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SINGAPORE PROPERTY COME BACK?

BUYERS TO RETURN AS COVID-19 CONCERNS EBB

Summary

This report seeks to evaluate the property buying behaviour of consumers during the circuit breaker period in Singapore and provide a deeper look into the private residential transactions that occurred during that time. It also offers some recommendations to developers and property investors as Singapore navigates an uncertain economic environment.

The Singapore private residential market started 2020 brightly, tracking the growth momentum seen in the previous year, where both transaction volumes and prices mounted a gradual recovery after the imposition of new cooling measures in July 2018. However, the market turnaround was short-lived, snuffed out by the coronavirus pandemic.

Global economies were thrust into a crisis like no other; authorities around the world implemented lock down measures - closing borders, shutting schools and workplaces, and limiting mass gatherings - to contain the spread of COVID-19. In Singapore, the government similarly took decisive actions to stem the spread of the virus.

In particular, it imposed an 8-week circuit breaker (7 April to 1 June, inclusive), comprising a set of safe distancing measures to curb the local transmission of COVID-19. The circuit breaker measures restricted people movement, shut schools and offices, and prevented large social gatherings. Since the Phase 2 of the re-opening of the economy kicked in on 19 June, many businesses have resumed operations and developers re-opened show flats, with restrictions and precautionary measures in place. Singapore recorded more than 42,000 COVID-19 cases with 26 fatalities as at 22 June 2020.

Market overview

Prior to the circuit breaker, a total of 4,269 private residential units (excluding Executive Condominiums) were sold in Q1 2020, representing a 14% year-on-year (YOY) increase from Q1 2019 where sales were still lukewarm following the introduction of fresh cooling measures in July 2018. By segments, the Core Central Region (CCR) saw the sharpest rise in overall home sales in Q1 – surging by 72% YOY - partly driven by a new launch, The M (See Chart 1).

Of the 4,269 transactions in Q1 2020, 2,080 units (+12% YOY) were from the resale market, while developers sold 2,149 new units (+17% YOY). In the primary market, developers launched 2,093 new private homes in Q1 2020, down by about 30% from the 2,989 units put up for sale in Q1 2019.

The star performer in Q1 2020 and subsequently for the first five months of the year was The M (See Table 1), which sold exceptionally well – 375 units at a median price of $2,439 psf - likely due to its location near the Bugis MRT station and attractive pricing compared to other projects in the area.

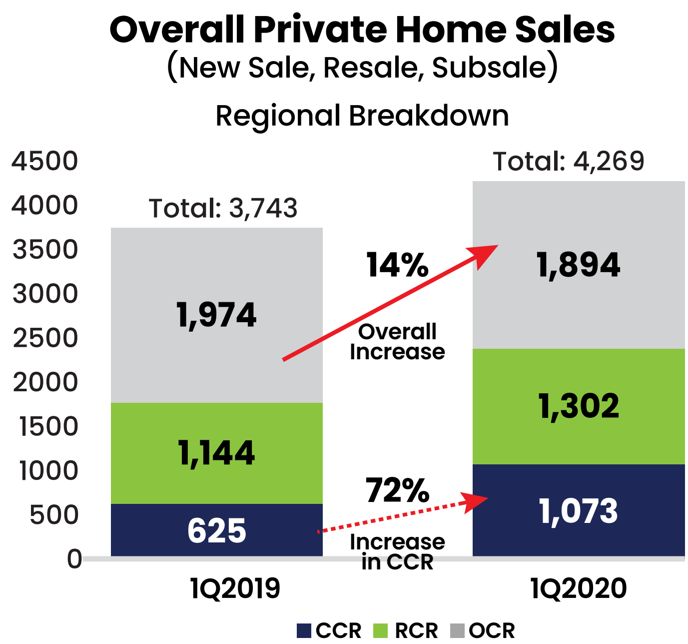

Chart 1 : Overall Private Home Sales by Region (New Sale, Resale, Sub-Sale)
(Source: PropNex Research, URA Realis as of June 22, 2020)

Top 10 Best-Selling Projects
(Excluding ECs) for Jan-May 2020

Project	Region	Units Sold	Median Price ($psf)
1. THE M	CCR	375	$2,439
2. TREASURE AT TAMPINES	OCR	299	$1,363
3. PARC ESTA	RCR	213	$1,680
4. JADESCAPE	RCR	212	$1,714
5. PARC CLEMATIS	OCR	156	$1,593
6. THE FLORENCE RESIDENCES	OCR	122	$1,499
7. KOPAR AT NEWTON	CCR	98	$2,252
8. RIVERFRONT RESIDENCES	OCR	75	$1,359
9. STIRLING RESIDENCES	RCR	75	$1,910
10. PARC BOTANNIA	OCR	72	$1,372

Table 1: Top 10 Best-Selling Projects (excl. ECs) for Jan – May 2020
(Source: PropNex Research, URA Realis as of June 22, 2020)

Traditionally, the first quarter of the year sees slower sales owing to the new year festivities. The pick-up in sales in Q1 2020 was driven in part by the attractive per square foot pricing and the relatively affordable price quantum, especially for smaller units in developments. Previously launched projects such as Treasure At Tampines, Jadescape, Parc Esta, Parc Clematis and The Florence Residences also saw healthy take-up in the first quarter.

Circuit Breaker Snapped Growth Momentum

The circuit breaker disrupted market activities and snapped the growth momentum in the property market in April and May after a positive Q1. Total private residential sales plunged, coming in at 647 units in April and 660 units in May 2020 – down sharply from the previous year (1,541 unit in April 2019; 1,843 units in May 2019).

- **Sales**

For the month of April as a whole *(See Chart 2)*, 277 units were transacted in the primary market while 370 resale units found buyers. In May 2020, which saw the entire month affected by the circuit breaker, new home sales surged 75% month-on-month (MOM) to 486 units, while the resale segment slumped 53% to 174 units. The inability to view properties during this period has hit the resale market as such buyers usually prefer to examine the unit in person before transacting. In contrast, it was observed that buyers of new homes became more comfortable with digital viewings and transacting online from April to May, with attractively priced projects and low interest rates likely nudging them to make a purchase.

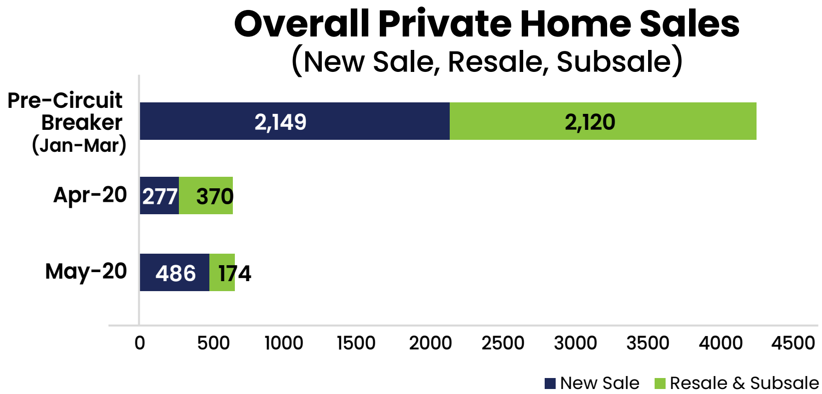

Chart 2: Breakdown of Overall Private Home Sales (New Sale, Resale, Sub-sale)
(Source: PropNex Research, URA Realis as of June 22, 2020)

Post-circuit breaker and with the gradual re-opening of the economy, the cautious sentiment and tepid growth would likely weigh on home buying interest and prices generally. However, the MOM rebound in new home sales in May and the return of buyers to pick up units in Phase 2 of the re-opening is a potential sign of underlying demand, particularly for strategically-priced units.

Sales outlook:

PropNex projects a total of 14,500 to 15,500 private homes – including 8,000 to 8,500 units of new homes and ECs – could be sold this year, barring a resurgence of COVID-19 cases and widespread job losses.

- **Price**

A larger proportion of homes were sold in the price quantum brackets of under $2 million. The trend was the most pronounced in May 2020 where 95% of new homes sold were valued at $2 million and under *(See Chart 3)* – the highest proportion of monthly sales in the first five months of the year. In comparison, it was 89% in April, 90% in March, 92% in February, and 73% in January.

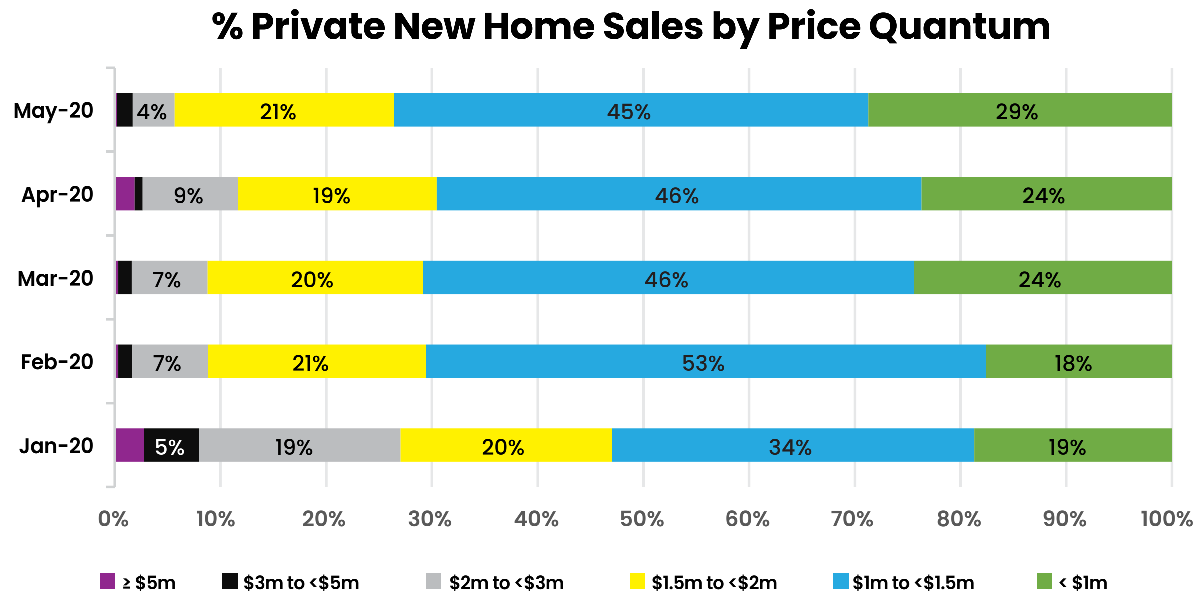

Chart 3: Private New Home Sales by Price Quantum (Source: PropNex Research, URA Realis as of June 22, 2020)

This could be due to a combination of factors, including the sale of a higher number of smaller units and selective discounts offered by developers. These categories of homes – mass market and mid-tier – should continue to drive demand with support from upgraders/owner occupiers.

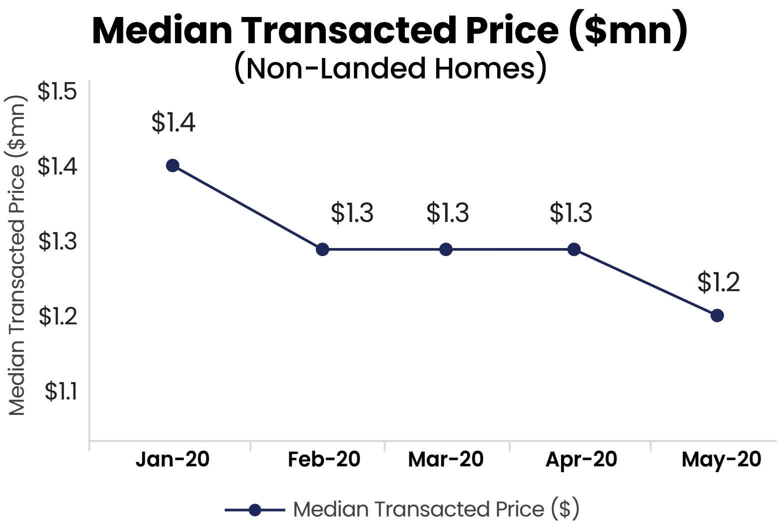

Chart 4: Median Transacted Prices (Non-Landed Homes)
Source: PropNex Research, URA Realis as of June 22, 2020

Based on Realis data, the median transacted price for non-landed homes dipped to $1.2 million in May from $1.4 million in January *(See Chart 4)*, possibly indicating an increase in demand for more affordable units.

Price outlook:

Given developers' holding power and households generally not over-leveraged for property purchase, PropNex does not expect a sharp drop in prices. In addition, the deferment of loan payments allowed by banks and low interest rates would support home financing. The risk of fire sale remains low and PropNex projects that overall private home prices could fall by up to 3% for the full-year 2020 as the pandemic drags on.

- ## Unit size

In terms of sizes, homes that are under 800 sq ft have garnered the most interest from buyers and investors. In particular, homes spanning 500 to 800 sq ft were most popular in April and May, accounting for 62% and 54% of the total, respectively *(See Chart 5)*. This could point to some investors entering the market to pick up smaller units. It also indicated that buyers at large remain very price sensitive, buying less sizeable units to keep overall quantum affordable.

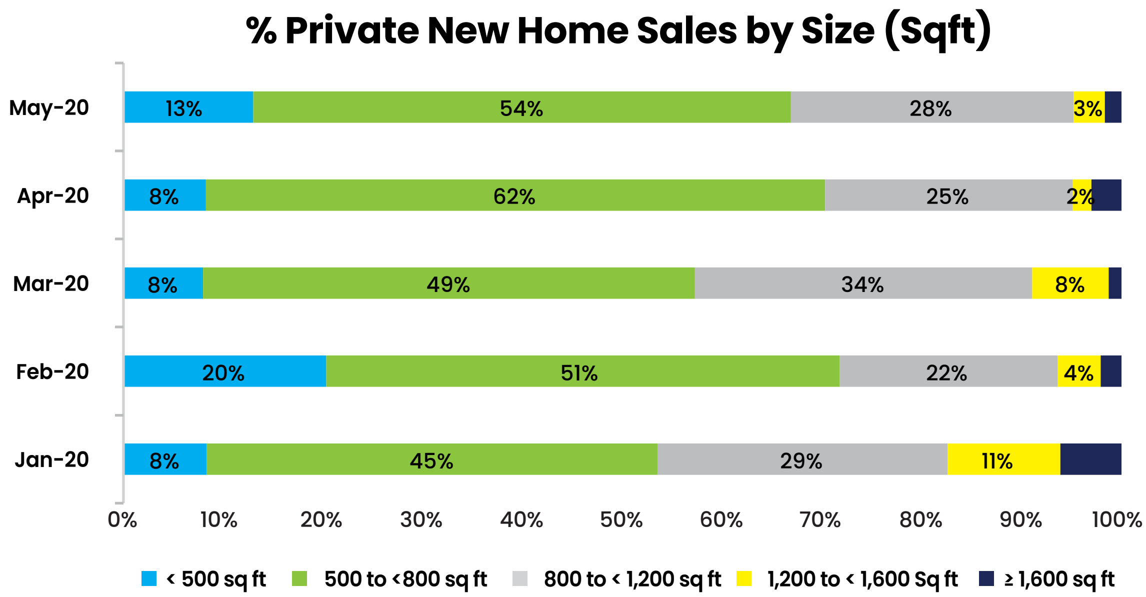

Chart 5: Private New Home Sales by Size (Source: PropNex Research, URA Realis as of June 22, 2020)

- **Nationality**

As expected, the number of homes purchased by foreign buyers started to drop in February and stayed depressed, largely due to travel bans that prevented foreigners from viewing and buying properties in Singapore *(See Chart 6)*. The impact of the travel bans would be felt more keenly in the luxury homes and CCR segments which tend to see higher foreign interest.

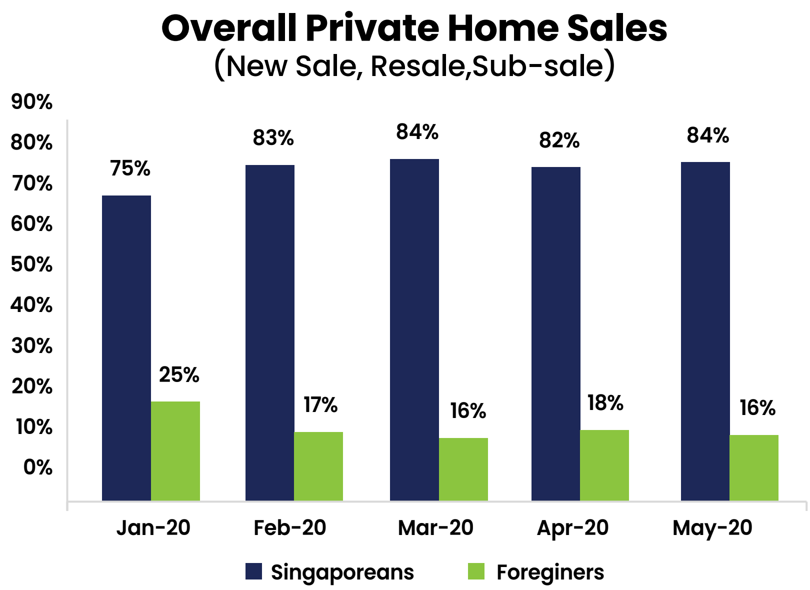

Chart 6: Overall Private Home Sales by Nationality
(Source: PropNex Research, URA Realis as of June 22, 2020)

Singaporeans picked up the slack, accounting for a larger proportion of sales in February (83%) as foreign buying dropped to 17%. Property purchases by locals have been fairly consistent since February and PropNex expects this could rise in the months ahead, especially with the travel restrictions still in place. However, foreign buying should gradually tick up again once international travel resumes. Singapore remains an attractive investment destination with positive long-term outlook for its property market.

What lies ahead?

At this point, there is no clarity on the duration of the pandemic and until a vaccine is made widely available, eliminating COVID-19 from the world is a pipe dream.

However, as COVID-19 concerns ebb over time, buyers should start to return to the market – particularly those who are more confident about job security or have built up substantial savings for investment. Meanwhile, a subdued economy would help to keep home prices in check and the low interest rate environment continues to be supportive of home financing. Singapore's interest rates, which are highly correlated with US interest rates have started to moderate since March 2020 and look likely to remain low *(See Chart 7)*. This comes as the US Federal Reserve said on 10 June it would keep its benchmark interest rate near zero through 2022.

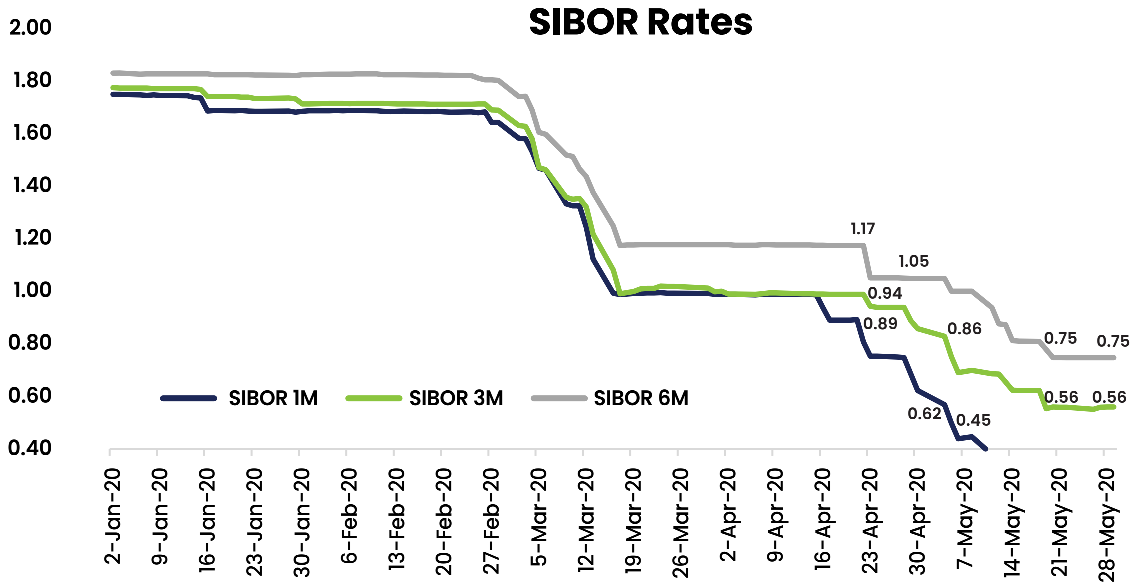

Chart 7: SIBOR Trends (Source: PropNex Research, URA Realis as of June 22, 2020)

The pandemic has temporarily derailed the healthy growth in the property market. Going forward, demand and prices should track closely with Singapore's economy. It will be long road to economic recovery, but the long-term outlook for the Singapore residential property market remains positive. A look back in history paints a resilient picture of the residential market, which has recovered after each crisis with prices generally keeping pace with economic growth *(See Chart 8).*

The fundamentals – transparent regulatory framework, pro-business policies, safety and stable political environment - that underpin housing demand in Singapore remain intact. In addition, the government has opened its wallet, pouring nearly $100 billion to help cushion the financial and economic fallout in Singapore.

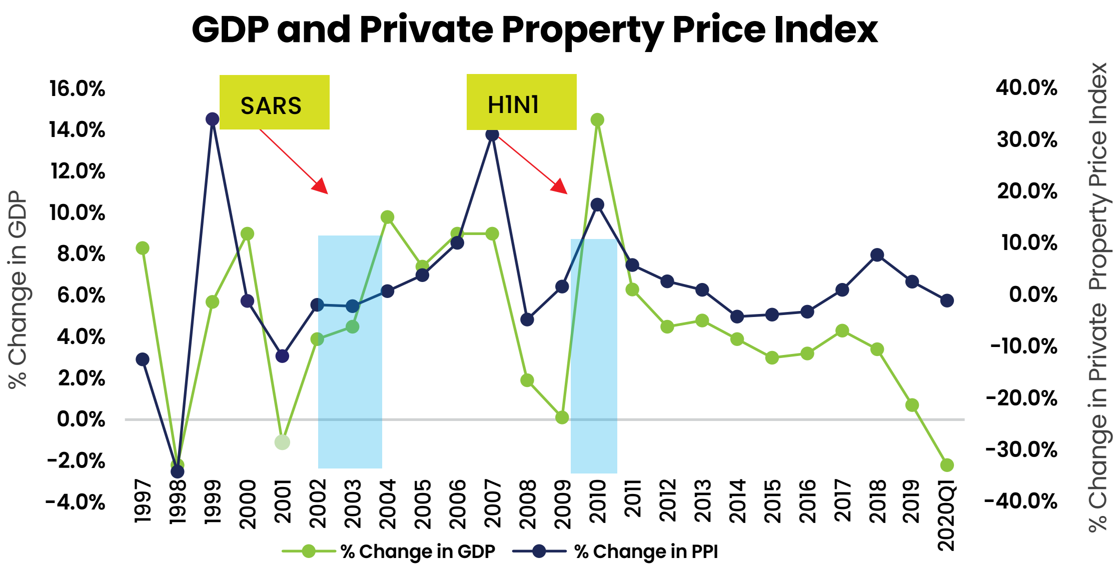

Chart 8: Singapore GDP and Private Property Price Index (Source: PropNex Research, URA, Singstat)

In view of the weak economic outlook, a key downside risk on home demand and prices is the unemployment rate in Singapore. Job and income security have been a rising concern in a pandemic-hit world. Data showed that unemployment rate correlates closely with home purchase, barring some exceptions *(See Chart 9)*. In 2003, new home sales plunged when unemployment hit 4% due to the impact of SARS. However, at other times, other factors contributed to lower sales. They included a crisis of confidence in the wake of the Global Financial Crisis (2008), and the impact of new cooling measures (2014-2016). Notably, despite an unemployment rate of 3% in 2009, sales thrived - likely spurred by prospects of an economic recovery and weaker confidence in financial investment products following the GFC.

The pandemic is expected to hit the job market. Nevertheless, the government's efforts and commitment towards transforming the Singapore economy, focusing on new growth sectors, attracting talent, as well as protecting livelihoods and creating new jobs should support employment

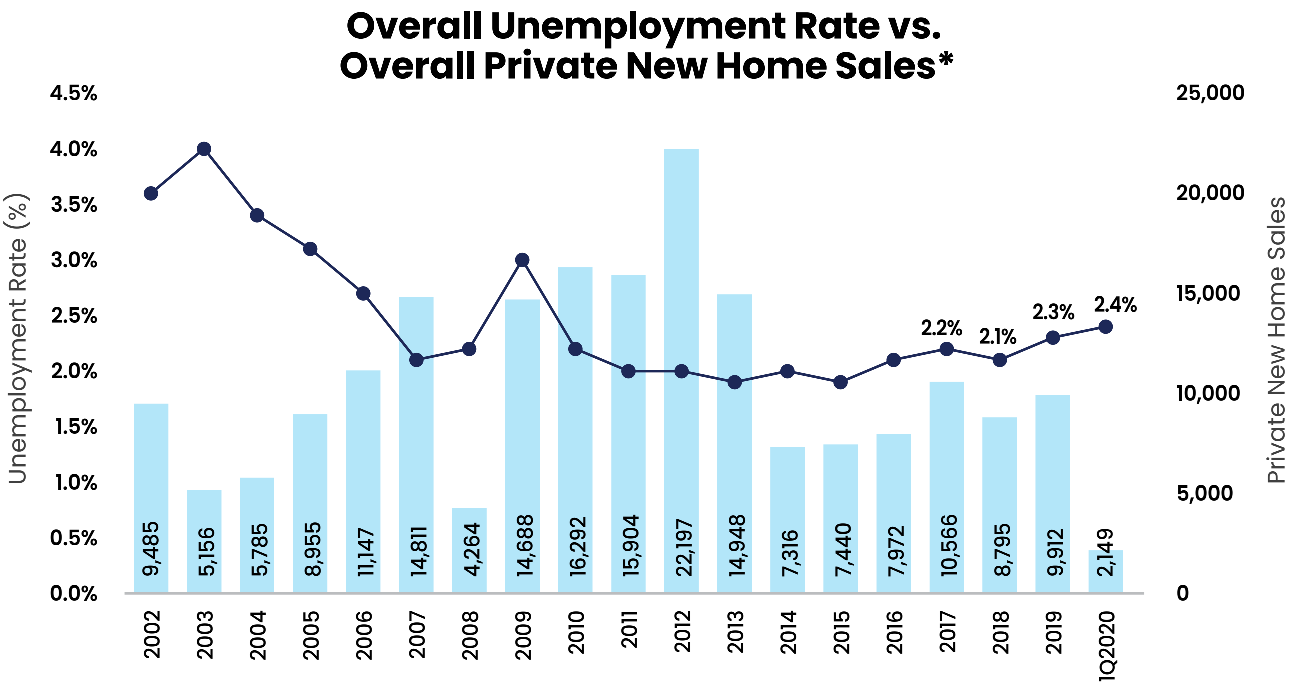

Chart 9: Overall Unemployment Rate in Singapore vs. Overall Private New Home Sales

**Source: PropNex Research, URA, MOM*

Getting ready for real change

The pandemic has changed the world and the way people live. In the real estate industry, all stakeholders have had to adapt and evolve their work processes at an exponential pace, helped by technology and digitalisation.

When show flats were shut, real estate developers, agents and their agencies, as well as customers have taken to digital platforms in varying degree to market and transact properties. These online engagements with clients and agents via e-learning platforms and marketing tools have translated to steadily rising sales in the past 11 weeks following the imposition of the circuit breaker *(See Chart 10)*. Such physical to digital shifts would only grow in importance, even in a post-COVID-19 world. Technology is no longer an option.

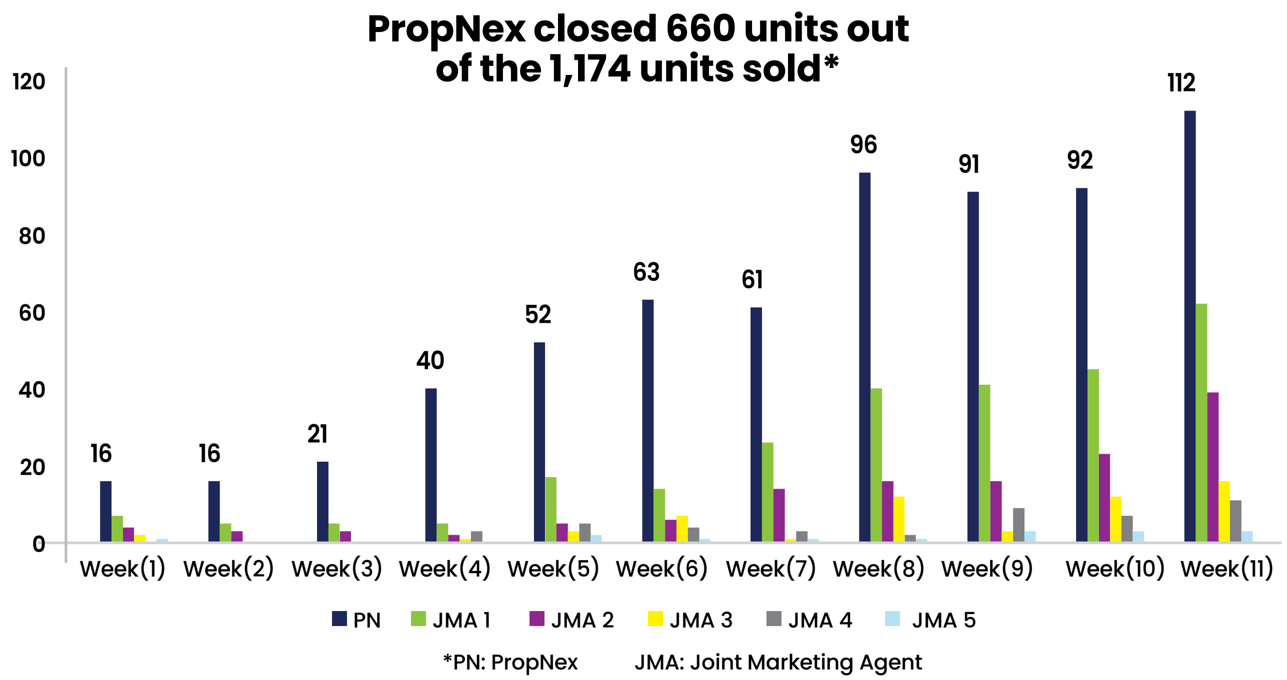

Chart 10: Number of units sold based on PropNex appointed 63 active projects with units transacted in the 11 weeks from April 6

**Source: PropNex*

For months, a large portion of the workforce have been working from home – and many still do. With remote working gaining prominence, it is perhaps timely to rethink the concept of home and whether they are future-ready. Meanwhile, homebuyers could seize pockets of opportunities as prices fall in line with new market realities amid more subdued outlook.

Beyond COVID-19: Gear up for the next normal	
Developers	**Homebuyers**
Ramp up digital marketing and virtual engagement, live-streaming sales pitches to reach even more prospective buyers	Assess finances and consider the following factors carefully: risk appetite; job and income security; availability of cash savings to tide over at least 6 months of expenses in the event of job loss; and holding power
Adopt sensitive pricing, keeping in mind affordability concerns due to difficult job market and the ample pipeline of upcoming supply (29,149 units remained unsold as at the end of 1st Quarter 2020)	Consider housing needs in the next 12 to 24 months. For example, those looking to start a family may opt for a larger unit; whether the unit is fit for the new work-from-home era is another consideration. Location and convenience also come into play
Rethink home design and new configurations that could be more adaptable to remote working, perhaps offering purpose-built home-office spaces	Evaluate entry price and assess price movements across property segments. For instance, PropNex found that the median price gap between properties in CCR and RCR has narrowed to about 30% at the end of Q1 2020 – a level last seen in early 2018
Consider new parameters on wellness and health in future developments. These could include planning spaces with safe distancing considerations, installing more contactless tech features, or adopting greater use of antimicrobial building materials	Moderate price expectation (prices are not likely to plunge factoring in firm land price and higher construction cost due to the pandemic measures)
	Given the low interest rates, owners with no lock-in terms for their mortgage loans could consider refinancing or repricing loans to capitalise on more attractive rates

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