Singapore

Flash Note

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Singapore Property

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Policy tweaks in the horizon?

- **Government maintains a hawkish stance on the property sector as prices continue to run up despite a recession**
- **"Quality of life" curtailed as property buyers are focused on "upgrading" their lifestyles to smaller homes**
- **Possible policy tweaks to pre-empt a potential rise in prices given low interest rate environment**
- **Taking a leaf off the historical playbook - share prices of developers tend to weaken in response to policy changes**

What's New

What has happened.
The strong performance of the Singapore property market in 4Q20 and strong pre-sales at the launch of Normanton Park despite Singapore entering the worst recession in 20 years have caught the eyes of the government.

Flash 4Q20 estimates for the Singapore property price index (PPI) point to a 2.1% rise (or 2.2% for the whole of 2020). Normanton Park had a strong showing at its launch, registering pre-sales of close to one-third of a total number of 1,827 units on offer.

Deputy Prime Minister Mr. Heng Swee Keat and Minister for National Development, Mr. Desmond Lee have highlighted that the government is monitoring the property market closely and would like to ensure that it "remains stable" to enable young Singaporeans to "own their homes and fulfil their aspirations".

Source: https://www.businesstimes.com.sg/real-estate/property-market-must-remain-stable-so-young-singaporeans-can-own-homes-dpm

Our thoughts

Property prices in 2020 have broken a 20-year trend – prices did not fall in a recession.
The Singapore property market is being keenly watched by the government given the high percentage of home ownership among Singaporeans at over 91%. As the largest asset purchases for most households, the health of the property market is closely linked to economy and thus, the focus of the government over the years has been to maintain stability. We have seen several policy tweaks to prevent over-exuberance (or to support the market) with an aim to maintain price stability and affordability for most households.

In 2020, while Singapore endured its worst recession in 20 years due to the COVID-19 pandemic, the property market maintained its upward trajectory with strong volumes (c.10,000 units sold in 2020, +5% y-o-y) and a c.2.2% rise in the prices, a remarkable feat. This robust performance is possibly driven by a number of drivers: (i) former en-bloc households (in the 2016-1H18 cycle) returning to the market, (ii) buyer confidence given that most Singaporeans have held on to their jobs due to various job schemes, (iii) upgraders purchasing post the minimum occupation period (MOP) on their first homes, and (iv) low interest rates and ample liquidity. This trend has surprised many (including us) and a further acceleration in price trends in 2021 may put the property market in frothy territory.

In fact, we believe that the appeal of the Singapore property market may be further enhanced internationally given that it has effectively curbed community spread (especially fatalities) of COVID-19. This, in our view, projects the Singapore property as a "safe haven" to foreigners, supported by world class health facilities. While sales volumes in 2020 have not been driven by foreigner purchases, we do not rule out that this trend will resume once travel (business and leisure travel) re-starts.

Policy measures need to be pre-emptive rather than reactive.

We believe any policy response will likely be pre-emptive in the current cycle rather than reactive, in order to prevent a further escalation in property prices in 2021. This is on the back of an extended period of low interest rates driving mortgage rates lower. While a steady c.2-3% annual increase in the PPI, in line with household income growth, is well supported by fundamentals, an acceleration in excess of 5.0% (or up to 8.0%in 2021 according to some market commentators) will tip the market into "bubble territory" in our view. This will further pressure household affordability ratios going forward.

Addressing the "overall price quantum" conundrum; will we see a possible tweak in average minimum sizes again?

Upgraders have been focused on the "quantum game" for the past 5 over years , restricted by affordability brought about by the various policies (down-payment, stamp-duties and total debt servicing ratio (TDSR). While the median transacted quantum has remained fairly stable in recent years, we have seen a reduction in median home sizes and per square foot (psf) prices remaining high. This trend is seen in the robust pre-sales recorded at the weekend launch of Normanton Park condo where close to c.600 units were sold (out of 1,862 available units) at an average price of S$1,752 psf, which presents a new high for a 99-LH condo in District 5. <https://www.edgeprop.sg/property-news/normanton-park-sells-close-one-third-units-launch-weekend>. However, we note that c.80% of the units sold during the launch were one-bedroom and two-bedroom units ranging between 49sqm (527sqft) to 68 sqm (731 sqft). While the overall price quantum appears "affordable" at S$1.0m-S$1.3m, we cannot help but think how a household (a couple or a couple with 1 child) can be comfortably "living, working and playing" in these confined spaces.

This trend, if left further unchecked, will mean that upgraders (especially HDB upgrades) will continue to "trade-up" their lifestyles to smaller homes. In addition, the possible flexible working arrangements post the COVID-19 pandemic implies that workers will spend part of their working times in the home, thus requiring more space. Given current price trends, we can't help but think that the bigger apartments are starting to be out of reach for the median household. Therefore, a possible tweak, in our view, could be an upward adjustment in the average minimum home size in new developments. This would result in developers re-thinking land bids and temper further price increases.

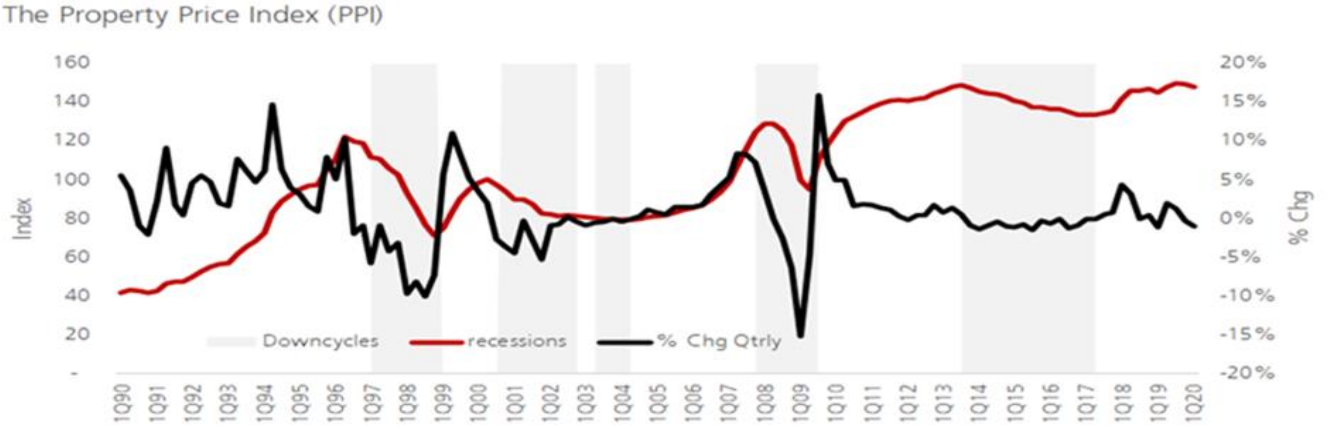
Tweak in taxes or reduction in loan tenues?

We believe that possible levers in response to a low interest environment could come from: (i) a further tweak in the additional buyer stamp duty (especially for investors and foreigners) as it has shown to slow the pace of price increases, and (ii) further shortening of mortgage tenures or loan to values (LTVs) for second homes and beyond. These measures, we believe, should be effective to counter the impact of ample liquidity and a low interest environment which may have lifted asset prices higher over the past couple of years.

Impact on the developers:

Using the historical playbook on how developers' share prices responded to such policy news, we believe that the listed developers (CapitaLand Limited, City Developments Limited and UOL Limited) have typically traded closely to the property price indices and we believe that the hawkish stance maintained by the government may remain a general overhang for the developers, especially in the near term. That said, the listed developers have been prudent in their land-banking strategy and have sold a good portion (60%-70%) of their unsold residential inventory on their books. The pivot towards real estate sectors that generate more recurring income (hospitality, commercial and industrial) in the past few years could imply that the financial impact of any potential policy tweaks has been mitigated.

Property price index



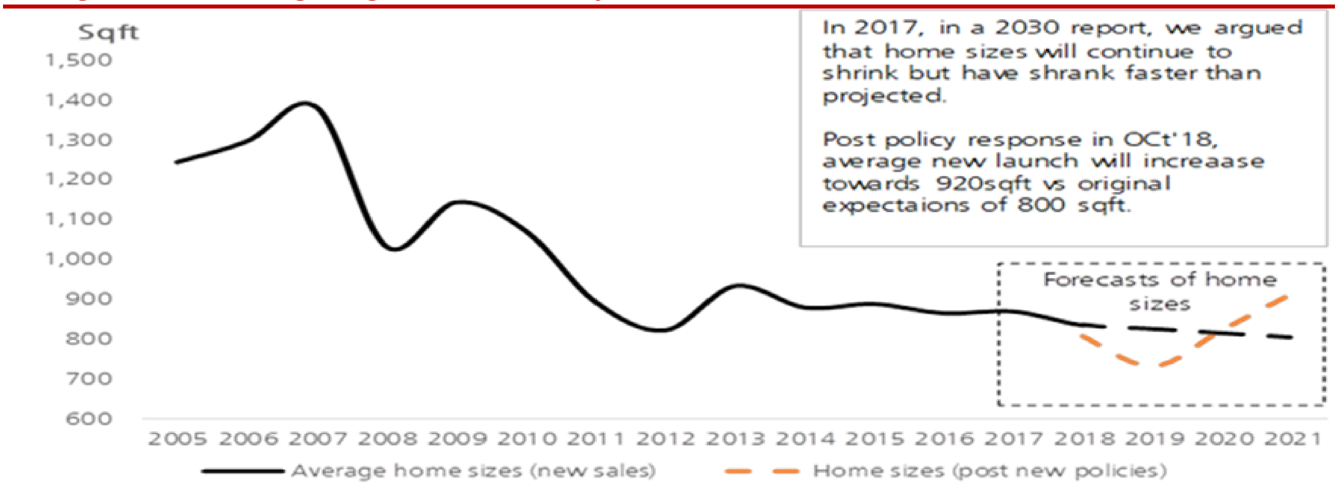
Source: URA, DBS Bank

Price declines across past cycles

	1 –year prior	2- years prior	PPI drop	Unemployment rate
Asian Financial Crisis	16%	34%	-45%	4.7%
Dotcom	18%	13%	-20.0%	6.2%
Global Financial Crisis	25%	31%	-24.9%	4.9%
COVID-19	2%	5%	+2.2%	c.4.7%

Source: URA, DBS Bank

Average home sizes are getting smaller in recent years



Source: URA, DBS Bank

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**Share price appreciation + dividends*

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