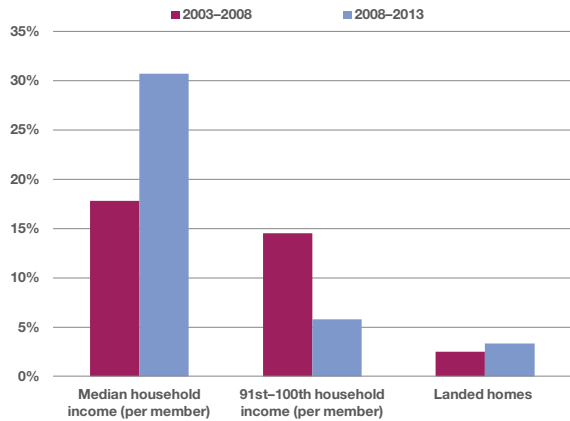


Asian Cities Report **Singapore Residential**

1H 2014



GRAPH 1
Cumulative % increase in household income and supply of landed homes



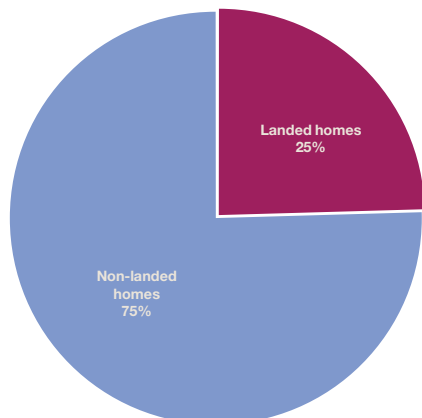
Source: SingStat, Urban Redevelopment Authority (URA), Savills Research & Consultancy

TABLE 1
Price rises for different property types, 2003-2008 vs 2008-2013

| | 2003-2008 | 2008-2013 |
|-----------------------------|-----------|-----------|
| Landed properties | 32.5% | 60.8% |
| Condominiums | 44.3% | 23.8% |
| Housing & Development Board | 34.2% | 44.7% |

Source: URA, Savills Research & Consultancy

GRAPH 2
Private residential housing mix*, Q4/2013



Source: URA, Savills Research & Consultancy
 *Total number of units = 289,370.

Outlook of landed properties

The recent softness of the residential sales market, both new and resale across the island, has prompted some to ask if it is time to buy landed properties. In fact, from our recent encounters with the public, there are more people asking if they should commit to landed properties than there are those looking to sell. This angle of questioning points to the possibility that this segment of the residential market could be harbouring significant pent-up demand.

Landed properties have several attributes which make them stand out from other housing types. For one, supply is limited. That is actually a very important consideration to take into account when analysing this segment of the market. Chart 1 shows that over the two periods from 2003 to 2008 and 2008 to 2013, while the cumulative increase in the median and top decile of household income was comfortably in the double-digit range, the supply of landed homes has been less than 4%. For non-landed properties (not shown in the chart), the cumulative increase in supply over the 2008 to 2013 and 2008 to 2013 periods was 19.9% and 26.6% respectively, much closer to matching the growth in household incomes.

What this implies is that while incomes have risen considerably over the years, especially those in the top decile, the supply side has not kept pace. Over the years, this pent-up demand has built up to the point where it is quite palpably felt in the form of even greater price increases for landed property over the non-landed segment. This clearly shows up in Table 1, which captures price increases over the years 2003 to 2008 and 2008 to 2013.

In fact, for a sub-type of landed

properties, namely Good Class Bungalows (GCB), the cumulative price increase has been even greater, at 85.6% and 128.3% respectively over the two periods of comparison.

Why this counterintuitive state of price performance between landed and non-landed properties when a large segment of demand, namely non-Singaporeans, is mostly prevented from buying it? (Non-Singaporeans are not totally barred from buying landed properties. If they wish to purchase on Sentosa Island, there are no restrictions, but if they wish to purchase on Singapore island itself, they will have to apply to the Lands Dealings (Approval) Unit of the Singapore Land Authority.) In fact, overseas demand has consistently made up a significant proportion of total property transactions each year, accounting for 23% to 24% of total transactions over the past two years. Some reasons we offer are:

- A constrained supply of landed properties in regard to the non-landed segment. Both freehold and leasehold landed properties are fairly limited because of zoning issues. Over the course of each Master Plan revision, there has not been any significant change in the number of areas zoned for landed development; and
- A rapid increase in domestic wealth over the years, which has more than made up for the lack of overseas demand.

What then does the future hold for this segment of our residential property market? To begin with, let us look at the share of landed housing in our existing private residential property stock. In Q4/2013, there were 71,049 landed properties and 218,321 private non-landed properties, excluding executive condominiums. This constitutes about 25% and 75%

of the private housing stock mix. Moving forward, the share of the pipeline supply of landed properties is even smaller, accounting for just 4% of the total private housing stock under construction or at the planning stage.

This demand/supply disequilibrium suggests that the outlook for the landed residential property segment is bright. Without the need to justify more as to why this is the segment of choice for long-term investment or inheritance planning, we only have to focus on the current income and supply mismatch plus the relative limitations of landed housing supply in the future. All these point to a strong fundamental reason that this segment will continue to outperform in future.

While sales volumes in the general market are soft, the fact that future supply of landed homes is just 4% of the pipeline supply actually means that buyers should look at this limit to infer that prices could hold out well in the event of any price correction in the non-landed segment, or for that matter the public and private residential market in general.

From historical data collected during the recent global financial crisis (GFC) period it is clear that landed property prices fell by less than their non-landed counterparts. For the period Q2/2008 to Q2/2009, landed prices fell by 23.7% whereas condominium prices dropped by 35.2%. This most recent price behaviour contrasts sharply with the period Q1/1997 to Q4/1998, the period of the Asian financial crisis (AFC) when landed prices fell more, by 78.4%, while condominium prices fell by 55.5%.

One reason why we believe that prices held up better during the GFC over the AFC could be that a critical density may have been reached for

landed properties per household in the top decile somewhere during the intervening period. The increasing compactness of the landed property topology could have been a strong factor in preventing the market from desiccating more in times of duress.

We would therefore tend to believe that in the event of another crisis, the downside price behaviour of landed properties could be less extreme than that of condominiums. This best guess view is perhaps supported by the limited supply.

Sentosa

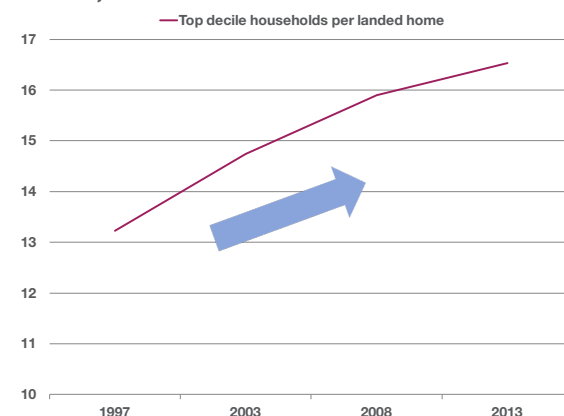
Given our positive outlook for the sector, which type of landed homes should one buy?

For overseas nationals who wish to purchase landed properties here without the need for approval, they can, provided it is on Sentosa Island itself. These are 99-year leasehold landed properties located either with direct or close to waterfront vantages. In the aftermath of the GFC, Sentosa landed property prices have recovered strongly to perform on par with general landed property in Singapore.

Demand for landed properties in District 4 (where Sentosa resides) has been majority led by overseas nationals, with Singaporeans making up only 35% of transactions in 2013. PRC buyers constituted 45% of all transactions last year.

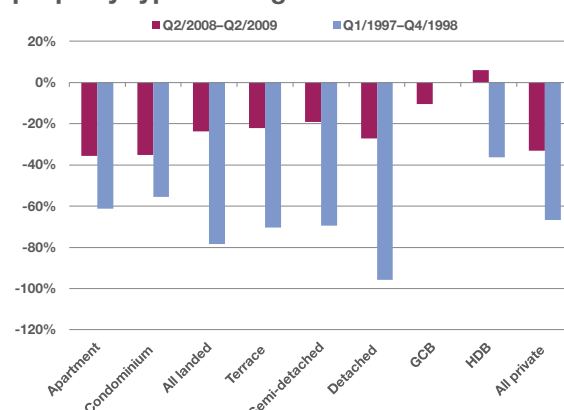
In conclusion, although the market for residential real estate is currently undergoing a lull, over time we believe that limits on its supply will go head to head against wealth generated by economic activity. The market is therefore expected to continue performing well in the long run, both for those located on Sentosa Island and those in Singapore in general. ■

GRAPH 3 Proportion of top decile households to landed homes, 1997–2013



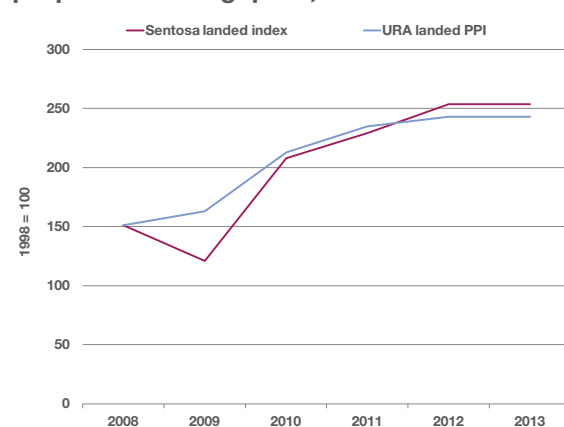
Source: Savills Research & Consultancy, Department of Statistics

GRAPH 4 Price changes of various residential property types during two recent crises



Source: URA, Savills Research & Consultancy

GRAPH 5 Prices of Sentosa landed vs general landed properties in Singapore, 2008–2013



Source: URA, Savills Research & Consultancy

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