Seminar Topic: "Where is the market heading"

To start the ball rolling, I will like to first validate what I said in the January 2007 seminar which included:
(1) High-end private new homes will continue to lead the market growth; (2) Residential rents will continue to rise across the island; (3) En bloc sale will continue to shine in 2007; (4) The IR Effect will continue to fuel the money train; (5) Inflation and acute cost increase will push home prices up; (6) The Hong Kong factor; (7) Good Prospect of Sub-sale deals.

They all turned out to be very true and I have proven to be 'worth a listen'. Now, let me take you through the market performance in the past six months by way of answering the following questions:

(1) How has the market performed? (2) How different is it this time than last? (3) Is there a bubble? If yes, when will it burst? (4) Will the government intervene? (5) What do all these mean to real estate agents in general? And where do we go from here?

A – How Has the Market fared?

(1) Further segmentation of Singapore's real estate market

Since the beginning of this year, the private property price index has been changed to a three-region index to better reflect the more diverse segmentation of the local real estate market. The three regions include: Core Central Region, Rest of Central Region, and Outside Central Region.

It means agents must treat each region as a distinctly different market segment with fundamentally different fundaments. For example, in terms of new home sale, Core Central Region clocked 2,073 deals, the Rest of Central Region clocked 1,336 and Outside Central Region clocked 1,374 deals. The total new home sale for the first quarter of this year is 4,783 but the Core Central Region took up 43.34% - almost half of the total transactions.

In terms of sub-sale, Core Central Region registered 368 deals, Rest of Central Region 156 deals and Outside Central Region 57 deals. Again, the Core Central Region accounted for 63.33% of the actions. In other words, the Core Central Region outperformed the rest of the market by two-to-one. It means agents will have to treat the other markets with caution – the rest of the markets are not as hot as in the traditional prime areas.

(2) Home prices jump 7.9% in second quarter

From April up to end of June, Singapore home prices rose 7.9%, compared to 4.8% in the first quarter. Home prices have climbed 13th time in a row. Compared to the second quarter of 2006, home prices are up 20.6% (indicating the beginning of a bubble).

Here are the price movements of condos and apartments in second quarter:

- In the Core Central Region, prices increased 7.6% on a quarterly basis in second quarter. This region comprises the traditional prime districts 9, 10 and 11 and Marina Bay and Sentosa.

- In the Rest of Central Region, prices increased 7.9% on a quarterly basis in the second quarter. This region comprises locations like Queenstown, Bukit Merah, Outram, Bishan, Kallang and Marine Parade.

- Outside Central Region, prices increased 6.5% in the same period. This region comprises locations like Woodlands, Jurong, Hougang, Ang Mo Kio, and all the outlaying areas.

HDB resale flats price index registered a 2.9% increase in the second quarter over the first quarter's meagre 1.3%.

So far, the total HDB resale transactions for the first half of 2007 were 12,011. Price wise, the majority of resale flats were transacted at competitive prices.

(3) Home sale in absolute numbers

Total Sale Transaction of Condominium/Apartment units in first half of 2007

Table 1 - Secondary sale of private apartments/condos (excluding en bloc sale)

	A	**B**	**C**	**D**	**E**
	$100k - $999k	$1m -$1.99m	$2m - $2.99m	$3m - $3.99m	$4m - $50m
Q1	872 (FB: 234)	394 (FB: 159)	120 (FB:51)	37 (FB: 22)	64 (FB:35)
Q2	436 (FB: 114)	319 (FB:131)	113 (FB: 56)	53 (FB:29)	47 (FB:31)
Total	1,308 (FB: 348)	713 (FB: 290)	233 (FB: 107)	90 (FB: 51)	111 (FB: 66)
	% of FB 26.6%	**% of FB 40.6%**	**% of FB 45.9%**	**% of FB 56.6%**	**% of FB 59.5%**

(FB = foreign buyers) Source of statistics SISV Realink

New launches: **12,621** (First quarter: 5,431); (second quarter: 7,190)
Foreigners accounted for 3,621 (First quarter: 1,646); (second quarter: 1,975)

In all, foreigner buyers accounted for 4,557 or 36.1% of all private property transactions.

Table 2 - Sale of Landed Properties in first-half of 2007

	Terrace hses	Semi-d	Bungalow	GCB	
Q1	**548** (334 in 06')	**318** (201 in 06')	**184** (111 in 06')	**26**(34 in 06')	
Q2	**699** (506 in 06')	**388** (238 in o6')	**204** (137 in 06')	**21** (40 in 06')	
Total	**1,247** (1st half 07) (1,650 in 06') (1,329 in 05')	**706** (1st half 07) (929 in 06') (775 in 05')	**388** (1st half 07) (503 in 06') (393 in 05')	**47** (1st half 07) (151 in 06') (101 in 05')	**2,388** (1st half 07) (3,233 in 06') (2,598 in 05')

Source of statistics SISV Realink

Half-year total of all private property transactions (excluding en bloc sale) **= 17,464**
For the first time in many decades, private property transactions have surpassed HDB resale deals.

(4) Sub-sales of private homes hit 10-year high

There were 1,184 or 13.9% of sub-sales in the second quarter of this year for private condos and apartments. It was 6.3% in the first quarter of this year.

There were 989 sub-sale deals in 2006, accounting for 4.1% of total private home sales. The bulk of sub-sale in 2006 occurred in the last quarter where 581 deals were struck. So, there was a three-fold increase in sub-sale activities. In fact, current sub-sales activities are at 10-year high. Prime district projects have the most sub-sale transactions in the second quarter.

In 1996, sub-sales reached 28.4% of all home sales.

Project wise, The Sail @ Marina Bay continue to attract the highest number of speculators to flip. 81 Sail units were resold three times each in the last two years. As a result, some units there have tripled in price since their initial launch in 2004. For example, one buyer paid $750,000 for a unit in early 2005 and resold it for $1.8 million recently. That was a whopping 240% profit.

More than half the sub-sales in the second quarter took place in Districts 1 to 4 and 9 to 11, which cover Orchard, River Valley, Bukit Timah, Newton, Shenton Way, Marina Bay and Tanjong Pagar. Sub-sales accounted for about 20% of all transactions there.

In District 2, where Icon is located, 80% sales were sub-sales. In District 1, where The Sail is, the figure was 64%. The proportion of sub-sales was 25% in District 9 and 11% in District 10.

There are most sub-sale activities in The Sail (81 sub-sale), followed by Icon (71); Sky@Eleven (51), City Square Residences (40) and Citylights (40).

Table 3 – Sub-sale activities over the past 3 years

Quarter	No of sub-sales	% of total sales		Quarter	No of sub-sales	% of total sales
1Q05	87	2.9%		2Q06	151	2.5%
2Q05	114	2.5%		3Q06	303	5.0%
3Q05	130	2.5%		4Q06	581	6.4%
4Q05	216	4.2%		1Q07	581	6.3%
1Q06	121	2.6%		**2Q07**	**1,184**	**13.9%**

(5) En bloc deals at all time high

En bloc deals have already hit $6.38 billion in volume in the first half of the year. This is just 18% shy of the record $7.5 billion of the whole of last year's transactions. And by itself, the $6.38 billion is quite a record that is unmatchable thus far. A glimpse at the records in the last ten years will tell why.

Table 4 – Past 10-year en bloc sale record

Year	Volume ($ mil)	No. of transactions		Year	Volume ($ mil)	No. of transactions
1996	1,984.4	38		2002	161.6	6
1997	1,264.1	22		2003	557.7	10
1998	17.9	1		2004	685.9	14
1999	2,407.7	42		2005	2,054.3	37
2000	1,464.2	19		2006	7,750.7	62
2001	83.5	3		**2007**	**6,381.4**	**39**

So far this year many of the en bloc sale involved huge sites with higher unit land prices, such as Parisian at Angullia Park, Leedon Heights ($835 million), Gillman Heights ($548 million), Horizon Towers ($500 million), Farrer Court ($1.3388 billion) and Tulip Garden ($548 million).

However, with the sudden move by the government to raise the ratio of Development Charge rate to market value from 50% to 70%, en bloc sales will slow down from now on as negotiation process would be longer. This is because developers usually set aside the DC payable from the offer price and in so doing passing the tax to the sellers. (There will be more potential flashpoints, e.g. Horizon Tower)

The arrival of foreign funds to partner local developers explains the more generous offers this time round.

(6) Good Class Bungalows (GCB) prices to climb further

In April 2007, a 15,075 sq ft GCB at Dalvy Road was sold for $1,091 psf or $16.45 million in absolute price. This is a record unit land price for a GCB since the turn of the millennium. Just a year ago, average land prices for Good Class Bungalows (GCBs) were between $500 and $600 psf.

At Chatsworth GCBA, a private individual recently bought seven GCB land parcels from Hong Leong Group at one breath at prices of up to $800 psf or a total price of more than $80 million. This price is almost double the $408 psf set by the developer more than a year ago when it started to sell the collection of 19 freehold land parcels. It is believed that all the 19 land parcels have been sold out.

In the first quarter of 2007, a total of 26 GCBs were transacted and they totalled almost $292 million. This works out to be an average price of $577 psf, an increase of 15% from the $503 psf average for last year's 128 deals totalling $1.3 billion.

Since more than 70% of GCBs are owned by citizens, the activities in this market segment often acts as a barometer of the economy at large.

(7) Investment sales reach $21.4b in first 6 months

Investment sales in Singapore's property sector since January have totalled $21.4 billion, achieving yet another ground-breaking record. This is almost 50% higher than last year.

However, the value of sale done in the second quarter was slightly weakened at $9.7 billion, down from $11.7 billion in the first quarter of this year probably due to a higher development charge rate that was revised in March. It may be further weakened due to the sudden increase of DC rate in July this year.

The private sector accounted for 86%, or $18.5 billion. 68% of all investment sales so far had been done in the private residential sector. A whopping $7.9 billion from a total of 67 collective sales since January were responsible for the feat.

Office sales came in a distant second, accounting for 23% or $4.8 billion of the total sale; and Government land sale (GLS) programme made up the rest. The figures below augur well for 2007.

Table 5

	1996	2005	2006	2007 (half-year)
Investment sales	$12.72 b	$13.5 b	$26.9 b	**$21.4 b**

(8) Government revenues from Stamp duty up

The main contributor of stamp duty is real estate transactions. This year, due to the sharp rise in property prices, IRAS looks set to have a vintage harvest in stamp duty.

The $1.7 billion stamp duty collected in just the first five months of this year is already higher than the $1.3 billion collected for the whole of 2006. The all-time record in stamp duty collection was $1.8 billion in 1996. (There was no REIT in 1996)

Judging from the bullishness of the market, there might be more than 30,000 private homes transactions this year. The average value of each home is also likely to be higher than in the past and therefore pushing up the total revenue from stamp duty.

(9) Number of new homes headed for a record

As many as 47 projects with an estimated 7,000 units will be launched in the second half of this year – making this year a vintage year as far as number of units sold is concerned. In 2006, developers sold a record high of 11,147 new homes for the whole year.

So far, 9,100 new units have been sold this year. As such, experts predict that there will be at least 30% to 40% increase over last year's sale figure.

However, some of the developers may hold back their launches for better prices next year as the economic forecast for next year is even better in the run up to the opening of the integrated resorts.

B – How different is this time?

There are more and more foreign involvements in every aspect of Singapore's recent development.

(1) Singapore is favourite among foreign investment funds

Up to late May this year, about US$1.1 billion of foreign investment funds was poured into Singapore's stock market. It could be attributed to a strategy switch by foreign investors, which have been pulling money out of the over-heating China and Hong Kong in favour of a safer Singapore. In May 2007 alone, US$100.4 million was re-routed to Singapore related funds.

This explained the bull-run across the region, with the local Straits Times Index smashing records after records this year.

(2) Singapore-managed assets reached $891b

According to a MAS' survey of the asset management industry, assets managed by Singapore-based fund managers reached $891 billion for the whole of 2006, compared to $720 billion a year earlier.

The influx of cash has also meant the entry of new firms to manage the funds, with a net increase of 16 asset management companies last year, bringing the total to 141.

The number of hedge fund managers based in Singapore rose sharply to about 190 at end-2006. In total, they managed more than $40 billion worth of assets - a 150% increase from 2005.

(3) More foreigners buying sub-sale units

In the first half of this year, a total of 241 units were sub-sold to Indonesians, Malaysians, Australians, British and Indians, in that order. The number of subsale units also reflects a 35% increase compared to the last quarter of 2006. It is also the highest number since the previous property bull-run which ended in 1996.

The Sail and Icon were more attractive to foreigners in the subsale market in the first quarter. Foreign buyers accounted for 36% or 24 of the total 67 subsale deals done at The Sail in the first quarter of 2007. Foreigners also made up 25% or 18 of the total 72 subsale deals done at Icon.

Indonesians accounted for 26% share of foreign buyers of subsale apartments/condos, followed by 21% share by Malaysians, 10% share by Australians, 8% share by United Kingdom nationals, 7% share by Indians, 5% share by Koreans and 3% share by US citizens and mainland Chinese.

Historically, the highest levels of foreign buying of subsale condos/apartments were recorded in the last quarter of 1995 (485 subsales), first quarter of 1996 (329 subsales) and third quarter of 1996 (321 subsales).

(4) Foreigners take a bigger slice of residential land here

So far in 2007, purchases by foreign investors already amount to 11.4% of a total of $7.13 billion. (Only 7.12% of a total of $8.17 billion in the whole of 2006). These investments include local-foreign joint venture in purchases of en bloc sites.

In absolute dollars, foreign investors have ploughed in $885.5 million into residential land purchases in Singapore so far this year. Last year's 7.12% amounted to $651.84 million for the whole year.

Among the high profile acquisitions with foreign involvements include Horizon Towers whereby Hotel Properties Ltd (HPL) has teamed up with funds managed by Morgan Stanley Real Estate and Qatar Investment Authority. HPL also bought into CapitaLand's Gillman Heights site with two unknown private foreign funds. Another foreign fund is Wachovia Development Corporation from U.S. which teamed up with CapitaLand to buy Farrer Court in the record $1.3388 billion en bloc deal. Dubai Investment Group teamed up with Sing Development to buy Hillcourt Apartment at Cairnhill area.

1	Chicago-based Citadel Equity Fund	U.S.
2	CLSA Merchant Bankers	U.S.
3	Pacific Coast Assets	U.S.
4	Lehman Brothers	U.S.
5	Wachovia Development Corporation	U.S.

6	Park Hotel Group	H K
7	Royce Properties (bought Horizon View - Cairnhill)	M East
8	Kajima Overseas Asia (bought Crosby House)	M East
9	Dubai Investment	M East
10	Develica	U.K.

(5) More foreigners seek approval to own landed properties

Foreigners including PRs bought 93 landed homes or 8.4% of the total 1,108 landed homes transacted in the first quarter of 2007. The 93 homes comprise 86 by PRs and 7 by non-residing foreigners.

Period	Landed home bought by foreigners	% of total transaction
Q2 1996	31	2.6% (1,188 transactions)
Q2 2006	43	6.1% (706 transactions)
Q2 2007	**93**	**8.4% (1,108 transactions)**

The breakdown of the 93 deals include terrace houses (where 45 were transacted), followed by semi-detached (where 26 were transacted) and detached houses (where 22 were transacted).

Land policy in Singapore

Whether on mainland Singapore or Sentosa Cove, foreigners including PRs can at any one time own only one landed home in Singapore and must occupy it themselves rather than rent it out.

The number of applications by foreigners (including permanent residents) seeking approval from the Land Dealings Unit under Singapore Land Authority to own landed properties in Singapore shot up 30% in 2006 as compared to 2005.

In general, foreigners have to be PRs before they can receive permission to own landed homes on mainland Singapore for their own stay. However; in Sentosa Cove, there is no such restriction.

Apart from an applicant's PR status, sanction to buy landed property depends on his qualifications and economic contributions to Singapore. Every application is considered on its own merits. There were occasions whereby applications by PRs were turned down without any reasons given.

Foreigners will need to acquire approval from the relevant authorities to purchase the following restricted properties for own use:

- vacant residential land;
- landed property [i.e detached house, semi-detached house, terrace house (including linked house or townhouse); and
- landed property in strata developments which are not approved condominium developments under the Planning Act.
- shophouse which is not strata subdivided and is erected on land which has been zoned "residential",
- all the apartments within a building or all the units in an approved condominium development without the prior approval of the Minister for Law

An "Approval-In-Principle (AIP)" application can be made even when the specific property is not found yet. The AIP, if granted, is valid for 6 months. It is not renewable. Once the 6-month period has lapsed, a fresh application must be made for another Approval In-Principle or for purchase of a specific property.

The following conditions are usually imposed if the application is approved:

- The foreigner cannot sell the estate and interest in the property within 3 years.
- The land area of the property should not exceed 1393.5 sq metres/15,000 sq ft.
- The property will be used solely by the foreigner for his own occupation and that of his family members as a dwelling house and not for rental or any other purpose.

C –Is there a bubble?

Yes. A bubble already began to form in Core Central Region. As long as prices of real estate grew faster than real economic growth, a bubble is present. For example, when a 2207 sq ft apartment at The Sail @ Marina Bay was sub-sold for $5,055,000 or $2,290 psf in July 2007, it represents a price appreciation of 254% over a 2½ -year period. When the combined GDP growth over the same period was at best 15% to 18%, a bubble is deemed to have existed.

In fact, one can also argue that even in the heartlands, there is evidence of a bubble. For example, from July 06 to July 07 HDB resale prices in specific locations have appreciated faster than the GDP growth rate.

Period	Location/flat	Price	Period	Location/flat	Price	% increase
July 2007	Blk 849 Woodlands St 82	$405,000	July 2006	Blk 841 of Woodlands St 82	$388,000	4.38%
July 2007	Strathmore Ave Blk 82	$530,000	July 2006	Strathmore Ave Blk 55	$448,000	18.3%
July 2007	Tian Road Blk 131B	$545,000	July 2006	Kim Tian Road Blk 119B	$500,000	9%

From the above figures, it is easy to tell that price appreciation in central areas is faster than the GDP growth and there is evidence of an early real estate bubble.

Another gauge of real estate bubble is the percentage of real estate transactions towards the GDP size – which suggests Singapore is in an early stage of a bubble.

D – Will the government step in?

Yes. In fact, it already does and the following are recent measures that seek to check the temperature of the market which include:

(1) Recent measures to cool the red-hot property market

- Compelling full disclosure of sale figures by developers
- Regular broadcast of such sales figures to ensure transparency that will help the public make informed decision while buying
- Ending the deferred payment mode for Stamp Duty – which resulted in record yield in tax collected from property transactions
- Regular reminder by URA to the public to treat information by private property analysts with caution
- Releasing more land parcels in government land sale programme.

There is ample evidence to show that the government are monitoring the situation closely. The next thing that may get the chop may be deferred payment scheme.

(2) Development charge for new buildings up to 70%

Development Charge rate has been raised to 70% of market value, up from the previous 50%. The change takes effect immediately. The revised 70% rate represents a 40% increase from the previous rate. For example, a DC rate of $1,000 per square metre previously would now be $1,400 psm.

What are the implications?

En bloc sale frenzies will be cooled down due to the following reasons:

- En bloc projects that have not been legally completed may go through re-negotiation.
- En bloc projects with high 'unused plot' that have not been accounted for will be adversely affected due to a low development baseline and therefore a higher DC payable.
- Sellers' profit will be reduced as a result.

The following groups of people will be hit by the change:

- Speculators who flip old apartments with *'en-bloc potential'* will get severely burned.
- Sellers in general will be more realistic - hopefully. The government's hands may be forced again if prices continue to increase unabated.

However, the recent hike has no effect on the following:

- Speculators will concentrate on new projects to flip. This may lead to the projects like The Sail, Marina Bay Residences, Sentosa Cove to be even hotter.
- Old apartments with high development baseline (and therefore no DC is payable) will not be affected by the move. For example, Tulip Garden on Holland Road was closed after the announcement of the hike.
- Old apartments with good rental value will not be affected as the fundamentals for capital appreciation remain unchanged.

E – Where do we go from here?

The recent increase in DC rate will not affect the market due to short supply of private homes.

(1) Private homes still in short supply

Even though there will be close to 60,000 private homes coming on stream in the next couple of years, Singapore could still face a serious shortage of supply in private housing in the short term.

Demand has far outstripped supply by more than two-to-one and the 4,400 units that were added to the housing stock in the first quarter of this year had done little to quench the thirst of the insatiable market.

Much of it will only materialise in mid-2009 or early 2010. Even when that comes to fruition, we are talking about only 16,800 private residential properties due in 2009.

Moreover, the government is unlikely to impose drastic measures on the demand side at this moment as situation in the rest of Singapore (besides the traditional prime districts) is still manageable. Prices have increased in general but so are job growths, income improvement and the continued arrivals of foreign funds and expatriates. The net result – home prices will still rise.

(2) Residential rents will still go up

Rental has so far gone up by 35% compared to last year. Core area rents are now $3.5 psf; while outlaying areas rents are now $2.5 psf.

However, due to the short supply of private homes, positive outlook of the economy, and more expatriates will continue to head our way, there will be no reprieve for residential rents in the next six months.

(3) Fundamentals that don't change

- two-track economy
- sub-sale – will continue and concentrate in new projects (esp. those about to TOP)
- En bloc sale become 'End' block sale
- the return of the mass market new homes (caution need for those thinking of flipping)
- Look out for stock market correction
- Customer's psychology