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Location! Location! Location? : The Changing Housing Market in Singapore

by

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About the Author

I am a professional in Singapore real estate, working with Orange Tee & Tie.

Come, join me in checking out the best condos, landed properties and commercial units in choice locations.

The current market consensus is that newer condos - not just new launches - generally have greater life-style appeal, and will resonate better with future buyers while enjoying a fresher lease (in the case of leasehold properties). Nevertheless, freehold properties are now increasingly sought-after, while older leasehold properties increasingly have enbloc redevelopment potential in land-constrained Singapore.

However, it is advisable to focus on a subset of such condos that are in choice locations – specifically, selective geographic localities that are / will be positively impacted by the government's ongoing development plans, whether economic, recreational or transportation-related.

Background

Since 2010 particularly, the Singapore government has introduced a succession of cooling measures to rein in property prices in the country. Such measures included the ABSD (Additional Buyer's Stamp Duty), the SSD (Seller's Stamp Duty), TDSR (Total Debt Servicing Ratio), LTV (Loan to Value), and MSR (Mortgage Service Ratio). Acting in concert, these measures has achieved the desired cooling effect, with private residential property prices declining by nearly 12 per cent in Q1 2017 from the 2013 peak [1].

In March 2017, the Singapore regulators relaxed some home-buying restrictions, including lowering the SSD and shortening the minimum holding period to avoid this duty. Although it was a minor adjustment, it unleashed pent-up demand in a market which perceived the relaxation as a signal from the government that the property market was close to the bottom. The resulting collective sale fever and developers' hunger for development sites are the most direct manifestations of the current positive market sentiment, with Morgan Stanley even calling for a doubling of Singapore home prices by 2030 [2].

As part of my research, I have been speaking with many property analysts and property agents on the ground recently to get a feel of whether Singapore is on the first leg of a multi-year property market upturn. There is definitely a general sense of excitement, if not bullishness. Indeed, the Singapore residential property market has become relatively more affordable and attractive in recent years, due in large part to the effectiveness of the cooling measures.

According to JLL's research based on household income versus average private property prices in 2016, Singapore was ranked the most affordable among key global cities at only 4.8 times compared with Hong Kong (at 18 times), and 4 other cities, namely London, San Francisco, Tokyo and Sydney (at least 10 times). That means the average household working in Singapore will be able to buy a home with 4.8 years of income versus 18 years in Hong Kong and at least 10 years in the other 4 cities. In 2010 as comparison, the affordability level for Singapore was 7.3 times, on par with London, San Francisco and Tokyo, while Sydney was at 10 times and Hong Kong at 11.4 times [3].

Meanwhile, in just one year, Singapore property has gone from 22nd place (3rd from bottom) in investment prospects within the Asia-Pacific region to 3rd place, according to the Emerging Trends in Real Estate Asia Pacific 2018 report, recently published by the Urban Land Institute and PwC. Investors now appear to be betting that the local property market may have found a bottom in both its office and residential sectors [4].

Whither the Singapore Residential Property Market?

Being an open economy, the Singapore property market is subject to many externalities, including the bubbly property situation in many other global cities, the sustainability of the global economic recovery, inflows of hot Chinese money, and geopolitical risks such as the mood-swings in the Korean peninsula.

Domestically, the recovering residential property market also stands the risk of renewed policy intervention of the Singapore government. In a seeming effort to nip the brewing collective sale fever in its bud, the Monetary Authority of Singapore (MAS) last year sounded its concern about "excessive exuberance" in the property market, and flagged the risk of a potential mis-match between the supply of private housing and occupation demand, as the development of en bloc and Government Land Sales (GLS) sites is expected to add another 20,000 new units in the next one to two years [5]. In addition, development charges have been raised last year by 13.8% on average (with the bigger increase of 29% applying in Tampines Road, Hougang, Punggol and Sengkang), while traffic feasibility studies have been made mandatory for buyers of collective sale sites.

Clearly, the interventionist posture of the Singapore Government is likely to continue to have a moderating influence on the local housing market, with some institutional players (eg. UBS) preferring to invest in Singapore's non-residential projects due to the risk of government policy intervention [6].

Why are They so Bullish?

Meanwhile, a collective sale fever is on the boil, with developers and the public alike brushing off the government naysayers. According to property analysts, this fever has seen 33 residential tenders in 2017, while at least 44 condominiums are expected to go en bloc in 2018, creating more than 9,000 potential househunters [7]. Some industry players interviewed predict that this is going to lend support to the property market.

More importantly, developers are bidding for enbloc sites at record-breaking prices. For example, City Developments won the bid for the freehold Amber Park collective sale site at S$1,515 per square foot per plot ratio (psf ppr), which is estimated to translate to a breakeven cost at around S$2,200 psf. In comparison, neighbouring sites including Amber Skye, Marine Blue and the 99-year leasehold Seaside Residences (with unblocked sea views) have been transacted at lower prices. Clearly, bullish developers are expecting to subsequently launch their newly-purchased enbloc sites in the future at high prices [8].

Should potential buyers embrace these new upcoming projects? Already, we are seeing some new projects being launched in far outlying regions of Singapore at more than $1,250 psf on average, and to enthusiastic response from the public. Why are Singaporeans willing to pay higher prices for a new launch, when there are good resale properties in the same locality selling at lower prices?

Location, Location, Location

In a real estate boom, buyers will clamour for almost any property that hits the market, as the inflating bubble will float all boats. When the boom is over, homebuyers who chose the best locations will be left holding property that should be less impacted by such property cycles.

While there is a host of factors affecting property valuation, "location, location, location" is an age-old mantra in real estate, and for the man in the street, it may be a good starting point. While a “good location” can mean different things to different people, there is a generally accepted set of criteria guiding the property investor, including Centrality, Neighbourhood, Lot Location and Development Plans [9].

In Singapore, “centrality” would refer to the property’s distance from the existing main commercial centres of the CBD downtown and Orchard Road. “Neighbourhood” would refer to accessibility, appearance and amenities, such as the relative convenience of existing transportation networks, shopping malls, restaurants and schools, while “Lot Location” would refer to the specific attributes of a particular unit in terms of its facing and orientation, for example. Finally, “Development Plans” would refer to the economic, recreational and infrastructural developments that are being planned for the neighbourhood.

While the potential buyer can readily size up the centrality, neighbourhood and lot location of a particular property, the development plans affecting the property would require more research on the part of the potential buyer.

Clearly, when discussing the implications of “Development Plans” for property prices, the role of the Singapore Government is pre-eminent again, as one has to carefully consider the government’s urban planning roadmap, including the following:

- URA's Master Plan 2014 (next revision due by 2019)
- MND's Land Use Plan 2013
- LTA's Land Transport Master Plan 2013.
- Government Land Sales programme (quarterly)

The impact of "Development Plans"

In first formulating and then implementing the various master plans, the Singapore government has been and will continue to indirectly influence the relative levels of property prices in different locations within the country. This is because some locations will inherently benefit - more than other locations - from the planned economic, recreational and infrastructural developments.

In other words, while the Government may continue to manage property prices across the board – at a macro level - via policy intervention (of which Singaporeans have no control over), we should be alert to the opportunities – at the local level – created by the Government's development plans. There may be opportunities to ride on the "ascent" of selective locations that will benefit most from the progressive implementation of the various master plans. In property purchase decisions at least, it may pay to be on the same side as the government.

So, what are the future development plans worth noting? According to the industry players whom I interviewed, potential buyers should take note of the following, among others:

<u>The City's center of gravity may be shifting further south</u>

In URA's Master Plan 2014, the most exciting development in Singapore's urban planning framework is the Greater Southern Waterfront project, with about 1,000 hectares of land – 3 times the size of Marina Bay – available for development into new housing, commercial, cultural and entertainment uses. The planned relocation of PSA's City Terminals (Tanjong Pagar, Keppel and Brani) as well as its Pasir Panjang Terminal to Tuas will free up 325 and 600 hectares of waterfront land by 2027 and 2040 respectively.

In this regard, Marina Bay has been years in the making, while plans for the remaining areas, including Labrador, Tanjong Pagar and Pulau Brani, are planned to be implemented in the longer term [10].

Recently however, PSA has reportedly moved all its staff and container operations from Tanjong Pagar Terminal to the newer Pasir Panjang Terminal, as part of an eventual move to Tuas. This surprising early relocation means that PSA might be ready to hand the 80ha site at Tanjong Pagar Terminal back to the URA, well ahead of its lease expiry in 2027. This has in turn stirred excitement that the Greater Southern Waterfront project could be given a fresh unexpected impetus [11].

Waterfront living may become more highly sought after

With Marina Bay Sands and Gardens by the Bay at its centrepiece, Marina Bay is being developed as a waterfront district extending from the CBD, with business, financial and recreational services supported by an upcoming new waterfront residential district at Marina South.

As part of the Greater Southern Waterfront project, Keppel Club's lease will be terminated upon its expiry on 31 Dec 2021, and the prime land will be redeveloped for housing [12]. Note that this was first announced in URA's Concept Plan 2011.

Seeking to further maximize waterfront living beyond the Greater Southern Waterfront, the URA is in the process of rejuvenating the 10km-long Kallang river and surrounding areas, with potential to develop 100,000 residential units along both sides of the river over the next 20 years. A 17-hectare area in Kampong Bugis will be the first site to be launched in 1-2 years time, and will house about 4,000 private units. In the East, a 60-hectare site in Bayshore (with an overhead bridge connecting to East Coast Park and with potential for 12,500 public and private homes) is slated to be launched around 2024, when the Bayshore and Bedok South MRT stations are completed as part of the Thomson-East Coast Line [13].

New mixed-use commercial growth areas are rising

A recent draft masterplan envisages the rise of Jurong Lake District from a regional commercial centre to the 2nd CBD of Singapore, of about 360ha in size, and to be completed from 2040 onwards. It will have close proximity to the upcoming High Speed Rail terminus to be completed in 2026, connecting Singapore to Kuala Lumpur [14].

Other new regional commercial centres in URA Master Plan 2014 include Paya Lebar Central and Woodlands Regional Centre. In Paya Lebar, the precinct around the MRT station is being transformed, with Paya Lebar Square and Singpost Centre redevelopment project now completed, and the upcoming massive $3.2b Paya Lebar Quarter integrated development expected by 2019. In Woodlands, three new MRT stations are expected to be ready by 2019 as part of the upcoming Thomson-East Coast Line which will also be connected to the future cross-border MRT system linking Woodlands to Johor. The new North-South Expressway, linking Woodlands to the city, is also likely to be ready in 2026 [15].

In addition to these regional commercial centres, the Beach Road / Ophir-Rochor Corridor is planned to be a mixed-use district featuring offices, hotels and residences, connecting the existing developments at Marina Centre to future developments along Rochor Canal and Bukit Timah Canal. DUO by M+S Pte Ltd (a JV of the Singapore and Malaysian governments) is a notable new manifestation of this development plan, while a nearby commercial site that includes the old Beach Road police station has recently been sold to Guoco Land for a record psf ppr price.

Expansion of the MRT network presages Development Plans

As part of the Land Transport Masterplan 2013, the Land Transport Authority (LTA) will be constructing two new rail lines (Cross Island Line and Jurong Region Line), and extending three existing lines (Circle Line Stage 6, North East Line extension, Downtown Line extension). The Cross Island Line will be 50km in length with about 30 stations spanning from Changi to Jurong, while the 20km Jurong Region Line will improve connectivity in the Western part of Singapore. When completed, these new lines and extensions will double the coverage of Singapore's rail network, from 178 km in 2013 to about 360 km in 2030, and bring 80% of Singapore households within a 10-minute walk of a rail station [16].

Considering the government's increasing emphasis on a car-light society and that the geographic expansion of the MRT network usually presages the government's implementation of its development plans (Marina Bay station is a good case in point), it may be useful to pay attention to localities along the MRT network and particularly to hubs where existing and new/future MRT lines intersect.

Orchard area is expected to remain prime

For years, Orchard Road has suffered from a cookie-cutter syndrome, with previous initiatives (including late night shopping and monthly pedestrian night) doing little to boost retail sales. However, a grand plan is in the works to shape the development of Singapore's premier shopping belt over the next 15 to 20 years [17]. A committee headed by three ministers has been formed to drive the rejuvenation of Orchard Road as a shopping and lifestyle destination for both tourists and Singaporeans alike. There is much at stake because the retail industry is an important part of the Republic's economy, with 23,000 retail establishments chalking up operating receipts estimated at S$35 billion in 2016. If these initiatives bear fruit, the Orchard Road area and vicinity is expected to remain as a prime property district – counterbalancing the pull of the Greater Southern Waterfront.

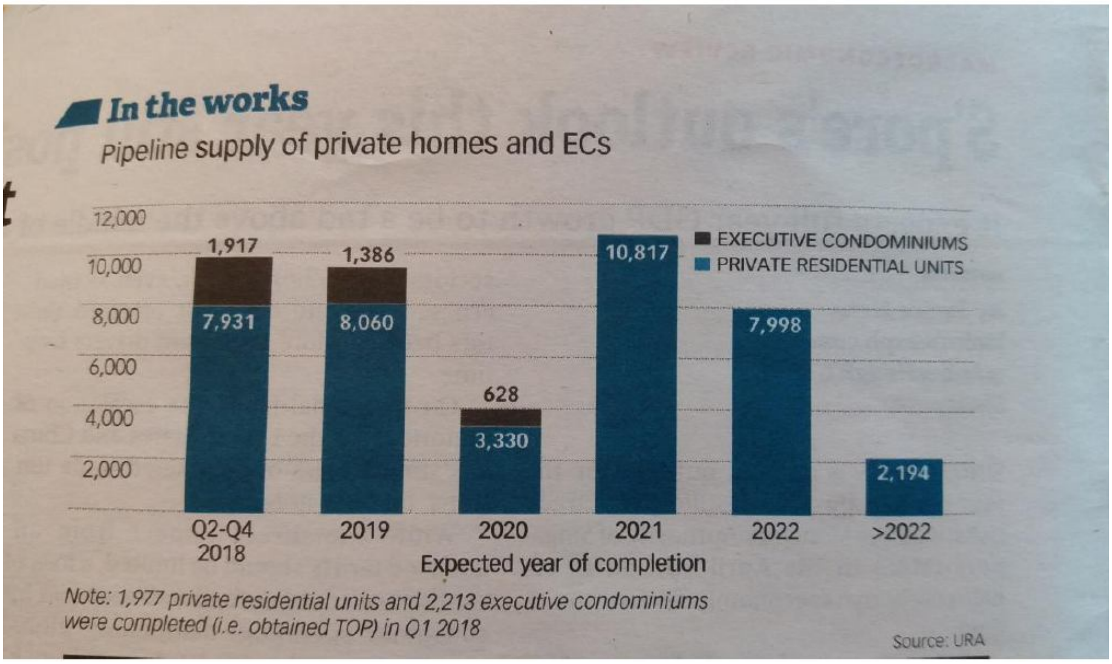
Focus on selective properties in choice locations?

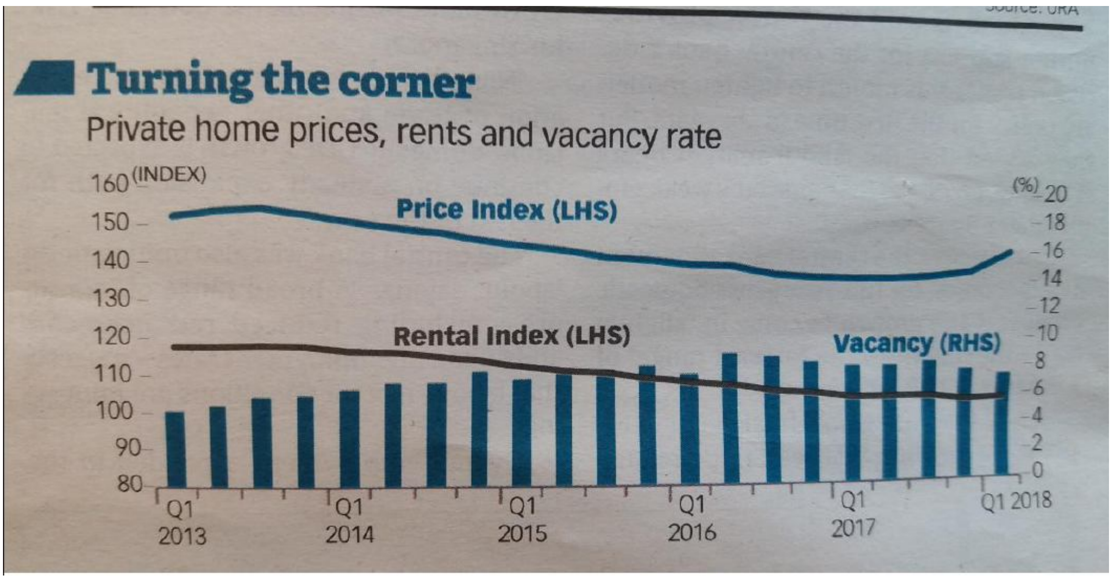
In 2017, at least 33 sites (in varying localities all over Singapore) with a total value of $8.63 billion have been sold en bloc [18]. As such transactions continue to accumulate, the relative prices paid for these sites by the developers may provide an indication of the (medium-term) future value they ascribe to varying locations, as developers have a 5-year window to complete the projects and sell all units. In terms of psf ppr, the 2017 prices paid range from lows of $655 and $669 for the leasehold Tampines Court (absolute purchase price of $970m) and Rio Casa ($575m) sites to highs of $1,515 ($907m) and $1,960 ($478m) for the freehold Amber Park and Royalville sites respectively.

Clearly, the influence of "location, location, location" on property prices across Singapore requires more research. However, such fundamental analysis may not shed light on the reasons why many Singaporeans are willing to pay higher prices for a new property launch, as compared to good resale properties in the same locality selling at lower prices.

Based on my conversations with industry players, the current market consensus is that newer condos (not necessarily new launches) generally have greater life-style appeal, and resonate better with today's buyers while enjoying a fresher lease (in the case of leasehold properties). Nevertheless, freehold properties are now increasingly sought-after, while older leasehold properties increasingly have enbloc redevelopment potential in land-constrained Singapore. However, buyers are advised to focus on a subset of such condos that are in choice locations – that is, selective geographic localities that are / will be positively affected by the government's ongoing development plans, whether economic, recreational or transportation-related.

Latest update from Business Times, 28 April 2018





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