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WHEN the second quarter (Q2) HDB resale data was released, resale flat prices were seen rising 3.1 per cent for that period, a pick-up from the 1.6 per cent increase in the first quarter of the year (Q1). Cash-over-valuation (COV) was up for almost all locations and room types, a reversal from the general downtrend for Q1. In August 2010, the Government had put in place measures to cool the HDB resale market and more recently it announced raising BTO flats availability to 26,000 in 2011 and revising the monthly household income ceiling from \$8,000 to \$10,000.

Rising COV in second quarter

While there are limitations in analysing the COV based on median data (as provided by HDB), it is still adequate in helping with this broad analysis which focuses mainly on three-, four- and five-room flats, since they account for 90 per cent of HDB resale transactions. The table below provides the COV for each flat-type by location as well as the percentage change over the COV in the previous quarter. It is noted that COV rose for almost all flat-types in all locations.

The most robust COV increases are attributable to five-room flats which registered increases of 40 per cent or more for 18 of the 26 new towns. In 16 new towns, the COV increase was 40 per cent and higher for four-room flats while the same phenomenon was observed in 14 new towns for three-room flats.

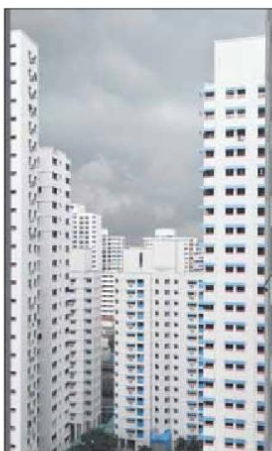
In terms of absolute median COV, five-room flats lead the pack again with 15 new towns having COV of \$40,000 or higher. Only one new town had three-room flats with median COV above \$40,000 while seven new towns recorded that level of COV for four-room flats. These observations confirm the notion that buyers of larger flats are financially better off, being able to pay higher COV. On average, COV appears to have risen 40 to 50 per cent in Q2.

New towns that experienced strong COV increases for all the three flat types include Bukit Batok, Bukit Panjang, Clementi, Jurong East, Jurong West, Tampines and Woodlands. For example the COV increases for three-, four- and five-room flats in Bukit Panjang were 72, 60 and 75 per cent respectively. Geylang recorded the strongest COV increase for five-room flats with a 112 per cent rise over the previous quarter (omitting other locations with higher increases but with few transactions and therefore unlikely to be representative). In the case of four-room flats, Queenstown posted the strongest COV increase at 76 per cent while the steepest increase for three-room flats at 72 per cent was seen in Bukit Panjang.

Woodlands new town was the most active resale market in the Q2 with 562 resale approvals. It is an example of a new town where median prices are relatively low but COV increases fairly robust. Its five-room flats had a median price of \$420,000 but a COV increase of 87 per cent. Four-room flats in this new town recorded a median price of \$368,000 while its COV in-

HDB's COV issue

The HDB resale market meets the needs of many, but cash-over-valuation remains an issue



crease was 56 per cent. The other new towns with considerable resale market activity (based on resale approvals) in Q2 include Jurong West (494), Tampines (392), Sengkang (387), Yishun (362) and Hougang (328).

What's driving demand?

The Government has explained that rising HDB resale flat prices and COV are due to an imbalance in supply and demand. According to our analysis, this imbalance is due to several factors. The factors contributing to demand for HDB resale flats are:

- Owners of private residential properties have been buying HDB resale flats and retaining their private homes but this has been addressed by the

measures of August 2010 which prohibit buyers of resale flats to concurrently own a private property during the minimum occupation period (MOP). This would have discouraged private property owners who are not prepared to sell their private homes after buying an HDB resale flat.

- Permanent residents (PRs), especially those who find private homes too expensive, will turn to the HDB resale market. The August 2010 measures also require PRs to dispose of their private property in their previous domiciles if they buy a HDB resale flat. This acted as a deterrent to some.

- Many first-timers resort to buying HDB resale flats because they exceeded the HDB's income ceiling for new

flats or found the waiting time for new flats too long, among other reasons. The Government is now tackling these issues by increasing the supply of new BTO flats and raising the income ceiling.

- Private property owners downgrading to HDB resale flats who find HDB resale flat prices and COV affordable.
- HDB flat owners upgrading/downgrading to bigger or smaller resale flats contributing to the churn within the HDB resale market.

- Tenants comprising of foreigners, PRs and locals who rent HDB flats or rooms, making it attractive for the owners to continue retaining their flats.

Supply of HDB resale flats

The factors affecting the supply of HDB resale flats include:

- The supply of HDB resale flats depends on the number of new flats being added to HDB's total stock. In the last five years (2006 to 2010) the new supply had decreased to an average of 5,500 units per annum which is significantly lower than the average of 11,000 units per annum between 2001 and 2005 and 31,600 units per annum between 1996 and 2000. This anomaly would eventually be addressed by the increase in the supply of new flats but the Government has explained that it may take a few years for the imbalance to be resolved.

- High private property prices as well as the 60 per cent loan limit for buyers who have one or more outstanding housing loans have made it more difficult for some HDB owners to upgrade to private housing or another HDB flat, thus postponing the sale of their existing unit.

- A growing trend among HDB owners in retaining their HDB homes after completing their MOP and buying a private property for investment instead.

- Those who already concurrently own an HDB flat and private property would not dispose of their HDB flat because they would be caught by the latest rules on concurrent ownership if they decide to buy a HDB flat again.

The HDB resale market is indeed catering to the needs of many. Sandwiched between new HDB flats at the lower end and private residential properties at the upper end, it remains the only affordable housing option for many, especially taking into account that 82 per cent of Singapore's population has to resort to HDB flats for accommodation.

The HDB resale market will continue to be underpinned by these factors but some changes are likely, arising from the revised income ceiling, the increased availability of new flats and a possible moderation in demand if the economy slows.

Given the current situation of firm resale prices and COV, first-timers should ideally steer towards new BTO flats now that availability of such flats has increased. Other potential buyers of resale flats may do well to delay their purchase if their needs are not pressing, as prices and COV should ease eventually due to the reasons mentioned above.

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

Median COV for the second quarter of 2011

Town	3-room flats		4-room flats		5-room flats	
	Q2 2011	Change from Q1 2011	Q2 2011	Change from Q1 2011	Q2 2011	Change from Q1 2011
Ang Mo Kio	\$25,000	58%	\$30,000	30%	\$40,000	22%
Bedok	\$29,300	47%	\$35,000	40%	\$50,000	54%
Bishan	\$25,000	39%	\$41,000	52%	\$50,500	26%
Bukit Batok	\$28,000	56%	\$32,000	60%	\$40,000	48%
Bukit Merah	\$27,000	20%	\$44,000	47%	\$50,000	47%
Bukit Panjang	\$31,000	72%	\$32,000	60%	\$35,000	75%
Bukit Timah	\$48,500	21%	\$55,000	41%	\$70,000	-18%
Central	\$36,500	70%	\$33,000	-15%	\$47,500	509%
Choa Chu Kang	\$25,000	25%	\$30,000	67%	\$28,000	56%
Clementi	\$30,000	50%	\$40,500	40%	\$38,000	81%
Geylang	\$26,000	44%	\$35,000	17%	\$55,000	112%
Hougang	\$27,000	35%	\$30,500	22%	\$35,000	30%
Jurong East	\$28,000	40%	\$30,000	50%	\$35,000	75%
Jurong West	\$25,000	56%	\$32,000	60%	\$31,500	58%
Kallang/Whampoa	\$30,000	50%	\$37,500	25%	\$45,500	26%
Marine Parade	\$31,900	28%	\$37,000	76%	\$95,000	230%
Pasir Ris	\$18,000	-14%	\$30,400	32%	\$40,000	43%
Punggol	-	-	\$40,000	43%	\$36,900	37%
Queenstown	\$28,000	40%	\$58,000	76%	\$65,000	30%
Sembawang	-	-	\$27,000	74%	\$25,000	52%
Sengkang	-	-	\$30,000	36%	\$34,400	72%
Serangoon	\$29,900	30%	\$30,000	30%	\$45,000	50%
Tampines	\$28,500	50%	\$38,000	52%	\$42,000	68%
Toa Payoh	\$25,000	35%	\$41,000	37%	\$70,000	63%
Woodlands	\$26,000	44%	\$28,000	56%	\$28,000	87%
Yishun	\$26,300	46%	\$31,000	29%	\$30,000	20%

Source: HDB/Credo Real Estate

Note: Some extraordinary increases in COV may not be representative due to limited number of transactions