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Singapore property may face ageing threat

Study says home prices could fall 30 per cent by 2040, but analysts say investment and immigration flows will support prices, mitigate effect of ageing, less dynamic population

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Older population, cheaper homes?

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Singapore

IT is a hypothesis that could colour the common perception of the viability of property as a long-term asset to hold in Singapore:

A recent study by the National University of Singapore's Institute of Real Estate Studies predicts that Singapore home prices could fall by about 30 per cent by 2040 as the society ages and the old-age dependency ratio rises.

But economists and real estate consultants argue that this scenario may not come to pass because of investment and immigration flows. They say that the study by and large approaches residential property as a consumption good, ignoring the investment part of the equation, which should not be the case, given Singapore's status as a global city.

The working paper by a team led by Chihiro Shimizu, to be published next week, covered 12 Asian, five South and Central American and 18 European economies. It forecasts that, in ageing European and Asian economies - including Singapore - housing prices will drop as a result of demographic changes in the next 30 years.

This conclusion is not new; it has been much debated in US academic literature, but not many such studies have been done in the Asian context, noted DTZ regional head of research Lee Nai Jia, who was formerly an assistant professor in the Department of Real Estate at NUS' School of Design and Environment.

The researchers behind the study expect the old-age dependency ratio - defined as the proportion of the elderly to the working-age population - in Singapore, Korea, Hong Kong and Thailand to rise from between 10 and 20 per cent to between 40 and 60 per cent in the next 30 years; in China, the proportion of the aged is expected to grow from 11 per cent to 35 per cent.

The expanding ranks of the aged could in turn send home prices down by 50 to 60 per cent by 2040, it said. However, Singapore will buck the trend, in that its home prices could fall by less - 30 per cent.

The reason for this disparity comes from the study's assumption that the populations in other countries would stay somewhat stagnant, while Singapore's total population is expected to grow 36 per cent from 2010 to 2040, culminating in a population of 6.9 million - the figure used by the Singapore government for infrastructure planning purposes.

The projected growth in Singapore's population would have the effect of offsetting some of the housing demand lost from a more aged population, it said.

While the study focused primarily on Japan, where the population is greying and declining faster than anywhere else, it found that the empirical model continues to yield similar trends when extrapolated to other countries.

The paper explained that working-age people tend to trigger demand for housing because they typically build up assets during their prime years, and then consume their savings when they enter their senior years.

"During the asset-formation period, housing assets are considered to be a safe asset for people since they lose little value due to inflation, compared with savings. Houses may eventually be passed onto one's offspring or sold and the profits allocated to expenses in one's old age."

It added: "In an economy comprising these two generations, if life expectancy continues to increase without the social welfare system developing to accommodate it, working-age people will act to reduce their current consumption in preparation for post-retirement life."

This is how a longer life expectancy can cause a fall in the consumption level of society as a whole; in addition, because the elderly depend on those who work for a living, a larger elderly population would make the overall economy less active.

DBS economist Irvin Seah said the research debunks the misconception that property prices are a one-way bet: "That assumption essentially forgets that demographics do have a significant impact and can eventually take a toll on residential prices."

But other observers believe that immigration and offshore demand will create new demand to fill the gap left behind by the aged. (In fact, the report recommends that Japan start accepting more immigrants to arrest price declines.)

Mizuho economist Vishnu Varathan said the report under-accounts for Singapore's position as an investment hotspot. He added that Singapore does not have very many cheaper housing alternatives such as cheaper rural farmland, so prices will tend to be stickier and better supported.

He also pointed out that it is slightly tricky to predict where the dependency ratio will be in 30 years because a large part of Singapore's population is inorganic.

Permanent residents and non-residents make up about two-fifths - nearly half - of Singapore's population, for instance, which makes simple extrapolation from the current population make-up difficult.

The study, referring to economies outside Asia, predicts that the dependency ratio will rise from about 20 per cent to 40 per cent in Oceania and North American countries. But the impact on residential prices are "not as serious" in these countries because their populations are expected to grow 20 to 30 per cent.

In European countries, the dependency ratio is expected to rise from between 20 and 30 per cent to between 30 and 50 per cent, leading home prices to fall.

The declines are mostly capped at 20 per cent, but could be deeper in Germany, the population of which is ageing and shrinking; prices there could plunge more than 40 per cent.