

99 YEAR LEASEHOLDS GAIN DOMINANCE FOR NEW SALES

Freehold or 999 year leasehold is the preferred tenure for many property buyers as many are concerned that the value of 99 year leasehold properties may not appreciate well when the duration of the leasehold reduces. However the 99 year leasehold tenure has been well accepted in the residential market and many buyers have no qualms about buying a property of such tenure. In recent years, the proportion of freehold/999 year leasehold sales has been declining while that for 99 year leasehold gained dominance.

Year	Total new sales*	New sales* (freehold & 999 year leasehold)	New sales* (99 year leasehold)
2007	12253	8412 (68.7%)	3841 (31.3%)
2008	4004	2579 (64.4%)	1425 (35.6%)
2009	13097	7927 (60.5%)	5170 (39.5%)
2010	14178	7060 (49.8%)	7118 (50.2%)
2011 (1Q-3Q)	9666	3917 (40.5%)	5749 (59.5%)

**Source: URA REALIS (based on caveats lodged, excluding executive condominiums)*

In 2007, nearly 69% of new sales involved freehold/999 year leasehold transactions while 99 year leasehold accounted for the minority. The dominance of freehold/999 year leasehold sales in 2007 to 2009 was due to an active enbloc sales market in 2006 and 2007 which generated a strong supply of freehold/999 year leasehold housing. On the other hand, Government land sale, which is the main source of 99 year leasehold homes, was low key during that period.

When the residential property market slumped in 2008/09 following the global financial crisis, only a few enbloc sales took place resulting in a limited future supply of new freehold/999 year leasehold units. In 2010, brighter market conditions led to only a modest recovery in the enbloc sales market which continued into 2011. Net new supply (potential number of new units – original number of units) of freehold/999 year leasehold units generated from en-bloc sites in 2010/2011 (to-date) is estimated at 3,000 units. In contrast, government residential land sales in 2010/2011 (to-date) will generate some 16,000 to 17,000 units of 99 year leasehold private homes (excluding executive condominiums). The aggressive step-up in Government land sales was one of the measures to cool the buoyant residential market.

The current dominance of 99 year leasehold sales is a consequence of increased buying opportunities in 99 year leasehold mass market projects, which is also experiencing strong demand. While government residential land sales remain aggressive, the future supply of private residential units will be skewed towards 99 year leasehold.

But freehold has the edge in price appreciation and resilience

Since August 2010, the residential property market had to cope with two rounds of market cooling measures imposed by the Government; in end August 2010 and mid-January 2011 and more recently the financial market turmoil. An analysis of the price appreciation of freeholds versus leaseholds over the last five quarters is provided in the table below. The effect of the market cooling measures was a general slowing down of transactional activity and a moderation in price increases.

Price increases have moderated more significantly from 3Q2010 onwards compared to earlier quarters. While prices of leasehold condominiums (based on URA’s property price index) inched upwards by less than a percent per quarter between 3Q2010 and 3Q2011, prices of freehold condominiums displayed greater resilience averaging 2.2% increase for the same period. Over the last 10 years, freehold condominiums appreciated 62% in value while the appreciation for leasehold condominiums was 48%. In the landed segment freehold terrace houses displayed a pick-up in price increase of 4.9% in 3Q2011 while prices of leasehold terrace houses has started to dip, as seen in the -0.1% drop in the same period. The last 10 years saw freehold terrace house gaining 97% in value as against 52% for leaseholds.

Period	Change in Price Index			
	Leasehold Condominiums	Freehold Condominiums	Leasehold Terrace Houses	Freehold Terrace Houses
3Q2010	0.7%	1.6%	1.2%	8.4%
4Q2010	0.9%	2.1%	5.6%	3.3%
1Q2011	0.2%	3.4%	5.7%	3.6%
2Q2011	0.3%	2.8%	2.8%	4.0%
3Q2011	0.6%	1.2%	-0.1%	4.9%

Source: URA REALIS

99 year leasehold dominance to continue for new sales

From a purely investment point of view, buyers should go for freehold properties. However market circumstances are such that 99 year leasehold properties will remain in demand. They still have a price advantage over freehold equivalents and many 99 year leasehold projects are located near amenities and transportation nodes. These are crucial factors, especially for upgraders, for whom affordability and convenience rank high on their priorities. Such attributes can be found in sites in or near HDB estates which the Government puts out for tender on a regular basis under its land sales programme. While strong supply of 99 year leasehold sites continues under Government land sales and mass market homes remain in demand, the new sales market will continue to be dominated by 99 year leasehold transactions.