

RE 4301 Tutorial 1

Task: Compare **anti-speculation policies** between SG and one selected country.

1. Describe the **housing price cycles** observed in both countries? (30 marks)
2. What are the **reasons** and **consequences** of these cycles? (30 marks)
3. **Evaluate** the anti-speculation policies adopted by the two countries. (40 marks)

Group Member: Wang Ying Chao

An Jia Qi

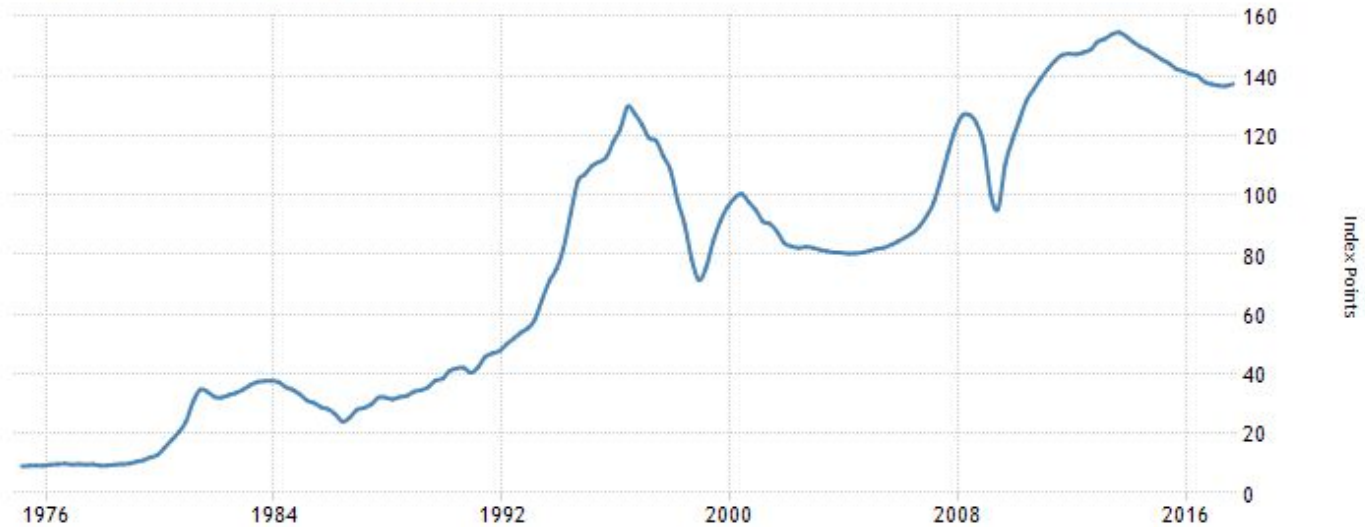
Guo Yi Bei

Yeh Kuan Hung

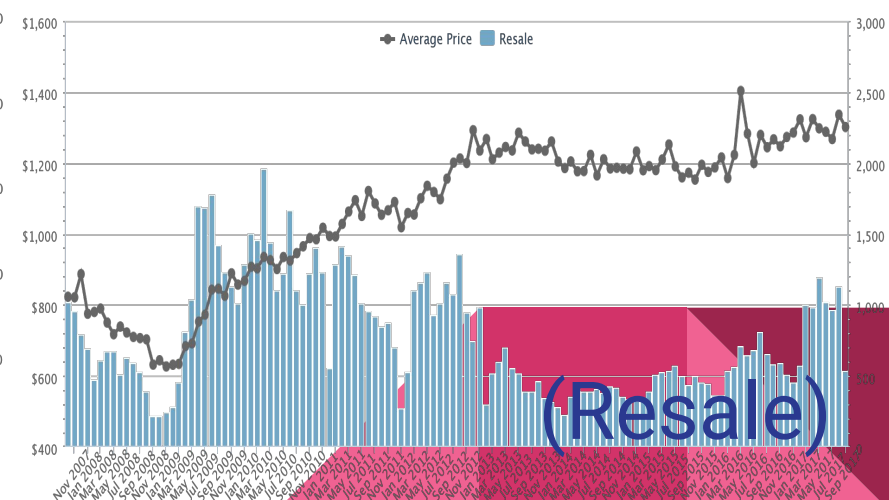
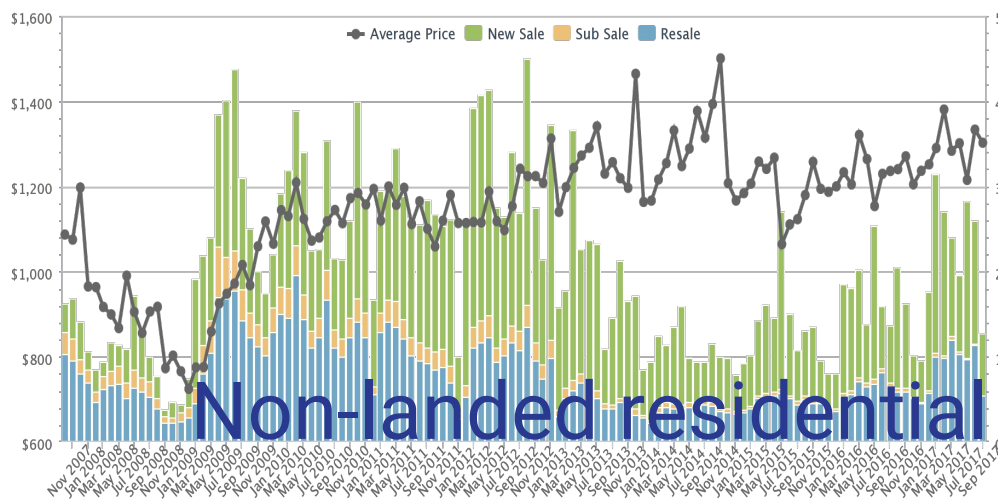
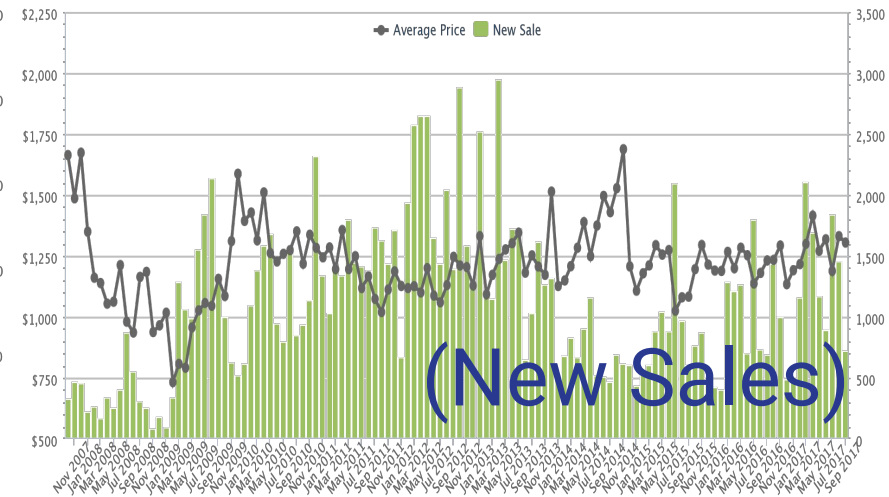
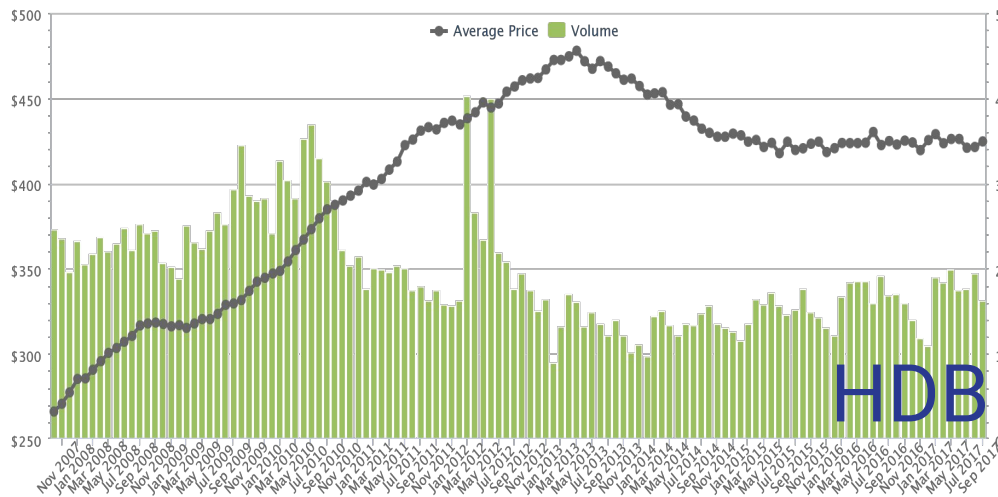
1. Describe the **housing price cycles** observed in both countries? (30 marks)

Housing Price Cycles in Singapore

SINGAPORE RESIDENTIAL PROPERTY PRICE INDEX

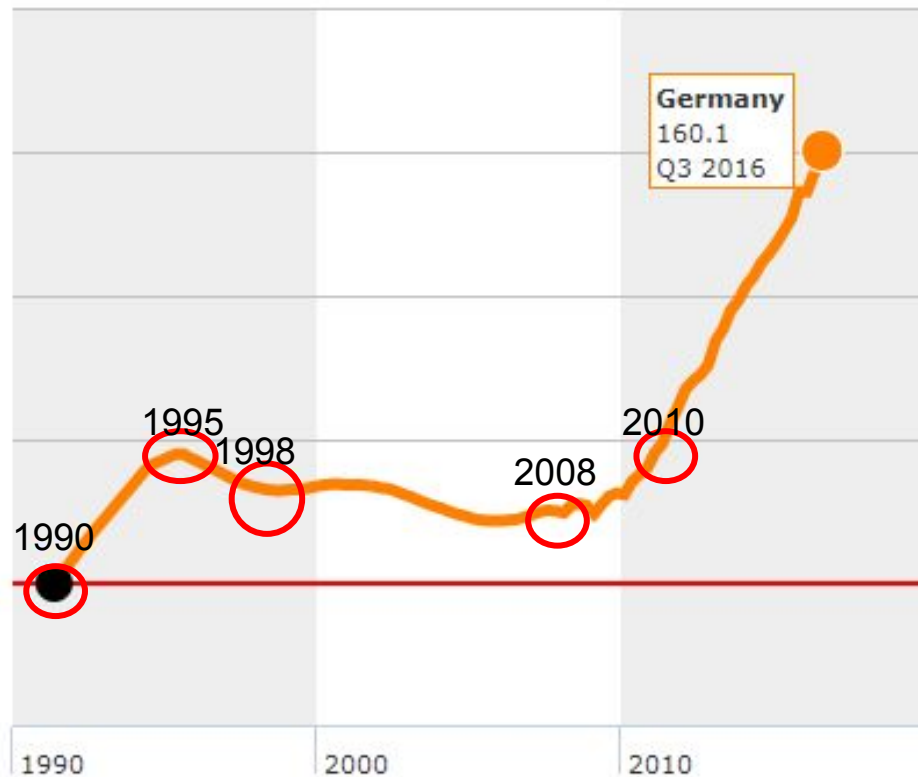


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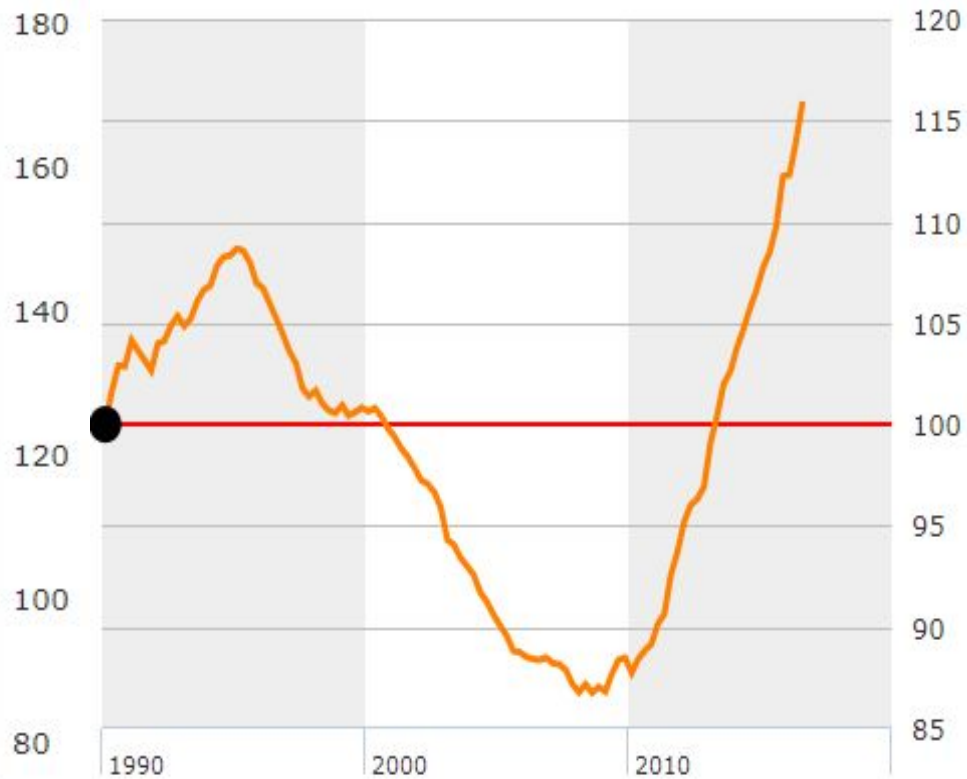


Housing Price Index and Real Prices (Germany)

Q2 1991=100

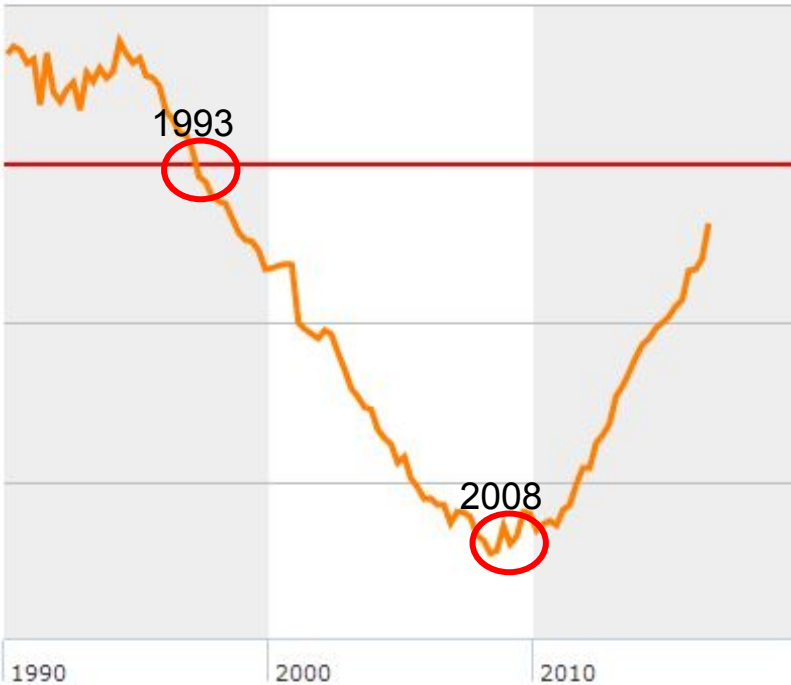


Q1 1990=100

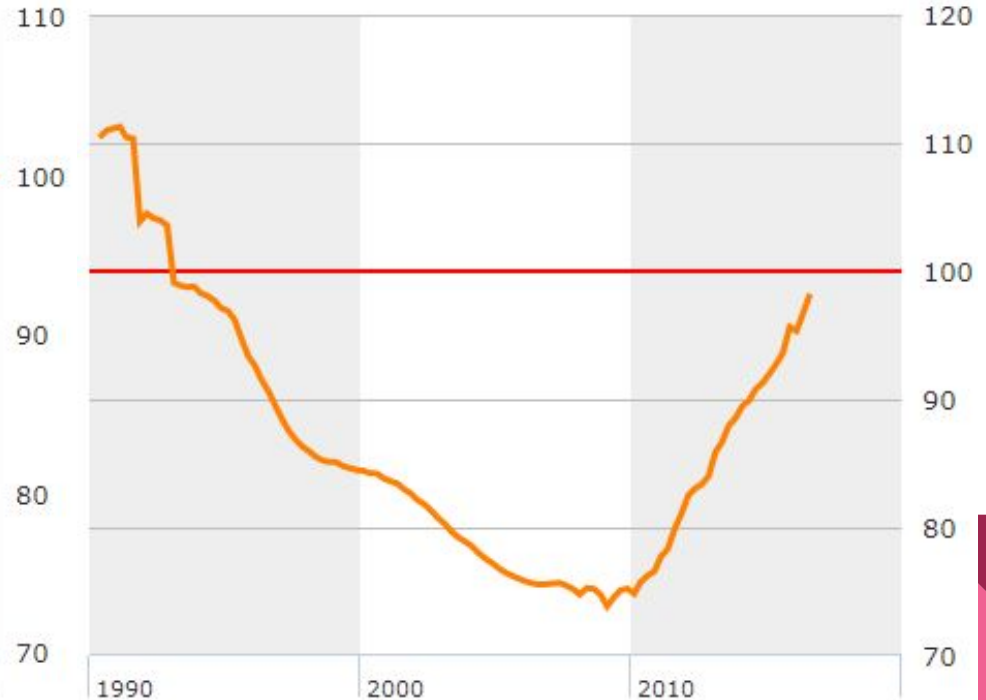


Prices against income/rents(Germany)

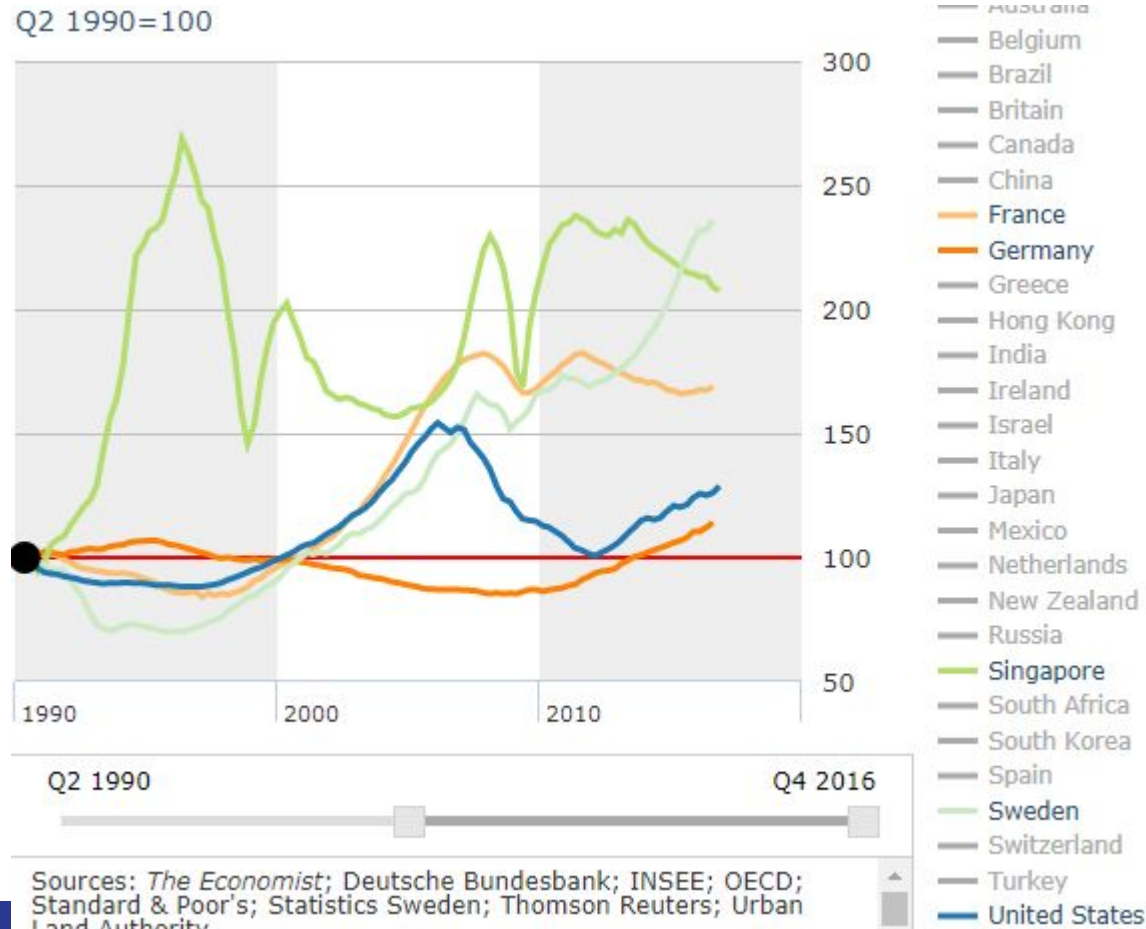
Long-term average=100



Long-term average=100

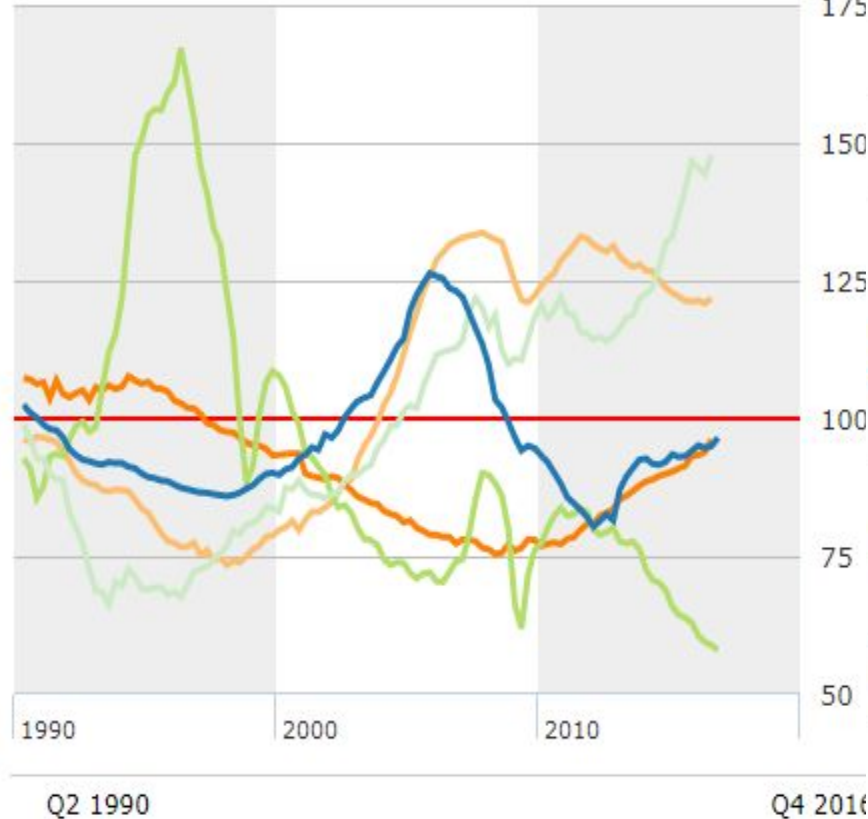


Real Prices across different countries

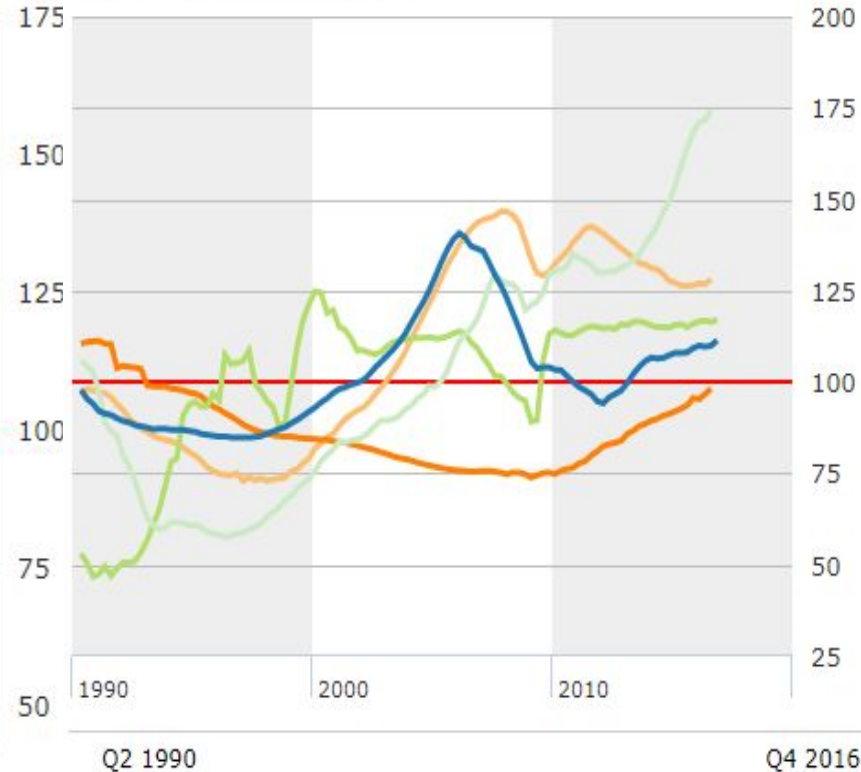


Prices against income/rent across countries

Long-term average=100



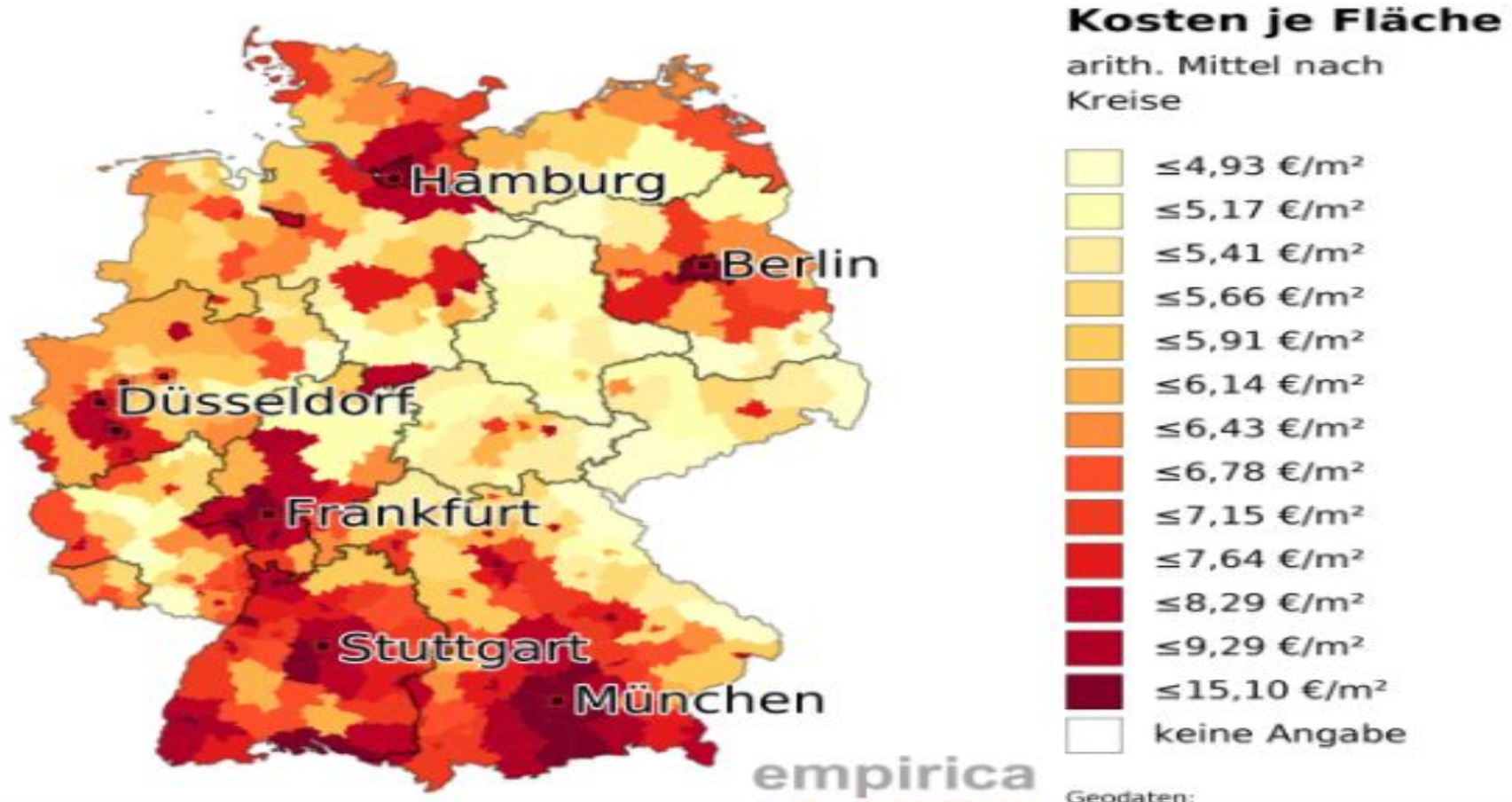
Long-term average=100




- Belgium
- Britain
- Canada
- China
- France
- Germany
- Greece
- Hong Kong
- Ireland
- Israel
- Italy
- Japan
- Mexico
- Netherlands
- New Zealand
- Russia
- Singapore
- South Africa
- South Korea
- Spain
- Sweden
- Switzerland
- Turkey
- United States

Rank	City	Price To Income Ratio	Gross Rental Yield City Centre	Gross Rental Yield Outside of Centre	Price To Rent Ratio City Centre	Price To Rent Ratio Outside Of City Centre	Mortgage As A Percentage Of Income	Affordability Index
10	Singapore, Singapore	22.18	2.45	3.19	40.87	31.39	138.67	0.72
124	Berlin, Germany	9.58	3.70	3.96	26.99	25.25	57.28	1.75
125	Kosice, Slovakia	9.55	5.92	5.67	16.90	17.63	58.85	1.70
126	Turin, Italy	9.54	3.46	4.63	28.90	21.59	60.68	1.65
127	San Francisco, CA, United States	9.53	6.38	6.72	15.67	14.89	68.33	1.46
128	Zurich, Switzerland	9.47	2.95	3.33	33.89	30.00	54.13	1.85
129	Sofia, Bulgaria	9.40	5.27	5.56	18.98	18.00	75.84	1.32
130	Bhubaneswar, India	9.30	3.59	3.44	27.84	29.07	113.33	0.88
131	Kochi, India	9.24	3.85	4.42	25.95	22.64	112.18	0.89
132	Hamburg, Germany	9.22	3.40	4.24	29.39	23.59	56.92	1.76
133	Honolulu, HI, United States	9.17	5.59	6.54	17.90	15.29	66.36	1.51
134	Thessaloniki, Greece	9.15	4.23	4.61	23.66	21.71	67.54	1.48
135	Frankfurt, Germany	9.13	3.78	4.51	26.44	22.19	57.29	1.75

Average rents on country-level for Germany

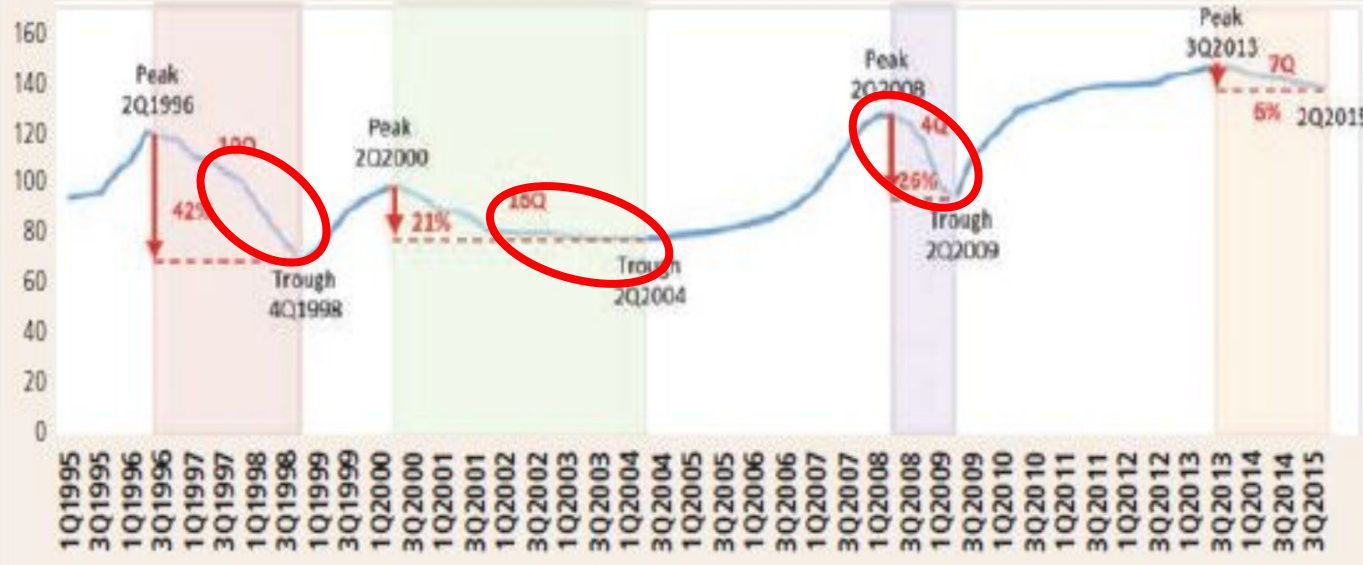




2. What are the **reasons** and **consequences** of these cycles? (30 marks)

Reasons & Consequences -Singapore

Private residential property price index
(non-landed, including executive condominiums)



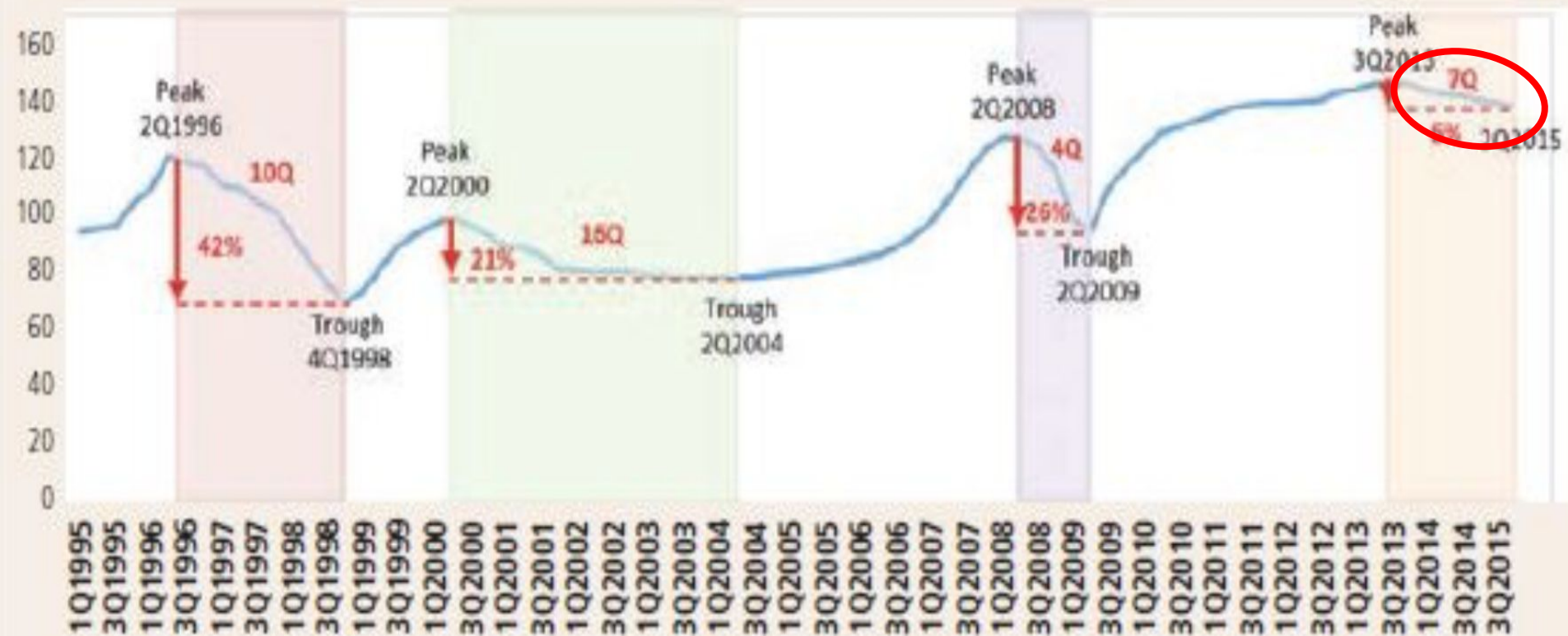
1. External Shocks

- Asian financial crisis
- SARS
- Global financial crisis

2.anti-speculations policies



Private residential property price index (non-landed, including executive condominiums)



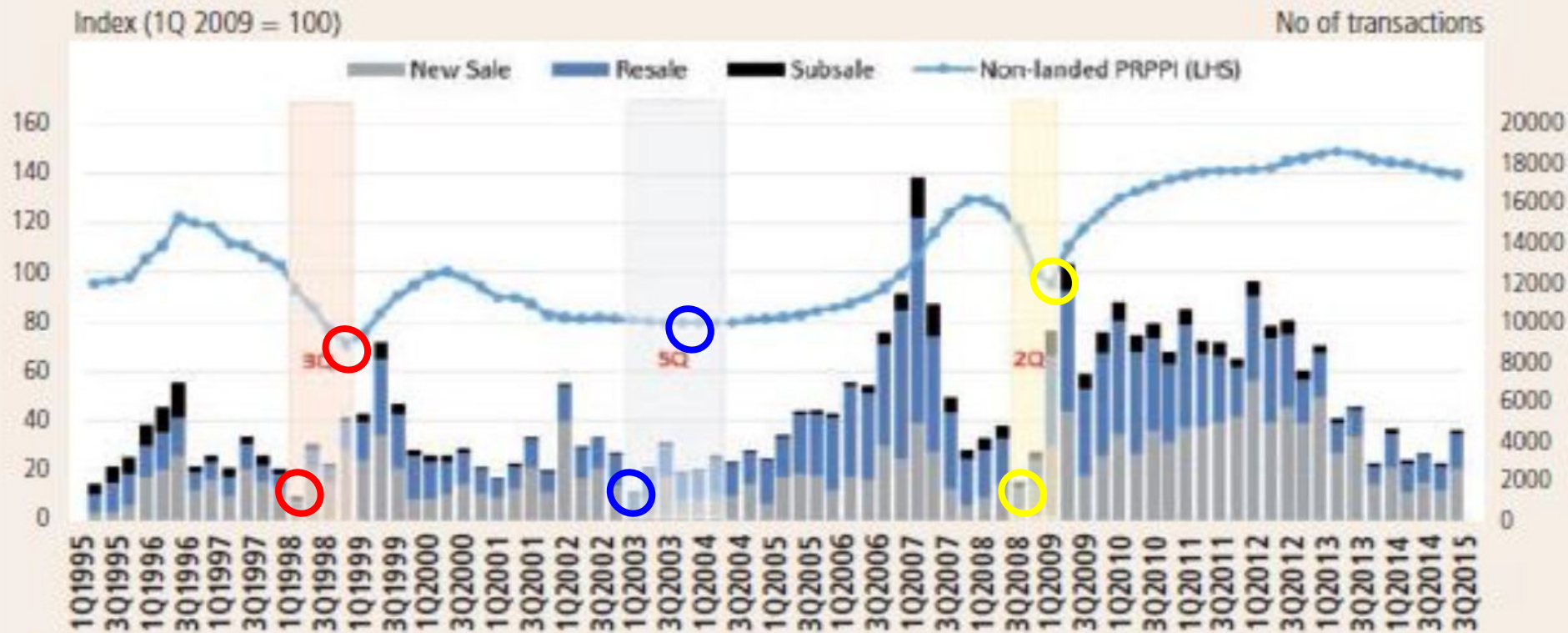
SINGAPORE RESIDENTIAL PROPERTY PRICE INDEX



SOURCE: TRADINGECONOMICS.COM | URBAN REDEVELOPMENT AUTHORITY

2.anti-speculations policies → Transaction volume → PRPPI

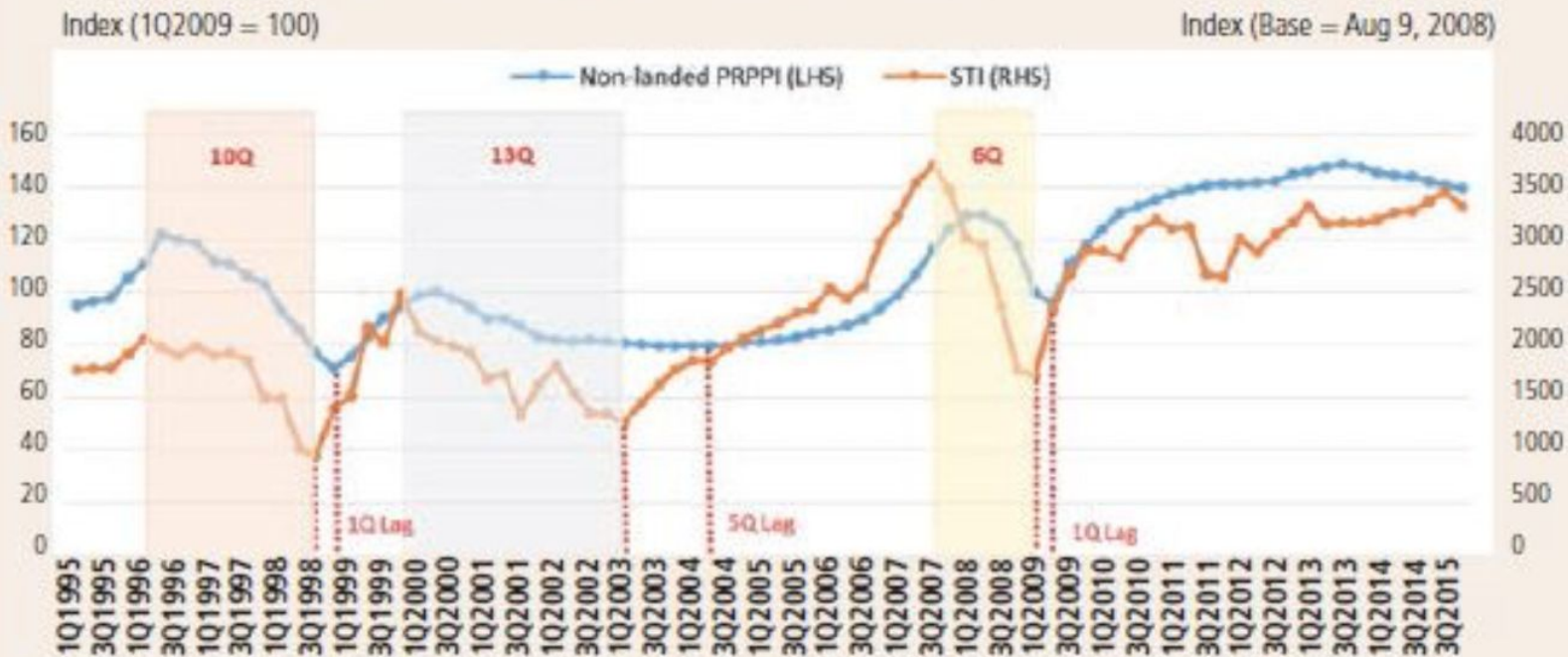
Total number of transactions vs PRPPI (non-landed)



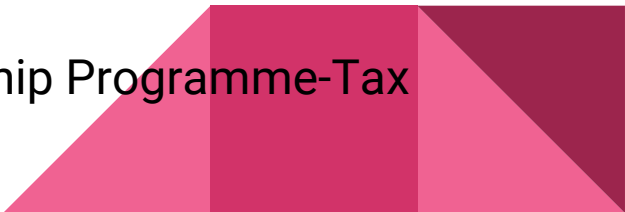
Reasons & Consequences

3. Stock market changes

Straits Times Index vs PRPPI (non-landed)



Reasons behind the price and fluctuation(Germany)

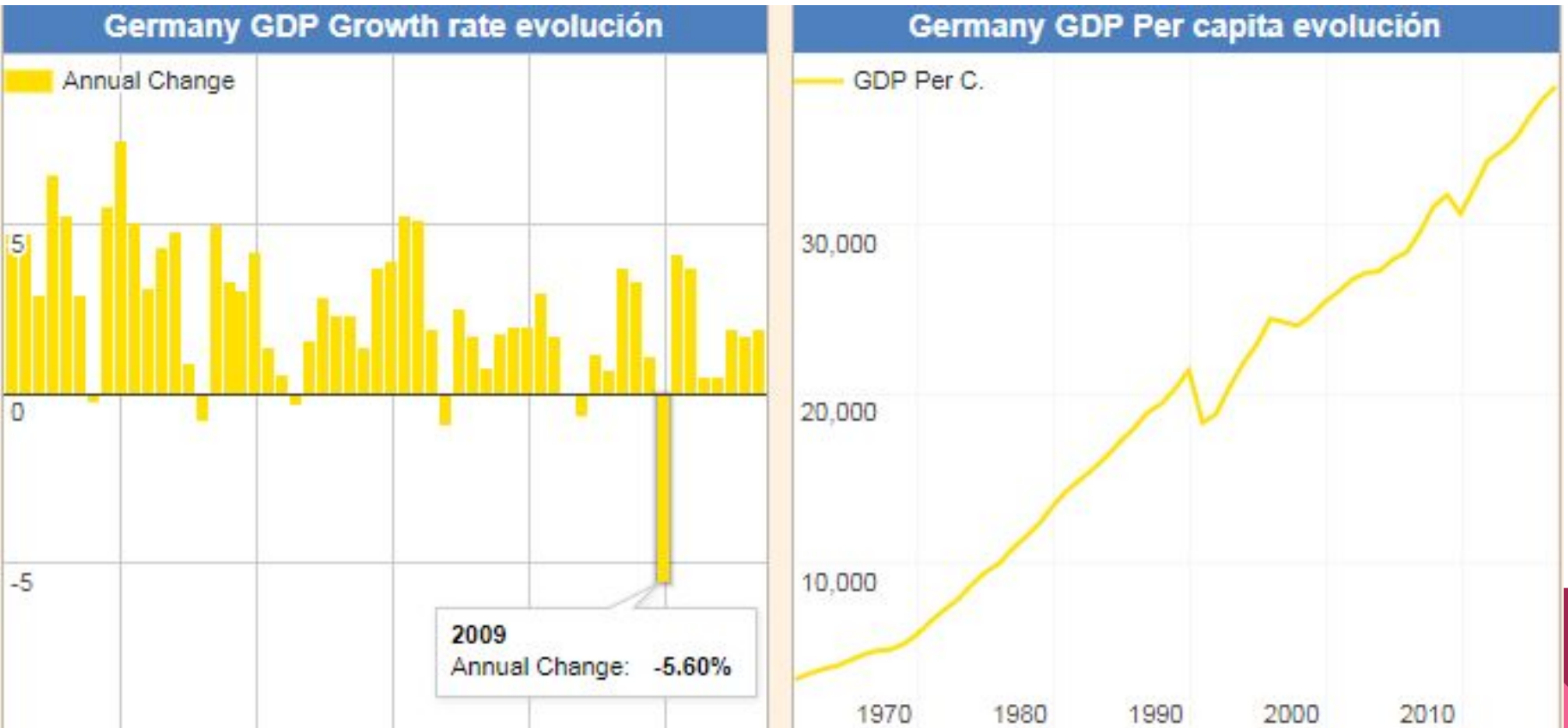
- 1.Economy of Germany
 - 2.Global financial crisis(1997/2008)
 - 3.Economy of other European countries and the policy of EU I.g Greece government debt crisis(2009~),Euro,Bond
 - 4.Anti-speculation policy
 - 5.Refugee from neighbor countries
 - 6.Mortgage rate
 - 7.Investment from foreigners
 - 8.Policy to promote supply of housing(Social Home Ownership Programme-Tax Model,Allowance Model)
- 

9. Population growth, German reunification

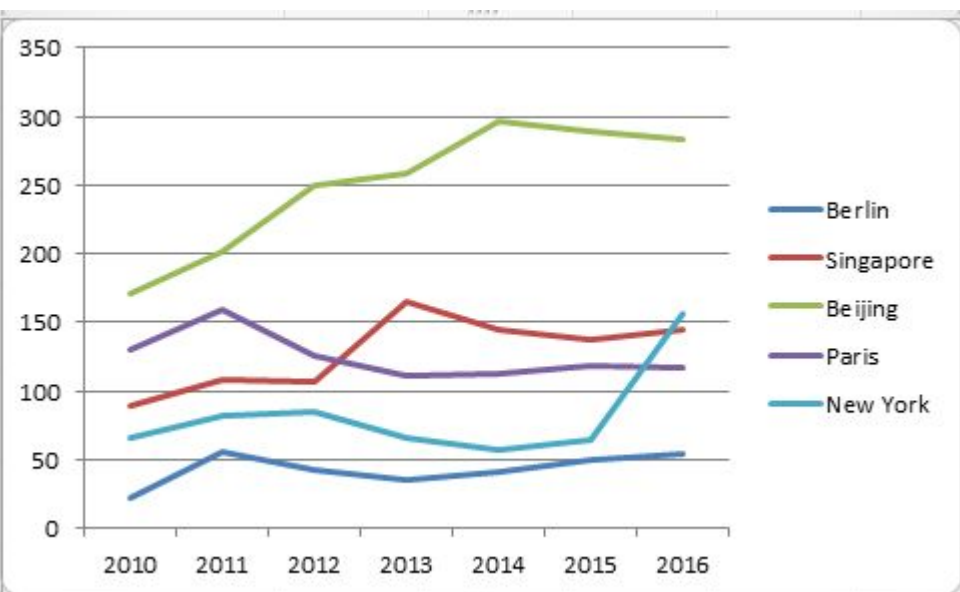
10. Decentralized, and regional approach to urban planning



Economy of Germany




Mortgage vs Price of housing



Mortgage as Percentage of Income

	2010	2011	2012	2013	2014	2015	2016
Berlin	22.2	56.07	41.78	35.41	41.28	49.7	54.42
Singapore	89.17	108.26	106.28	164.52	145	136.69	144.38
Beijing	170.64	202.27	250.2	259.02	297.1	289.72	283.79
Paris	130.29	158.88	126.33	111.59	112.11	118.23	116.89
New York	65.65	82.48	84.7	65.73	56.99	64.43	157.03



3. Evaluate the
anti-speculation policies
adopted by the two
countries. (40 marks)

Evaluation of anti-speculation policies adopted by Singapore

Year	Content from 1996 - 2013
May-96	Private residential property: SGD Loan prohibition for foreigners. Introduced the maximum LTV ratio of 80%, down from 90%, for all.
Jul-01	Capped banks' loan exposures to the property sector (excluding residential mortgages for owner occupation) at 35% of total non-bank exposure.
Oct-01	Private residential property: Loosened loan prohibition for foreigners.
Jul-05	Raised LTV ratio from 80% to 90%. This gave banks more room to manage their risk after the government decided that financial institutions, instead of the CPF, would hold first charge on home loans instead.
Sep-09	Round 1: Reduce flippers from speculating on house price appreciation: Abolished loan schemes that could have encouraged speculation (interest absorption scheme (IAS) and interest-only housing loans).

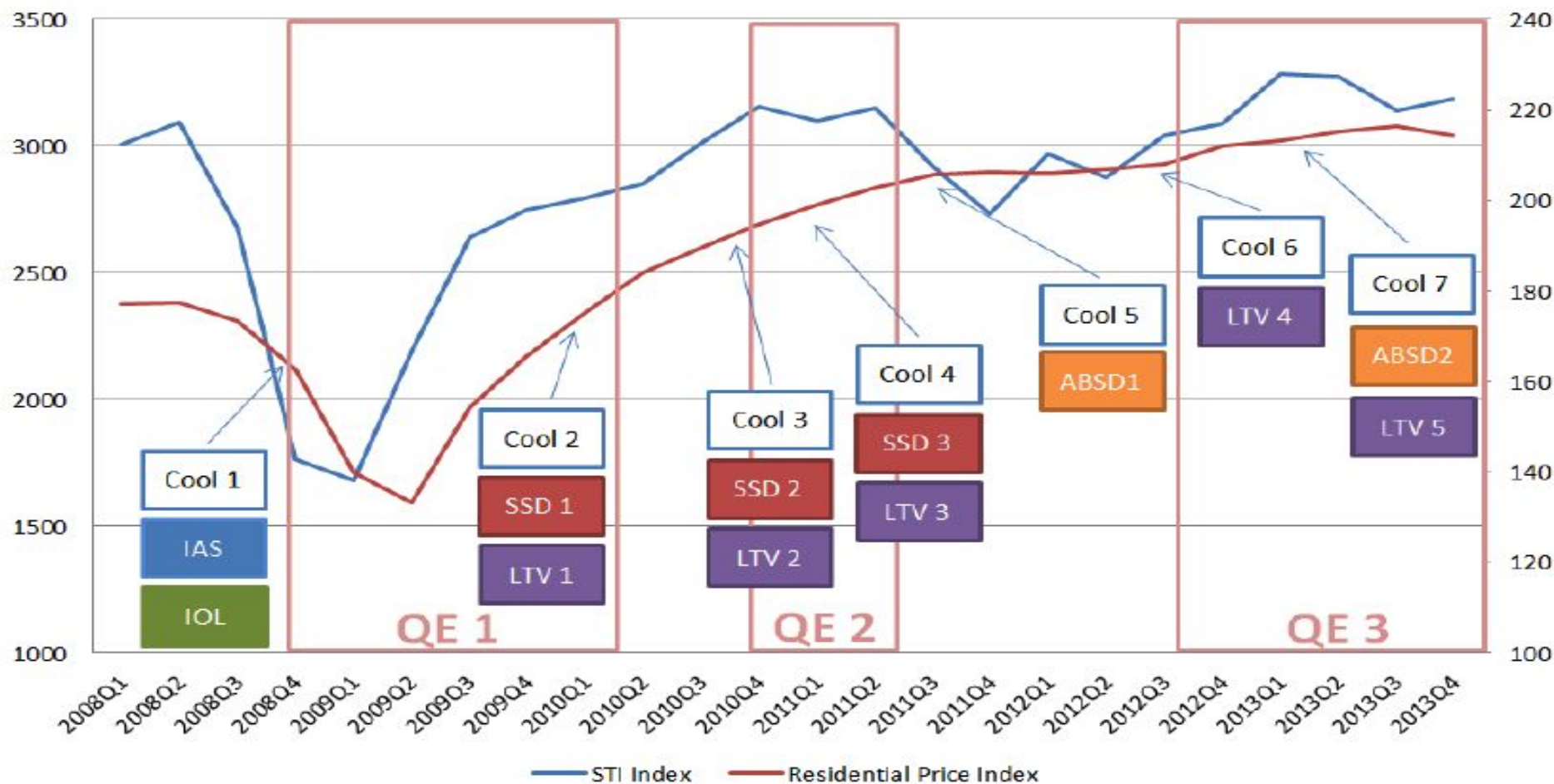
Evaluation of anti-speculation policies adopted by Singapore

Year	Content from 1996 - 2013
Feb-10	Round 2: Reduce probability of default, limit price volatility, and increase potential supply: Lowered LTV ratio from 90% to 80% for all housing loans provided by financial institutions regulated by the Monetary Authority of Singapore. Impose Seller's Stamp Duty (SSD) on all residential properties sold within 1 year purchase. Increase GLS program residential site.
Aug-10	Round 3: Reduce probability of default, curb 'flippers' of property especially HDB resale market, and increase demand for public DBSS flats: For home buyers with existing home loans, Lowered LTV ratio from 80% to 70% and increased minimum downpayment from 5% to 10%. Impose SSD on all residential properties sold within 3 year purchase. Increase Minimum Occupation Period (MOP) for non-subsidised HDB resale flats to 5 years, and disallow concurrent ownership of both HDB and private property (to sell private within 6 months). Allow households with above monthly income of \$8,000, till \$10,000 to buy new DBSS flats.
Jan-11	Round 4: To dampen the boom phase after GFC recovery, limit leverage and 'flippers': Impose SSD on all residential properties sold within 4 year purchase, depending on year of purchase. Lower LTVratio to 50% for non-individual purchasers and 60% to home buyers with outstanding loans.

Evaluation of anti-speculation policies adopted by Singapore

Year	Content from 1996 - 2013
Dec-11	Round 5: Limit foreign/corporate "hot money" and curb 'flippers' by limiting returns: Additional Buyers Stamp Duty (ABSD) for foreigners and non-individuals (corporates) buying any residential property (10%), for PRs buying second or more residential property (3%), for Citizen buying third or more (3%).
Oct-12	Round 6: Reduce probability of default by adjusting loan tenure: Loan tenure for residential property capped at 35 years. Lower LTV ratio for new residential loans if tenure > 30 years/ loan period extends beyond 65 y/o (40% for borrower with one or more loans and 60% for no-outstanding loans. Lower LTV ratio for residential loans for corporates from 50% to 40%.
Jan-13	Round 7: Reduce probability of default, curb 'flippers' by limiting returns: Increase ABSD between 5-7% across board. Tighten LTV ratio for individuals with already one outstanding loan and for corporates. Increase minimum cash down payment for individual applying second or more housing loan from 10% to 25%.

Comparing House Price and Stock Prices Singapore



Performance

- I more than 11,573 in 2016 VS 9,990 in 2015.
- Resale volumes increased by 27 percent
- remaining 47 percent of units left unsold is below the historical average of 58.7 percent



Side Effect

- Qualifying certificate (QC)
- additional buyer's stamp duty (ABSD).



Will Government ease the policy?

government's key focus

1. overall health of the Singapore's economy

2. only react when there is an excessively large drop



Evaluation of anti-speculation policies adopted by Germany

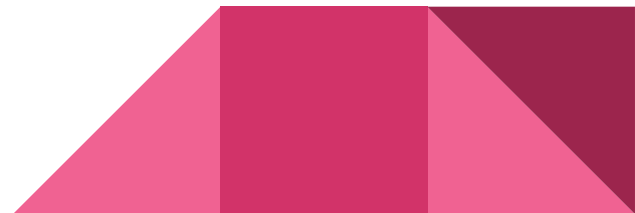
Year	Content from 1993 - 2012
Mar-93	Central bank reduced the reserve requirement ratios on time liabilities and savings deposits from 4.95% and 4.15%, respectively, to 2%.
Mar-94	Central bank abolished the progressive reserve stages for the sight deposits of residents (of 6.6%, 9.9% and 12.1%) and lowered the reserve requirement ratio for the sight deposits of both residents and non-residents to a uniform 5%. The reserve requirement ratios for time liabilities and savings deposits remained unchanged at 2%. Restructuring took 3 steps.
Aug-95	Lowered the reserve requirement ratio on sight liabilities from 5% to 2% and the ratio on savings deposits from 2% to 1.5%.
Jan-97	Central bank exempted from reserve requirements liabilities arising from "genuine sale and repurchase transactions" (repos) running for up to one year in marketable securities.
Jan-00	ECB increased for reserve requirements the standardised deductions to debt securities issued with maturity up to 2 years and money market paper from 10% to 30%.
Jan-12	ECB lowered the reserve requirement ratio from 2% to 1%.

Impact of monetary policy on property prices

Reserve requirements (RR)

With reserve requirements, banks are required to hold at least a fraction of their liabilities as liquid reserves. These are normally held either as reserve deposits at the central bank or as vault cash. Regulations generally specify the size of required reserves according to the type of deposit (eg demand, savings or time deposits), their currency of denomination (domestic or foreign currency) and their maturity. The database includes changes in the various forms of reserve requirements. In particular, we consider changes in the reserve requirement ratio and reserve base.⁵ We also include both average reserve requirements, where a certain reserve requirement ratio applies to all outstanding eligible liabilities, and marginal reserve requirements, which impose additional reserve requirements that are usually very high on any additional liabilities that banks have assumed after a certain cut-off date or that exceed a specified limit. Finally, we consider reserve requirements on both domestic and foreign currency liabilities.

Lowering Reserve Requirements in Mar-94: Lessen competitive drawbacks of the domestic financial markets vis-a-vis the Euro-markets, and thus to reduce the incentive to try to circumvent the reserve requirements.



Anti-speculation policies in Germany

1. Rent Control (No more than 15% to 20% increase over a 3-year period, Not allowed to charge more than 10% of the average rent for comparable housing in the area)
2. Tenancy is unlimited (No evicting tenants unless it is reasonable) and the notice period is long => PS: The average tenancy is long in Germany
3. Mortgage is strict (Large down payment -> 20%, Fixed interest rate, Loan-to-value ratio is capped -> 60%, Strict financial background check)
4. Not being allowed to deduct mortgage interest payments from their taxable income



5. Property transfer tax (3.5%-6% depending on the region) + Capital gain tax (within 10 years)
6. High fee to register the transfer of ownership and for the required notary services
7. Real-world rental price is available and accessed with certain price
8. High quality of social housing (No stringent construction cost cap, Allow private developers to invest) => Not image for the poor
9. Social housing programme (1950~2001)



Social Housing Programme(Germany)

Aim: To eliminate housing shortage after World War II

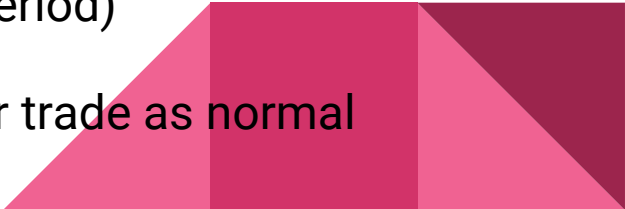
Target Audience: Unemployed or low-income households, People with authorization certificate

-STEP1: Co-funding (Government, Private Investors)

-STEP2: Pay up to 80% of both the cost of site development and construction to housing companies (Cost-sharing model)

-STEP3: The maximum monthly rent has to equal to the cost of the running expenses of the housing unit for 20 or 30 years (No profit during the period)

-STEP4: After the contract period, the owner could rent out or trade as normal economic goods.



(-STEP5 until late 1980s): Profit after the contract period could be excluded from taxable income if it is reinvested in new social housing

Result: Large number of housing units are produced at comparably low cost effectively and efficiently

Reasons to abolish:

- The goal of providing affordable housing for the mass market is achieved



Why Germany has low house ownership?

32	 Sweden	70.6	2015 ^[2]	Rank ↕	Country ↕	Home ownership rate(%) ↕	Date of Information ↕
33	 Ireland	68.6	2014 ^[12]				
34	 Netherlands	67.8	2015 ^[2]				
35	 Canada	67.6	2013 ^[13]				
36	 Israel	67.3	2014 ^[14]				
36	 Turkey	67.3	2011 ^[15]	4	 China	90	2014 ^[4]
38	 Australia	67.0	2011 ^[16]	5	 Cuba	90.0	2014 ^[5]
39	 France	65.0	2014 ^[2]				
40	 New Zealand	64.8	2013 ^[17]				
41	 United States	64.5	2014 ^[18]				
42	 United Kingdom	63.5	2015 ^[2]				
43	 Denmark	62.7	2015 ^[2]				
44	 Japan	61.6	2008 ^[19]				
45	 Austria	55.0	2016 ^[2]				
46	 South Korea	54.2	2010 ^[20]				
47	 Germany	51.9	2015 ^[2]				
48	 Hong Kong	51.0	2014 ^[21]				
49	 Switzerland	43.4	2015 ^[2]				

Anti-speculation, Social Welfare vs Renovation, Investment



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Q & A

