

Asia Focus

Prospects of Property 'Bubbles' in Asia

- *Asian governments have u-turned in their real estate policy as asset prices saw a marked recovery from their trough sometime in Dec 2008-Jun 2009, driven by low interest rates, aggressive fiscal measures and improving economic fundamentals.*
- *It is debatable whether the price rebound so far is large enough to constitute a 'bubble' but many policy makers felt that the recovery had moved well ahead of the real economic factors.*
- *So far, the bulk of the policy responses were targeted at tightening mortgage requirements in order to maintain credit quality.*
- *For now, the Asian governments appear more likely to watch for the effects of earlier measures and the price movements beyond the initial rebound before implementing more sector-specific initiatives. If any, this will likely be sometime in late 1Q10 as the property support measures implemented after the global financial crisis get withdrawn.*
- *Policy makers will also be cautious, bearing in mind the monetary normalisation which is expected to take place as early as 2Q10, even though interest rates are likely to remain low (by historical standards) for a while.*
- *Recent data on price increase and transaction volume showed that activities have begun to slow in countries such as South Korea and Singapore following the property measures which would provide some temporary relief.*

A year ago, it was risk of a collapse in the global financial system. Now, Asia is grappling with risk of asset bubbles. While a concern, it clearly reflects a functioning banking system. In the West, where banks are still struggling to rebuild their balance sheets, the massive liquidity is not translated to credit. In the East, liquidity is translated to credit. The question is the demand for credit, and a large amount has trickled into mortgage related areas.

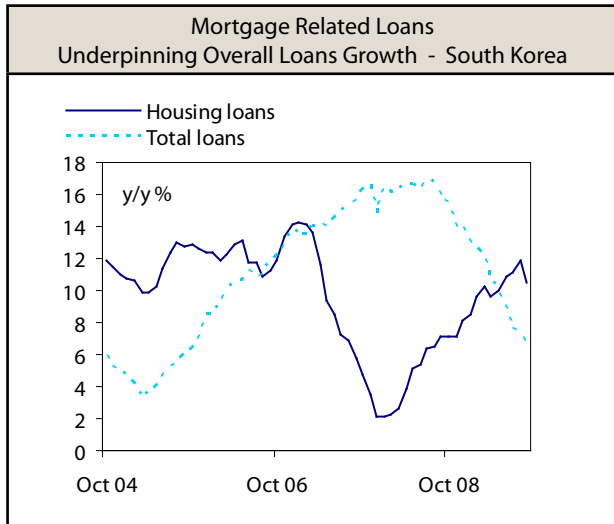
As a result, Asian governments have u-turned in their real estate policy as asset prices saw a marked recovery from their trough sometime in Dec 2008-Jun 2009. The MSCI AsiaPac ex Japan index has doubled from its bottom in March 2009 and property prices rebounded sharply, particularly in China and financial centres such as Singapore, Hong Kong and South Korea, driven by low interest rates and returning liquidity as the global economic fundamentals improved. On average, residential prices rose by 6%-24% from their trough in these countries. Undeniably, the government's support measures for the real estate markets in late-2008 and early-2009 and aggressive fiscal responses to the global financial crisis had helped in the price recovery.

While it is debatable whether the price rebound so far is large enough to constitute a 'bubble' or determine whether real or speculative demand was behind the property price rebound, many policy makers felt that the recovery had moved well ahead of the real economic factors. This could potentially have destabilising effect, triggering policy responses to preempt a property 'bubble' and prevent a surge in bad debts when interest rates begin to rise eventually or in the event of a pullback in asset prices.

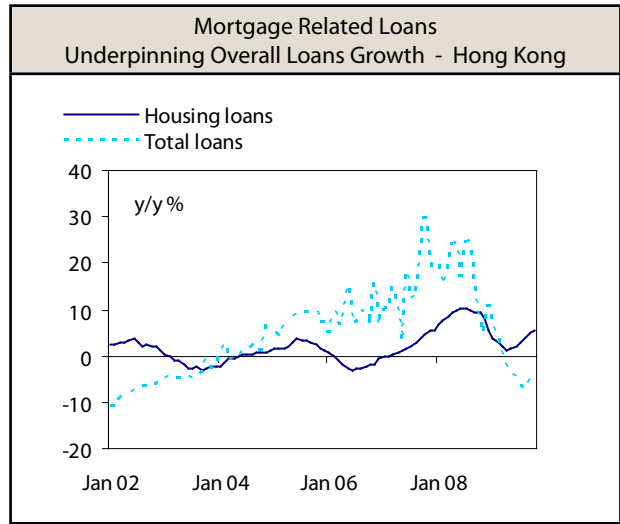
In our view, the measures were not more aggressive given the ambiguity of the situation, mainly targeted as a warning against speculation. So far, the bulk of the policy responses were targeted at tightening mortgage requirements in order to maintain credit quality and sieve out buyers with lower affordability as the servicing of such loans could become problematic if the economic conditions take a negative turn. The Asian governments will be watching the policy responses as the measures work through the system. The prospects of more dampening measures will depend on the price trajectory and market activities from here although we believe the governments are unlikely

Rebound in Housing Prices from the Trough			
	Trough	Rebound from Trough (%)	% from Recent Peak
Hong Kong	Dec 08	24.2% (Oct)	Surpassed Jun 08 peak by 2.8%
Singapore	Jun 09	15.8% (Sep)	15% below Jun 08 peak
South Korea (Gangnam-gu)	Jan 09	6.4% (Nov)	1.3% below May 08 peak
China*	Dec 08	22.5% (Oct)	Surpassed Feb 08 peak by 13.4%
*Based on average RMB/sqm price Source: CEIC, UOB			

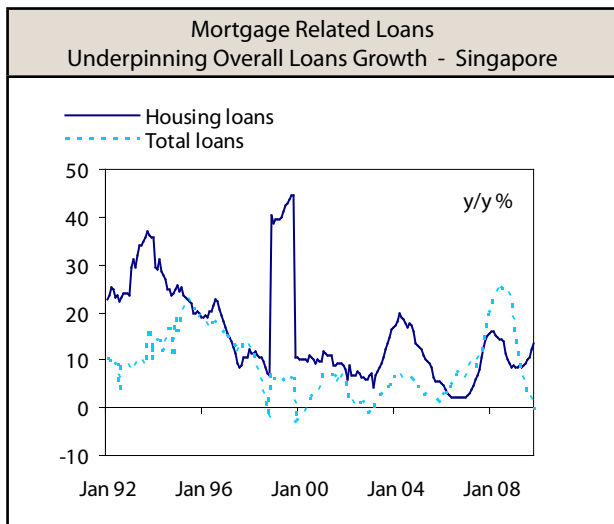
Asia Focus



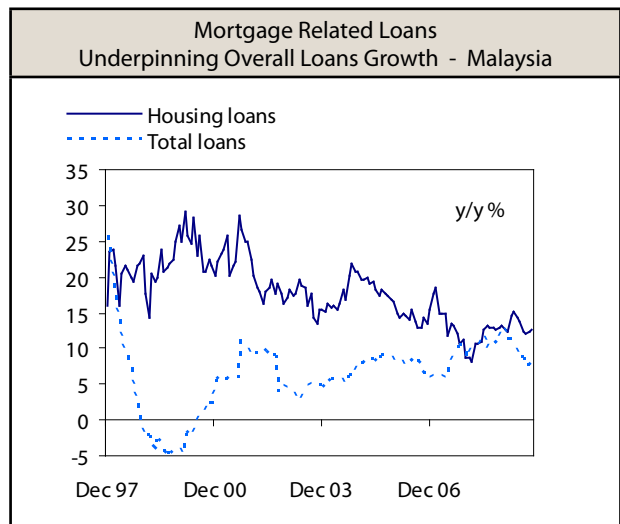
Source: CEIC



Source: CEIC



Source: CEIC



Source: CEIC



Source: CEIC

to come down too aggressively in consideration of the nascent economic recovery. Recent data on price increase and transaction volume showed that activities have begun to slow in countries such as South Korea and Singapore following the property measures.

Drivers of the Sharp Recovery in Real Estate Prices

Low interest rate environment and the bottoming-out of the global economy were the key drivers of the returning liquidity to Asia which had held up relatively well during the global financial crisis –unintended consequence from the ultra-low interest rate policy. Aggressive fiscal policies also helped to prevent a vicious cycle, in particular, the focus on supporting credit and jobs perseverance initiatives. The remarkable resilience in the jobs markets in countries such as Singapore and South Korea has prevented larger fallout in the real estate market and helped in the stronger-than-

Net Employment Changes since 2004 (as at 9 Dec 2009)				
'000s	Jobs Gained (lost) since 2008 (A)	Jobs Created During 2004-07 (B)	Net change in Jobs: 2004 to date (A) + (B)	Net change in 1998
China*	1,745.1	10,547.3	12,292.3	(19,758.0)
Taiwan	(89.0)	722.0	633.0	16.0
Hong Kong	(32.1)	293.2	261.1	(106.3)
South Korea	52.0	1,173.0	1,225.0	(1,295.0)
Singapore	223.1	595.5	818.6	(23.4)
Malaysia	368.8	713.0	1,081.8	(150.3)
US**	(7,156.0)	7,882.0	726.0	2,998.0

*SOE+collective+other enterprises; **US non-farm payrolls (seas. adj)
Source: CEIC, UOB Estimates

Summary of Measures to Dampen Property Markets in Asia	
<u>South Korea</u>	
Jul 2009	Loan-To-Value ratios tightened to 50% in Seoul and metropolitan area.
Aug 2009	To accelerate public homes project and to provide 1.5mn homes for the next 10 years.
Sep 2009	Debt-to-income ratio regulation expanded to the Seoul metropolitan area (previously only Gangnam) for mortgage loans exceeding 50 million won, which requires that the total mortgage cannot exceed 50% of a borrower's annual income in Seoul and 60% of income in the Incheon and Gyeonggi Province.
<u>Hong Kong</u>	
Oct 2009	(1) Loan-to-value ratio for properties valued at more than HK\$20m lowered to 60% from 70%; (2) HKMC fixed tenure for mortgage rate increased to as long as 10 year fixed rate @ 3.8% for qualifying mortgages
Nov 2009	3 new policies governing developers' presale procedures aimed at improving the transparency of the primary property market.
<u>China</u>	
Apr 2009	CBRC reiterated second-home mortgage policy: requirement of minimum 40% down payment and mortgage rate at >1.1x PBoC benchmark lending rate.
May 2009	News on trial implementation of property tax in Shenzhen which was subsequently written into city's next 3-yr plan.
<u>Singapore</u>	
Sep 2009	(1) reinstating the Confirmed List for the 1H10 Government Land Sales Programme; (2) immediate removal of the Interest Absorption Scheme (IAS) and Interest-Only Housing loans; (3) Budget 2009 Budget assistance measures for the property market will not be extended
<u>Malaysia</u>	
Oct 2009	The government has proposed in its Budget to tax gains from the disposal of real property at 5% from 1 January 2010.
Source: Various Newswires	

expected recovery in property prices in these countries.

Besides the massive cuts in the interest rates, various governments have introduced sector-specific measures for the real estate markets. In China, the MoF announced reductions in transaction tax and stamp duty for first home purchases in October 2008 while the PBoC also lowered down-payment requirements and mortgage rate for first home purchases. In Singapore, the support measures in Budget 2009 were aimed at helping developers extent project completion and give developers more time to sell

their projects, which helped contain market supply. South Koreans benefited from capital gains tax cuts (until Feb 2010) and better land-to-build ratios for reconstruction projects.

Relatively rigid exchange rates in China and Hong Kong also contributed to the higher asset prices in these countries. Part of the 'hot' money inflows into China in anticipation of more RMB appreciation (since USD/RMB was largely flat this year) were probably parked in the real estate market. In Hong Kong, the currency-board system which

Asia Focus

kept the HKD effectively pegged to USD while other Asian currencies appreciated meant that the domestic property prices have to adjust more than the rest of Asia.

Not to mention, the upcoming integrated resorts in Singapore which boast the world's most expensive casinos were also drawing inflows into Singapore's property market. Foreigners account for around a quarter of transactions in Singapore's private property market with the high-end segment particularly dependent on foreigners' demand.

More Dampening Measures Ahead?

Some of the Asian governments began to introduce measures to dampen the property market as early as 2Q09 as signs of potential asset 'bubbles' began to emerge. The bulk of the measures were aimed at tightening mortgage requirements such as lowering of the loan-to-value ratio in Hong Kong and Seoul. In China, the regulators tried to enforce higher downpayment requirement for second-home mortgage while Singapore removed the incentives for home purchase such as the Interest Absorption Scheme (IAS) in September. We felt that the uncertain external economic environment and ambiguity in the nature of the demand have made the governments reluctant to implement tougher market cooling measures.

With the economic recovery, we expect the Asian governments to start to fine-tune their policies as they plan an exit from the loose monetary and fiscal policies. In China, the banking regulator is planning to slow new lending to RMB7tn-8tn next year from RMB8.9tn in the first 10 months of 2009. This could have a deterrent effect given that a "significant" part of bank loans may have flowed into equity and property markets according to the Bank for International Settlements (BIS). Amongst other things, verbal warning to financial institutions to control mortgage loans expansion will likely remain.

For now, the Asian governments appear more likely to watch for the effects of earlier measures and the price movements beyond the initial rebound before implementing more sector-specific initiatives. If any, this will likely be sometime in late 1Q10 as the property support measures implemented after the global financial crisis get withdrawn. However, policy makers will also be cautious, bearing in mind the monetary normalisation which is expected to take place as early as 2Q10, even though interest rates are likely to remain low (by historical standards) for a while. Recent data suggesting some moderation in price increase and transaction volume will provide temporary relief.