

PROPERTY

The Singapore Shuffle

How the government is cracking down on speculators

By Cesar Bacani

WHEN SINGAPORE DEPUTY PREMIER Brig-Gen. Lee Hsien Loong bought his Scotts 28 condominium unit in October, he agreed to pay \$1.9 million. In less than seven months, the flat's value is estimated to have soared nearly 23% to \$2.3 million. But B.-G. Lee may not make a lot of money -- in the short term. That is also true of his father, Senior Minister Lee Kuan Yew, who bought a flat at Scotts 28 too, and another apartment in Nassim Jade last year, as did B.-G. Lee. Last week, the deputy premier announced new taxes on apartments sold within three years from purchase and other market-cooling measures. "Anybody who bought property recently and buys after tomorrow will come under *this*," he said.

Is the medicine too strong? Not according to the government, which says condominium prices have risen more than 250% since 1990. "Speculation has been excessive," says Chia Yew Boon of Crosby Securities. "If nothing is done, the banking and finance sectors, and to a certain extent the economy, will be affected. It's gotten to a stage where it's so easy to make money. A speculative frenzy is created and there is no genuine investment anymore."

But some in Singapore fret that end-users may get hurt. Business executive Kenny Chan bought a row house six years ago, lived there for three years, then sold it at a 100% profit so he could purchase his current duplex unit. "I didn't speculate, but I benefited from the appreciation," he says. "The younger generation may not gain as much under these new measures." Others fear a Hong Kong-style meltdown. The British-run territory had sought to cool property speculation in 1994 by limiting the amount of mortgages and cracking down on the sale of unfinished developments, among other moves. The market went into a tailspin and has yet to recover.

Singapore has come up with its own approach. The Monetary Authority will enforce an 80% limit on mortgage loans -- the ceiling in Hong Kong is 70% of the property's assessed value. It will ban Singapore-dollar home loans to foreigners, who own about 25% of high-rise private properties and took out \$851 million in mortgages last year, three times the amount in 1993. In addition, Parliament is expected to pass a law levying a tax on 100% of profits from properties sold within one year of purchase, on two-thirds of the gain in the second year and on one-third in the third year. A new stamp duty on such transactions will also be levied and unfinished flats will be subject to existing stamp duties. The government will also increase land sales so private developers can build more apartments.

The authorities "are wielding a fine scalpel," says Chia. "We expect a correction of 5% to 15% in property prices and a reduction of 5% to 10% in net asset value per share of listed property counters." On May 15, the day after the government said it would take new measures, the stock market's property sub-index fell 4%. It had yet to rebound as of May 22. Kevin Gin of Kleinwort Benson Securities Asia says property values may continue falling in the next three to six months "due to selling by speculators, but eventually you will see end-user demand catching up." Says he: "Singaporeans are getting richer and their money must be channeled somewhere. Most believe property is a better bet than other investments."

Muhyiddin Razack, a property analyst at brokerage HG Asia in Singapore, says about 20% of apartments bought at pre-sale launches end up with speculators. They typically get a 7% discount on the developer's price, shell out 5% of the property's value as downpayment, then turn around and sell the uncompleted flat to someone else at the full price. B.-G. Lee and Lee Kuan Yew got similar discounts, though the developer of both Scotts 28 and Nassim Jade, Hotel Properties Ltd., says neither official asked for preferential pricing. The Lees say they will donate to charity an amount equal to the discounts they were given.

What about the Hong Kong scenario? "The market there started to decline not just because of government measures but because of seven interest rate hikes in 12 months," says Gin. "The Hong Kong economy was also slowing. Singapore's is still buoyant and interest rates here are going down." Nine of ten Singaporeans already own their homes, mostly public housing. For those who want to upgrade, the government will sell 1,000 units of what it calls executive condos this year. They will be as spacious as -- but priced substantially lower than -- private apartments. The days of red-hot property values may be numbered. But if the government plans work, Singaporeans might get a stable market in return.

-- Reported by Santha Oorjitham / Singapore and Steven Poh / Kuala Lumpur