their 3rd and subsequent residential property;
- d. Raised ABSD rate from 30% to 60% for foreigners purchasing any residential property; and
- e. Raised ABSD rate from 35% to 65% for entities or trusts purchasing any residential property, except for housing developers.¹

The substantial increase of ABSD for foreign buyers resulted in a sharp drop in foreign purchases of private homes in the later half of 2023. As shown in Figure 7, we compare the number of private home purchases by nationality from February to April 2023 with the figures from May to July 2023. The number of private non-landed residential properties purchased by foreigners from May to July 2023 fell by 57% compared with the number of purchases by foreign buyers from February to April 2023.

¹ MND and MOF press release on 26 Apr 2023, "Measures for a Sustainable Property Market".

However, demand from other types of buyers remained resilient. Purchases by Singapore permanent residents increased by 5%, while purchases by Singapore citizens increased by 30% during the same period.

Data analysis for 2023 shows that the more prohibitive ABSD rate for foreigners has significantly reduced the number of foreigners buying private homes in Singapore. We now look at how private home prices have changed over the same period.



Source: URA Realis, NUS IREUS

According to Figure 8, the 3-month average of the NUS SRPI overall index from February to April 2023 was 178.5, while the average from May to July 2023 was 179.6.

As stated in the MND and MOF press release of 26 Apr 2023, the latest round of cooling measures mainly targets locals buying multiple homes (ostensibly for investment purposes) and foreigners purchasing private residential property in Singapore. Given that first-time homebuyers are not affected, the ABSD hike was anticipated to affect only 10% of transactions throughout the year.² Hence, the impact on prices marketwide was relatively limited, and the NUS SRPI overall index increased by 5.8% in 2023, as discussed above.

Analysing the ABSD hike with a difference-in-differences method

On the surface, the NUS SRPI continued to persist on an uptrend, notwithstanding the shock of more prohibitive ABSD rates. However, to precisely understand the effect of the ABSD on prices during the post-shock period, we need to compare the observed price movements with what might have happened instead *without* the rate increase. In other words, we are comparing actual events against a counterfactual scenario where the ABSD hike had not been implemented.

² MND and MOF press release on 26 Apr 2023, "Measures for a Sustainable Property Marke

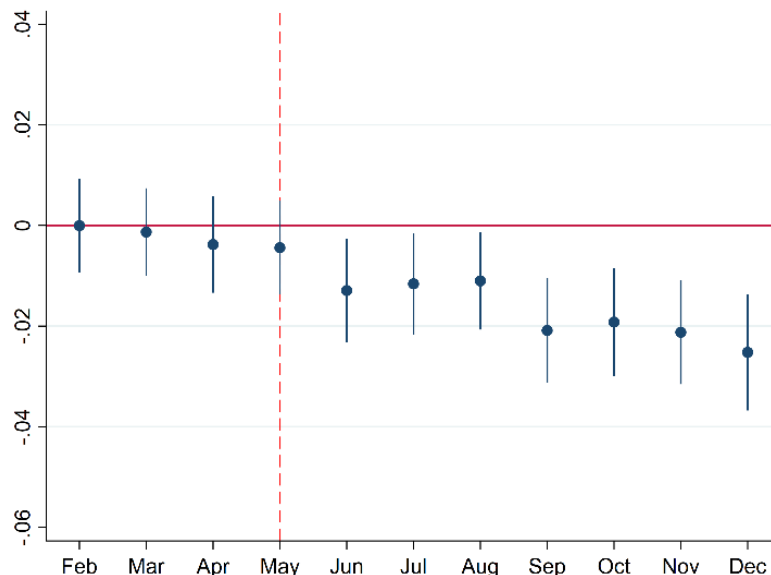
The main mechanism driving our empirical analysis is the difference-in-differences (DID) method, which compares market trends pre- and post-policy implementation. Our main source of data is the Real Estate Information System (REALIS), a private housing transaction database maintained by the Urban Redevelopment Authority, Singapore’s national land use planning authority.

We define May as the policy event month and 2023 as the policy or treatment year. We assign the preceding year 2022 as the benchmark year for comparison and check that prior to May, price movements in both years were similar. This suggests that prior to the ABSD hike, 2023 prices were moving similarly – or in parallel – to previous prices. Any deviation from such parallel trends from May onwards would therefore identify and accurately quantify the intervention effect of the ABSD hike on the private housing market.

To normalise the data, we compute the logarithm of prices of unit transactions which we standardised to a per-square-foot basis, across the months in 2022 and 2023. We also account for the effects of other price factors such as unit size, floor, age and location. Figure 9 plots the difference between a monthly average in 2023 with the corresponding monthly average in 2022, with January as the base comparison month.

We see that prior to the ABSD rate hike in May, the monthly differences in average prices between 2022 and 2023 were negligible – and in the counterfactual scenario that the ABSD hike had not happened, we would expect such a “parallel trend” to persist throughout the year. However, immediately after policy intervention, 2023 average prices dropped significantly compared to 2022 average prices, taking into account other price factors. On average, the ABSD hike led to a significant decrease of 1.2% in private property prices. The price effect appears long term as the drop is sustained till at least the end of 2023.

Figure 9: Monthly estimated 2022 & 2023 differences in average prices of private non-landed housing



Source: URA Realis, NUS IREUS

Note: Jan is the base period. The blue dots indicate the monthly estimated 2022 and 2023 differences in average prices (logarithm unit price psf) along the y-axis. The vertical lines indicate the confidence intervals at the 95% confidence level.