

IS REAL ESTATE  
A SURE-WIN  
INVESTMENT IN  
THE LONG RUN  
EVEN WITH ABSD?



# Is real estate a sure-win investment in the long run even with ABSD\*?

A famous investment proverb states that: "Time in market is more important than timing the market".

*It is human nature for investors to try to time their entry in the hopes of enjoying greater odds of profiting and avoid losses.*

However, few are able to time the market perfectly and some have even ended up waiting decades for prices to revert to their past lows without success.

And when the time comes to proceed, extra onerous regulations such as ABSD, higher debt servicing ratios, capital requirements, shorter loan tenures among other policies make it harder to gain entry into this asset class.

In this week's topic, we show you how even in a prolonged stagnant or depressed market, real estate investments can still emerge as an almost sure-win\* game when we factor in ABSD costs.

\*A reasonable property with sound fundamentals like location, rentability, condition etc.

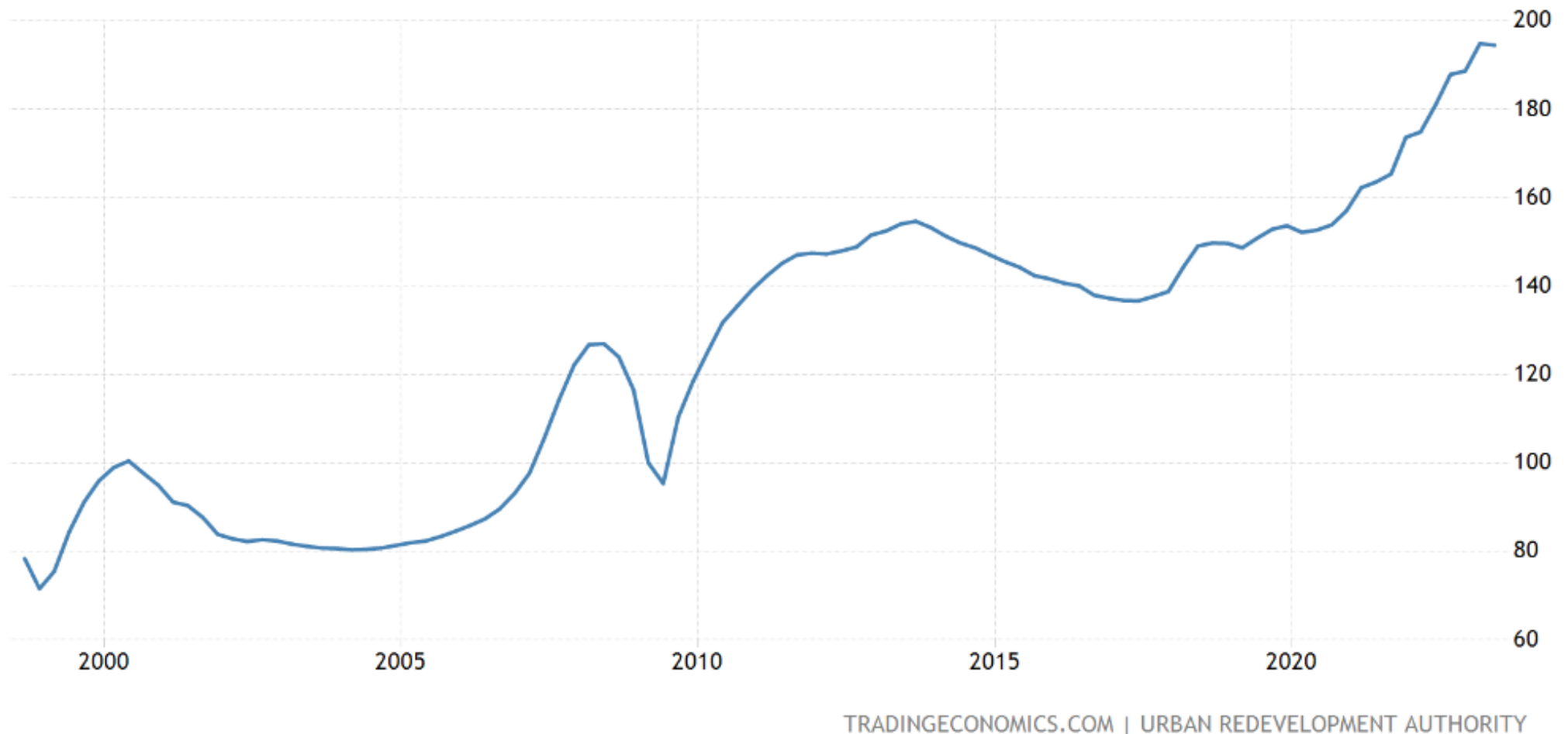
# Singapore Average Overnight Interest Rates (Past 25 Years)



First off, we have to recognise that one of the major forces affecting your real rate of return is the cost of financing, otherwise known as interest rates.

Over the past 25 years, interest rates have fluctuated in both directions but the long term average rate is at 1%. In the following examples, our assumptions will use two times of this figure (2%) so as to err on the safe side.

# Singapore Residential Property Price Index (Past 25 Years)



Second, over the last 25 years the property market has undergone ups and downs resulting in 75% growth in prices or the equivalent of ~3% growth per annum.

The rising costs of properties are a culmination of many factors including higher GST, labour and material costs, shrinking value of money and overall inflation across the world.

We expect these factors to remain in the future and, bearing in mind the current sticky global inflationary environment, forecast that prices will grow at least 2% per annum on average over the long term.



A background image of the Singapore skyline at sunset, featuring the Esplanade - Theatres on the Bay, the Singapore Flyer, and various skyscrapers reflected in the water. The sky is a mix of orange, yellow, and blue.

**SCENARIO PLAYS**

**1ST TIME SG BUYER  
SCENARIO**

## Unlikely Scenario:

SG Investor buys their 1st property today & rents it out (No ABSD)

Assumption: **Property price and rent stays flat for the entire duration.**

	Items	Costs	10 Years Mark	15 Years Mark	25 Years Mark
A	Property Price	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
B	25% Downpayment	\$250,000	-	-	-
C	Buyer Stamp Duties	\$24,600	-	-	-
D	Legal Fees	\$3,000	-	-	-
E	Mortgage Instalment Paid (75% loan, 2% interest, 25yrs)	\$3,179	\$381,480	\$572,220	\$953,700
F	Maintenance Fees Paid	\$300	\$36,000	\$54,000	\$90,000
G	Rent Collected (3% yield, 90% occupancy)	\$2,500	\$270,000	\$405,000	\$675,000
H	Loan Outstanding	\$750,000	\$494,000	\$314,000	\$0
I	Principle Repaid	\$0	\$256,000	\$436,000	\$750,000
J	Total Outlay (B+C+D+E+F)	-	\$695,080	\$903,820	\$1,321,300
K	Nett Equity (A-H+G)	-	\$776,000	\$1,091,000	\$1,675,000
L	Nett Gain (K-J)	-	<b>\$80,920</b>	<b>\$187,180</b>	<b>\$353,700</b>

In the above scenario, we assume an unlikely scenario where property price and rent stay flat over the next 10, 15 and 25 years.

At all 3 junctures, we can see that the nett gain by an investor is still positive as rental income help pay down instalments and build up equity for investors.

It is important to remember that after the 25th year, the property is fully paid and rent received become a nett constant income stream till the day the property goes enbloc.

I.e. If the property has a remaining tenure of 70 years remaining, the owner will collect \$30K rent annually as an income stream (Before fees and taxes).

# Highly Unlikely Scenario

SG Investor buys their 1st property today & rents it out (No ABSD)

Assumption: **Property prices and rents both correct by 10% and stay there for the entire duration.**

	Items	Costs	10 Years Mark	15 Years Mark	25 Years Mark
A	Property Price	\$1,000,000	\$900,000	\$900,000	\$900,000
B	25% Downpayment	\$250,000	-	-	-
C	Buyer Stamp Duties	\$24,600	-	-	-
D	Legal Fees	\$3,000	-	-	-
E	Mortgage Instalment Paid (75% loan, 2% interest, 25yrs)	\$3,179	\$381,480	\$572,220	\$953,700
F	Maintenance Fees Paid	\$300	\$36,000	\$54,000	\$90,000
G	Rent Collected (2.7% yield, 90% occupancy)	\$2,250	\$243,000	\$364,500	\$607,500
H	Loan Outstanding	\$750,000	\$494,000	\$314,000	\$0
I	Principle Repaid	\$0	\$256,000	\$436,000	\$750,000
J	Total Outlay (B+C+D+E+F)	-	\$695,080	\$903,820	\$1,321,300
K	Nett Equity (A-H+G)	-	\$649,000	\$950,500	\$1,507,500
L	Nett Gain (K-J)	-	<b>-\$46,080</b>	<b>\$46,680</b>	<b>\$186,200</b>

In the above scenario which is even less likely, we can observe that despite a nett loss on the 10th year, eventually the total equity and rent received catches up and helps turn a losing investment into a positive one.

Similarly, after the 25th year of ownership, all rent received are a constant nett income stream for the investor.



# A More Realistic Scenario

SG Investor buys their 1st property today & rents it out (No ABSD)

Assumption: **Property prices grow by 2% per annum while average rental yield is pegged at 3% of property value throughout duration.**

	Items	Costs	10 Years Mark	15 Years Mark	25 Years Mark
A	Property Price	\$1,000,000	\$1,219,000	\$1,346,000	\$1,640,000
B	25% Downpayment	\$250,000	-	-	-
C	Buyer Stamp Duties	\$24,600	-	-	-
D	Legal Fees	\$3,000	-	-	-
E	Mortgage Instalment Paid (75% loan, 2% interest, 25yrs)	\$3,179	\$381,480	\$572,220	\$953,700
F	Maintenance Fees Paid	\$300	\$36,000	\$54,000	\$90,000
G	Rent Collected (3% yield, 90% occupancy)	\$2,500	\$328,492	\$518,803	\$960,909
H	Loan Outstanding	\$750,000	\$494,000	\$314,000	\$0
I	Principle Repaid	\$0	\$256,000	\$436,000	\$750,000
J	Total Outlay (B+C+D+E+F)	-	\$695,080	\$903,820	\$1,321,300
K	Nett Equity (A-H+G)	-	\$1,053,492	\$1,550,803	\$2,600,909
L	Nett Gain (K-J)	-	<b>\$358,412</b>	<b>\$646,983</b>	<b>\$1,279,609</b>

Despite the doom and gloom scenarios earlier, with the high inflationary environment today, we expect a more realistic returns scenario to play out as above that will deliver significant gains to investors in less than 10 years. *For some, the returns their property investment brings is equivalent to having an additional household income stream.*

Similar scenarios have occurred many times in the past and it is not unrealistic to expect similar asset inflation rates if Singapore maintains its inflation rate target and attractiveness to global investors.

A background image of the Singapore skyline at sunset, featuring the Esplanade - Theatres on the Bay, the Singapore Flyer, and the Marina Bay Sands hotel, with the text 'ABSD SCENARIO FOR 2ND PROPERTY SINGAPORE BUYERS' overlaid in large, bold, white letters with a blue outline.

# **ABSD SCENARIO FOR 2ND PROPERTY SINGAPORE BUYERS**

# Unlikely Scenario

SG Investor buys a 2nd property today, pays 20% ABSD & rents it out.  
Assumptions: Investor has fully paid their 1st property and qualifies for 75% loan.  
**Property price and rent stay the same for the entire duration.**

	Items	Costs	10 Years Mark	15 Years Mark	25 Years Mark
A	Property Price	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
B	25% Downpayment	\$250,000	-	-	-
C	Buyer Stamp Duties	\$24,600	-	-	-
D	20% ABSD (SG 2nd property)	\$200,000			
E	Legal Fees	\$3,000	-	-	-
F	Mortgage Instalment Paid (75% loan, 2% interest, 25yrs)	\$3,179	\$381,480	\$572,220	\$953,700
G	Maintenance Fees Paid	\$300	\$36,000	\$54,000	\$90,000
H	Rent Collected (3% yield, 90% occupancy)	\$2,500	\$270,000	\$405,000	\$675,000
I	Loan Outstanding	\$750,000	\$494,000	\$314,000	\$0
J	Principle Repaid	\$0	\$256,000	\$436,000	\$750,000
K	Total Outlay (B+C+D+E+F+G)	-	\$895,080	\$1,103,820	\$1,521,300
L	Nett Equity (A-I+H)	-	\$776,000	\$1,091,000	\$1,675,000
M	Nett Gain (L-K)	-	-\$119,080	-\$12,820	\$153,700

In the above scenario, a Singaporean 2nd property investor pays 20% ABSD on top of the usual transaction costs.

Although he will not see a nett gain even by the 15th year, he eventually turns positive a year later.

As usual, beyond the 25th year of ownership, all rent received in the subsequent years are a constant income stream for the investor.



# Highly Unlikely Scenario

SG Investor buys a 2nd property today, pays 20% ABSD & rents it out.

Assumptions: Investor has fully paid their 1st property and qualifies for 75% loan.

Property prices and rents both correct by 10% and stay there for the entire duration.

	Items	Costs	10 Years Mark	15 Years Mark	25 Years Mark
A	Property Price	\$1,000,000	\$900,000	\$900,000	\$900,000
B	25% Downpayment	\$250,000	-	-	-
C	Buyer Stamp Duties	\$24,600	-	-	-
D	20% ABSD (SG 2nd property)	\$200,000			
E	Legal Fees	\$3,000	-	-	-
F	Mortgage Instalment Paid (75% loan, 2% interest, 25yrs)	\$3,179	\$381,480	\$572,220	\$953,700
G	Maintenance Fees Paid	\$300	\$36,000	\$54,000	\$90,000
H	Rent Collected (2.7% yield, 90% occupancy)	\$2,250	\$270,000	\$364,500	\$607,500
I	Loan Outstanding	\$750,000	\$494,000	\$314,000	\$0
J	Principle Repaid	\$0	\$256,000	\$436,000	\$750,000
K	Total Outlay (B+C+D+E+F+G)	-	\$895,080	\$1,103,820	\$1,521,300
L	Nett Equity (A-I+H)	-	\$676,000	\$950,500	\$1,507,500
M	Nett Gain (L-K)	-	-\$219,080	-\$153,320	-\$13,800

In the above scenario, we can observe negative returns for the first 25 years.

However, eventually once an investor passes the 25th year, all rent received start to accumulate as gains for the investor and serve as a consistent income stream for the rest of the property’s tenure.

ABSD PAYING SG BUYER

# A More Realistic Scenario

SG Investor buys a 2nd property today, pays 20% ABSD & rents it out.

Assumptions: Investor has fully paid their 1st property and qualifies for 75% loan.

Property prices grow by 2% per annum while average rental yield is pegged at 3% of property value throughout duration.

	Items	Costs	10 Years Mark	15 Years Mark	25 Years Mark
A	Property Price	\$1,000,000	\$1,219,000	\$1,346,000	\$1,640,000
B	25% Downpayment	\$250,000	-	-	-
C	Buyer Stamp Duties	\$24,600	-	-	-
D	20% ABSD (SG 2nd property)	\$200,000			
E	Legal Fees	\$3,000	-	-	-
F	Mortgage Instalment Paid (75% loan, 2% interest, 25yrs)	\$3,179	\$381,480	\$572,220	\$953,700
G	Maintenance Fees Paid	\$300	\$36,000	\$54,000	\$90,000
H	Rent Collected (3% yield, 90% occupancy)	\$2,500	\$328,492	\$518,803	\$960,909
I	Loan Outstanding	\$750,000	\$494,000	\$314,000	\$0
J	Principle Repaid	\$0	\$256,000	\$436,000	\$750,000
K	Total Outlay (B+C+D+E+F+G)	-	\$895,080	\$1,103,820	\$1,521,300
L	Nett Equity (A-I+H)	-	\$1,053,492	\$1,550,803	\$2,600,909
M	Nett Gain (L-K)	-	\$158,412	\$446,983	\$1,079,609

In a more realistic scenario that should play out for Singaporean 2nd property buyers, we expect returns to fully cover the ABSD paid in 5-7 years with reasonable gains by the 10th year mark.



# **ABSD SCENARIO FOR 2ND PROPERTY PR BUYERS**



# Unlikely Scenario

PR Investor buys a property today, pays 30% ABSD & rents it out.  
Assumptions: Investor has fully paid their 1st property and qualifies for 75% loan.  
**Property price and rent stay the same for the entire duration.**

	Items	Costs	10 Years Mark	15 Years Mark	25 Years Mark
A	Property Price	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
B	25% Downpayment	\$250,000	-	-	-
C	Buyer Stamp Duties	\$24,600	-	-	-
D	30% ABSD (PR 2nd property)	\$300,000			
E	Legal Fees	\$3,000	-	-	-
F	Mortgage Instalment Paid (75% loan, 2% interest, 25yrs)	\$3,179	\$381,480	\$572,220	\$953,700
G	Maintenance Fees Paid	\$300	\$36,000	\$54,000	\$90,000
H	Rent Collected (3% yield, 90% occupancy)	\$2,500	\$270,000	\$405,000	\$675,000
I	Loan Outstanding	\$750,000	\$494,000	\$314,000	\$0
J	Principle Repaid	\$0	\$256,000	\$436,000	\$750,000
K	Total Outlay (B+C+D+E+F+G)	-	\$995,080	\$1,203,820	\$1,621,300
L	Nett Equity (A-I+H)	-	\$776,000	\$1,091,000	\$1,675,000
M	Nett Gain (L-K)	-	-\$219,080	-\$112,820	\$53,700

In the above scenario, a PR 2nd property investor pays 30% ABSD on top of the usual transaction costs.

He will only turn a profit in the 25th year if prices and rents stay flat throughout.

As usual, beyond the 25th year of ownership, all rent received form a constant income stream for the investor.

# Highly Unlikely Scenario

PR Investor buys a property today, pays 30% ABSD & rents it out.

Assumptions: Investor has fully paid their 1st property and qualifies for 75% loan.

Property prices and rents both correct by 10% and stay there for the entire duration.

	Items	Costs	10 Years Mark	15 Years Mark	25 Years Mark
A	Property Price	\$1,000,000	\$900,000	\$900,000	\$900,000
B	25% Downpayment	\$250,000	-	-	-
C	Buyer Stamp Duties	\$24,600	-	-	-
D	30% ABSD (PR 2nd property)	\$300,000			
E	Legal Fees	\$3,000	-	-	-
F	Mortgage Instalment Paid (75% loan, 2% interest, 25yrs)	\$3,179	\$381,480	\$572,220	\$953,700
G	Maintenance Fees Paid	\$300	\$36,000	\$54,000	\$90,000
H	Rent Collected (2.7% yield, 90% occupancy)	\$2,250	\$270,000	\$364,500	\$607,500
I	Loan Outstanding	\$750,000	\$494,000	\$314,000	\$0
J	Principle Repaid	\$0	\$256,000	\$436,000	\$750,000
K	Total Outlay (B+C+D+E+F+G)	-	\$995,080	\$1,203,820	\$1,621,300
L	Nett Equity (A-I+H)	-	\$676,000	\$950,500	\$1,507,500
M	Nett Gain (L-K)	-	-\$319,080	-\$253,320	-\$113,800

In the above scenario, we can observe negative returns for the whole 25 years and a breakeven arrives only in the 30th year of holding.

Eventually, once an investor passes the 30th year, all rent received start to accumulate as gains for the investor and serve as a consistent income stream for the rest of the property’s tenure.

# A More Realistic Scenario

PR Investor buys a property today, pays 30% ABSD & rents it out.

Assumptions: Investor has fully paid their 1st property and qualifies for 75% loan.

Property prices grow by 2% per annum while average rental yield is pegged at 3% of property value throughout duration.

	Items	Costs	10 Years Mark	15 Years Mark	25 Years Mark
A	Property Price	\$1,000,000	\$1,219,000	\$1,346,000	\$1,640,000
B	25% Downpayment	\$250,000	-	-	-
C	Buyer Stamp Duties	\$24,600	-	-	-
D	30% ABSD (PR 2nd property)	\$300,000			
E	Legal Fees	\$3,000	-	-	-
F	Mortgage Instalment Paid (75% loan, 2% interest, 25yrs)	\$3,179	\$381,480	\$572,220	\$953,700
G	Maintenance Fees Paid	\$300	\$36,000	\$54,000	\$90,000
H	Rent Collected (3% yield, 90% occupancy)	\$2,500	\$328,492	\$518,803	\$960,909
I	Loan Outstanding	\$750,000	\$494,000	\$314,000	\$0
J	Principle Repaid	\$0	\$256,000	\$436,000	\$750,000
K	Total Outlay (B+C+D+E+F+G)	-	\$995,080	\$1,203,820	\$1,621,300
L	Nett Equity (A-I+H)	-	\$1,053,492	\$1,550,803	\$2,600,909
M	Nett Gain (L-K)	-	\$58,412	\$346,983	\$979,609

In a more realistic scenario that should play out for PR 2nd property buyers, we expect the breakeven point where returns fully cover the ABSD within 7- 10 years.

Beyond that, the PR investor can start to see decent gains accumulate.





# **ABSD SCENARIO FOR FOREIGN BUYERS**

# Just The Realistic Scenario

Foreign Investor buys a property today, pays 60% ABSD & rents it out.

Assumptions: Investor qualifies for 75% loan.

Property prices grow by 2% per annum while average rental yield is pegged at 3% of property value throughout duration.

	Items	Costs	10 Years Mark	15 Years Mark	25 Years Mark
A	Property Price	\$1,000,000	\$1,219,000	\$1,346,000	\$1,640,000
B	25% Downpayment	\$250,000	-	-	-
C	Buyer Stamp Duties	\$24,600	-	-	-
D	60% ABSD (Foreigner)	\$600,000			
E	Legal Fees	\$3,000	-	-	-
F	Mortgage Instalment Paid (75% loan, 2% interest, 25yrs)	\$3,179	\$381,480	\$572,220	\$953,700
G	Maintenance Fees Paid	\$300	\$36,000	\$54,000	\$90,000
H	Rent Collected (3% yield, 90% occupancy)	\$2,500	\$328,492	\$518,803	\$960,909
I	Loan Outstanding	\$750,000	\$494,000	\$314,000	\$0
J	Principle Repaid	\$0	\$256,000	\$436,000	\$750,000
K	Total Outlay (B+C+D+E+F+G)	-	\$1,295,080	\$1,503,820	\$1,921,300
L	Nett Equity (A-I+H)	-	\$1,053,492	\$1,550,803	\$2,600,909
M	Nett Gain (L-K)	-	-\$241,588	\$46,983	\$679,609

In a more realistic scenario that should play out for a foreign buyer, we expect the breakeven point where returns fully cover the ABSD within 15 years.

Only beyond that, will the foreign investor start seeing decent gains accumulate.

# Summary

The examples above provide a risk assessment perspective for different profile of investors to understand how Singapore real estate investments can offer a high certainty of profit in due time, even in adverse scenarios.

*In reality, it is not likely to occur as a stubborn inflation environment will drive up both asset values and rents.*

In the event of a black swan event that does correct the property market, history has shown us that prices eventually creep back up beyond past highs and do not stay flat or depressed forever.

Our realistic scenario projects that even with ABSD at current levels, it is likely that investors will fully recoup the stamp duties paid within 7-15 years.

The crux of it is that an investor must have holding power so as not to face a 'forced sale' scenario when facing unrealised losses as eventually, a property with good fundamentals will turn out profitable as long as sufficient runway is provided.