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INVESTING IN REAL ESTATE

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Property is a hot topic for Singaporeans and residents living in the city-state, which has one of the highest home ownership rates globally.

As of 2017, the home ownership rate was 90.70% while the average for the period between 1980 and 2017 stood at 89%.¹ It is therefore an understatement to say that the financial well-being of Singaporeans and the state of the country's property market are closely intertwined.

Cooling measures that have been in place since 2013 have helped to tame runaway prices.² However, a recent wave of en bloc fever that is showing little signs of abating, saw private home prices rise 3.4 percent in the second quarter from the previous three months, keeping pace with the 3.9 per cent increase in the first quarter.³ We felt a need to make sense of these developments.

So, at our 2nd Unicorn Intelligent Investing Services (UIIS) dialogue held in June 2018, our panel of experts sat down with a group of clients for a conversation to discuss the outlook of Singapore's property market and its implications on a client's investing portfolio. There was a healthy exchange of views, and I highlight here some key points that should be valuable to you – the property investor.

A Sign of Good Times?

It is not surprising that many property investors are still looking to cash in on the current en bloc fever as prices have rarely reached such levels since cooling measures began 5 years ago.⁴ Therefore, we expect property prices to continue to rise in the short term due to more collective sales. The case for a rise in prices is further strengthened by displaced home owners from earlier en bloc sales who will be looking to buy a property now. You may have a window of opportunity to profit from the buy and sale of real estate.

While that may be so, we advise that you proceed with caution rather than being swayed by the herd as we expect this price acceleration to be shortlived and unsustainable. This is because developers do not have bottomless pockets to lap up these projects, and will stand pat once prices get out of hand. This could eventually lead to a normalisation of prices and you could be left high and dry if you did not act in a timely and wisely fashion.

Singapore & Her Population

In the medium- to long-term, things look less rosy. You should not underestimate how Singapore's handling of the growth in its population will impact property prices.

The population grew by 128,000 in 2012, but has since dwindled to an increase of only 5,000 in 2017.⁵ This significant decline is in tandem with the government's decision to roll back immigration and tighten the inflow of foreign labour. The number of working-age Singaporeans is also expected to start decreasing from 2020 as the country comes to terms with an ageing population. Nor does the low fertility rate here improve matters.⁶ **Overall the outlook currently is for a decreasing number of households that will be looking to acquire a property. It is arguable that you can expect housing prices to face downward pressure.**

Things on the supply-side could worsen matters too. There is an existing supply of about 25,000 units of private residential developments with planning approvals. There is also a potential supply of another 20,000 units that have not been granted planning approvals yet.⁷ This adds a significant number of new housing units to the supply pipeline. **Its does not bode well for property owners looking to make a profit if supply outstrips demand.**

So if you are still looking to invest in real estate, what advice did the panel prescribe?

Do Your Math

Speak to your financial consultant -- immediately. A responsible consultant will want to understand how and if the property purchase fits into your timeline and impacts your financial goals. He will analyse whether the purchase jeopardises or enhances your plans to achieve other objectives that could be equally or more important, such as your child's education funding or financial independence.

You also need to project and analyse your cash flow over the whole course of the mortgage tenor – not just over the short- to medium-term. Career stability, unexpected cash needs, and other scenarios that can affect your ability to cover the mortgage comfortably should be reviewed regularly.

Property investors should also be aware of tax implications. Rent collected is subjected to personal income tax, which is determined by the tax bracket that you are in. You pay more taxes on the rent, as you climb up the tax ladder. On the contrary, the dividends you receive on your securities holdings are not subjected to personal income tax. This could significantly alter your decision to invest in real estate.

You should also ensure that the yield from renting the property meets the return on investment that is required of your limited resources that is available for accumulating wealth to meet your goals and objectives.

Know Yourself

As the saying goes, 'One man's pleasure is another man's pain'. Can you stomach the volatility and risks that comes along with investing in property?

Take the use of leverage when purchasing a property as an example. Real estate gives good returns thanks to the leverage effect created by the mortgage. The leverage effect allows you to **invest more than the equity you have on hand**. When a buyer puts only 20% of the money down, and borrows the rest, he is essentially using a relatively small percentage of his funds to make the purchase; the majority is provided by the lender.

On the contrary, it is also the quickest way to lose your money. Leverage is a double-edged sword. **Don't use it unless you are comfortable with the worst possible outcome.**

Moving Forward

There is potential for short-term gains at this juncture but you must tread cautiously. This window of opportunity will close once this bout of exuberance cools off. A timely decision and being aware of the risks involved is therefore of utmost importance.

However, in the long-run, grimmer times await property investors eager for a quick flip. If you wish to make a purchase, you must conduct a comprehensive, robust, risk-analysis. The failure to do so usually comes back to haunt the investor when things go south.

We will keep ourselves abreast of developments in the real estate sector so that we can provide the best advice to you. We do so because we understand the important role this asset class plays in your portfolio.

Source

¹ – Singapore Home Ownership Rate

<https://tradingeconomics.com/singapore/home-ownership-rate>

² –Singapore Property Market: Is 2018 The Right Time to Start Investing In Private Properties Again?

<https://dollarsandsense.sg/singapores-property-market-2018-right-time-start-investing-private-properties/>

³ – Singapore Private Home Prices Rise 3.4% in Q2, After 3.9% Jump in Q1: URA Flash Data

<https://www.straitstimes.com/business/property/singapore-private-home-prices-rise-34-in-q2-after-39-jump-in-q1-ura-flash-data>

⁴ – ‘Euphoria’ in Singapore Property Market Calls For Caution: Ravi Menon

<https://www.businesstimes.com.sg/government-economy/euphoria-in-singapore-property-market-calls-for-caution-ravi-menon>

⁵ – Singstat

<https://www.singstat.gov.sg/-/media/files/publications/population/population2017.pdf>

⁶ – The Population White Paper –Time To Revisit An Unpopular Policy

<https://www.straitstimes.com/opinion/the-population-white-paper-time-to-revisit-an-unpopular-policy>

⁷ – Urban Redevelopment Authority

<https://www.ura.gov.sg/Corporate/Media-Room/Media-Releases/pr18-26>

⁸ – Rental Guide 2018: Top 5 Most Expensive Estates To Rent A HDB Flat In Singapore

<https://dollarsandsense.sg/rental-guide-2018-top-5-expensive-estates-rent-hdb-flat-singapore/>

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