An Attempt to Tame Artificial Demand and Support Genuine Demand in the Thai Housing Market

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Everyone dreams of owing a house, at least one or preferably more than just one, to fulfill multi-aspects of today's lifestyle. Ordinary folks could wish to own a low-rise house with open space for gardening, demand for a condominium adjacent to metro/sky train for an easy commute, and yet continue to dream for a beach-front property.

Observing the urbanisation trend, one's wishlist for multiple residential properties might be similar, but truth be told, housing affordability is hardy the same. For first jobbers with little to no support from the families, it is quite a challenge to spare themselves from impulse purchases and save up enough to place a down payment, while house prices continue to rise and diverge from their income levels.

Banks are well aware of the situation. Their mortgage underwriting standards have thus been somewhat loosen by granting full amount of loans to cover house prices, i.e. Loan-to-Value (LTV) equal to 100%. In other words, people could simply access mortgage loans without having to make any down payment, as long as they can provide some proofs of their debt service ability. Banks even help to push home loans through by lengthening the repayment periods or loan tenors, from typically 360 months or 30 years to 420 months or 35 years, in order to lower repayment amount required each month. At one end, banks seem to facilitate home ownership, while extending household indebtedness and debt overhang at the other end.

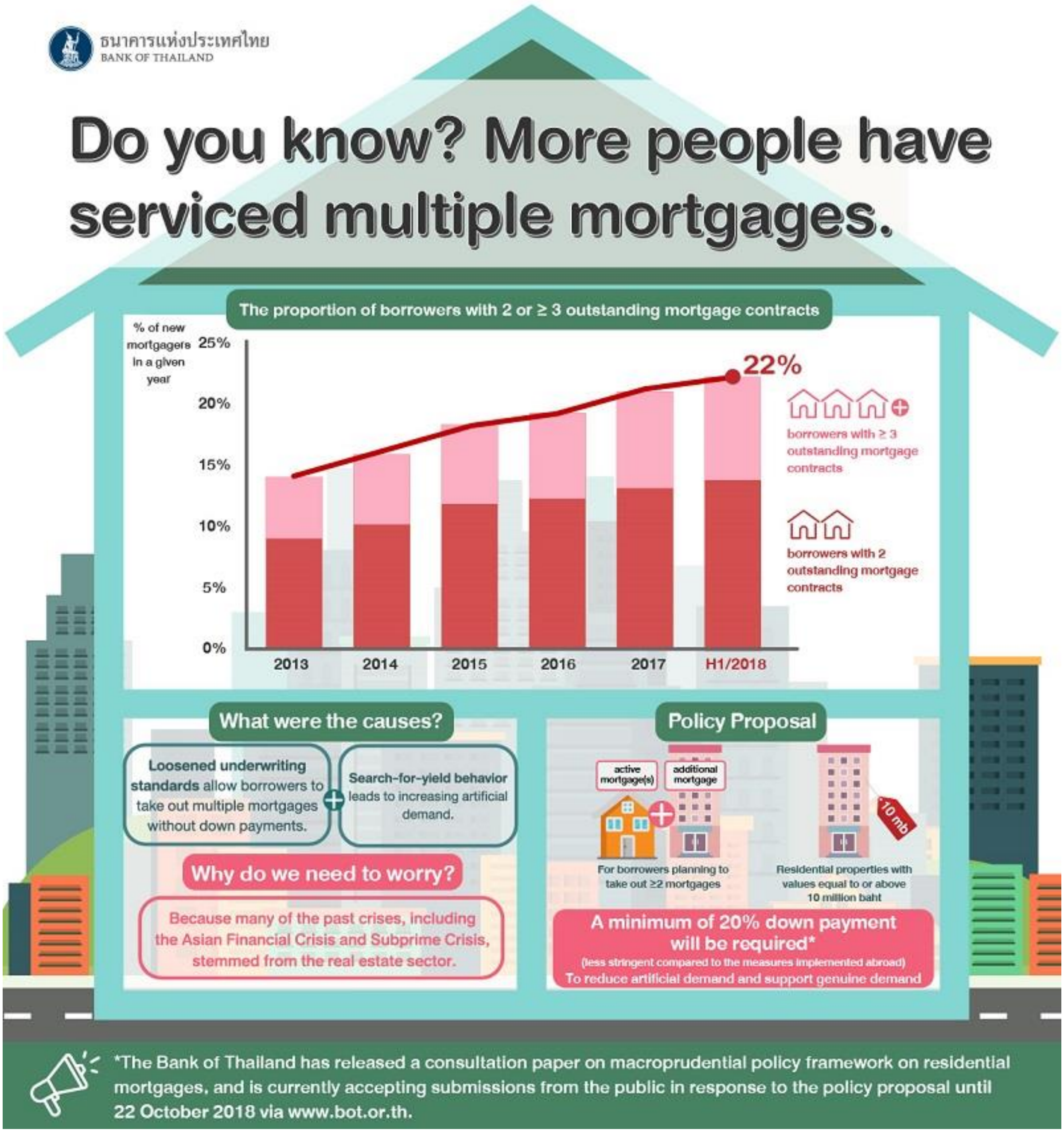
However, the bottom line is that the distinction between granting a mortgage loan for those with *genuine demand*, e.g. for principle residency or first-time homebuyers, and those with *artificial demand*, e.g. for second residency or investment, has nowhere to be seen. Markedly, let's compare between two individuals eyeing for the same condominium. One who earns hundred thousand baht per month would like to buy and rent out, while the other earns ten thousand baht per month would like to buy and really live there. No doubt, banks tend to favor the high-income, regardless whether he or she really need that property or just for investment or search for yield purposes. Credit line of this kind has in turn propelled *artificial demand,* as seeing more people taking out second and above mortgage loans, and inevitably dampen *genuine demand*, particularly as the ease of mortgage loans tend to drive property price further away from some of the first-time homebuyers.

Real estate markets are thus socially sensitive and indeed intertwined with housing affordability issue. To prevent such negative externalities and vulnerabilities in the property markets, several countries have introduced macroprudential measures on residential mortgage loans, subjecting to borrowing objectives and number of outstanding mortgage contracts. LTV limit, i.e. setting minimum level of down payment, is the most widely used measure to address risk build-ups from real estate price bubbles especially due to speculative demands.

For example, in Singapore, first-time homebuyers are required to make a minimum down payment of 25 percent based on the property value, as they are subjected to the LTV limit of 75 percent imposed by the Monetary Authority of Singapore. While borrowers with more than one outstanding mortgage contracts will be subjected to even stricter requirements for minimum down payment, such that borrowers with two outstanding mortgage contracts are entitled to place down payment at least 55 percent. Other measures, such as stamp duties, are also put in place to further curb down speculative demands amid the overheating environment in the property markets like in the case of Hong Kong. In the UK, while the current industry practice shows that financial institutions have been cautious in not granting buy-to-let (BTL) mortgages with LTV limits above 80 percent, the Bank of England (BoE) has already put restriction on the amount of mortgage loans not exceeding 4.5 times of borrowers' annual income, i.e. loan-to-income (LTI) limit at 4.5.

In a nutshell, the depth and breath of LTV limit may differ across countries, which shall be contingent to the context of problems each countries are experiencing. Given the Bank of Thailand's attempt to curb artificial demand in the housing market and support housing affordability, a consultation paper on macroprudential policy framework on residential mortgages has proposed for a minimum down payment of 20 percent for homebuyers with more than one outstanding mortgage contract and those purchasing residential properties with values equal to or over 10 million baht, tentatively to be effective in January 2019. In the meantime, the Bank of Thailand is currently accepting submissions from the public in response to this policy proposal until 22 October 2018 through www.bot.or.th.

Disclaimer: The views expressed here are the author's own.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Do you know? More people have serviced multiple mortgages.
The proportion of borrowers with 2 or ≥ 3 outstanding mortgage contracts
% of new mortgagers in a given year
25%
20%
15%
10%
5%
0%
2013
2014
2015
2016
2017
H1/2018
22%
borrowers with ≥ 3 outstanding mortgage contracts
borrowers with 2 outstanding mortgage contracts
What were the causes?
Loosened underwriting standards allow borrowers to take out multiple mortgages without down payments.
Search-for-yield behavior leads to increasing artificial demand.
Why do we need to worry?
Because many of the past crises, including the Asian Financial Crisis and Subprime Crisis, stemmed from the real estate sector.
Policy Proposal
active mortgage(s)
additional mortgage
For borrowers planning to take out ≥2 mortgages
10 mb
Residential properties with values equal to or above 10 million baht
A minimum of 20% down payment will be required*
(less stringent compared to the measures implemented abroad)
To reduce artificial demand and support genuine demand
*The Bank of Thailand has released a consultation paper on macroprudential policy framework on residential mortgages, and is currently accepting submissions from the public in response to the policy proposal until 22 October 2018 via www.bot.or.th.

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Do you know? What are minimum down payments to purchase a residential property abroad?

	Down payment	Implementation
Malaysia	30%	higher with more outstanding mortgage contracts
Singapore	25-65%	higher with more outstanding mortgage contracts
South Korea	30-70%	higher with more outstanding mortgage contracts, varied by the location of the properties
Hong Kong	40-70%	varied by 1) property values 2) borrowing objectives and 3) source of borrowers' income
England	20%	higher for investment-purpose mortgages
New Zealand	20-35%	higher for investment-purpose mortgages
Thailand	20%*	Higher with 1) Residential properties with values equal to or above 10 million baht 2) Second and above mortgages (previous mortgage(s) is still active)

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