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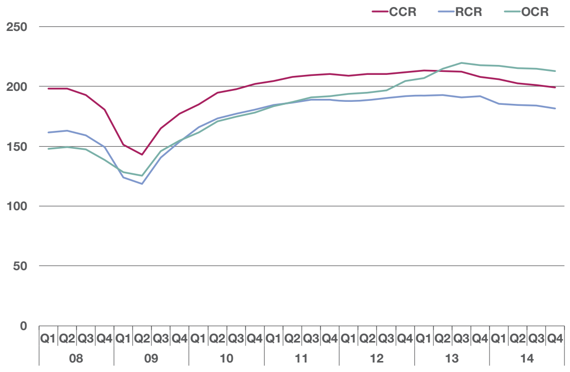
GRAPH 1

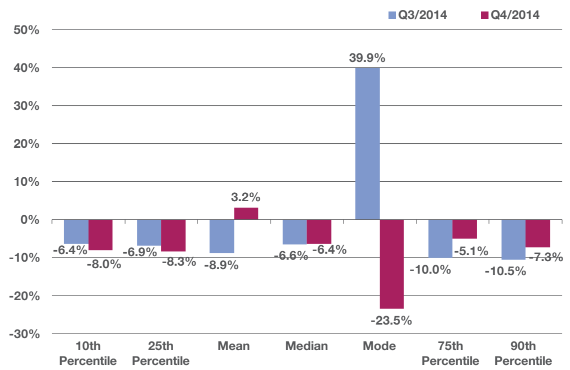
Property price index of non-landed residential properties by market segments, Q1/2008–Q4/2014



Source: Urban Redevelopment Authority (URA)
CCR: Core Central Region, RCR: Rest of Central Region,
OCR: Outside Central Region

GRAPH 2

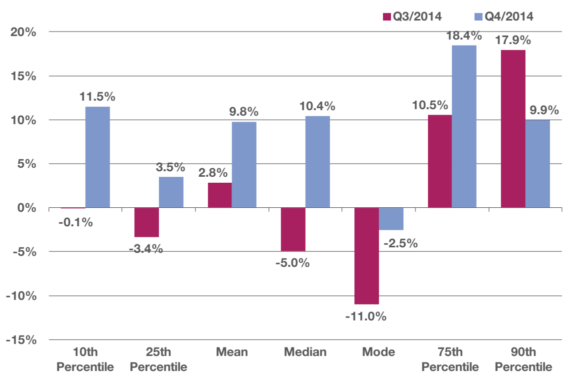
YoY changes in resale and sub-sale price for non-land properties, Q3/2014 and Q4/2014



Source: URA

GRAPH 3

YoY changes in new sale price for non-landed properties, Q3/2014 and Q4/2014



Source: Savills Research & Consultancy

2015 – Is the timing ripe for house hunters?

By the end of June 2015, it would have been two years since the implementation of the Total Debt Servicing Ratio (TDSR) framework and two and a half years since the amended Additional Buyers Stamp Duty (ABSD) measure. These have been the two direct moves aimed at the private residential market. Indirectly, in 2013, there was the 30% Mortgage Servicing Ratio (MSR) cap that was applied first to public flats and then to Executive Condominiums (EC).

Looking back, what has happened to the private residential property market? In truth, it has been one where volumes rather than prices that have come off significantly. At the start of 2014, market expectations built in a 10-15% price decline. However, going by various measures, that did not materialise, with the official benchmark, the URA Private Property Price Index (PPI), falling just 4% year-on-year (YoY). Volumes, on the other hand, fell sharply, coming off 49.5% YoY from 26,795 caveats lodged in 2013 to 13,529 in 2014.

Owing to common methods of constructing indices which incorporate transaction volumes, the likelihood that some indices declined last year could be due to the fall in transaction volumes rather than prices. If one were to leave out transaction volumes and measure how purely prices performed last year, it would be a tale of two markets.

Using several measures of prices, the non-landed resale and sub-sale market saw significant price declines on a YoY basis in 2014. Take for instance the median price measure of performance. For Q4/2014, resale and sub-sale market for non-landed properties fell 6.4% YoY and across the spectrum of transactions, prices fell with the exception of the mean.

Unlike the resale and sub-sale market, the last quarter of 2014 saw prices rise for almost all forms of measures with the exception of the mode (the most common price transacted).

Graph 4-6 shows how the various segments of the non-landed private residential market fared over the years when further stratified into New Sale, Sub-sale and Resale. Optically, it shows that New Sale Prices have remained stronger at Q4/2014 compared to the corresponding period in 2013. It is only in the Sub-sale and Resale markets that prices fell. This applies even to the much maligned CCR which headline news featured transactions at significant price declines. That is true, but that is only in the Resale market rather than New Sale.

What this means is that it is not correct to say that private property prices fell in 2014 without qualifying which market segment is being referred to. All this while, many seem to think that prices are coming off, while for new sales, they have been counterintuitively inching up. Combining both new and resale prices, there is less surety that prices have held firm last year. What happened in 2014 will set the backdrop to answer the question of whether 2015 will be a time when buyers should commit.

For 2015, as transaction volumes are likely to remain low, one may experience volatility in both prices and headline news. There will be a tendency to unduly focus on headline news of properties being transacted at significant discounts to valuation or entry price. However, one should take note that most transactions are not likely to be at those levels.

With construction costs edging up due to overall foreign labour cost increases and tweaks in planning parameters, developers' breakeven costs for the final product have actually risen rather than fallen. The latter could be in line with a view that some are holding back after witnessing some government land sale sites being awarded at prices that are lower than those sold earlier in the vicinity.

In the meantime, as many have been holding back believing that prices will come off significantly, their affordability levels are improving. By the middle of this year, two years would have gone by since the implementation of the TDSR. In the meantime, there would have been two salary adjustments and two bonuses paid out. The reservoir of savings for those who did not commit would have increased substantially. A simple poll of whether there are those who can afford to buy even with the measures in place can be conducted during lunch. Just ask how many of your friends seated around you can afford to purchase a simple one or two bedroom unit without the need to dispose of his/her HDB flat. With about 400,000 households earning more than S$11,200 per month in 2013, a simple matching of this number to the existing stock of 308,814 units and 59,296 under units under construction as of Q4/2014 would suggest that at first cut, the cup may not be totally filled yet. Even if one were to include ECs in the pipeline, the potential supply of 72,361 units is still less than the sum of the current stock and future supply.

With an understanding of the background fundamentals, what course of action should buyers take? There is no "one size fits all" answer. We will address some of the actions taken by potential buyers and how this may interact with government measures.

There is a group of potential buyers who believe that they can get a hefty discount. Unfortunately, the reality is such transactions are few in number and if one encounters such sellers, the latter are only willing to acquiesce if it helps to offload the entire inventory off their balance sheet. Who are such buyers? More likely, institutions and/or ultra high net worth individuals who probably do not need to cross-check too much with their bankers on whether they meet the TDSR requirements. Therefore, unless one is in these categories of buyers, it is unrealistic for potential buyers to go around lowballing offers for individual units and quoting headline news that some units were sold at significant discounts.

Sellers, particularly developers, are not going to move much because many have strong holding power. We may read at times that there has been re-launches at adjusted prices. This is part of a developer's marketing strategy in today's stringent credit environment rather than a sign of weakness. The adjusted price units are often those which could not clear the market at the initial launch, either because of size (too large a quantum) or orientation of the unit (floor level and view). In today's market, as prices are firm, buyers should instead use this time to do their homework selecting a property that suits their needs, be it for personal use or for investment. In the market today, there are still such buyers who would commit to a purchase if they see that the product quality and location suits their needs, even with little discounts offered.

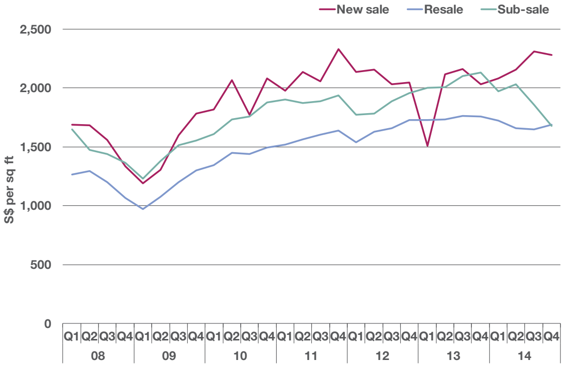
As to whether the cooling measures will be relaxed should not be the focus point of potential buyers. The fact of the matter is that many can still afford to buy a private property even with these measures in place. Therefore, with or without a relaxation of the cooling measures, sooner or later, buyers will return, the pool of overseas workers renting apartments will cumulatively increase further and the supply will begin to clear. Thus, what should be of concern is the tactics that potential buyers are adopting these days.

The delay tactic spells danger for them who may ultimately miss the boat, with or without any adjustment to the cooling measures. Why? It is human psychology. Those harbouring the belief that prices will remain firm, will be even more hardened not to commit if prices start to move up, whether it is due to the tweaking of the cooling measures or due to other reasons. They will continue to hold on to their view (for no one wants to admit to their mistakes) and prices could have increased significantly by the time they relent.

In the final analysis, unless one is going for a trade, the question of "to buy or not to buy" has nothing to do with market timing. It has more to do with whether one's income stability is highly correlated with the general economy, since that gives one a sense of security in terms of the ability to service a mortgage in the worst case scenario. Given the wall of liquidity building in the backdrop and many potential buyers just waiting to come back in, it may just pay to be contrarian because that may actually be the wisest course of action.

GRAPH 4

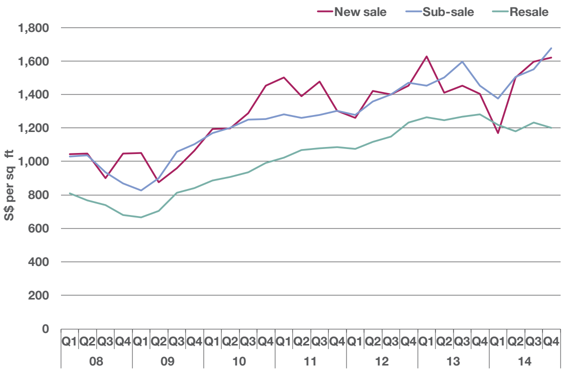
CCR (luxury) prices of non-landed private residential properties, Q1/2008–Q4/2014



Source: URA

GRAPH 5

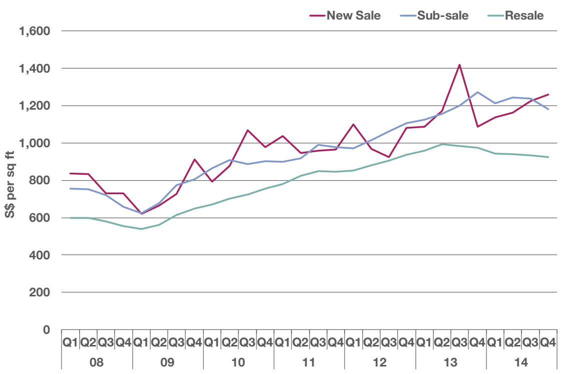
RCR (mid-tier) price of non-landed private residential properties, Q1/2008–Q4/2014



Source: URA, Savills Research & Consultancy

GRAPH 6

OCR (mass market) prices of non-landed private residential properties, Q1/2008–Q4/2014



Source: URA

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