

*This is an original article written by Philip Loh, which appeared in the Sunday Times 3<sup>rd</sup> April 2005.*

## **Residential property market at bearish stage**

Prices of private homes crept up by 0.6 per cent in the first three months of this year, according to news reports.

My view is that the residential property market will simply not go anywhere in the next three to four years. Four reasons:

- 1) The impact of the Central Provident Fund (CPF) cuts announced in 2002 has not been fully felt yet. The greatest impact is not the cut in the Ordinary Account contribution rate from a maximum of 26 per cent to 22 per cent. Rather, it is the reduction of the monthly income cap on which CPF contributions are based – from \$6,000 to \$5,500 and eventually to \$4,500 from January next year. This reduction translates into lower CPF contributions from the employer. A young couple I know committed to a 20-year mortgage to buy a condominium unit two years ago. By next year, they would have to service part of their mortgage payments using cash.
- 2) High business cost is one of the biggest deterrents for new direct investment in Singapore where wages of one engineer already cost more than that of four in China. Won't the Government be concerned if rental rates for housing, which are a key component of business cost, shoot up and exacerbate the existing problem?
- 3) Over the past 20 years, the income of the average Singaporean had increased by leaps and bounds but it would not happen now. A road sweeper 20 years ago earned probably \$200 a month. Today, a contract cleaner earns six times as much. Unfortunately, I do not see an accountant or engineer doing the same job earning much more years later than they are now.
- 4) If you ask a private residential property owner between the ages of 45 and 65 how he plans to finance his retirement, a standard answer is: "I plan to sell my property, downgrade to a cheaper place, and use the cash generated for my retirement." Like most Singaporeans, they are asset rich and cash-poor. Most property analysts look at the supply and demand solely from the perspective of new development units. They ignore the supply and demand factors for the resale market which obviously are not insignificant.