

Autumn Forum on «The Globalization of Real Estate Markets»
Globalization of Real Estate Network (GREN) at the University of Zurich

Impact of foreign investors to the local housing market: the Asian perspectives

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Apartment in Hong Kong

It is one of the most expensive housing markets in the world. Prices have more than doubled in the last decade, in part due to low interest rates, scarce housing supply and large inflows of capital from mainland Chinese.



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Can a Hong Kong youth afford a home?

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By Simon Lee

Commentary: Out of reach? The unaffordability of housing fuelling the Hong Kong protests

07 Sep 2019 06:15AM
(Updated: 07 Sep 2019 06:43AM)



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While the protests were squarely directed at the controversial Extradition Bill in the beginning, it became clearer over time that there was deep dissatisfaction over the administrative failures of the Hong Kong government in meeting its people's needs, says CUHK's Simon Lee.



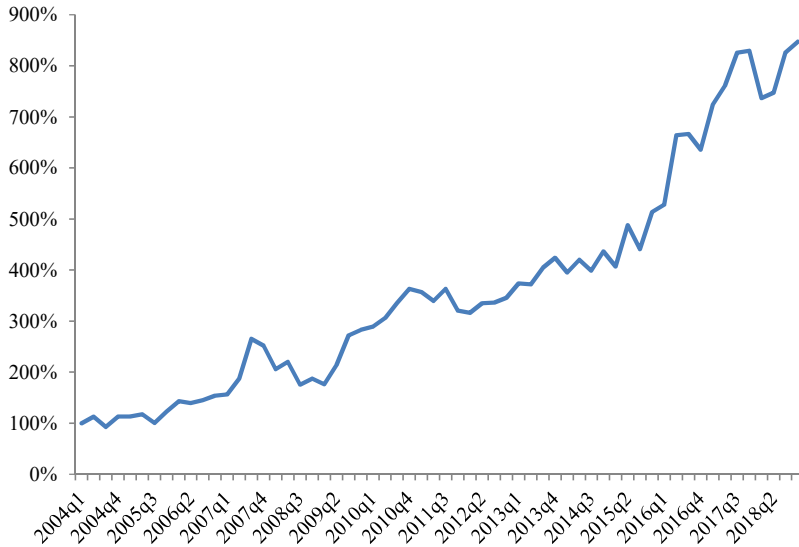
Sky-high prices and the cost of living outstrip many ordinary residents' salaries in Hong Kong

- According to the Census and Statistics Department of Hong Kong, from 2004 to 2018, the nominal wage index across all jobs rose by 63 per cent, or 3.5 per cent per year.
- The Consumer Price Index (CPI), which takes into account changes in housing, food and transport, rose by 47 per cent or 2.8 per cent per year in this same period.
- An apartment 40sqm or smaller, which is close to the median apartment size based on Hong Kong statistics, rose by 420 per cent over the same period or 12.5 per cent per year.

Housing is an Incredibly Important Asset in Asian Megacities

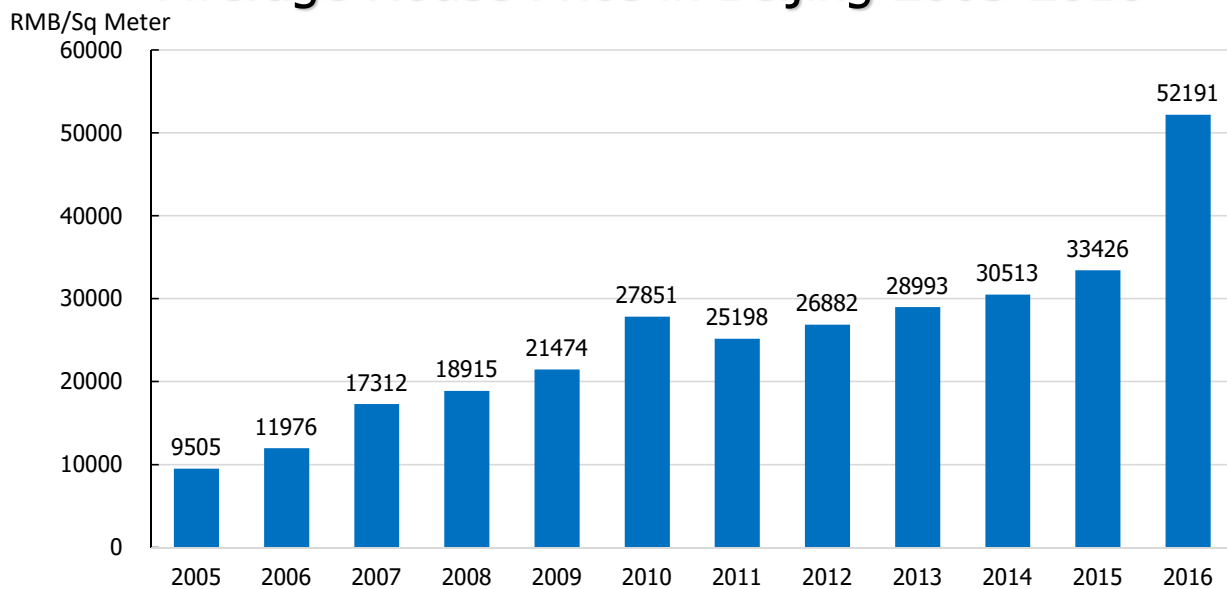
- China's housing sector comprised 6.0% of Chinese output in aggregate in 2014.
- Its construction sector contribute another 7.0%. Real estate construction accounted for about 60% of the China's total construction activities in 2014.
- Real estate development accounted for 19% of urban fixed assets investment in 2014 in China.
- Home equity is 40% of household sector net worth in Singapore in 2016, which is far greater than the analogous share of 14% in the United States.
- Expenditures on residential buildings comprised 28% of all gross fixed capital formation in Singapore for 2015, and amounted to just over 7% of Singapore's GDP.
- GDP from construction in Hong Kong increased to 29,358 HKD Million in the first quarter of 2017 from 25,116 HKD Million a year ago.
- Construction sector contributes about 24% to the GDP in 2016.

China Residential Land Price Index (CRLPI) (Quarterly: 2004q1-2018q4)



- Real prices have appreciated by **847%** since 2004q1.
- A compound annual grow rate of **16.5%** (3.89% on a quarterly basis)
- In sharp contrast, the “China Urban Land Price Dynamic Monitor” system – an appraisal based land price index – reported by the Ministry of Land and Resource of China suggest aggregate growths between 2004 and 2014 was 54.2%, which implies a compound growth rate of 4.4% per annum.

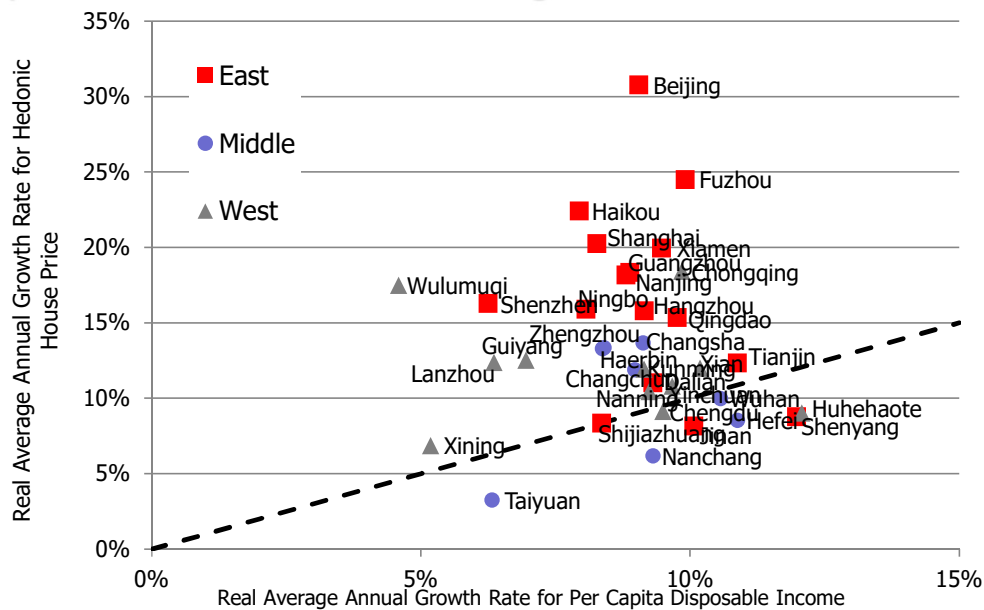
Average House Price in Beijing 2005-2016



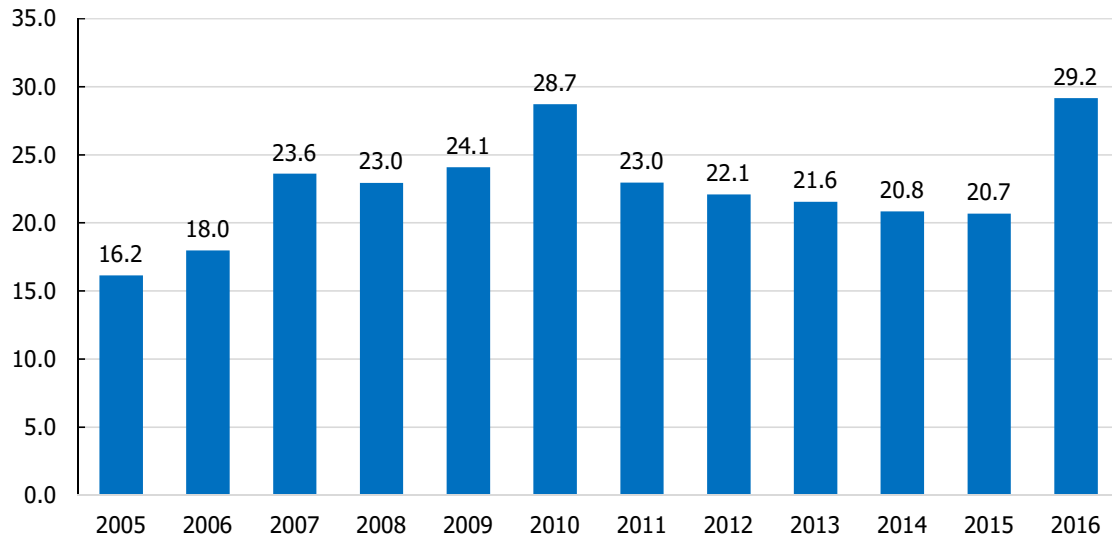
2017 Average House Price in Major Cities of China

Rank	City	Price RMB/Sq Meter
1	Beijing	53,087
2	Shanghai	47,549
3	Shenzhen	43,332
4	Xiamen	37,818
5	Nanjing	23,989
6	Tianjin	22,584
7	Guangzhou	22,051
8	Hangzhou	21,212
9	Sanya	20,478
10	Zhuhai	20,375
11	Fuzhou	18,640
12	Langfang	18,044
13	Wenzhou	17,075
14	Lingshui	15,273
15	Suzhou	14,972

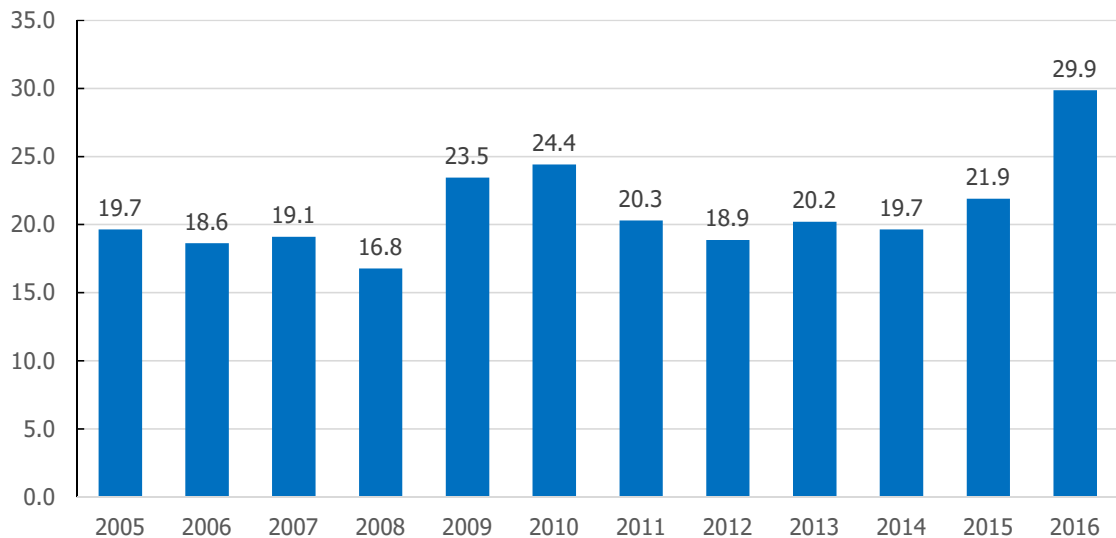
Comparison of House Price Change and Household Income Change



Average House Price to Income Ratio in Beijing (90 Sq Meter, 2005--2016)



Average House Price to Income Ratio in Shanghai (90 Sq Meter, 2005--2016)



Mortgage Payment-to-Income Ratios in China's Major Cities

Based on price-to-income ratios in 2010Q1, a family of 3 to purchase a 90 sqm housing unit, using a 30 year residential mortgage with coupon rate @ 5.05% (after the 8.5% discount), 20% downpayment, the monthly mortgage payment to household income ratios are:

Beijing	95.9%	Wuhan	40.3%
Tianjin	48.0%	Shenzhen	111.7%
Shanghai	66.3%	Chengdu	31.8%
Hangzhou	60.3%	Xian	41.4%

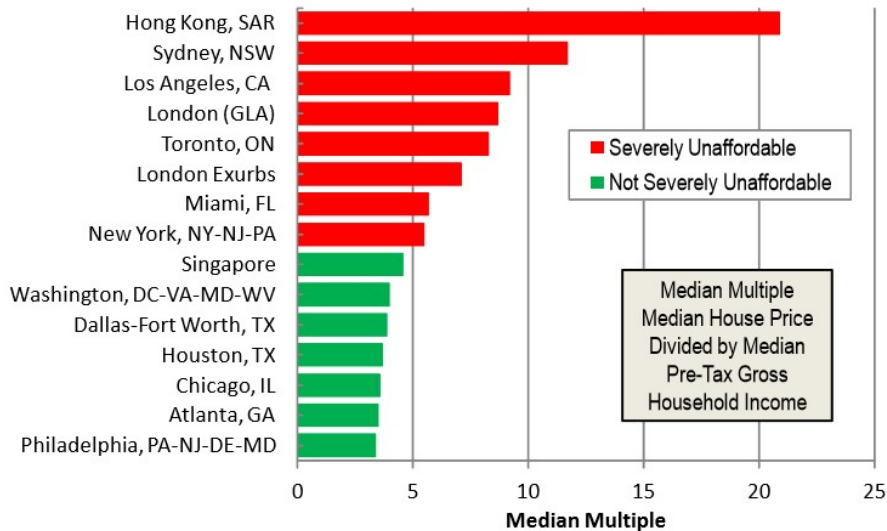
Sources: Wu, Gyourko, Deng (2012), *Regional Science and Urban Economics*.

Hong Kong Residential Housing Price HK\$ / Sq Meter, 70 Sq Meter ~ 99.9 Sq Meter · 2001-2016

Year	HK Island	Kowloon	New Territories
2001	49 358	33 792	32 685
2002	42 116	30 654	29 522
2003	40 375	28 143	26 743
2004	56 808	46 837	35 698
2005	66 634	56 516	41 584
2006	69 332	57 104	41 549
2007	83 239	76 450	44 721
2008	96 537	83 318	48 727
2009	95 288	85 613	49 189
2010	113 073	107 486	59 190
2011	135 355	123 511	68 022
2012	142 070	128 259	75 416
2013	159 480	138 823	85 640
2014	153 720	138 586	89 607
2015	171 848	148 980	101 364
2016	162 731	149 335	97 811

Housing Affordability: Largest Markets 2018

POPULATION OVER 5,000,000



Source: 15th Annual Demographia International housing Affordability Survey (2019)

A world in which only a few can afford housing is not sustainable.

– World Economic Forum Insight Report: Making Affordable Housing a Reality in Cities (2019)

- Everyone deserves a safe place to live: it can transform the quality of life of individuals and families.
- Today, however, most cities around the world are facing major challenges in providing safe and adequate housing for their people, especially cities that are growing rapidly and where the affordable housing options are limited.
- Key workers such as teachers, police officers, firefighters and nurses cannot afford to live near the communities they serve, instead having to bear the costs – in time and money – of commuting.

Impact of foreign investors to the local housing market

China's 'pent up demand' may prop up Hong Kong's property market in 2019

PUBLISHED MON, DEC 17 2018 3:33 AM EST

[Kelly Olsen](#)

- Hong Kong's housing prices have more than doubled in the last decade, in part due to low interest rates, scarce housing supply and large inflows of capital from mainland Chinese.
- Traditionally volatile Hong Kong property prices are in correction mode but there is no danger of an all-out crash, experts say.
- Hong Kong's "pretty good" economic fundamentals and the lack of major new land supply will prevent the bottom from falling out, says Peter Churchouse, founder of Hong Kong-based real estate investment firm Portwood Capital.
- Buyers from mainland China obtaining permanent residency status in Hong Kong next year will also support the market and drive up prices, says CLAS's Nicole Wong.

Braving curbs, Chinese buyers lead foreign revival in Singapore's luxury homes

SINGAPORE (Reuters)
July 12, 2019.

Foreigners are once again pouring money into Singapore's high-end property market despite hefty levies introduced last year. And, it is the Chinese who are leading the return, property brokers say.



THE BUSINESS TIMES

Return of foreign buyers to S'pore property scene

Mainland Chinese buyers still accounted for the largest proportion of purchases by foreigners last year.

THU, MAR 29, 2018 - 5:50 AM

LEE NAI JIA

Senior Director and Head of Research, Knight Frank Singapore



- More foreign buyers return as market picks up.
- Mainland Chinese buyers still accounted for the largest proportion of purchases by foreigners in 2017.
- However, acquisitions by mainland Chinese buyers rose by nearly three times in 2009, while it increased by only 31.9 per cent in 2017.
- The Chinese economy was growing rapidly from 2008 to 2011, and Singapore attracted many mainland Chinese buyers with its stability and sound economic fundamentals.
- While the additional buyer's stamp duty (ABSD) helped to keep any over-exuberance in check, the restraining effect it has on foreign buyers will continue to wane.

Thu 20 Apr 2017 15.17 ETD

Toronto to impose 15% tax on foreign home buyers to regulate housing costs



▲ A 'sold over asking' sign on display on a house for sale in Toronto's housing market. Photograph: Hyungwon Kang/Reuters

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Are foreign buyers responsible for skyrocketing property prices?

Governments must strike the right balance between inviting global capital and appeasing local sentiment



Seychelles



Panama



Cyprus



Delaware

85%

Home Away From Home? Foreign Demand and London House Prices

C. Badarinza and T. Ramadorai (*Journal of Financial Economics*, 2018)

- Analysis of whether foreign capital flows have affected real estate prices and price volatility, especially in global cities such as London and New York.
- This is a phenomenon that has been widely commented upon in the press, and been the subject of numerous policy debates, but has not been supported by rigorous empirical work thus far.
- Using large data sets of housing transactions, they find that foreign risk strongly affects London house prices.
- The effects are long-lasting, and are associated with both safe-haven effects and immigration.

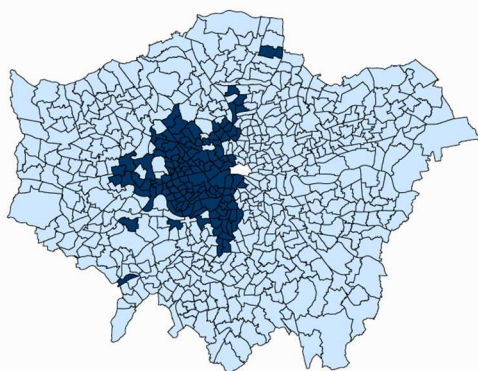


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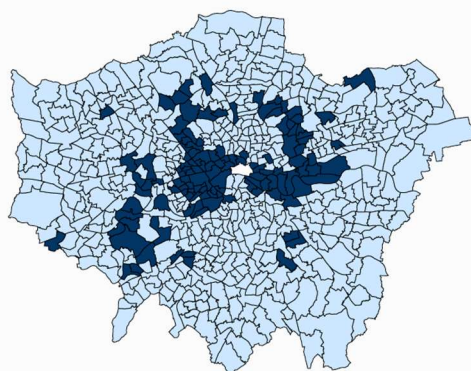
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Different nationalities cluster in different areas of London

Southern Europeans



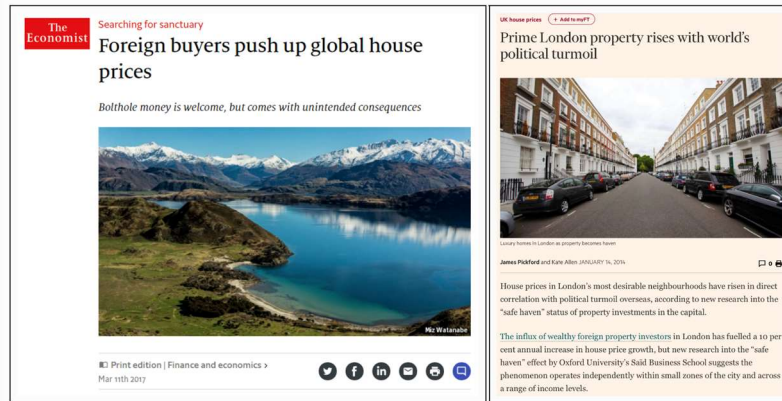
Russians



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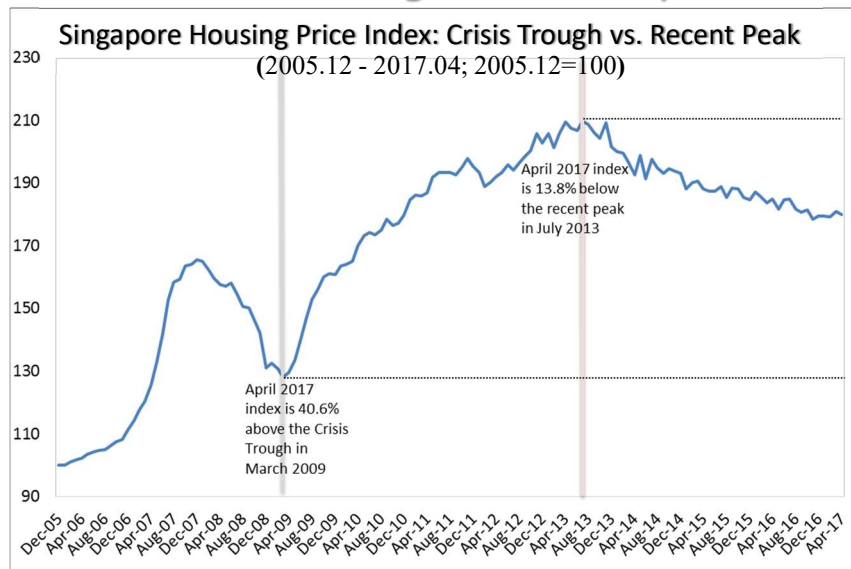
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Badarinza and Ramadorai (2018) reported

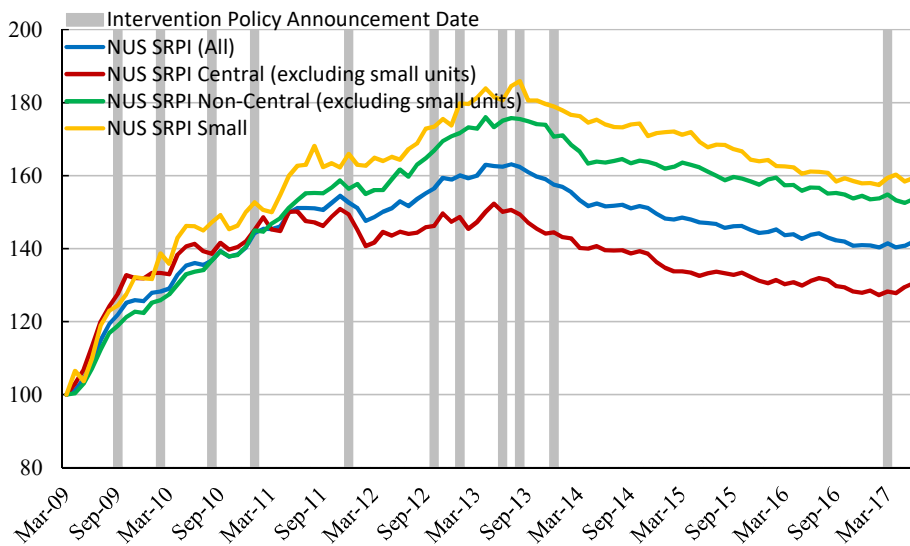


- Political turmoil in a foreign country leads to:
 - **2%** higher **transaction volume**, and
 - **3%** higher **prices**,
- in parts of London with more people born in that country.

The Singaporean governments are trying to stabilize property prices to address deteriorating affordability conditions



Singapore Government's Cooling Measures and Their Impact to the Housing Market (Sept 2009 to Dec 2013)



- The government decided to cool its housing market via a series (ten rounds) of interventions through the period (09.09 ~ 12.13)
 - Seller's Stamp Duty (SSD)
 - Additional Buyer's Stamp Duty (ABSD)
 - Total Debt Servicing Ratio (TDSR), and
 - The general loan-to-value (LTV)

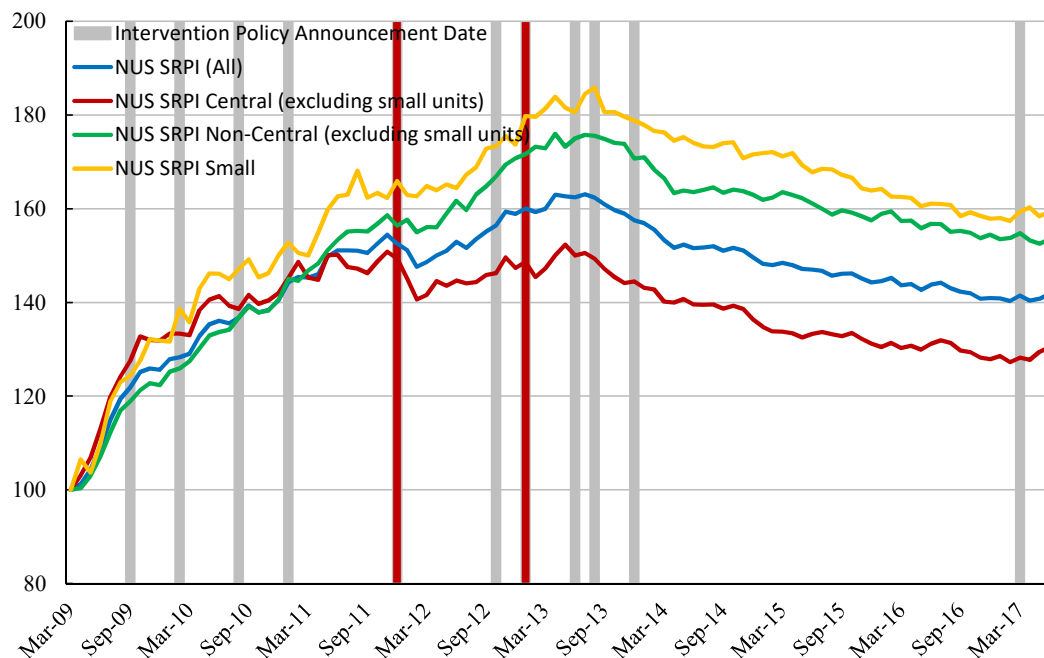
Singapore Government's Housing Market Cooling Measures

- 5th Round - Dec 8th, 2011
 - The introduction of Additional Buyer' Stamp Duty (ABSD)
 - +10% for foreigners
 - +3% for PR's 2nd property
 - +3% for Singaporean's 3rd property and above
 - The above is additional to existing Stamp Duty:
 - 1% on the 1st \$180K
 - 2% on the end \$180K
 - 3% on the remainder

Singapore Government's Housing Market Cooling Measures

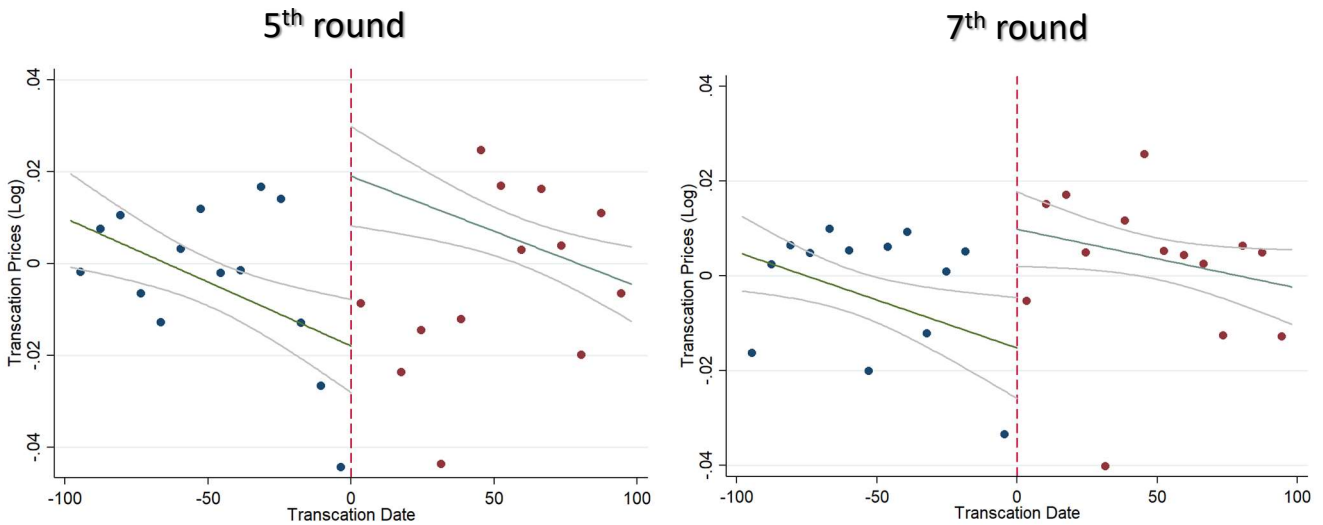
- 7th Round – Jan 12th, 2013
- ABSD (Additional Buyer Stamp Duty) increased substantially:

	1st property	2nd property
Singaporean Permanent Resident	5%	10%
Foreigners & Company	15%	15%

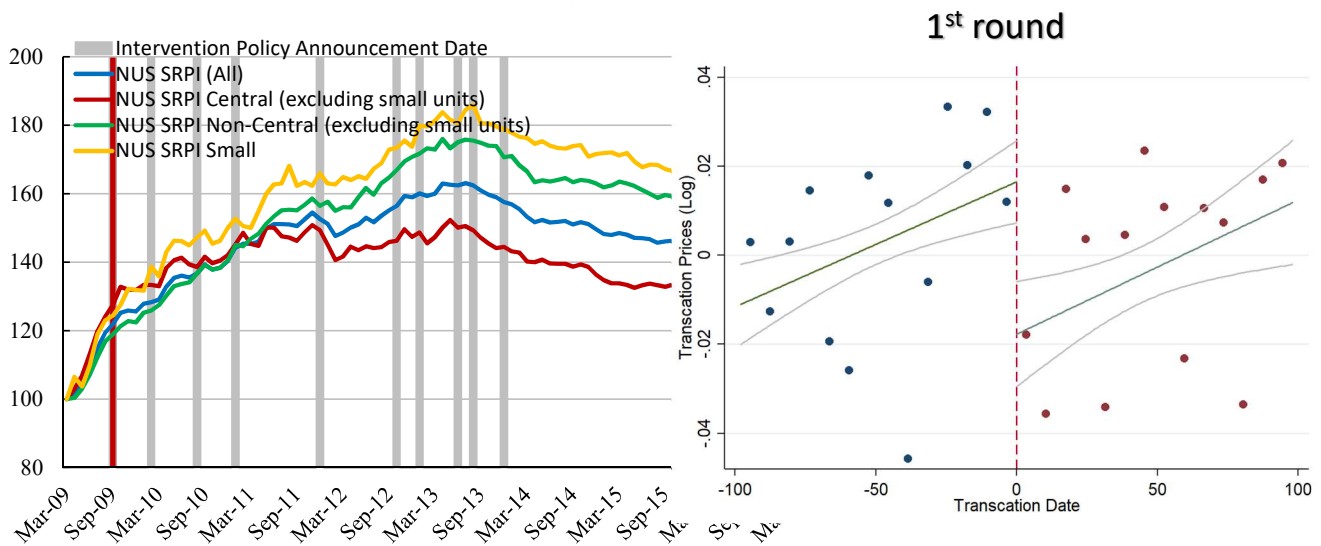


Singapore Government Cooling Measures and Their Impact to the Housing Market:
 5th round (Dec 8th, 2011) & 7th round (Jan 12, 2013) -- Additional Buyer's Stamp Duty (ABSD) targeting foreign investors

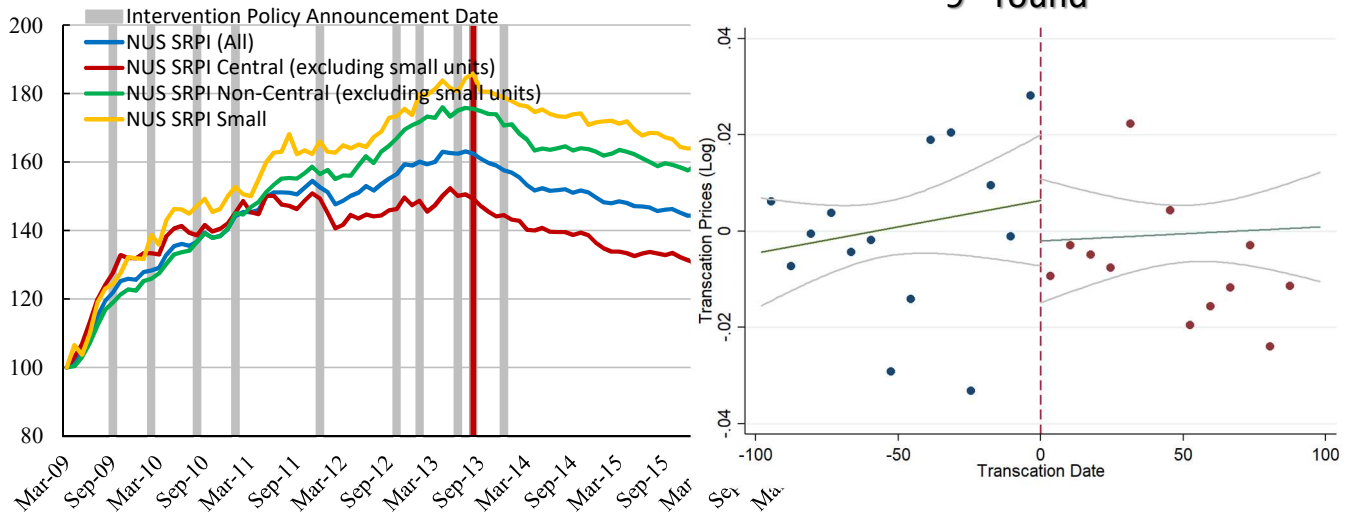
Regression discontinuities analysis on Singapore's 5th & 7th rounds (ABSD) cooling measures



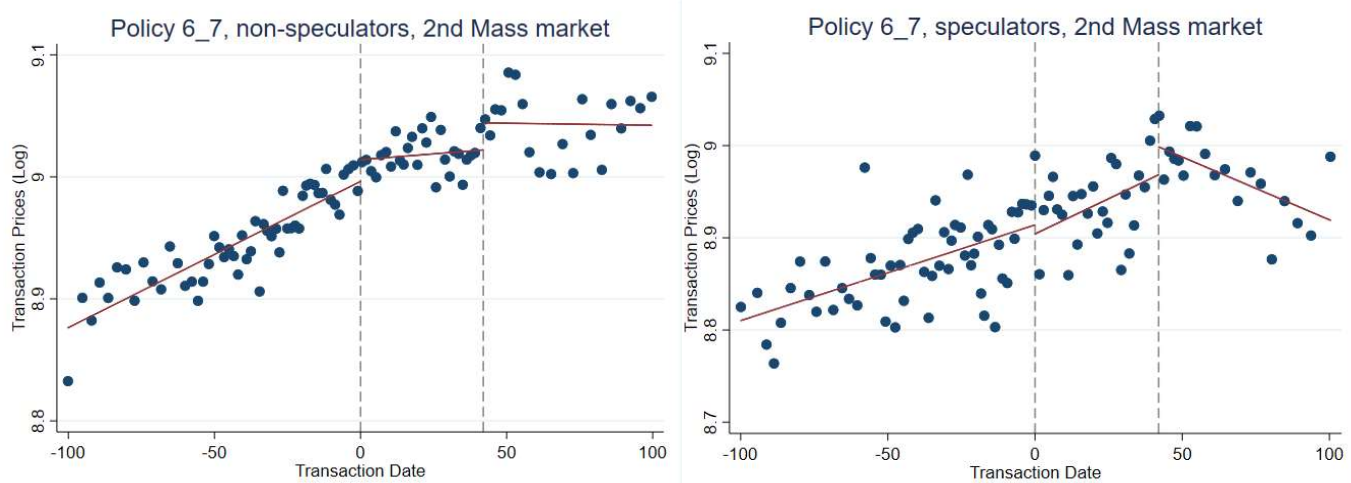
Effectiveness of Singapore's 1st round cooling measures (Removal of Interest Absorption Scheme)



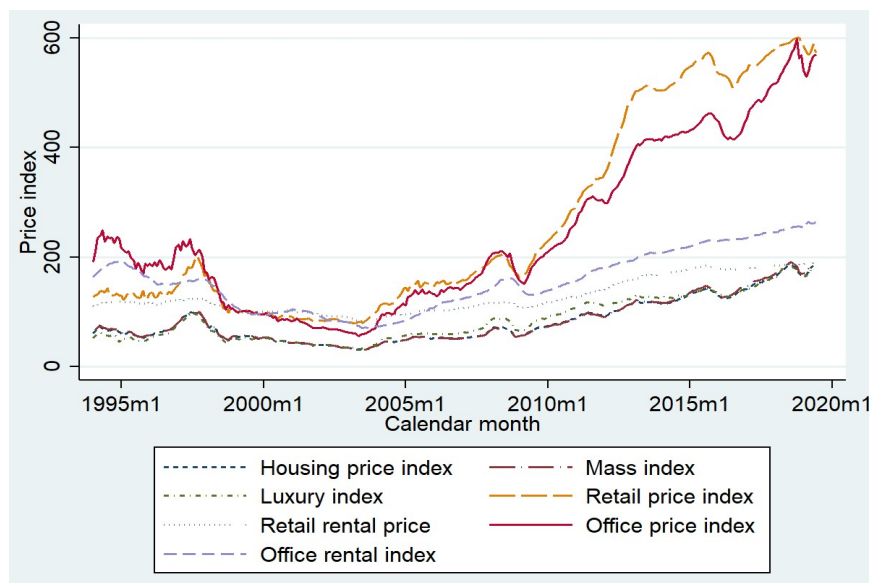
Effectiveness of Singapore's 9th round cooling measures (LTV reduced from 80% to 60%)



Effectiveness of HK Govn't cooling measures (7th round, Oct 27, 2012: A Buyer Stamp Duty for non-HKPR at 15% for all residential property acquisitions)



Impact of HK Office/Retail Booms to Housing Prices



Concluding Remarks

- With real estate markets booming in Asia, governments are trying to stabilize property prices to address deteriorating affordability conditions, especially for superstar cities.
- Singapore government's housing market cooling policies appear to have achieved their primary goals: house prices have fallen by 10%-15% according to different price indices for the public and private sectors.
- There is no clear evidence that the cooling measures caused significant collateral damage to the broader economy.
- The announcements regarding ABSD with special treatment of foreign buyers resulted in jumps in prices suggests those buyers had very inelastic demands for Singapore housing.
 - They were willing to pay more in the face of the tax, as opposed to forcing the sellers to lower their prices by the full amount of the special duty.