Note by EIC

SCB Economic Intelligence Center

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No bubble...or at least not yet

Highlight

- The rising price of residential property in the Bangkok Metropolitan area raises concerns about a bubble forming. Recent price surges in the Singaporean and Chinese housing markets were caused by speculative behavior and controlled by government measures. EIC has found that the continuing growth of land prices is the reason why Thai property price rises.
- EIC sees no evidence for property bubble concerns in Thailand. However, developers should consider the reduced purchasing power of residents, especially in the middle- to low-income group which have seen slow income growth.

Housing prices in the Bangkok Metropolitan area have been increasing, raising concern about speculation causing a bubble. The Bank of Thailand has shown that housing prices in the Bangkok Metropolitan area rose continuously between 2013 to October 2016. The prices of detached houses and townhouses increased by 8% and 15%, respectively, while unsold units expanded only slightly as the development of horizontal residential units is completed in phases. On the other hand, condominiums prices grew by 31%, with unsold units expanding by 34% to 68,874 units (Figure 1). This raises a concern about whether price increases come from actual demand for residential units. EIC therefore studied cases from Singapore and China to consider whether there are any signs of a housing bubble in Thailand.

Singapore had worries over a 23% price surge, causing the government to implement both supply- and demand-side measures to slow down fast-growing prices. Housing prices in Singapore expanded during 2010 to 2013 as a result of a reduction in mortgage interest rates that started in 2010 and eventually dropped below the general borrowing rate. The low cost of purchasing houses through loans attracted both domestic and foreign demand for the Singaporean housing market, leading to rapid expansion. The government then stepped in and implemented various measures to control speculative behavior during the low interest rate period. Demand-side measures were especially severe toward second time (or more) property buyers, include increasing loan-to-value ratio, raising the buyer stamp duty, and a lower total debt servicing ratio. Supply-side measures included a seller's stamp duty to control profit-seeking sales that could eventually lead to a housing bubble. The government also ordered foreign developers in Singapore to finish their projects within five years and sell all the units within two years after completion or pay progressive fees for unsold units. These measures were deemed to be fairly effective considering the decline in the number of new residential units and speculative activities, with current housing prices lower by about 8% (Figure 2).

With China facing housing bubble concerns, the government decided to use more area-specific measures expected to stall the expansion in the short-to-medium term. The expansion of the Chinese housing market was also a result of a low mortgage interest rate that is currently 4.5%, down from 7.0% in mid-2014. Moreover, the government implemented an economic stimulus involving a reduction in down payment requirements for real estate, using the growth in the housing market to induce overall economic growth. On one hand, the price hike is concentrated in tier-1 cities like Shanghai, Beijing, Guangdong, and Tianjin (Figure 3). On the other hand, other cities face the opposite problem with high number of unsold units and decelerating (or negative in some cities) price growth. In 2016, the Chinese government used area-specific measures to control the price hike in tier-1 cities, including higher down payment requirements and stricter regulations on second home ownership, while attempting to reduce the number of unsold units in lower-tier cities by using land use regulations to decrease housing supply growth. These measures resulted in slower price growth in tier-1 cities with the exception of Beijing, and helped ease the bubble concern in the short term. However, to be closely monitored are real estate developers, who have been issuing bonds to raise money in financial markets. These real estate funds comprise 40% of all investment funds because of their low costs. The above mentioned government measures might lead developers to face declines in sales numbers and housing prices and increase the risks of default, which could contribute to a bursting bubble. The IMF's Global Financial Stability Report estimates that the ratio of debt to GDP in China's business sector is as high as 165%, with the majority in real estate (31%), and that debt-at-risk in the real estate sector accounts for 25% of total debt-at-risk. On the demand side, the Chinese are relying more on loans to buy houses than in the past. Home loans in 3Q2016 expanded to 32% of GDP, higher than the 25% figure during the same period of the previous year. In conclusion, the main causes of concern for the expanding housing bubble come from both private sector debts from developers and demand for home loans from buyers.

However, each country differs in their economic and social structure. Factors that affect a housing market in each country, although similar, vary in details. Singapore and China are similar in that the use of land for real estate development is strictly controlled by the government, but the policies used are different. Singapore increased the severity of the regulations on housing sales and purchases while China employed measures that depend on market conditions and are area-specific. The Thai housing market is similar to the Chinese in that high-priced projects are concentrated in major cities and the majority of the housing demand is domestic. On the contrary, Singapore has a high number of foreign workers compared to domestic population and allows foreigners to apply for permanent residence as well as to buy and legally own a property in Singapore. Foreigners, mostly executives of multinational companies, make up a majority of the demand in the higher end of the Singaporean housing market. While in the Thai housing market, stimulus measures have been used for the past several years to boost real demand for housing during a period when economic confidence is low. EIC sees the Thai housing market undergoing a transition between business cycles and, therefore, is growing at a normal or slower rate. Divergently, the Singaporean and Chinese housing markets are currently aflame and require preventive measures against speculative activities that could lead to bursting bubble.

The main reason for the price hike in the Thai housing market is the relentless increase in land prices that might affect purchasing power for property. Rising property prices followed an increase in land prices, the main cost of real estate development that grew 31% in 2015 from 2013. The land price surge resulted from the development of infrastructure megaprojects such as extensions of the city rail network to suburban areas, new road construction, and the expansions of expressways and motorways. Nonetheless rising land prices produced higher new residential project prices. The price of new residential units in the Bangkok Metropolitan area was 22 times higher than the annual income of residents in 2015, while it was only 16 times higher in 2013 (Figure 4). The lag behind of income growth compared to property price growth suggests decreasing purchasing power and a concomitant reduction in the affordability of residential units.

However, EIC sees no evidence of a housing bubble in the Bangkok Metropolitan area, considering the low level of speculative activities. Developers nonetheless should be cautioned when setting prices for their new projects. The fast-growing housing markets in Singapore and China resulted from a drop in mortgage interest rates, while interest rates in Thailand changed only slightly along with the Bank of Thailand's policy and market conditions and likely did not stir speculative behavior. The decelerating growth of unsold units and new units signal a stalled housing bubble. Nevertheless, financial institutions have been careful and implemented strict lending policies, reflected in slower growth for commercial bank real estate loans. In September 2016, their loans grew 3% compared to the same period last year. Moreover, non-performing loans only comprised 4.4% of total real estate loans at the end of 3Q2016, compared to 4.6% in 3Q2013. Nevertheless, developers should thoroughly consider newly launched project price setting, since land prices in certain areas have increased rapidly and might lead to higher-priced residential projects, such as projects along the Purple and the Red lines. Price competition across types of residential projects in the same area, such as between townhouses and condominiums, might cause an increase in the number of unsold units.

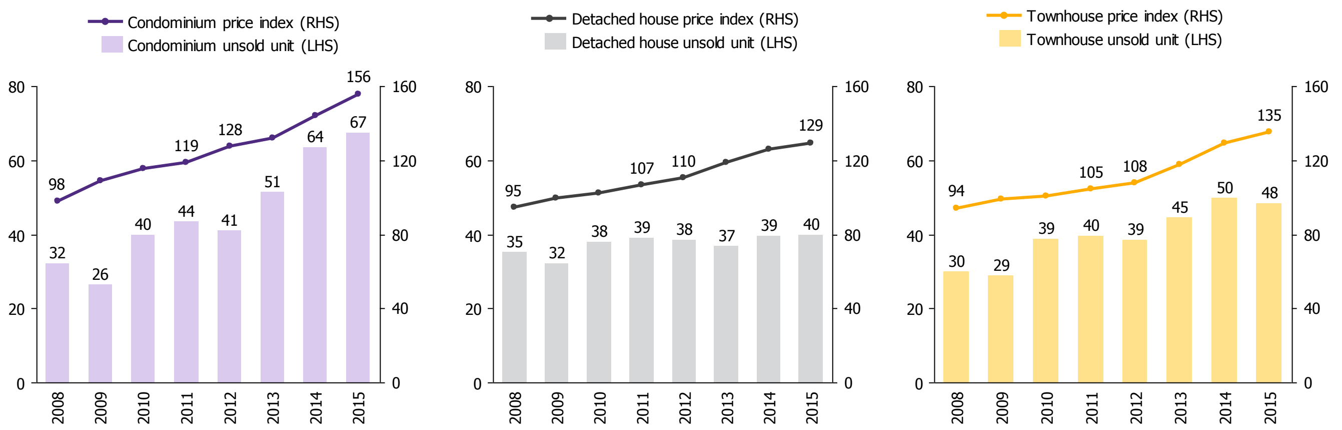
Implications

- **EIC feels that without any current signs of a housing bubble the government should look beyond real estate stimulus measures and into boosting consumer confidence to help steer the market.** The last real estate stimulus measures led to more transfers of ownership, suggesting that buyers still possess purchasing power but lack confidence in the economy. Therefore, government measures to boost confidence might be another solution to push the market to operate more efficiently.

- **Moreover, developers should consider buyers' purchasing power especially in the middle- to low-income group.** Property prices have increased faster compared to income growth, and there is a high level of existing debts. The ability to be granted loans and buy properties in this group is limited. This could be reflected in the proportion of unsold units priced between of 1-3 million baht to unsold units of all prices rising to 59% in mid-2016 from 50% at the end of 2013.

Figure 1: Price index and number of unsold units in the Bangkok Metropolitan area - by type

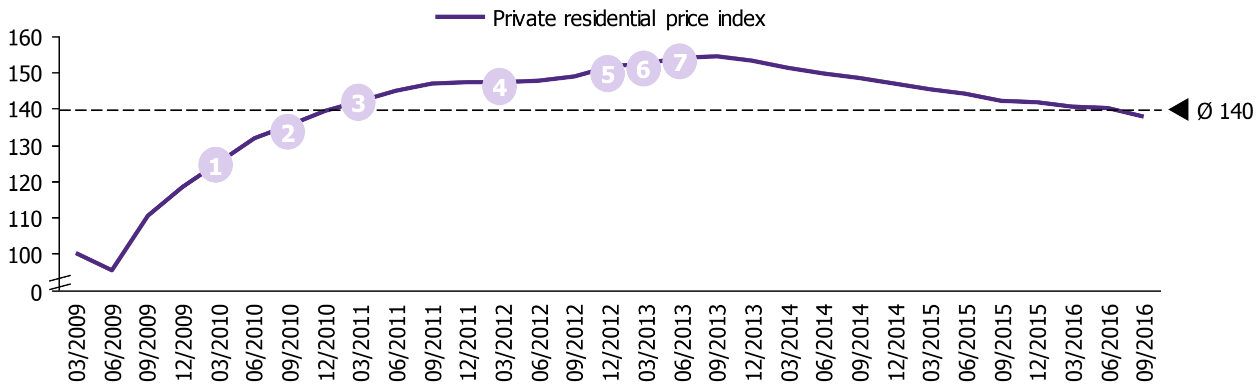
Unit: thousand units. index (January 2009=100)



Source: EIC analysis based on data from the Bank of Thailand and the Agency for Real Estate Affairs

Figure 2: Property price index and housing policy announcements in Singapore across time

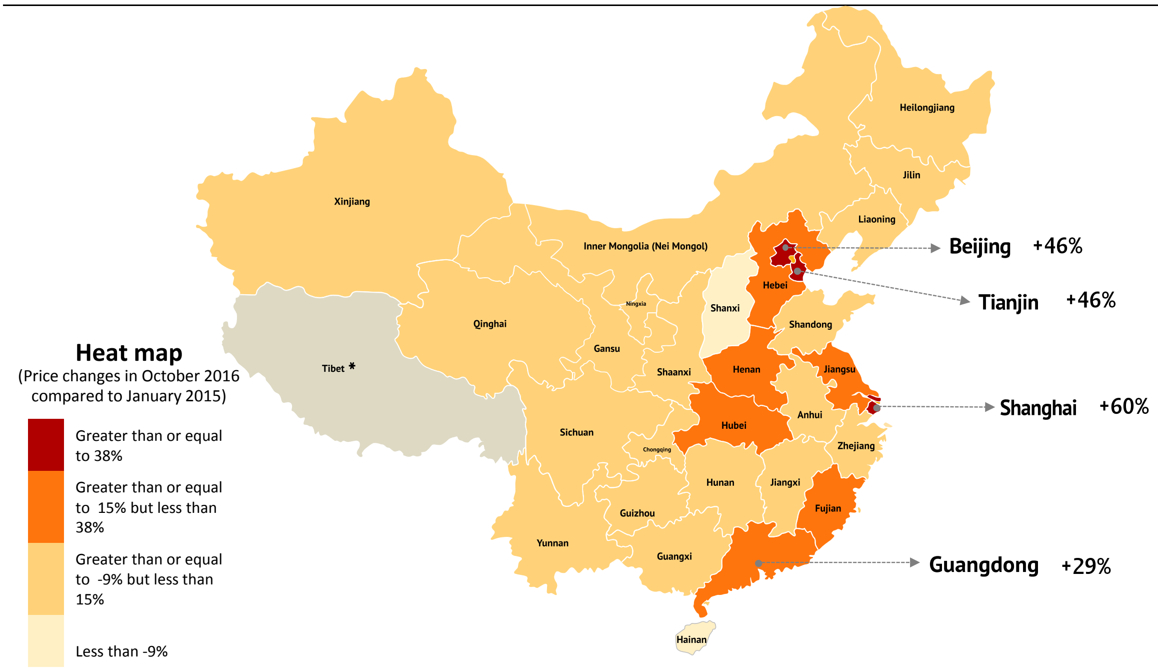
Unit: index (1Q2009=100)



Date of Announcement	LTV ratio	ABSD	TDSR	SSD
(1) Feb 20, 2010	80%			If sold within one year, same as basic stamp duty
(2) Aug 30, 2010	First loan: 80% Second loan: 70%			If sold within one year: same as basic stamp duty If sold within two years: 2/3 of basic stamp duty If sold within three years: 1/3 of basic stamp duty
(3) Jan 14, 2011	First loan: 80% Second loan: 60%			If sold within one year: 16% of value sold If sold within two years: 12% If sold within three years: 8% If sold within four years: 4%
(4) Dec 8, 2011		First home: 5% Second home: 10% Third home: 10%		
(5) Oct 6, 2012	First loan: 80% Second loan: 60% (or 60% and 40% respectively if the loan tenure is more than 30 years or extends past the age of 65)			
(6) Jan 12, 2013	First loan: 80% Second loan: 50% Third loan: 40% (or 60%, 40%, and 20% respectively if the loan tenure is more than 30 years or extends past the age of 65)	First home: 0% Second home: 3% Third home: 3%		
(7) Jun 29, 2013			Greater than or equal to 60% of one's income (including the home loan)	

Source: EIC analysis based on data from the Urban Redevelopment Authority of Singapore, JP Morgan, and SRX Property

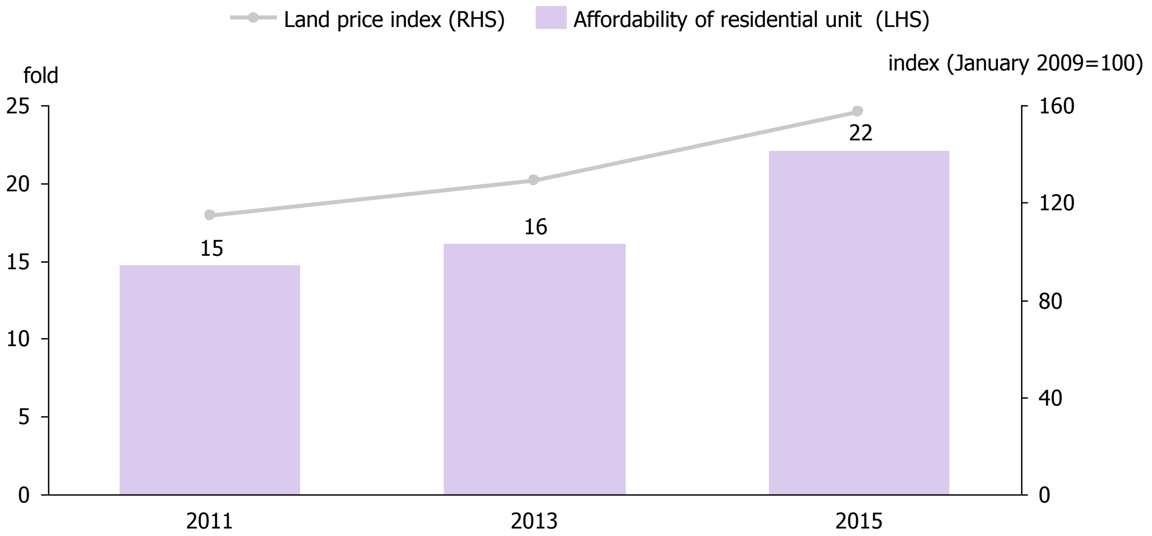
Figure 3: Property prices in China



* Property prices in Tibet grew 101% to 5,317 yuan per square meter, coming off the lowest base of 2,640 yuan per square meter in 2015 compared to other cities in China.

Source: EIC analysis based on data from the National Bureau of Statistics of China

Figure 4: Land price index and property purchasing power in the Bangkok metropolitan area



Source: EIC analysis based on data from the Bank of Thailand, the National Statistical Office of Thailand, and the Agency for Real Estate Affairs

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