Slight easing of cooling measures: muted impact

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On 10 March, the Singapore government adjusted some of the residential property cooling measures: easing of Seller’s Stamp Duty (SSD) and Total Debt Servicing Ratio (TDSR). On the other hand, a new form of stamp duty known as Additional Conveyance Duty was introduced, for the transfer of equity interest in entities with residential properties in Singapore. We view the first two changes as mild positives for buyer sentiment and transaction volumes, but the third will limit bulk sales in the investment sales market.

While this signals the first time that the government has relaxed any residential measures since the first round of tightening measures started in September 2009, the government’s stance remains unchanged, retaining the demand-cooling Additional Buyer’s Stamp Duty (ABSD) and Total Debt Servicing Ratio (TDSR) of 60% threshold remain unchanged.

Total residential transactions: volumes were more affected by ABSD and TDSR which came in January and June 2013 respectively

Seller’s Stamp Duty (SSD)
Easing of SSD rates and reduction of holding period

With effect from 11 March 2017, the holding period for which Seller’s Stamp Duty (SSD) will apply was reduced from four years to three, with the stamp duty rate payable being reduced by 4% for each year, with the maximum of 12% in the first year. This is a change from the maximum of 16% SSD and a holding period of up to four years, imposed on 14 January 2011.

We think this change gives property investors more flexibility in the options to sell, and developers are optimistic this will inject increased activity in the residential property market. However, we expect the impact to be muted on volumes and prices, as the demand-cooling Additional Buyer’s Stamp Duty (ABSD) and Total Debt Servicing Ratio (TDSR) of 60% threshold remain unchanged.

Seller’s Stamp Duty Rates1 on Residential Properties from 11 March 2017 onwards

<table>
<thead>
<tr>
<th>Holding Period</th>
<th>14 Jan 2011 – 10 March 2017</th>
<th>On And After 11 March 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 1 year</td>
<td>16%</td>
<td>12%</td>
</tr>
<tr>
<td>More than 1 year &amp; up to 2 years</td>
<td>12%</td>
<td>8%</td>
</tr>
<tr>
<td>More than 2 years &amp; up to 3 years</td>
<td>8%</td>
<td>4%</td>
</tr>
<tr>
<td>More than 3 years &amp; up to 4 years</td>
<td>4%</td>
<td>-</td>
</tr>
<tr>
<td>More than 4 years</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Notes: 1) Rates on actual price or market value based on date of purchase or date of change of zoning/use.2) Inclusive of both dates
Sources: Ministry of Finance, Ministry of National Development and Monetary Authority of Singapore
Total Debt Servicing Ratio (TDSR)

TDSR framework tweaked to allow flexibility for monetization of properties

After gathering feedback from some borrowers who faced limitations in monetizing their properties in their retirement years, the Monetary Authority of Singapore (MAS) is relaxing the TDSR rules to meet the needs of this group of borrowers who are asset-rich but cash-light. The TDSR framework will no longer be applicable to mortgage equity withdrawal loans with Loan-To-Value (LTV) ratios of 50% and below.

As background, the implementation of TDSR on 28 June, 2013 by the government is aimed at primarily encouraging prudent borrowing by households and strengthening of credit underwriting by financial institutions. Under the framework, loans extended to households must not exceed a 60% TDSR threshold, after taking into account all other loans. As a result of the introduction of TDSR, residential activities saw a significant slowdown and the private residential price index has fallen for 13 consecutive quarters i.e. by a cumulative total of 11.3% since Q3 2013.

We foresee that this tweak in the framework will have a minimal impact on the residential market, as it is targeted at meeting the specific needs of retirees or semi-retirees. However, the change may increase home loan volumes which should be positive for banks.

Additional Conveyance Duties (ACD)

Introduction of ACD to address differential treatment of stamp duty rate for indirect transfers of residential properties

This new duty is introduced to address the different treatment of stamp duty rate between direct transfer of residential properties and indirect transfers of residential properties via an entity.

Before the new provision was introduced, a 0.2% duty was imposed on buyers if they purchase shares in a holding company that owned residential properties, but they are not liable to pay Buyer’s Stamp Duty and Additional Buyer’s Stamp Duty (ABSD). Sellers were also not required to pay SSD on the indirect disposal of the property within the stipulated holding period.

However, with effect from 11 March 2017, ACD will apply on qualifying acquisition/disposal of equity interest in Residential Property Holding Entities (PHEs). Residential PHE refers to an entity whose primary tangible assets (at least 50%), owned directly or indirectly, are Singapore residential properties.

This means that qualifying acquisition/disposal of equity interest in PHEs is considered as a transfer of the underlying properties and therefore attracts the payment of ACD. This is on top of the prevailing 0.2% share transfer duty on net asset value.

Hence, with the new provision, PHEs selling their equity interest are required to pay a 12% flat rate on the market value of the underlying residential property. These additional conveyance duties for sellers (ACDS) will be applicable within the three years holding period.

Meanwhile, the additional conveyance duty for buyers (ACDB) will comprise a 1-3% levy (to mirror the buyer’s stamp duty) and a 15% flat rate (mirroring ABSD) on the total market value of the underlying residential property.

We believe this ACD will limit the option of bulk sales for developers or funds with significant unsold inventory that may be subject to Qualifying Certificate (QC) extension charges or ABSD remission clawback, without having to extend significant discounts. Previously, one option for developers to avoid QC extension charges had been to structure bulk sales via sale of shares in the holding company to Singaporean investors who can save on the c.18% in stamp duties.

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