A skyrocketing supply of units in Singapore

# Property market headed for a glut

TDSR, rising land prices, stiff competition weigh on bleak short-term prospects of the industry.

Singapore's residential property market has ballooned under a heavy load of market factors, where acquisitions will not likely match the surge in supply from the beginning of next year. Previously a lucrative industry in the city-state, experts predict that the Singaporeans will witness the opening of 173,300 more completed units in 2014 - more than has been seen over last three years. This includes completions from HDB (50,000 units), DBSS (49,700 units), and EC (73,600 units), where analysts anticipate homes will come into the physical supply in 2014, 2015 and 2016 respectively.

However, a skyrocketing physical supply of units is predominantly higher than the projected average incremental demand of around 29,000 physical homes per year, (i.e., a little below 90,000 in three years). This predicted forecast was derived from an average population growth of 86,000 a year, from 2014 to 2020. "In our view, this mismatch points to a fairly clear physical oversupply situation ahead," says Eli Lee of OCBC Research.

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**Oversupply and TDSR**

According to Lee, increased caution in the market resulting from heavy physical supply and persistent cooling measures, is applying pressure to the Urban Redevelopment Authority (URA) price index. This, Eli Lee advises, takes place in the face of positive price appreciation in the URA, which appreciated 2% in the first nine months of the year. "Over the last nine consecutive quarters, the URA residential price index showed an average quarterly price appreciation of 0.7% quarter-on-quarter (QoQ), which is significantly lower than the 10-year quarterly average of 1.7% QoQ," Lee pointed out.

Accordingly, the bulk of this price appreciation was due to buoyant activity in the mass property market in Outside Central Region (OCR). Over the last four quarters, the URA "non-landed" OCR price index appreciated an average of 2.8% per quarter, versus 0.2% and 0.1% per quarter for the high-end, or Core Central Region and mid-tier or Rest of Central Region, respectively.

Lee also adds that not only was the price slowed, but the number of units sold also decreased during the period. Based on the recently released September 2013 sales numbers, only 1,219 homes were sold, down 53% from a year ago. This has a take-up rate of only 70.5% for the 1,728 units launched over the month. Therefore the inventory of launched and unsold inventory stood at 6,275 units as at end September 2013, up 21.3% versus the 5,177 units as at end December 2012.

Authorities implemented its latest set of property cooling measures in July 2013 – Total Debt Servicing Ratio (TDSR) framework – whereby financial institutions will take into account borrowers' other debt obligations when granting property loans. "This set of measures further constricted financing for home buyers, particularly for those with existing property loans," confirms Lee, adding that the incremental curbs resulted in the drop in homes sold. "The number of homes sold in the primary market (excluding EC and landed units) decreased 30% year-on-year (YoY) to 12,500 units over 9M13," he said.

Brandon Lee of Macquarie Research says that estimates show GLSP sites have risen by a three-year compounded annual growth rate of 25%, from 2010 to 2013, significantly more than the 4% of private residential prices. "We do not expect land prices to moderate, in view of developers' need to replenish their shrinking land banks amid improving balance sheets," (Brandon) Lee said.

Overall, Brandon Lee predicted forecast residential prices to decline by 4% in 2014, led by high-end (-5%) that resulted from the absence of foreign buyers, impact of Additional Buyer's Stamp Duty (ABSD), and sizeable completions (30% of 2014 supply). Further, he stated that mid-end and mass markets would decline by a lower 4% and 3%, respectively, due to continued interest from HDB upgraders and investors in a seemingly improved macroeconomic environment, and low short-term interest rates.

**Other factors - stiff competition**

Rising competition in both rental and secondary markets, has been highlighted as another challenge to the developers amid the introduction of sellers' stamp duty (SSD) in February 2010, according to Min Chow Sai of Nomura Group.

The company predicts that sellers will be willing to pay the SSD to move their units into the secondary market. In the first nine months of the year, 192 units changed hands, compared to 99 units in the same period in 2012. The average SSD paid per transaction was also higher during this period, at SGD32, 185 versus one year ago. "More sellers are apparently willing to sell at a net loss, taking into account stamp duties and agents' commissions," Chow Sai explained.

Chow Sai also confirmed that of the 192 units sold with SSD paid, and the 26 units sold at a net loss in the first nine months of the year, 136 units and 16 units, respectively, are scheduled for completion in the 2013-14 financial year. "It seems to us property owners are increasingly mindful of rising competition and are looking to sell their units even if it means paying SSD or making a net loss in some cases," he said.

"We believe the secondary market could deteriorate further with about 10,000 units sold units completing in 2013F having minimal or no SSD restriction (vs. average monthly secondary transactions of 623 units in 9M13), on our numbers."

Chow Sai also noted that with more competition in the secondary market and a smaller pool of potential buyers on account of restrictions on home purchases, Nomura expects the take-up of developers' new launches in the primary market to slow.

Sellers will be willing to pay the SSD

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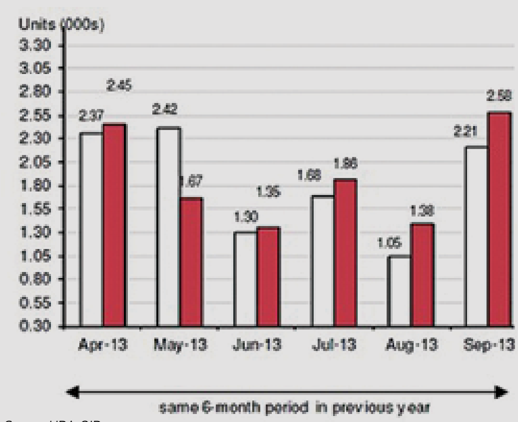
Eli Lee says that despite the slowdown of the real estate market, a price crash in property stocks is still unlikely. He predicts that headline prices will not correct excessively (>20%) in 2014 for three main reasons. Firstly, because the physical oversupply of homes which are already sold will initially affect vacancy rates and then rental prices. "While falling rents will pressure home prices, we do not see many home-owners force-selling into a softening market given that a negative rental carry is the norm in Singapore historically and that the average individual balance sheet remains fairly benign," Eli Lee explained.

Second, he noted that the level of unsold pipeline held by developers, currently at 36,000 units, is still lower than the 10-year historical average of 43,000 units and is not overly burdensome. "While developers will likely ease prices ahead to move inventory, a fire-sale situation is unlikely to ensue given relatively strong balance sheets," he added.

Eli Lee believes market data points to a high priced elasticity of demand, where a sizeable number of buyers will come into the market at every incremental price dip. Despite this, both OCBC's Eli Lee and Macquarie's Brandon Lee agree that developers with exposure beyond the Singapore market will support the belief amid upheaval in the real property sector.

**Historical Units Launched and Sold**




Source: URA, OIR