

## MARKET TURNING POINTS

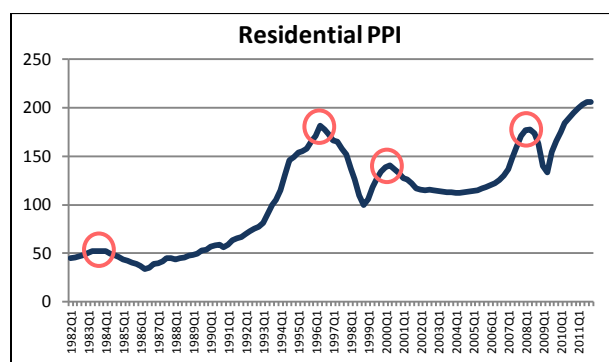
When the residential property price index for 4Q2011 was recently released, it reflected a mere 0.2% increase. This shows that prices have slowed almost to a standstill from the 1.3% and 2% increases in the third and second quarters respectively. Has the market peaked? Some analysts think so, citing the effects of growing economic uncertainty, the cumulative impact of several rounds of market cooling measures as well as the growing supply. The more optimistic do not discount the possibility of a price resurgence since interest rates will remain low for quite a while and the economic slowdown may be milder than expected.

Period	Change in residential property price index (%)
1Q2010	5.6%
2Q2010	5.3%
3Q2010	2.9%
4Q2010	2.7%
1Q2011	2.2%
2Q2011	2.0%
3Q2011	1.3%
4Q2011	0.2%
1Q2012	?

Source: URA Realis

### *A look at the past?*

What about the past when prices moderated in a similar manner? What happened then? While we may be tempted to dismiss the past since future events are never the same, there may be similarities in price behavior under common sets of circumstances that could be worthwhile looking at. We will examine the four major turning points in the residential market. They are 2008, 2000, 1996 and 1983.



Source: URA Realis, Credo Real Estate

In 2008, we encountered the global financial crisis that dragged Singapore into a recession. Prior to that, the residential property market was on the uptrend, with prices surging 31% in 2007. Price increases started to ease significantly from end 2007 and registered a rise of only 0.2% in 2Q2008 (similar to the magnitude of increase in 4Q2011). Following that, the deteriorating external environment pulled the market down from 3Q2008 and prices slumped 25% over a year. GDP growth turned negative in the second half of 2008 leading to a recession in 2009.

Period	Change in residential property price index (%)
3Q2007	8.3
4Q2007	6.8
1Q2008	3.7
2Q2008	0.2
3Q2008	-2.4
4Q2008	-6.1
1Q2009	-14.1
2Q2009	-4.7

Source: URA Realis

Going further back to 2000, we also see how significant price moderation over several quarters precedes a decline in prices. In 1999 the economy was recovering after a recession in 1998, triggered by the Asian financial crisis. It led to a fairly strong upturn in the residential market with prices climbing 34% in 1999. However, quarterly price moderation led to a small upside of only 1.4% in 2Q2000 after which prices headed south from 3Q2000. In 2001, the economy was in recession. Residential property prices fell almost continuously till early 2004 resulting in a sluggish period for the residential market.

Period	Change in residential property price index (%)
3Q1999	8.1
4Q1999	5.3
1Q2000	3.1
2Q2000	1.4
3Q2000	-2.7
4Q2000	-2.8
1Q2001	-4.0
2Q2001	-0.9

Source: URA Realis

In the three years from 1993 to 1995, residential property prices had more than doubled and speculation was rife. Prices were still picking up at a rate of 3.8% in 1Q1996 and 6% in 2Q1996 when the market was slammed with the anti-speculation measures in May that year. The market was immediately dampened which led to price declines from 3Q1996, later exacerbated by the Asian financial crisis. However, the 1996 experience is not quite analogous to the current situation as it was a rising market which was “shocked” into decline.

Period	Change in residential property price index (%)
1995Q3	1.5%
1995Q4	4.6%
1996Q1	3.8%
1996Q2	6.0%
1996Q3	-1.9%
1996Q4	-2.7%
1997Q1	-3.7%
1997Q2	-0.8%

Source: URA Realis

Singapore was in recession in 1985 but q-o-q GDP growth in 1984 was already softening and residential property prices were in decline. Prior to this, price increases were already moderating in 1983, slowing steadily from a 4.3% rise in 1Q1983 to price stagnation in the fourth quarter that year.

Period	Change in residential property price index (%)
1Q1983	4.3
2Q1983	3.2
3Q1983	0.8
4Q1983	0.0
1Q1984	-0.8
2Q1984	-4.6
3Q1984	-2.6
4Q1984	-4.3

Source: URA Realis

## *What can we conclude?*

From the 2008, 2000 and 1983 scenarios, the market turned after price increases in previous quarters moderated till marginal or no growth. The correction in residential property prices either coincided with negative GDP growth or deteriorating conditions that eventually led to recessions. What does this tell us for 2012? If a recession occurs this year, it will certainly lead to a correction in the residential market. Even if a recession does not occur this year, but economic conditions deteriorate ultimately leading to a recession, the market is also likely to correct.

But what if we experience a mild slowdown without getting into a recession? Would it be possible for the residential market to remain stable if sentiments remain positive with sustained market activity? The additional buyer stamp duty imposed in December 2011 appeared to have affected sales that month when 632 units were sold by developers, down from 1,702 units in November. However recent new sales launches in 2012 seem to be receiving strong response from buyers at fairly firm pricing.

Our assessment is that the suburban primary mass market could remain relatively healthy due to firm underlying demand and developers' ability to maintain pricing. However, the secondary market which is seeing declining volume could experience moderation. This is perhaps reflected by the -0.8% change in the Singapore Residential Price Index (SRPI) in Dec 2011, as it is based on a basket of completed properties. We also expect a slower prime residential market since the ABSD will reduce demand from foreign buyers more significantly in that sub-market.

Therefore, if economic conditions turn out to be better than expected, we are likely to see a fairly stable market, albeit with uneven performance amongst different market segments and with price adjustments within a narrow range.

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