EXECUTIVE SUMMARY

Property prices is a function of many factors: locational, physical condition, environment and economic factors. If the impact of each of these factors could be determined and examined, it would enable developers to better understand the needs and preferences of their target consumers. The results would be better designed and packaged private residential units/developments. However in the local context, such studies are limited.

This paper uses the hedonic pricing model to differentiate these factors in order to determine the premium freehold properties have over their leasehold counterparts. Using private residential units that were completed between 1994 ~ 1996, transactions over a five-year period beginning 1996 would be randomly sampled. Quality-controlled indices would be plotted to represent an estimate of the house prices that would have occurred if no variability existed in their housing characteristics.

Using a standard set of housing attributes to estimate house prices between leasehold & freehold properties, the variability in the freehold premium over the study-period would be compared with the commonly used benchmarks, such as the URA index, and valuers' Bala's Table, on a quarterly basis. Separate regressions were also carried out to determine the freehold premium on a regional basis.
The overall estimated freehold premium determined was significantly higher than Bala's Table estimates, whereas it was relatively similar to URA's estimates of 25%. However, our estimated freehold premium has a higher variation compared to the URA's estimates. Some of these differences could be attributed to the inconsistent volume of transactions that could be sampled during the sample period.

On a regional basis, the freehold premiums estimated were smaller in magnitude for regions in the Northeast & Western areas. However, the results showed a discount for freehold properties in the Northern region, instead of a premium, indicating that leasehold properties fetch a higher price than their freehold counterparts. Such result is against the general held belief that freehold properties should have a higher value than that of leasehold units, assuming everything (i.e. other housing attributes) being equal.

In conclusion, the results indicated that leasehold prices were more volatile even though appreciation was still achieved over the 5-year study period; while on the other hand; freehold prices were more measured, even though it declined over the same period. However, recoveries for the latter was more pronounced compared to the leasehold values.