

[JULY 2011]

CREDO RESEARCH SNAPSHOTS

RISK OF MAJOR MARKET INTERVENTION REDUCES

The threat of further Government intervention in the residential property market has been hanging like the Sword of Damocles over the last one year resulting in a sense of unease for both buyers and sellers. During that period, we saw two rounds of measures imposed by the Government to cool the residential property market; one in August 2010 and the other in January 2011. However recent developments have significantly reduced the risk of major measures being imposed by the Government although new challenges lie ahead.

The Resilient Market

The August 2010 measures included increasing the sellers' stamp duty holding period to 3 years, increasing the cash down-payment from 5% to 10% of the valuation limit and reducing the loan-to-value limit from 80% to 70% for purchasers with one or more outstanding housing loans, disallowing purchasers of HDB resale flats to own private residential properties concurrently and increasing their minimum occupation period to 5 years and raising the monthly income ceiling for DBSS flats from \$8,000 to \$10,000.

This set of measures had the immediate impact of cooling both the HDB resale as well as the private housing markets due to the uncertainty created. Between 3Q2010 and 4Q2010, sales volume for HDB resale flats dropped 21% from 8205 units to 6454 units while resale flat price increase slowed from 4% to 2.5% respectively. Cash-over-valuation (COV) also eased from an overall \$30,000 to \$23,000 during that period. Sales in the private residential market also slowed as reflected by the lower take-up of 911 units in September and 1066 units in October compared to 1553 and 1259 units in July and August respectively. However the slowdown was short-lived as the impatience of buyers led them back to the market strongly in November resulting in sales rocketing to 1915 units. A slower market in December due to the holiday season

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saw 1332 units transacted. Price increase for private housing units moderated slightly from 2.9% in 3Q2010 to 2.7% in 4Q2010.

It is believed that the surprising surge in the private residential market in November 2010 rattled policy makers and led to another more drastic set of measures being imposed in mid-January 2011. Highly punitive sellers' stamp duty rates were put in place while also increasing the holding period to 4 years. Furthermore, a lower loan-to-value limit of 50% was set for buyers who are not individuals and 60% for purchasers who are individuals with one or more outstanding mortgages.

Again, the new measures had the effect of slowing down the private residential market lowering sales in February 2011 to 1105 units but it was also partly due to the Chinese New Year season. The resilience of the market was seen again as sales crept up to 1386 units in March and surged to 1805 units in April. May also had a good showing with 1575 units taken up.

Private Residential Units Launched and Sold (Excl EC)

Month	Units Launched	Units Sold
July 2010	1340	1553
August 2010	1165	1259
September 2010	1058	911
October 2010	1070	1066
November 2010	2331	1915
December 2010	1179	1332
January 2011	1246	1210
February 2011	1710	1105
March 2011	1246	1386
April 2011	2055	1805
May 2011	1215	1575
June 2011	1614	1182

Source: Realis

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The Winds of change

In May 2011, election fever gripped Singapore and in the cut-and-thrust of political lobbying, it was announced that the monthly household income ceiling for HDB flats could be raised from \$8000 to \$10000. Subsequent announcements included the intention for HDB to build ahead of demand, ramping supply in 2011 up to 25,000 BTO units (latest 26,000 units), building “tens of thousands” of rental flats urgently and making public housing a “popular icon” again. This is in stark contrast to rather low-key development activity in the last 5 years when 5500 units per annum (average) were built. The latest message is that HDB intends to come back to the public housing market in a big way. A higher income ceiling and increased supply of new HDB flats is expected to siphon some demand away from the HDB resale market with a knock-on effect on the private residential market as well.

In recent times, warnings of a significant supply build up in the private residential market have gotten louder. Besides opinions expressed by market analysts, the Minister for National Development has also weighed in with his comments that there is a pipeline of 45,000 units to be built and sold and with another 8000 units arising from the 2H2011 Government Land Sales programme, almost 53,000 new homes could hit the market in the next few years. As new projects become ready for sale, we are seeing continuous new sale launches and this trend is expected to continue. In 2Q2011, 4802 private residential units were launched for sale, a 16% pick up from the 4130 units launched in 1Q2011. Competition amongst existing projects under marketing as well as future ones will contribute towards price stability.

In mid-July, MTI released its advanced estimates that the economy grew only 0.5% y-o-y in 2Q2011 and following that, Deputy Prime Minister Tharman warned of a sluggish global economy ahead and to expect some “mini-shocks from time to time”. Earlier the market had already been shaken by news of a worsening debt crisis in Europe and a faltering US economy. The rest of the year looks more uncertain and we can expect sentiments in the property market to be affected. Buyers are likely to become more cautious and this could result in slower market activity.

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Combined effect of policy initiatives and market conditions

The latest data on the HDB resale market shows a slightly more active market in 2Q2011 with 6,581 resale cases registered, 5.7% above the 6228 cases in the first quarter. The resale price index rose 3.1% in the second quarter, higher than the 1.6% increase for 1Q2011 while COVs also increased during the period. Over the medium term, with the supply of new HDB flats being ramped up significantly and income ceiling being revised, we can expect their effect on the resale market to gradually filter through. It should also be noted that the HDB resale market is not immune from economic slowdowns so it will ease when market conditions soften. However it remains to be seen if the HDB will come up with other measures to address the challenges in the resale market.

As for the private residential property market, it seems to be moderating comfortably - 2Q2011 price increase has slowed to 2%, units sold by developers in June declined to 1182 units (although the school holidays had an effect on top of other factors). Looking at total transaction volume which comprises units sold by developers and on the secondary market, the whole market can be seen slowing steadily since mid-2010. 1H2010 saw 20,505 units sold, which declined 10% to 18,417 in the second half of that year and again to 16,822 in 1H2011, a 9% drop from the previous half-year. The abovementioned "winds of change" would continue to have a moderating effect on the market, preventing over-exuberance. Under such circumstances, further major direct intervention measures on the private housing market do not seem likely. While policy risks have reduced, market risks have increased, and looking back at history, the effects of the latter can be more severe.