

ASK: NUS ECONOMISTS

Superstition and housing prices in Singapore

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FOR THE STRAITS TIMES

■ *Can superstition about numbers affect housing prices?*

Some Chinese believe that the number eight is auspicious, whereas the number four is inauspicious because in the Chinese language, they are homophones for the words “prosperity” and “death” respectively.

Can this superstition about numbers affect housing prices? After all, in economic theory, homo economicus (economic man) is supposed to be rational. Superstition, however, is synonymous with delusion, misconception, a false notion or irrational belief.

Considering how expensive housing is in Singapore, people have very good incentives to consider their purchase carefully and avoid foolish decisions that can cost them dearly.

Furthermore, being a multiracial and multicultural society, clearly not everyone in Singapore subscribes to superstitious beliefs

about numbers four and eight.

It turns out, however, that superstition about numbers does affect housing prices.

Suppose you are buying a property. You are not superstitious about numbers but you also believe that some other people are. Should you demand a discount on an apartment with unit number ending with four?

Recent research suggests that the answer is yes. This is perfectly rational, because in the event that you need to resell your apartment, you may encounter a superstitious buyer who will demand a discount.

Even if the future buyer turns out to be rational and non-superstitious, he still has a good reason to demand a discount from you because he shares your worry about the prospect of future resale. So if you do not get the apartment at a discount, you may end up losing money.

As a result, even a non-superstitious and perfectly rational buyer will demand a discount for an

apartment with unit number ending with four. In other words, rational buyers may have an incentive to mimic the behaviour of superstitious buyers.

When we examine all private condominium transactions in Singapore between January 1995 and April 2011, we find that new apartments whose unit numbers ended with the number four were sold at a 1.5 per cent discount. Those that ended with the number eight were sold at a 0.9 per cent premium.

These price differentials tend to persist in the resale market. Consequently, the rate of return from buying an apartment with unit number ending with four is virtually the same as the rate of return from buying any other apartment. In other words, buying an apartment with unit number ending with four is no more lucrative than buying apartments with other unit numbers.

The discount associated with number four seems to be insensitive to the share of ethnic Chinese and the share of older residents

currently in the neighbourhood – people who are presumably more likely to be affected by Chinese superstition about numbers. This suggests that beliefs about future prospective buyers are important.

Most importantly, for uncompleted units that were bought and sold before the units were ready for occupancy, we also find significant price discounts for units whose number ends with four.

Because these buyers bought and sold the apartments while they were still in construction, they never occupied the apartments they bought. Many of these buyers are likely to be property investors or speculators who had resale rather than personal use in mind when they bought the units. That they also demand a discount on these units suggests that beliefs about future resale are what drive the price discount.

The following quote from former prime minister Lee Kuan Yew succinctly captures the story we are telling: “I’m a pragmatic, practical fellow... I’m not supersti-

tious about numbers. But if you have a house which other people think has disadvantaged fengshui and numbers, when you buy it, you must consider that when you resell. So again it’s a practical consideration. Not that I’m interested in it. But if I buy that, I must get a low price because when I sell it I will get a low price.”

Is it possible for people to learn over time that superstition about numbers is not supported by reality? Perhaps. But there is also good evidence that people exhibit confirmation bias. This refers to the tendency of people to favour information that confirms their beliefs.

This bias could result from people gathering or remembering information selectively or interpreting it in a biased way. People tend to remember the one person who suffers misfortune after moving into an address with an inauspicious number, but not the many who do not.

Stories of good or bad fortune that seem to reaffirm superstitions about numbers also make

sensational headlines. And people who judge the likelihood that a superstition about numbers is in fact true and supported by real-world events are also more likely to remember those headlines through a memory short cut known as the availability heuristic. This suggests that learning may do little to eradicate superstitions about numbers.

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