

Singapore: Pouring Cold Water On The Property Market

The Singapore government has announced a fresh round of property tightening measures which will take effect from today (14 Jan). The measures came on the back of firm property prices despite three rounds of measures earlier on. Prices of private residential property rose 2.7% in the 4Q10 compared to the 3Q, although it was slightly lower than the 2.9% in the previous quarter. For 2010 as a whole, the private residential property prices have increased by 17.6%.

The measures also mirror those seen in Hong Kong in Nov 2010, where additional stamp duty was imposed on resale of residential properties held for less than 2 years. In Hong Kong, the loan-to-value (LTV) ratio was also lowered to 50% from 60% for properties above HKD 12 mn, and 60% for properties between HKD 8-12 mn.

Our Take On Current Measures

The property cooling initiatives although aggressive, were done incrementally over four announcements since Sep 2009, as compared to the 1996 measures which really sprung a surprise on the market. Nonetheless, the timing of the announcement was still earlier than what market would have expected. Overall, the lowering of the loan-to-value (LTV) ratio for buyers with more than one housing loan to 60% from 70% appears to be the most stringent amongst the new measures, which could potentially have the largest impact on the mass market segment.

The latest increase in the Seller's Stamp Duty (SSD) to 4%-16% from 1%-3% in Aug 2010 is likely more punitive, as compared to a capital gains tax in 1996 as this is a function of price rather than profit. The SSD increase is aimed at making investors think harder when considering to sell a property while the lower LTV will make people think twice before purchasing a second home. All in, this would mean sellers/buyers will be more careful ahead. Back in 1996, the property measures also limited the PRs to one SGD loan for residential property purchase for owner occupation and barred SGD loans to foreigners for residential property purchase. However, the LTV then was 80% which was much higher compared to current limit for second homes.

We would like to highlight that Singapore's private property affordability (price-to-income ratio) has risen to levels seen in Hong Kong's Class B property. We believe the price/income ratio at around 9 for private residential properties could be of concern to the government.

Affordability Comparison (3Q2010)				
	Singapore - HDB resale	Singapore - Private condo	Hong Kong Class B**	Malaysia - KL
Price per sqm	S\$4,612	S\$10,791	HK\$69,277	RM3,386
Av house size (sqm)	90	120	56	120
Assumed house cost	S\$415,073	S\$1,294,920	HK\$3,879,512	RM406,320
Av monthly per capita income*	S\$3,754	S\$5,666***	HK\$16,900	RM3,000
House px vs income ratio	4.6	9.5	9.6	5.6

Affordability Comparison (3Q2010)					
	China - National	China - Beijing	China - Tianjin	China - Shanghai	China - Chongqing
Price per sqm	RMB5,122	RMB18,301	RMB7,990	RMB15,259	RMB4,153
Av house size (sqm)	90	90	90	90	90
Assumed house cost	RMB460,980	RMB1,647,090	RMB719,100	RMB1,373,310	RMB373,770
Av monthly per capita income*	RMB2,235	RMB2,932	RMB2,111	RMB2,986	RMB1,712
House px vs income ratio	8.6	23.4	14.2	19.2	9.1

Notes:

*Household income assumes 2 working persons earning country average income

**Average private residences in HK, Kowloon and New Territories

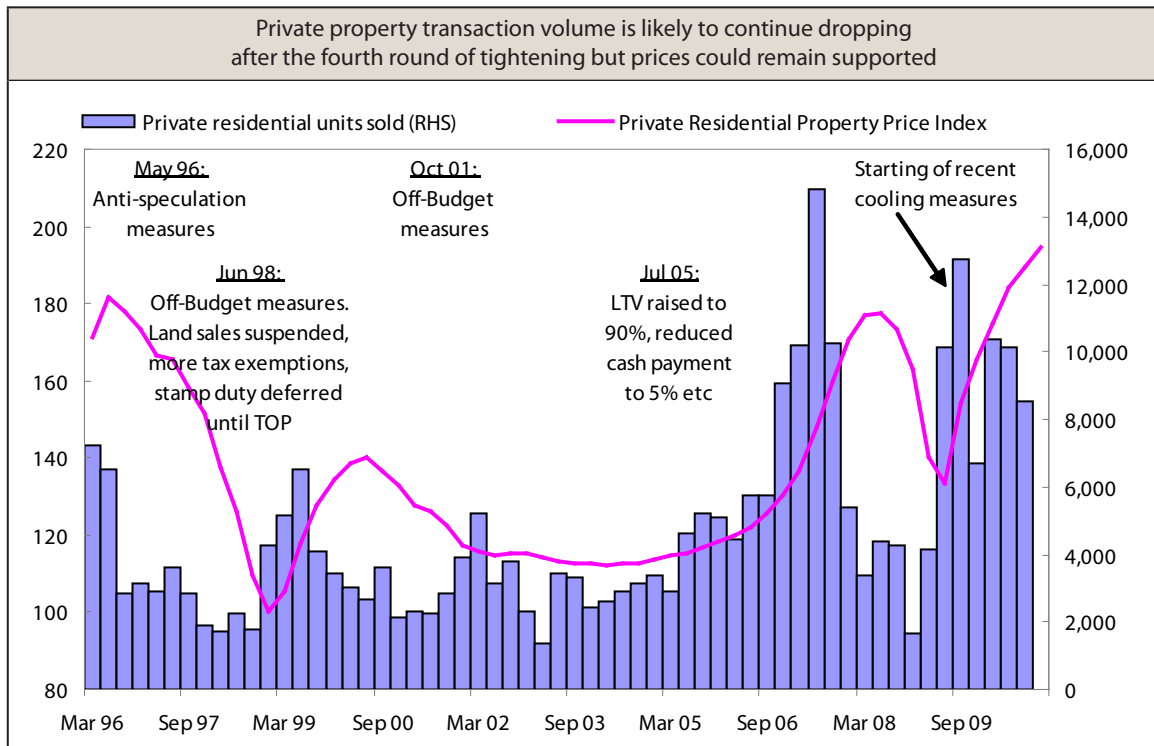
***Singapore -- Based on median resident household income for those living in condos and pte flats/houses of S\$11,331 per month.

Based on the market reactions to the government's property cooling measures since Sep 2009, we would expect a significant drop in the transaction volume in the coming months although prices could be supported due to the low interest rates and the flushed liquidity. Another key factor is the increase in foreign interest since 2005, prompted by the new growth engines in Singapore as well as the sharp increase in non-resident population here.

Potential Impact On The SGD

The unprecedented measures were due to uncertainties that emerge from the large amount of liquidity from quantitative easing in the developed countries. The new measures might turn away overseas speculators and hence could curtail the additional inflows that resulted as China and Hong Kong further clamp down on their real estate markets. In turn, this could reduce the pace of SGD appreciation ahead of the monetary policy meeting in April.

Recent Property Measures On The Private And HDB Resale Markets	
Sep 2009	(1) reinstating the Confirmed List for the 1H10 Government Land Sales Programme; (2) immediate removal of the Interest Absorption Scheme (IAS) and Interest-Only Housing loans; (3) Budget 2009 Budget assistance measures for the property market will not be extended.
Feb 2010	(1) 3% sellers' stamp duty on property sold within a year; (2) lower loan-to-value ratio to 80% from 90%.
Mar 2010	HDB resale flats' holding period extended to 3 years from 1 year. Limits on the number of public flats in each block and neighbourhood that can be sold to PRs and citizen-PR couple will have to pay a \$10,000 premium for new flats launched by the HDB.
Aug 2010	(1) Increasing the holding period for imposition of Seller's Stamp Duty (SSD) from 1 to 3 years; (2) Increasing the minimum cash payment from 5% to 10% of the valuation limit for property buyers who already have 1 or more outstanding housing loans and decrease the LTV limit for housing loans to these buyers to 70% from 80%.
Jan 2011	(1) Increase the holding period for imposition of Seller's Stamp Duty (SSD) from the current three years to four years; (2) Raise the SSD rates to 16%, 12%, 8% and 4%, respectively, for residential properties sold in the first, second, third and fourth year of purchase; (3) Lower the Loan-To-Value (LTV) limit to 50% on housing loans granted by financial institutions regulated by MAS for property purchasers who are not individuals. This includes corporations, trusts and collective investment schemes; (4) Lower the LTV limit on housing loans from 70% to 60% for property purchasers who are individuals with one or more outstanding housing loans.



Source: CEIC, UOB Econ-Treasury Research

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