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Lower risk of Government intervention

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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 last year and the other in January this year. However, recent developments have significantly reduced the risk of major measures being imposed by the Government even as new challenges lie ahead.

The resilient market

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

This set of measures had the immediate impact of cooling both the HDB resale as well as the private housing markets. Between 3Q2010 and 4Q2010, sales volume for HDB resale flats dropped 21 per cent to 6,454 units from 8,205, while the resale flat price increase slowed to 2.5 per cent from 4 per cent. Cash-over-valuation (COV) also eased from an overall S$30,000 to S$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 1,066 units in October compared to 1,553 and 1,259 units in July and August, respectively.

However, the slowdown was short-lived as buyers flocked back to the market in November, resulting in sales rocketing to 1,915 units. A slower market in December due to the holiday season saw 1,332 units transacted. Meanwhile, the price increase for private housing units moderated slightly to 2.7 per cent in 4Q2010 from 2.9 per cent in 3Q2010.

It is believed that the surprising surge in the private residential market in November last year rattled policy makers and led to another more drastic set of measures being imposed in mid-January this year. Highly punitive sellers' stamp duty rates of up to 16 per cent were put in place while the holding period was raised to four years. Furthermore, a lower loan-to-value limit of 50 per cent was set for buyers who are not individuals and 60 per cent for 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 this year to 1,105 units, but the decline was also partly due to the Chinese New Year holiday. The resilience of the market was seen again as sales crept up to 1,386 units in March and surged to 1,805 units in April. May also had a good showing with 1,575 units taken up.

The winds of change

In May, election fever gripped Singapore and it was suggested that the monthly household income ceiling for buyers of HDB flats could be raised to S$10,000 from S$8,000.

Subsequent announcements included HDB to build flats ahead of demand, ramping up this year's supply of Build-To-Order (BTO) houses to 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 the rather slow pace of activity in the last five years, when an average of 5,500 units per year were built.

The latest message is that the 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.

In recent months, warnings of a significant supply build-up in the private housing market have gotten louder. Besides the opinions expressed by market analysts, Minister for National Development Khaw Boon Wan has also weighed in, saying there is a pipeline of 45,000 units to be built and sold. With another 8,000 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 launches and this trend is expected to continue. In 2Q2011, 4,802 private residential units were launched for sale, a 16 per cent pick-up from the 4,130 units launched in 1Q2011. Competition among existing projects being marketed as well as future ones will contribute towards price stability.

In mid-July, the Ministry of Trade and Industry released its advanced estimates showing that the economy grew only 0.5 per cent year-on-year in 2Q2011. Following that, Deputy Prime Minister Tharman Shanmugaratnam warned of a sluggish global economy ahead and said “mini-shocks from time to time” could be expected.

With the debt crises in Europe and the United States, the rest of the year looks more uncertain and we can expect sentiment in the property market to be affected. Buyers are likely to become more cautious and this could result in slower activity.

Combined effect of policy initiatives and market conditions

The latest HDB resale market data show a slightly more active market in 2Q2011 with 6,581 resale cases, 5.7 per cent above the 6,228 in the first quarter. The resale price index rose 3.1 per cent in the second quarter, higher than the 1.6 per cent increase for 1Q2011 while COVs also rose during the period.

Over the medium term, with the supply of new HDB flats being ramped up and the income ceiling expected to be raised, we can expect the effect on the resale market to gradually filter through. It should also be noted that the HDB resale market is not immune to economic slowdown, 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 home market, it seems to be moderating comfortably – the 2Q2011 price increase has slowed to 2 per cent, units sold by developers last month declined to 1,182 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 those on the secondary market, the whole market can be seen slowing steadily since mid-2010. 1H2010 saw 20,505 units sold, which declined 10 per cent to 18,417 in the second half of that year and again to 16,822 in 1H2011, a 9-per-cent drop from the previous half-year.

The “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.

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