Widespread uncertainties in the global economic arena as well as the recent housing measure and policy changes implemented by the Singapore Government have created concerns over the outlook of the private residential property market. As industry players weigh up the situation, market prospects must be looked at beyond today’s immediate downside risks to consider the intrinsic drivers of a healthy residential property market.
The heightened uncertainties, which have dented the overall market and investor sentiments, coupled with the Government’s recent introduction of new housing policies in the form of upping the income eligibility for Build-to-Order (BTO) flats and Executive Condominiums (ECs) in August this year, cast a cloud over the outlook for the Singapore private residential property market.

Today’s global economic climate is weighed down by the risk of a double-dip recession as a result of the downgrade in credit rating for the United States (US) by Standard & Poor’s in early August, the US’s poor economic showing and a more widespread sovereign debt crisis in Europe.

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While many, including the man in the streets, look to prognosticate the market’s fate during these times of heightened risks and policy changes, one should not overlook the residential market’s fundamental drivers that have brought us here today.

**HOW DID THE PRIVATE RESIDENTIAL PROPERTY MARKET FAIRE IN 1H 2011?**

In spite of the several rounds of cooling measures implemented by the Singapore Government - the most severe was executed in January this year - demand for private residential homes remained generally healthy in 1H 2011, underpinned by Singapore’s healthy economy, positive job prospects, as well as a high liquidity and low interest rate environment.

The total volume of sales transactions in both the primary and secondary markets in the first half of 2011 amounted to 16,822 units... 18 per cent lower than the level amassed during the same period last year... (but) 50 per cent higher than the average number of transactions done on a half-yearly period over 10 years from 2001-2010.

The healthy level of demand provided support for prices of island-wide private residential homes to climb 4.2 per cent in the first half of 2011, although the price increase has moderated from the 5.8 per cent growth seen in the preceding six months and the 11.2 per cent rise during the same period in 2010.
Additionally, positive business prospects and increased hiring have helped to sustain private residential leasing demand and rental growth of 2.5 per cent in the first half of 2011, according to the Urban Redevelopment Authority’s (URA) rental index.

Private Residential Property Price and Rental Index

Source: URA/Colliers International Singapore Research
With increased price sensitivity, homebuyers diverted their attention to the more affordable private residential units in the mid- and mass-market segments in the Rest of Central Region (RCR) and Outside Central Region (OCR). This provided support for faster price escalations for non-landed homes in the RCR and OCR by 3.2 per cent and 4.9 per cent, respectively in the first half of 2011. Prices in the high-end Core Central Region (CCR) however, posted a lower rise of 2.7 per cent in the same period.

The cooling measures and continued increase in prices resulted in some level of increased caution and price resistance towards further price hikes among potential homebuyers. With increased price sensitivity, homebuyers diverted their attention to the more affordable private residential units in the mid- and mass-market segments in the Rest of Central Region (RCR) and Outside Central Region (OCR). This provided support for faster price escalations for non-landed homes in the RCR and OCR by 3.2 per cent and 4.9 per cent, respectively in the first half of 2011. Prices in the high-end Core Central Region (CCR) however, posted a lower rise of 2.7 per cent in the same period.
... Singapore could benefit from the current economic and debt woes in the US and Europe, as the possible capital inflows from the troubled western nations into Asia – where Singapore is among the top favourite investment destinations given her safe, stable and conducive investment environment, strong currency as well as triple-A credit rating – could present a bright spot for the private homes market.

... Singapore’s economic fundamentals remain healthy and the Government expects the economy to achieve a sustainable growth of five per cent to six per cent in 2011, provided that the global situation does not deteriorate further.

... it is expected that URA’s all-residential price index... could continue to increase at a slower pace or stabilise in the last two quarters of the year, bringing the escalation in the island-wide residential price index to up to 8 per cent growth for the whole of 2011, lower than the 17.6 per cent rise in 2010.

SO WHAT LIES AHEAD FOR THE REST OF 2011?

Today, downside risks have deepened. Widespread debt issues in the European countries along with prolonged period of stagnation in the US economy since the 2008 global financial crisis have undermined hopes of a vigorous global economic recovery for the rest of the year.

Economic woes in the western nations and volatile financial markets may further rock investor sentiment and confidence while the continued injection of housing supply through the Government Land Sales Programme for private housing development and increased public housing construction in addition to the slew of government cooling measures could also temper optimism in the private housing market and deter homebuyers from entering the private housing market.

The recent upward revision in the household income ceiling for BTO flats and ECs, could also affect demand for new private homes to some extent – although this is not expected to be significant – as would-be homebuyers take time to re-evaluate their choices and could opt for public housing or ECs amid increased prudence and price sensitivity.

Nevertheless, Singapore could benefit from the current economic and debt woes in the US and Europe, as the possible capital inflows from the troubled western nations into Asia – where Singapore is among the top favourite investment destinations given her safe, stable and conducive investment environment, strong currency as well as triple-A credit rating – could present a bright spot for the private homes market.

In addition, despite the cloudier prospects, Singapore’s economic fundamentals remain healthy and the Government expects the economy to achieve a sustainable growth of five per cent to six per cent in 2011, provided that the global situation does not deteriorate further. This coupled with the fact that the low interest rate environment is projected to continue until 2013, could buoy up investors’ confidence to step out of the sidelines in spite of the possible risks, thereby providing continued support for demand of private housing.

On a balance view, demand for new homes is expected to potentially hover in the region of 15,000 to 16,000 units for the whole of 2011, reflecting a 1.8 per cent to 7.9 per cent fall from 2010. Notwithstanding the fall in demand, the projected new home sales is still about 1.6 times more than the 10-year annual average demand of 9,777 units.

Taking cognizance of all of the factors discussed, it is expected that URA’s all-residential price index, which has registered moderated price growths for seven consecutive quarters since 4Q 2009, could continue to increase at a slower pace or stabilise in the last two quarters of the year, bringing the escalation in the island-wide residential price index to up to 8 per cent growth for the whole of 2011, lower than the 17.6 per cent rise in 2010.
While the immediate uncertainties and policy changes may have overwhelmed the market and potential homebuyers today, the health of Singapore’s private residential market and one’s home-buying decision should not be rationalised to just short-term prevailing condition and challenges. The key fundamentals of a healthy residential market, which are still in place to propel it forward in the future, should not be disregarded.

Likewise, despite the downside risks which could affect business strategies and expansion plans, hiring should still continue for the remainder of 2011 on the back of Singapore’s continued economic expansion as well as Singapore’s rising status as a Global City. This is expected to provide support for private housing leasing demand, albeit at a moderated level in 2H 2011. This is assuming that the external environment does not deteriorate further. URA’s rental index for island-wide private homes could thus increase by up to 5 per cent for the whole of 2011.

**BEYOND THE IMMEDIATE DOWNSIDE RISKS**

While the immediate uncertainties and policy changes may have overwhelmed the market and potential homebuyers today, the health of Singapore’s private residential market and one’s home-buying decision should not be rationalised to just short-term prevailing conditions and challenges. The key fundamentals of a healthy residential market, which are still in place to propel it forward in the future, should not be disregarded.

To start with, Asia is a strong region for growth and this will continue to boost Singapore’s position on a global platform for businesses and investments. Together with the Economic Development Board’s commitment to work towards long-term sustainable economic growth, this will provide underlying support for continued business development, corporate expansions, job creation and increased hiring. These will support opportunities for homebuyers and investors over the longer-term horizon.

The current woes in the western nations could also channel more funds into Asia, from which Singapore stands to benefit, as investors look for a safe and stable platform to accumulate and grow their investments. Together with the preserved low-interest rate environment until 2013, this is expected to continue to sustain private home buying demand and rental growth.

Additionally, the Singapore Government has been watchful of the residential market, responding swiftly to changes and keeping a keen eye on key trends in the market. On a positive note, this close monitoring of the market by the Government would ensure a healthier and a more sustainable residential market that develops in line with economic growth.

While the Singapore Government will tighten its immigration policy, it is unlikely that the tap on foreign talents and workers will be completely turned off as a foreign workforce is still needed to fill jobs that the local workforce is unable to fill for various reasons. A sustainable population growth rate remains relevant in supporting Singapore’s economic growth and development into a more vibrant society. This will continue to provide a base for family formation and support demand for housing.
The Asian penchant for owning homes and the popularity of hedging real estate against inflation will also continue to support the demand for homes.

In summary, while the market and stakeholders brace themselves for the immediate challenges, it is prudent to exercise care in evaluating options available beyond the short-term risks and changes to better prepare and capitalise on the opportunities that the private residential market can potentially offer.

1 “Purchasers who are not individuals” refers to purchasers who are not natural persons. These include but are not limited to corporations, trusts and collective investment schemes.

2 According to URA’s definition, the RCR comprises the rest of the Central Region excluding the CCR.

3 According to URA’s definition, the OCR comprises developments located outside the Central Region.

4 According to URA’s definition, the CCR comprises postal districts 9, 10, 11, the Downtown Core and Sentosa.