

Silver lining ahead

Singapore residential property market may see a recovery in the second half of 2015



VALUE PROPOSITIONS

Developers of luxury residential properties are likely to proactively offer their properties at more attractive prices this year as the seven-year grace period under the Qualifying Certificate regulations nears expiry



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AFTER a quiet year of low transactions and declining prices, the Singapore property market may see a recovery in H2 2015

The year 2014 was a languid period for Singapore's property sales with weaker transactional activity and prices. Total new sales volume of private residential properties halved in 2014 compared to the previous year. The Urban Redevelopment Authority (URA) All Residential Price Index registered a 4 per cent year-on-year (y-o-y) decline in Q4 2014 compared with a 1.1 per cent y-o-y increase in Q4 2013.

The high-end residential segment witnessed notable price corrections. The URA All Private Landed Property Index posted the steepest fall of 5.2 per cent y-o-y in Q4 2014 with five consecutive quarters of decline, while the Non-Landed Property Index for the Core Central Region (CCR) decreased by 4.1 per cent y-o-y for the same period and saw seven successive quarters of downward trend.

A more pronounced price fall was seen for the ultra-luxury residential segment, with Knight Frank's Singapore Prime International Residential Index showing a 12.4 per cent y-o-y decline in Q4 2014.

The barrage of property cooling measures and the Total Debt Servicing Ratio (TDSR) ruling have adversely impacted investment sentiment for Singapore property. In particular, the Additional Buyer's Stamp Duty has deterred many foreigners and kept discerning prospective foreign buyers at the sidelines. The price fall of luxury properties has also dampened buying interest among the high-net-worth individuals, who viewed Singapore property less favourably compared to other overseas properties in established cities such as New York and London, which saw continuing price hikes of prime properties.

Despite the lacklustre market performance and growing calls from the private sector for the removal of some of

the property cooling measures, the government has reiterated its stance to retain the existing policies in order to keep prices at a "stable and sustainable level". The property market will have to contend with the prevailing policies at least for the near term this year.

Anticipated divergence and greater volatility

As we enter 2015, both global and local factors will continue to influence Singapore's economy and property market dynamics. Macroeconomic risks loom large as the global economy is likely to experience an uneven growth path. The plunge in oil prices to a 5.5-year low of below US\$60 per barrel at the start of 2015 could serve as a growth impetus for net importers of oil, such as the US, Japan and China.

The US economic recovery and increasingly upbeat business and consumer sentiments would spur demand for exports from Singapore. However, there is also a more uncertain scenario. The economic rut gripping the eurozone amid deflation risk and fresh fears of contagion arising from the possible Greek exit from the euro bloc could prompt the European Central Bank to cut interest rates.

Japan's economic growth has been largely curtailed by the consumption tax increase to 8 per cent since April 2014, and it has passed a 3.1 trillion yen (S\$34.93 billion) stimulus package to spur growth. China's economy may slow further this year amid ongoing economic rebalancing, property market correction and rising bad debts especially in the real estate and manufacturing sectors.

The disparity in growth rates among the largest four economies – the US, China, Japan and the eurozone could lead to a divergence of monetary policies, thereby heightening currency volatility and the uncertainty of interest rate movements.

Interest rates are a fundamental factor that has greatly influenced demand for Singapore property. The low interest rate environment that has prevailed in the past five years has propelled demand for Singapore property to a large extent, as many investors took advantage of record-low mortgage rates to secure their properties.

However, interest rates have slowly crept up in recent months, as the Singapore dollar weakened against the US greenback. The three-month Singapore Interbank Offered Rate (Sibor), a key interest rate that housing loans are most-pegged to, rose to an average 0.43 per cent in December



2014, compared with 0.38 per cent in January 2013. Sibor hit the last high at 0.62 per cent on Jan 6, 2015.

With a likely muted growth of the Singapore economy and potential normalisation of US interest rates from the middle of this year, market watchers anticipate that the Singapore dollar could face further volatility and that Sibor may rise up to around 0.60 to one per cent by end-2015. The prospect of higher interest rates would increase the mortgage burden on property owners, raising the risk of a slower-than-expected take-up rate of Singapore properties.

As we face a cloudy future in the midst of an ever-changing landscape of risks and uncertainties, what promise does Singapore property hold in 2015?

Still a favoured asset?

Despite being a small country which is susceptible to the vagaries of global market forces, Singapore has remained resilient and stable, as shown by its AAA credit rating from Moody's in 2014. Singapore is ranked as the best country to do business in, topping the World Bank rankings for nine straight years. Hence, formations of companies and businesses rose 6 per cent annually to over 60,000 new entities

in 2013. The island state is ranked as the best place to live in Asia and 25th among the 223 global cities surveyed in Mercer's 2014 *Quality of Living* report.

Singapore property sector's sound fundamentals are underpinned by a number of strengths, including a healthy economy, conducive business environment, low unemployment rate, progressive city planning and development and a high standard of living. Invariably, Singapore still holds considerable appeal as a favoured market in Asia for real estate investment and development.

Apart from country and market fundamentals, high-net-worth individuals hunt for prized properties around the world with other considerations in mind. Foreign exchange is a key factor, which may result in a cost premium or discount to a property investment, and the subsequent appreciation or erosion of property value. The strong Singapore dollar has spurred many of the local wealthy to invest in offshore property in recent years, particularly in the US and London at "price discounts" due to the weaker US dollar and British pound sterling.

However, that could change as the Singapore dollar is projected to weaken against the greenback this year on the back of diverging economic growth prospects for Singapore versus the US, potentially prompting wealthy individuals to relook at Singapore property.

Developers of luxury residential properties are likely to proactively offer their properties at more attractive prices this year as the seven-year grace period under the Qualifying Certificate regulations nears expiry. The eventuality of price cuts would present better value propositions for the prospective buyer starting from early 2015, albeit with a fairly short window of one to two years thereafter as the total unsold inventory of private homes in prime residential districts pares down gradually.

A probable year of two halves

After a slow year of low transactional activity and declining prices in 2014, the first half of 2015 is likely to be a muted period for Singapore's private homes market. On top of the existing property cooling measures and the TDSR ruling that would continue to curtail property demand, a probable economic slowdown for the first two quarters this year could pose potential headwinds.

Downside risks include the continuing macroeco-

nomical uncertainty, in particular in the eurozone, coupled with the labour crunch in Singapore due to the government's economic restructuring efforts to boost productivity and reduce reliance on foreign labour. Sentiment for property investment is therefore anticipated to be cautious, as prospective buyers remain at the sidelines and many existing owners still hold on to their properties amid fairly low interest rates. High-end private home prices could potentially see price declines of up to 5 per cent over the next six months.

However, the second half of 2015 could be a breakout period for both the Singapore economy and the property market. Turnaround in economic growth of various Asian economies, including Singapore, may be on the cards as countries benefit from low oil and commodity prices. This leads to improving consumer spending, higher exports to the US and eurozone, and rising growth output for export-oriented markets such as Singapore.

Furthermore, the likely hike in interest rates by the US Federal Reserve, which is widely expected in the second half of 2015, is a positive signal of the strength of the US economy. Such sustained recovery and consequent rise in investments in the world's largest economy is good for Singapore's economic growth prospects.

A moderate rise of up to 100 basis points this year in interest rates and Sibor is expected to be manageable for most property loan borrowers. Still, any potential availability of quality assets arising from the rise in interest rates presents opportunities for the wealthy investor.

Looking ahead on the Singapore prime residential property market, the level of unsold inventory in the CCR has fallen to below 10,000 units in Q3 2014, an encouraging trend for the high-end segment. Juxtaposed with cutbacks in the available supply of private homes under the Government Land Sales programme, the availability of prime residential properties is likely to be reduced markedly within the next two years, supporting the attractiveness of high-end homes in the medium term.

In anticipation of these trends, prospective investors could return to the Singapore high-end segment towards the later part of 2015. By then overall private home prices could have declined by about 5 to 6 per cent and an adjustment to property cooling measures could be on the cards. ■