

# Ninth round of measures after 9.1% price rise

Tricia Song Director and Head | Research

**Singapore has announced surprise new cooling measures in the residential market on 5 July, effective 6 July. We expect these measures to dampen demand in the near term, but home prices could hold steady. With the increased taxes on serial home buyers and developers, as well as tighter LTV limits, winners should be first-time home buyers and upgraders, while losers may be developers, investors, foreign buyers and collective sale sellers. We recommend would-be collective sale owners to reassess their reserve prices to reflect the higher transaction costs for developers. We recommend developers to focus on mature estates or areas where there have been few new launches.**

## Near term sales volume to decline

The fresh cooling measures – higher additional buyer's stamp duty (ABSD) and lower loan-to-value (LTV) limit - announced by the Singapore government on 5 July took the market by surprise as recent trends suggest that the private residential market is finding its own equilibrium: developers have been less active in collective sales, while new home sales at some recent launches have moderated. The introduction of these measures a year into market recovery, after four years of decline, was aimed at calming the euphoria in the private residential sector. Home prices had risen by 3.9% QOQ in Q1 2018, and another 3.4% in Q2 according to flash estimates.

We expect new home sales to decline significantly in the initial few months as the market takes stock of the potential implications. The last two rounds of cooling measures announced in January 2013 and June 2013 caused new home sales to fall 65% to 712 units in

February 2013 and 73% to 482 units in July 2013 respectively.

For the whole of 2018, we project that new private home sales (excluding executive condominiums) could come in at 8,500-9,000 units, 15-20% lower than the 10,566 units sold in 2017. We expect developers to delay launches as they adjust strategies after the implementation of the new measures. From January to May 2018, developers sold 3,434 new units based on caveats lodged.

## Home prices to remain on-hold

Meanwhile, we expect home prices to hold steady from now, after rising 7.4% in the first six months of this year, and 9.1% since the bottom in Q2 2017. With the higher tax on investors and foreign buyers, the demand base will likely shift towards first-timers. Offerings may need to be recalibrated to match their needs. Inventory may take a longer time to sell, but as developers have already committed the land costs, they are unlikely to reduce prices over the next one to three years.

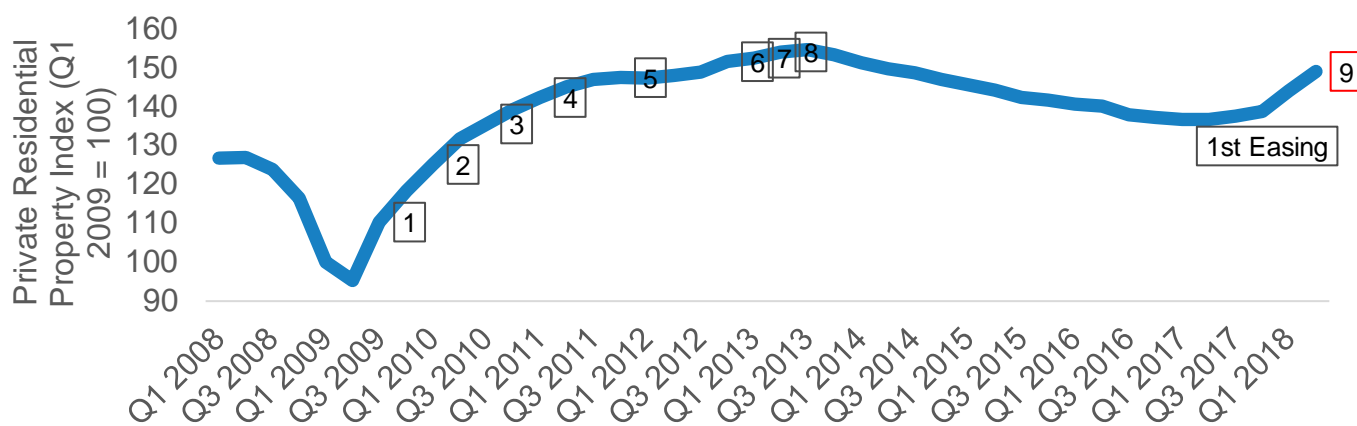
## Changes to Additional Buyer's Stamp Duty rates (ABSD) Rates for residential property

|  | Before 6 July 2018 | From 6 July 2018                               |
|--|--------------------|--|
| <b>Singaporeans</b>                            |                    |  |
| Buying 1st residential property                | 0%                 | 0%   |
| Buying 2nd residential property                | 7%                 | 12%  |
| Buying 3rd and subsequent residential property | 10%                | 15%  |
| <b>Permanent Residents</b>                     |                    |  |
| Buying 1st residential property                | 5%                 | 5%   |
| Buying 2nd and subsequent residential property | 10%                | 15%  |
| <b>Foreigners</b>                              |                    |  |
| Buying any residential property                | 15%                | 20%  |
| <b>Entities</b>                                |                    |  |
| Buying any residential property                | 15%                | 25%#, +5% for developers (New, non-remittable) |

# As entities, developers are also subject to the ABSD rate of 25%. Developers may apply for remission of this 25% ABSD, subject to conditions (including completing and selling all units within the prescribed periods of 5 years for licensed developers). Source: MOF, MND, MAS

## Chronology of cooling measures

### Snapshot of the nine rounds of property cooling measures since September 2009



#### Effective date

|            |           |   |
|------------|-----------|---|
| 1          | 14-Sep-09 | Interest absorption scheme (deferment of instalments until TOP) and interest-only housing loans (interest payment only until TOP) were scrapped for all private properties  |
| 2          | 20-Feb-10 | a. Introduction of <b>Seller's Stamp Duty (SSD)</b> for residential property and land sold within one year of purchase. b. Loan-to-value (LTV) lowered to 80% from 90% on all housing loans except HDB loans  |
| 3          | 30-Aug-10 | a. Holding period for imposition of <b>SSD</b> increased to three years from one. b. Minimum cash payments raised to 10% from 5% for buyers with one or more outstanding housing loans. c. LTV lowered to 70% from 80% for second properties. d. Concurrent ownership of public and private housing within Minimum Occupation Period (MOP) is barred  |
| 4          | 14-Jan-11 | a. Holding period for imposition of <b>SSD</b> increased to four years from three. b. SSD rates raised to 16%, 12%, 8% and 4% if disposed during the first, second, third, or fourth year of purchase c. <b>LTV</b> lowered to 60% from 70% for second property. d. LTV for non-individual residential purchasers capped at 50%.  |
| 5          | 8-Dec-11  | a. <b>Additional Buyer's Stamp Duty (ABSD) introduced:</b> -Foreigners and non-individuals pay 10%, PRs buying second and subsequent property pay 3%, Singaporeans buying third and subsequent property pay 3%. 2. Developers granted ABSD remission provided full sale of development within five years of land acquisition.   |
| 6          | 6-Oct-12  | a. <b>Mortgage tenures</b> capped at a maximum of 35 years. b. For loans longer than 30 years or for loans that extend beyond retirement age of 65 years: LTV lowered to 60% for first mortgage and to 40% for second and subsequent mortgages. c. LTV for non-individuals lowered to 40%   |
| 7          | 12-Jan-13 | <b>ABSD increased:</b> Citizens pay 7 /10% on second/third purchase (from 0/3%); Permanent Residents (PR) pay 5/10% for first/second purchase (from 0/3%); foreigners and non-individuals now pay 15%. 2. <b>LTV</b> for second/third loan now 50/40% from 60%; non-individuals' LTV now 20% (from 40%). 3. Mortgage Servicing Ratio (MSR) for HDB loans now capped at 35% of gross monthly income (from 40%); MSR for loans from financial institutions capped at 30%. 4. PRs no longer allowed to rent out entire HDB flat. |
| 8          | 29-Jun-13 | Introduction of <b>Total Debt Servicing Ratio (TDSR)</b> : Financial institutions are required to consider borrowers' other outgoing debt obligations when granting property loans. The borrower's total monthly repayments of his debt obligations should not exceed 60% of his gross monthly income.  |
| 1st Easing | 11-Mar-17 | a. <b>Seller Stamp Duty (SSD) reduced</b> by 4% for each tier. With this change, SSD only applies to properties sold within 3 years of purchase, down from 4 years previously. b. TDSR will not apply to mortgage equity withdrawal loans with Loan-to-Value (LTV) ratio equal or below 50%. c. Introduced Additional Conveyance Duties (ACD) for Property Holding Equity (PHE). A PHE is a company whose primary (i.e., > 50%) tangible assets are Singapore residential properties.   |
| 9          | 6-July-18 | <b>ABSD increased</b> by 5-10ppts: Citizens pay 12/15% on second/third purchase (from 7/10%); PRs pay 15% for second purchase onwards (from 10%); foreigners pay 20% (from 15%); entities 25% (from 15%), developers 30%, 25% remittable (from 15% fully remittable). <b>LTV limit tightened</b> by 5ppts for all housing loans: 75% for first mortgage (from 80%), 45% for second mortgage (from 50%), 35% for third mortgage (from 40%); 15% for non-individual borrowers (from 20%).                                       |

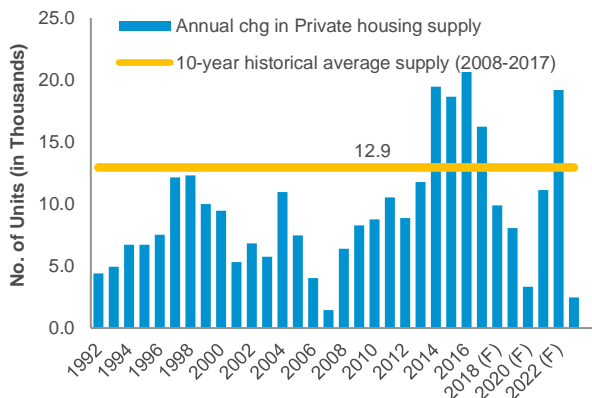
Source: Colliers International Singapore Research, Monetary Authority of Singapore (MAS), Urban Redevelopment Authority (URA), Housing Development Board (HDB), Ministry of Finance (MOF)

## Future supply not excessive

Based on our analysis, the collective sales that have been concluded since 2016 could generate around 25,000 new homes from 2021 onwards. Coupled with the moderate Government Land Sales (GLS) sites over the past two years, the upcoming supply of new units in the medium term, approximately three to five years, does not look excessive as long as economic fundamentals remain sound. Given that developers have exercised more restraint in bidding for collective sale sites in recent months, the launch pipeline should remain fairly sustainable over the next three to four years, and we do not think developers necessarily need to embark on deep price cuts to sell units especially if the new launches are evenly paced.

Colliers' research suggests that private home supply completions should taper off sharply in 2018-2021F to an annual average of 8,104 units from the 2014-2017 annual average of 18,731 units, and the 10-year average of 12,948 units. While this number could rise sharply beyond 2022 due to the recent collective sales fever, it does not appear excessive if spread over a longer term. We expect annual average completions of 10,318 units over 2018-2022.

### Historical and future private housing supply



Source: Colliers International Singapore Research, URA

## Collective sales to cool

The higher ABSD rate for entities buying residential property and the 5% non-remittable ABSD on purchases by developers will likely inject more caution into the collective sale market and moderate the already measured pace of transactions.

Colliers' data showed that 21 collective sale tenders, which closed in May and June and were valued at a total of SGD5.6 billion (USD4.1 billion), were not sold. Developers are taking a breather from the market to assess the large number of redevelopment sites available, evaluate any potential risks and take stock of their development pipeline.

Developers are likely to be more selective in land purchase – wary of the hefty 25% ABSD remission clawback if they fail to develop and sell all units with five years of acquiring the site. In the near term, we expect collective sale transactions to cool and land rates to drop as developers take into consideration the higher ABSD and the 5% upfront tax.

In the longer run, we believe redevelopment sites in mature estates or areas where there have been few new launches could still be appealing.

## Tighter LTV limits to slow demand

LTV limits were tightened by 5 percentage points (ppts) across all housing loans. Even for a Singaporean first-time buyer who does not incur ABSD, they can now only borrow 75%. This is 5ppts lower than before on the value of the property purchase, with an equity outlay 25% more than before. We expect this to delay home-buying even for some genuine owner-occupiers.

### For more information:

**Tricia Song**  
Head of Research  
tricia.song@colliers.com

**Govinda Singh**  
Executive Director  
Consulting, Valuation & Advisory Services  
govinda.singh@colliers.com

**Colliers International | Singapore**  
**1 Raffles Place, #45-00**  
One Raffles Place  
Singapore 048616  
Tel: +65 6223 2323  
Fax: +65 6222 4901  
RCB No. : 198901352R  
CEA Licence No: L3004691J

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