PRIVATE property prices will fall 5-6 per cent in the next two years even if the Singapore economy holds up, according to an economist's projections.

National University of Singapore economist Tilk Abeyesinghe's forecasts are the domestic economy growing 3 per cent in 2009 — and one percentage point higher and lower under the best and worst-case scenarios.

In all three scenarios though, his simulations result in 2-6 per cent price falls in 2009 and 2010. Only in the optimistic outlook is there a projected 1.4 per cent rebound in 2011.

Already, the latest official figures show a 2.4 per cent dip in private housing prices in the third quarter from Q2 — the first decline since the property market bottomed out in 2004.

Housing prices tend to accelerate faster than expected during upswings and fall faster than expected during downturns, Dr Abeyesinghe noted. He presented his findings today at the Singapore Economic Policy Conference, jointly organized by the three local universities.

Since 1975, private property prices here have risen about 7 per cent a year — and with the up-"trend", housing affordability has declined over the years.

Dr Abeyesinghe's findings show the diminishing affordability index for private home owners at the lower end of the income range (up to the 25th percentile) fell to 0.5 in 2007, from near-two in the late-1970s.

An index of exactly one means the household's lifetime income is just enough to pay for the property. A measure below one implies "perpetual debt" for the household.

The affordability index for private property owners in the median income group averaged 1.2 over the period 1980-2007. This implies that if the household bought a property that cost $1 million, it would be left with $200,000 of income over its lifetime.

For high-income households, the index is a stronger 2.1 over the period 1980-2007. That's still well below the index for HDB households — which ranges from three for the low-income group to 9.4 for the richest.

While rising home prices spell higher wealth for individuals, the economy as a whole may not be "better off" if high-net-worth households have less to spend, Dr Abeyesinghe says, adding to the paradox of thrift.

More predictable increases in property prices that do not erode long-term affordability are desirable and needed for the economy's health.

The conference also heard from Nanyang Technological University professor Choy Keen Meng that policy efforts to reduce inflation by one percentage point would result in about a two-point fall in GDP growth.

This "sacrifice ratio" of two compared with around 3-4 for the US and an average 2.5 for the OECD.

Is Singapore trying to excel in too many areas?

WHY aspire to be a second Boston or second London and not a first-rate Singapore?

It's time — particularly during a global crisis — for Singapore to rethink its economic model and employ tactics targeting right where it has unique strengths to become a world leader, rather than stay a follower in various sectors, as economist suggests.

While highly successful so far, Singapore's growth model — built on weaving multinationals to drive key sectors here — may not be sustainable in the changing environment, says Linda Lim, professor of strategy at the University of Michigan's Ross School of Business and director of its Centre South-east Asian Studies.

A Singaporean academic who has been in the US for some four decades, she was a speaker at the Singapore Economic Policy Conference yesterday.

In her view, the Singapore growth model has both tried to do too much — going against what theories such as comparative advantage and diminishing returns propose — and achieved too little in terms of delivering returns for Singaporeans relative to foreigners and foreign firms.

"Singapore cannot be internationally competitive and a world leader in semiconductors, life sciences, healthcare, education, financial services, creative industries and casino tourism, all at the same time," she says in her paper for the conference.

Speaking to BT, Prof Lim said: "Of course you can make an argument for doing 10 sectors instead of three, you say diversify. But if we do this, everyone becomes uncompetitive, all face rising costs as they compete with each other for scarce land and talents."

Outlining her alternative strategic vision, she says that the starting point is to take stock of what you have, including your geographical location. "Then look for a strategy of differentiation. "What do you have, to make a choice, you cannot have everything. You choose the thing you can do better than anybody else."

And one indicator of a "market advantage", she says, is whether a country needs to provide "inducements, or investment incentives, otherwise known as subsidies" to attract talent.

"If people are naturally coming here, that's fine."

And not least, "let the private sector do it", she says, suggesting that capital and talent be released to local entrepreneurs, to be allocated according to market forces. "When and if private enterprise fails, it will take only small parts, rather than big chunks, of the economy down with it, she argues.

Singapore is particularly well-placed for a whole cluster of economic activities "from finance to forestry and fisheries", Prof Lim says.

"Where are we? We're next to the biggest forests in the world. Why not be a carbon finance centre? People are doing this in San Francisco. They are doing Indonesia... avoiding deforestation... out of San Francisco! Why can't we do it from here?"

"Why do we want to be a second Boston or second London? We want to be a first Singapore. There are already second, third and fourth Singaporeans all over the world — people are copying our strategy."

Singapore could also be a centre of expertise in creative fields such as traditional and modern Asian arts and culture. Already, Singapore is the best place in the world to do South-east Asian studies, Prof Lim says.

Economic growth here has focused on quantitative targets, but it may be time to look at the qualitative aspects such as its "purpose and nature."

"I'm saying, look at net value creation for citizens. 'People for growth' — growth as an end in itself — is not the same as 'growth for people', growth as a means towards greater welfare for people."