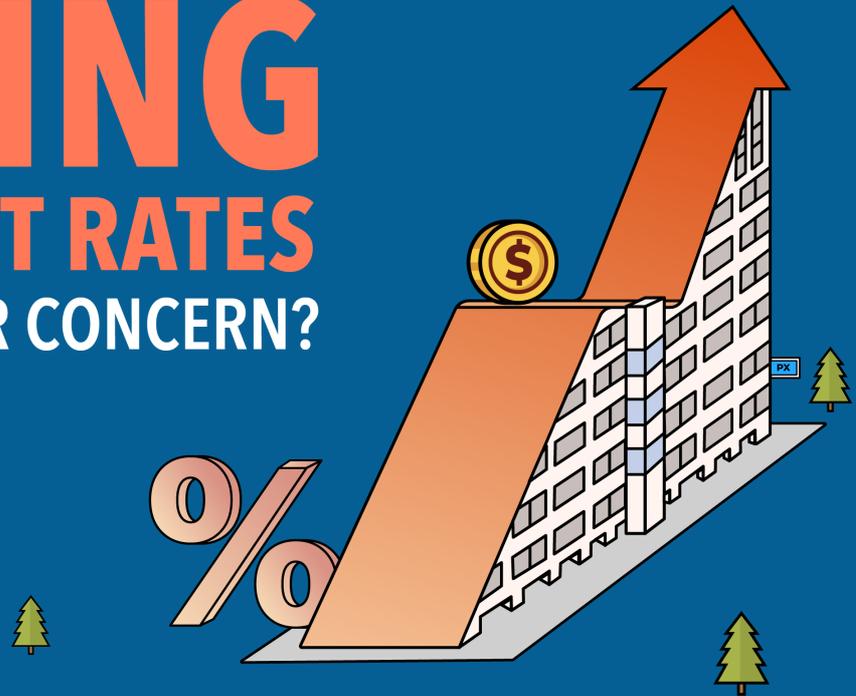


RISING INTEREST RATES A CAUSE FOR CONCERN?



We have all seen in 2021, an amazing year for sellers as we saw property **prices hitting new peaks**. A **pent-up buying demand** caused by impacts on tourism and uncertainties in the financial markets during the Covid-19 pandemic has steered many to the real estate market. Adding fuel to the hungry fire, delays in construction and rising costs in materials caused by global supply chain disruption and manpower crunch **amplified the heat further**. This huge spike in demand against the depleting supplies has forced many homebuyers to sweep up the unsold inventory causing it to hit a **record low** of 19,409 in 2Q2021. Homebuyers were further enticed by the **increase in their purchasing power** with interest rates hitting an all-time low.

Fast-forward to the present, as the economy is moving towards recovery, there are plans by the US Fed to **raise interest rates** for the first time since 2018. As most of you might know, Singapore's interest rates are closely pegged to the movements of the US Fed's interest rate. So how will the **imminent hike in interest rates** affect you?

To better understand this, let's first take a look at the **types of interest rates** offered here in Singapore.

SORA

Singapore Overnight
Rate Average

VS

SIBOR

Singapore Interbank
Offered Rate

DEFINITION

The volume-weighted average rate of borrowing transactions in the unsecured overnight interbank SGD cash market in Singapore between 8am and 6.15pm.

The rate at which an individual Contributor Bank could borrow funds was to do so by asking for and then accepting the interbank offers in reasonable market size, just prior to 11am Singapore time.



The Monetary Authority
of Singapore (MAS)

**BENCHMARK
ADMINISTRATOR**



The Association of Banks
in Singapore (ABS)



**CALCULATION
METHODOLOGY**



During Each Business Day in Singapore, reporting banks provide data on **All Eligible Transactions Traded and Booked During The Window.**

MAS conducts data validation checks and computes SORA.

Each Business Day, the Administrator calculates and determines the rate **Using Trimmed Arithmetic Mean of the Contributed Rates.**

The contributed rates will be ranked in order, the top and bottom quartiles will be removed, with the remaining rates averaged arithmetically.



**Backward-looking rate
Resilient to market fragmentation**

OTHER FACTORS



**Forward-looking rate
Pegged closely to US Fed rates**

Total Debt Servicing Ratio (TDSR)

Total Debt Servicing Ratio is a financial safety mechanism introduced by the Singapore Government to ensure that its people are not overleveraging and have the necessary financial capabilities to pay off their loans.

WHAT IS TDSR

Total debt servicing ratio (TDSR) is the portion of a borrower's gross monthly income that goes towards repaying their monthly debt obligations, taking into consideration the loan that they are applying for. A borrower's TDSR should be less than or equal to 55%.



E.g Loan Applicant is employed **Full-time with a salary of \$60,000 a year**

MONTHLY ALLOWABLE LOAN REPAYMENT AMOUNT

$$\frac{55\% \times \$60,000 \text{ ANNUAL INCOME}}{12 \text{ MONTHS}} = \$2,750$$

Therefore, monthly loan repayment for loan applicant **Cannot Exceed \$2,750 (55% of annual income) in a month.**

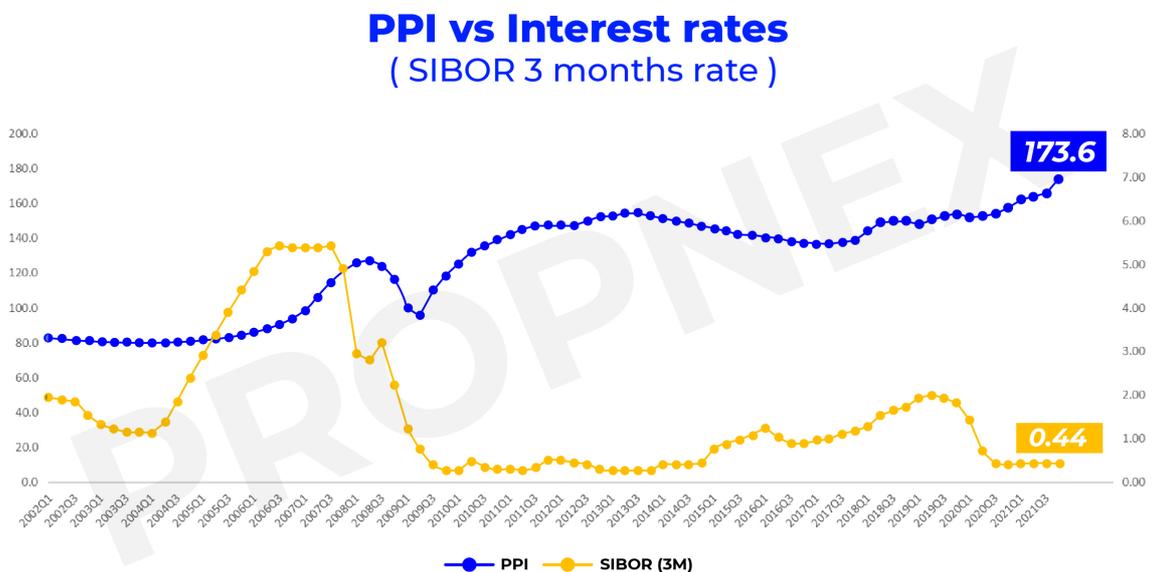




The impacts of rising interest rates

Consumers are **afraid of raising interest rates** because it affects the eventual amount home buyers have to pay after calculating accrued interest from their home loans. What if I tell you that whether the interest rate is moving upwards or downwards has **minimal effects** on your home – if you've made calculated considerations on buying your home? Many would think that it's a bad time to be thinking about buying a home when interest rates are set to hike, but let the statistics and examples below reveal to you the truth about the **relationship between the property market and interest rates**.

Looking at Figure 1 below, property prices have been on **an incline** over the past 20 years. In fact, since 2010Q1, interest rates have been relatively flat except for 2015Q1 when they started surging and then slumping again when the pandemic came.



Source PropNex Research, URA, ABS

Figure 1: PPI vs Interest rates (2002Q1 to 2021Q3)

Does it mean that people who bought properties between 2015Q1 and the pandemic **suffered losses** when the interest rates flattened over the last 2 years? You will be very surprised to find out that not only did they not suffer a loss, but many buyers made **extremely lucrative returns**. Just as buyers of Twin Vew in Figure 2 below, who bought their property at one of the peaks for interest rates in 2018, and managed to make close to a **whopping half a million dollars** when they sold it in 2021. Interest rates for mortgages may be one of the most important concerns you may have when purchasing a property. However, few realised that it should not be the most important factor to consider when it comes to choosing the right property for **reaping good profits**. The case study above clearly illustrates that **rising interest rates did not hinder the growth of a well-planned and selected property**.

2018 before cooling measures, buyers of Twin Vew make profit

SOLD ON	ADDRESS	UNIT AREA SQFT	SALE PRICE S\$ PSF	BOUGHT ON	SALE PRICE S\$ PSF	PROFIT S\$	HOLDING PERIOD DAYS	ANNUALISED %
18 NOV 2021	91 WEST COAST VALE #XX-02	1,518	1,614	12 JUN 2018	1,305	469,000	1,255	6.4
6 AUG 2021	91 WEST COAST VALE #XX-02	1,518	1,634	5 MAY 2018	1,329	463,000	1,189	6.5
11 AUG 2021	91 WEST COAST VALE #XX-02	1,518	1,693	12 JUN 2018	1,405	437,000	1,156	6.1
14 SEP 2021	91 WEST COAST VALE #XX-02	1,518	1,523	12 JUN 2018	1,246	420,000	1,190	6.3
17 DEC 2021	91 WEST COAST VALE #XX-06	1,249	1,554	12 JUN 2018	1,266	359,000	1,284	6.0
15 SEP 2021	91 WEST COAST VALE #XX-15	1,066	1,717	5 MAY 2018	1,396	342,000	1,229	6.3
11 OCT 2021	91 WEST COAST VALE #XX-06	1,249	1,578	7 JUN 2018	1,309	336,000	1,222	5.7
30 AUG 2021	91 WEST COAST VALE #XX-05	1,141	1,516	5 MAY 2018	1,234	322,000	1,213	6.4
27 DEC 2021	91 WEST COAST VALE #XX-05	1,141	1,578	5 MAY 2018	1,307	309,000	1,332	5.3
15 NOV 2021	91 WEST COAST VALE #XX-15	1,066	1,699	5 MAY 2018	1,410	307,000	1,290	5.4
19 OCT 2021	91 WEST COAST VALE #XX-06	1,249	1,666	5 MAY 2018	1,420	307,000	1,263	4.7
30 AUG 2021	91 WEST COAST VALE #XX-05	1,141	1,534	6 MAY 2018	1,289	279,000	1,212	5.4
27 AUG 2021	91 WEST COAST VALE #XX-15	1,066	1,530	5 MAY 2018	1,279	267,000	1,210	5.5
10 SEP 2021	91 WEST COAST VALE #XX-10	1,055	1,505	5 MAY 2018	1,257	262,000	1,224	5.5
30 NOV 2021	91 WEST COAST VALE #XX-05	1,141	1,507	5 MAY 2018	1,288	250,000	1,305	4.5

Source URA, <https://www.squarefoot.com.sg>

Figure 2: Historical profitable transactions for Twin Vew

Here's another example for you, Treasure @ Tampines in Figure 3 below, the unit that was bought when the interest rates were high in 2019Q2 also managed to make tremendous returns of \$416,000 in just **less than 3 years**. This could be you if you knew exactly what to buy and when, instead of worrying about interest rates. Ultimately, the growth of property prices greatly overshadows hiking interest rates.

TREASURE @ TAMPINES

PROFITABLE TRANSACTIONS

SOLD ON	ADDRESS	UNIT AREA SQFT	SALE PRICE S\$ PSF	BOUGHT ON	SALE PRICE S\$ PSF	PROFIT S\$	HOLDING PERIOD DAYS	ANNUALISED %
7 FEB 2022	37 TAMPINES LANE #XX-120	1,087	1,703	15 APR 2019	1,320	416,000	1,029	9.4
3 NOV 2021	49 TAMPINES LANE #XX-170	1,033	1,500	24 JUN 2020	1,258	250,000	497	13.8
10 OCT 2021	37 TAMPINES LANE #XX-123	1,238	1,421	27 JUN 2020	1,280	174,000	470	8.4
12 SEP 2021	41 TAMPINES LANE #XX-139	1,238	1,347	26 AUG 2020	1,251	120,000	382	7.4

PROFIT OF \$416,000 IN 3 YEARS

Source URA, <https://www.squarefoot.com.sg>

Figure 3: Historical profitable transactions for Treasure @ Tampines

To understand the rationale of why hikes in interest rates are not causing the property market to crumble or stagnate, one has to understand the reason why interest rates are increasing.

In fact, we all know that inflation has caused the increase in prices of almost everything money can buy - that includes property. And in order for the monetary authority to mitigate inflation, increasing the interest rate is one of the most effective tools to do so. So even if there isn't any growth in the real estate market over the next few years, we will possibly see property prices escalate solely fuelled by inflation.

What does this mean for homebuyers? Focusing on the wrong thing may incur a heftier opportunity cost. The rising interest rates and other trigger factors* should be an indication for investors or homebuyers to start taking swift action. It is monumentally tough for anyone to time the market but there is always a way to sift out the ideal investment property that could reap the best possible rewards. Hit me up and I shall share with you the other factors* to look out for when choosing the ideal investment property.

Let the mistakes of others be a learning point for you!

[Click to WhatsApp Me!](#)



Marcus Chua

CEA NO. : R061208E



Disclaimer:

PropNex Realty Pte Ltd or its salespersons will not be responsible for any errors or omissions or for the results obtained from the use of this information. All information is provided with no guarantee of accuracy. If in doubt, kindly seek appropriate advice from your financial advisors or bankers before you make any property investment decision.