SINGAPORE PROPERTY

Long term optimism

Market-cooling measures, uncertain economic outlook... yet the residential market looks potentially promising for the next decade

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Promising developments... Far East Organization's The Tennery (artist's impression shown here) in Bukit Panjang is nearly sold out.

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AS 2011 draws to a close, Singapore's residential property market has surprised market-watchers with its resilience despite a tough set of market-cooling measures being imposed in January and an uncertain outlook arising from the financial market turmoil.

The short-term concern is whether the residential market would eventually correct and how severe that might be. We have seen enough of ups and downs in the property market cycle not to get overly excited as these are part and parcel of short-term market behaviour. Of greater interest would be a longer term view of the residential market... especially what this decade might herald for buyers and sellers.

2001 to 2010: Housing supply lagged demand

To look into the future, we would have to look back into the last decade. Between 2000 and 2010, our population grew 26 per cent (from 4.03 million to 5.08 million) and the number of resident households rose from 915,100 to 1,145,920, a 25 per cent increase.

However, during that decade, total housing supply (both public and private combined) increased only 12 per cent –

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from 1.04 million units to 1.17 million units.

The housing supply to household ratio fell from 1.14 in 2000 to 1.02 in 2010. The decade began with a supply of 847,000 HDB flats and 803,000 resident households living in HDB flats. By 2010, the situation was reversed as there were 944,000 resident households living in HDB flats while total HDB flat supply was only 899,000.

Analysing further, we note that the net supply of HDB flats in those 10 years was about 52,000 units or an average of 5,200 units per year. Between 1990 and 2000, the net supply was 223,000 units and recently HDB has stepped up availability of new flats to 25,000 units for each of 2011 and 2012.

If demand remains strong, it has the resources and capacity to build more than 100,000 HDB flats over five years. We also note that total marriages were occurring at an average rate of 23,500 per year between 2001 and 2010. First marriages for the same period averaged 18,000 per year. These figures are higher than the rate at which new HDB flats were made available during that period.

From mid-2005, the HDB resale market has been on an almost continuous uptrend till the third quarter of 2011, with resale prices soaring 84 per cent during those six years. The price increases were particularly significant from 2007 to 2010 (66 per cent) which coincided with strong growth of permanent residents. 2006 to 2009 saw 115,200 new PRs or an average of 38,400 per annum.

In spite of measures to cool the HDB resale market imposed in August 2010, including tightening demand from permanent residents and private property owners, the rise in *HDB* resale prices has picked up momentum in the second and third quarters of 2011, climbing 3.1 and 3.8 per cent respectively.

Such is the state of demand for HDB resale flats and faced with a structural under-supply situation, even the Government has admitted that it will take three to five years to rectify the imbalance and for HDB resale prices to stabilise.

Buoyant private residential market

The private residential market had a straight run-up from mid-2004 to mid-2008 with prices rising 60 per cent in about four years before succumbing to the global financial crisis when prices corrected 25 per cent between mid-2008 and mid-2009. However it was a short market downturn that lasted only one year. Pent-up demand resulted in prices shooting up 38 per cent in the first year of recovery but after market-cooling measures were imposed in August 2010 and January 2011, price increases have been tapering.

Nevertheless, prices of private homes have gained 54 per cent from the second quarter of 2009 to the third quarter of 2011. The bouts of robust price increases were accompanied by high sales volume. For example, 14,811 units were sold by developers in 2007, 14,688 in 2009, 16,292 in 2010 and 12,301 for the first three quarters of 2011, suggesting strong underlying demand for private homes.

In recent months, the primary market remains active. After subdued sales of 1,182 units (excluding ECs) in the school holiday month of June, 1,398 units were sold in July, 1,351 in August, 1,631 in September and 1,387 in October.

Since the market-cooling measures would have deterred speculators and short-term investors, current sales are mainly attributable to owner-occupier buyers as well as longer-term investors. As first private-home purchasers make up significant numbers, the bulk of the transactions are in the suburban mass market where the most affordable homes are found.

2011 to 2020 – favourable fundamentals

In this decade, several factors will contribute to favourable fundamentals that could have a positive impact on the residential property market. Firstly the spillover effect of the imbalance in the HDB resale market from the previous decade. It will take some years to grow the total supply of HDB flats in restoring equilibrium. Since HDB resale prices form the floor of the private mass market, firm HDB resale prices will continue to support prices in that market segment.

This is not to say that prices are impervious to corrections from recessions or economic slowdowns but that the close relationship between the HDB resale and the lower-end private market will tend to keep suburban home prices firm under favourable market conditions.

Secondly, there are still plans to open the door to immigrants although on a more selective basis. A few months back, the Institute of Policy Studies shared several scenarios of future population growth. A key finding is that resident population will decline if there is no immigration and even if there is an improvement in an assumed total fertility rate.

Some politicians have commented that possible immigrant intake could be in the 20,000 to 25,000 per annum range or perhaps 30,000 to 35,000 if infrastructure can be improved to cope with the increase.

Scenario 2 of the abovementioned study which assumes "constant low fertility, low migration" is closest to those comments. This would result in 30,000 net migrants per annum and the resident population reaching 4.21 million by 2020.

If we use this scenario as a guide, the increase could result in 1.32 to 1.36 million households by then, or a 15 to 19 per cent rise from the 1.146 million households in 2010, based on our estimates. The total housing requirement is estimated to be around 1.4 to 1.45 million units or an increase of 230,000 to 280,000 units for the 2010-2020 decade. Between 2000 and 2010, total housing stock only increased by 128,000 units.

If the above housing scenario arises, 2011 to 2020 may well be a busier decade for the housing market than the last. The HDB will certainly be playing a bigger role, having committed to providing 50,000 units for these two years and, if necessary, building more than 100,000 units over five years. These plans are to clear the backlog of demand before settling into a presumably longer term moderated building programme.

The private home market is also expected to be busier during this decade, judging from the substantial estimated total requirements and the strong sales take-up in the private home market that we have witnessed during the last few years. It could be a period of considerable opportunities for the real estate and building industries including developers, sellers and buyers.

Thirdly, extrapolating from current buying and investing sentiments, the desire for residential property investment (including owner-occupation) is expected to be even stronger this decade.

During the last global financial crisis many investors in the financial market or financial products were badly burnt, resulting in much negative publicity about such investments. On the other hand, while the property market does experience its cycles, it has been perceived as a safer long term investment.

Coupled with the common belief that economic prosperity, population growth and land scarcity will only cause property prices to rise, we can expect more people to aspire towards property investment. This observation is not only limited to locals but to foreigners as well and partly explains their interest in the Singapore residential market.

The discussion in this article is not meant as a "10 year market forecast" but to share our views on what the residential market could possibly be like, based on certain key fundamentals. The eventual outcome will of course depend very much on the actual population scenario determined by our policies.

While global uncertainties could lead to short term cyclical changes, the fundamentals that we have examined above do point towards a potentially promising residential market during this decade.

This article was contributed by Credo Real Estate. Karamjit Singh is the managing director of the company.

In demand... residences such as Keppel Land's The Luxuria (artist's impression, above) and HDB's first waterfront housing project River Vista@Kallang (left).
PHOTO: THE STRAITS TIMES

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