NUS National University of Singapore

Source: *The Business Times*, p13
Date: 10 February 2022

BT Infographics

Buying property after cooling measures: FOMO or wait and see?

FROM a capital appreciation perspective, is it wiser to bide your time amid new cooling measures, or act on the "fear of missing out" (FOMO) and rush to snap up properties? In its analysis of historical sales data, the Institute of Real Estate and Urban Studies (IREUS) found that properties purchased 2 years after a round of cooling measures tended to achieve stronger capital appreciation than those acquired in the same year the measures were implemented. **BY FIONA LAM**

IREUS at the National University of Singapore tracked homes that were purchased around 1996 and 2013 - the years when earlier cooling measures had the most lasting impact on the market - using data on caveats lodged. It then assessed how the properties performed over time, based on longitudinal data.

In the wake of any new property curbs, sales volumes typically come down as most buyers adopt a wait-and-see approach, and that may lead to a decline in housing prices.

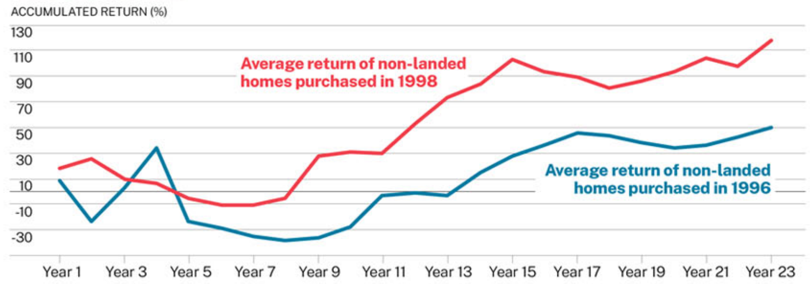
But this time round, after the Dec 16, 2021 measures, strong demand from upgraders, concerns over delays in the delivery of Build-to-Order flats, and the time lag in increasing supply via the government land sales imply that bullish market conditions may persist, said IREUS deputy director Lee Nai Jia.

It comes as first-time homebuyers and those who are upgrading, right-sizing or doing lateral moves are largely unaffected by the latest measures.

Buyers who had purchased residential properties in the earlier months of 2021, before the fresh curbs, may therefore be able to avoid lacklustre or negative returns, provided the market does not correct amid the heightened uncertainty in the global economy, he said.

1996 vs 1998

Wait-and-see wins



When it came to capital appreciation, buyers who waited 2 years after the introduction of cooling measures to make their purchases did "significantly better" than those who bought during the year when the market had peaked and the new measures were rolled out in response, IREUS found.

By and large, non-landed private residential properties bought in 1996 had a worse showing than those bought in 1998, over the same investment horizon of 23 years, between 1997 and 2021.

The average accumulated return was consistently higher for homes acquired in 1998, compared to those purchased in 1996.

Also, barring a sudden uptick in the 4th year or 2000, the average accumulated return of properties bought in 1996 turned positive only in the 14th year, or 2010.

In comparison, the return of properties bought in 1998 stayed in negative territory for just 4 years, and even doubled in value by the 15th year.

Likelihood of losses

	HOMES BOUGHT IN 1996	HOMES BOUGHT IN 1998
Total no. of transactions from 1999 to 2021	14,028	8,473
No. of transactions with negative returns	5,023	1,660
Proportion of transactions with negative returns	35.8%	19.6%

Going by the number of properties achieving negative returns, the likelihood of incurring losses after an extended investment horizon - from 1999 to 2021, in this case - was lower for homes that were purchased after cooling measures. About 20 per cent of homes bought in 1998 lost money, compared to the higher 36 per cent of those purchased in 1996.

"It is also interesting to note that many buyers who purchased in 1996 flipped their residences, and exited during the sharp market rebound in 1999," Dr Lee said.

2013 vs 2015

Average accumulated returns (%)

	HOMES BOUGHT IN 2013	HOMES BOUGHT IN 2015
Year 1	5.2	3.4
Year 2	-0.8	2.9
Year 3	2.8	15.1
Year 4	1.4	16.2
Year 5	5.6	11.2
Year 6	3.7	14.7

The 2013 property curbs came at the peak of the market, and were the seventh package of measures within 3 years to reign in surging buying sentiment.

Higher returns also accrued to buyers who acquired properties 2 years after the 2013 cooling measures. The average accumulated returns of these assets were above 10 per cent in the third to sixth years, whereas those of homes purchased in 2013 never exceeded 10 per cent.

Holding power

	PROPERTIES BOUGHT IN 2013		PROPERTIES BOUGHT IN 2015	
	NO. OF TRANSACTIONS WITH NEGATIVE RETURNS	NO. OF TRANSACTIONS WITH POSITIVE RETURNS	NO. OF TRANSACTIONS WITH NEGATIVE RETURNS	NO. OF TRANSACTIONS WITH POSITIVE RETURNS
Year 1	6	5	4	2
Year 2	28	15	7	15
Year 3		70	5	62
Year 4	202	312	23	337
Year 5	243	656	87	478
Year 6	205	416	96	820

The average return of properties purchased in 2013 was positive in the first year. IREUS attributed this to the lack of transactions as most owners had stronger holding power, unlike in 1996, and preferred to wait instead of selling at a loss. On the other hand, those who purchased in 1996 had faced greater pressure to sell because they were subsequently grappling with the crippling effects of the Asian financial crisis.

2018 and Covid-19

With the additional buyer's stamp duty (ABSD) and other measures in place, most buyers' investment horizons had become longer than before by the time the 2018 package of cooling measures kicked in. The low interest rate environment and the recovery of the rental market also enabled owners to enjoy more holding power.

"Buyers have likely learnt from their experience that they need to hold their assets for a longer time to break even. Hence, most are not in a haste to sell unless circumstances, such as divorce or job loss, forced them to do so," Dr Lee said.

The unprecedented Covid-19 pandemic also turned out to benefit buyers who had paid high prices for properties in 2018. The increase in demand due to a confluence of factors - such as the need for larger spaces for remote working, new wealth created through cryptocurrency investments, demographic-driven demand and construction delays - fuelled price surges for homes.

In addition, a number of these buyers from 2018 have passed the three-year mark on their purchases and thus could sell their properties without incurring seller's stamp duty. As a result, nearly 90 per cent of the owners who transacted made a profit, Dr Lee noted.

"However, the profits likely accrued more to the owners with only 1 residential property, as the prohibitive ABSD for the second and subsequent properties would have, to some extent, eroded the profits for multi-property owners," he said.