

## Singapore Property: Sector Update

Wednesday, 03 May 2017

### A turnaround in sight?

- The latest 1Q2017 URA data showed that private residential property prices continued to decline (-0.4% q/q). However, beneath the lacklustre headline figure, other indicators appeared positive, which may signal that a turnaround is in sight.
- Non-landed property prices have begun to stabilise while transaction volumes have picked up substantially. Looking ahead, the supply overhang should largely be cleared out with the number of unsold inventory falling to 5Y lows.
- The resale market has already begun to recover, with SRX reporting a 5<sup>th</sup> straight month of increase. Developers have also expressed their bullishness on the property market via competitive land bids.
- We no longer expect property prices to continue dipping. Nevertheless, the impact may differ for different developers. Smaller developers with unsold developments are likely to benefit more while credit profiles may deteriorate in the short term for developers which are aggressively building landbank.

### Evidences of a rebound:

- **Non-landed prices stopped falling:** 1Q2017 URA residential property price data (-0.36% q/q) turned out to be slightly better than flash estimates (-0.51% q/q). While the overall index was dragged down by a sharp 1.8% fall in landed properties prices, prices of non-landed properties in RCR and OCR rose 0.3% and 0.1% respectively.
- **Clearing unsold supply with surge in transactions:** Developer new sales surged to 2,962 units (excl ECs) in 1Q2017, the highest for a quarter since 3Q2013. With the latest 12 months ("LTM") new sales reaching 9,515 units, the 15,930 unsold units in the pipeline appears very manageable at just 1.7x the LTM new sales. As such, developers may no longer need to cut prices to move units. The recent launches did well, including Grandeur Park Residences (sold 484 units out of 720) and Park Place Residences (sold 217 units out of 429).
- **Recovery already underway in the resale market:** According to SRX, non-landed private home resale prices continued to rise for the 5<sup>th</sup> consecutive month in March, with prices 3.3% higher than Oct 2016 lows. The increase in prices was broad-based across all market segments (CCR, RCR, OCR).
- **Keen bids for land sales:** We anticipated developers to replenish their landbank, but the SGD265mn land bid (SGD939 psf) for Toh Tuck site last month was surprising as the market had forecasted the winning bid at below SGD200mn.
- **Improving vacancy rates:** While rental rates continued to soften (-0.9% q/q), vacancy rates have fallen by 30bp to 8.1%.

### Impact on developers and recommendation:

- For the developers under our coverage, we think the impact on the credit profile may be limited for the larger diversified developers (e.g. CapitaLand, City Developments, Frasers Centrepoint). They are increasing their overseas exposure and/or building a portfolio of investment properties for recurring income.
- The beneficiaries from a rising residential property market may be the smaller developers, for example Chip Eng Seng and Wing Tai Holdings as they moved more unsold units at Fulcrum and The Crest respectively. However, Hong Fok Corp has not benefited with units still remaining unsold at Concourse Skyline.
- GuocoLand also moved more units in Sims Urban Oasis. However, the credit profile of GuocoLand has deteriorated due to capital outlay from land parcel purchase at Martin Place (SGD595.1mn), in addition to the purchase of land plots in Chengdu (SGD557mn) and subscription of a 27% stake in Eco World (SGD245mn).
- **Recommendation:** On the back of a recovering property market and on valuations, we are Overweight on WINGTAI '22s, '23s and '24s, as well as CHIPEN '21s. Amongst the larger developers, investors may consider FCLSP '19s and '22s.

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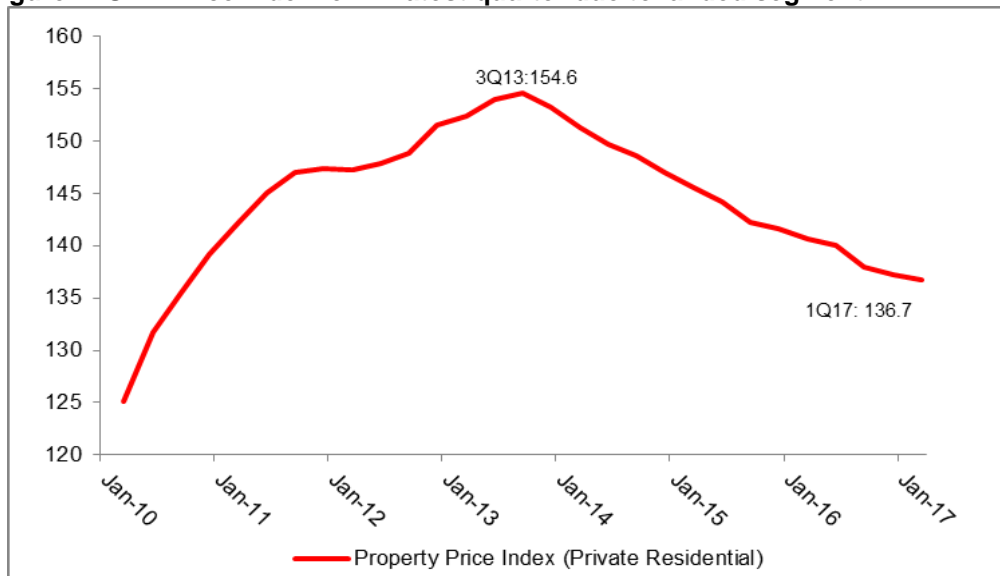
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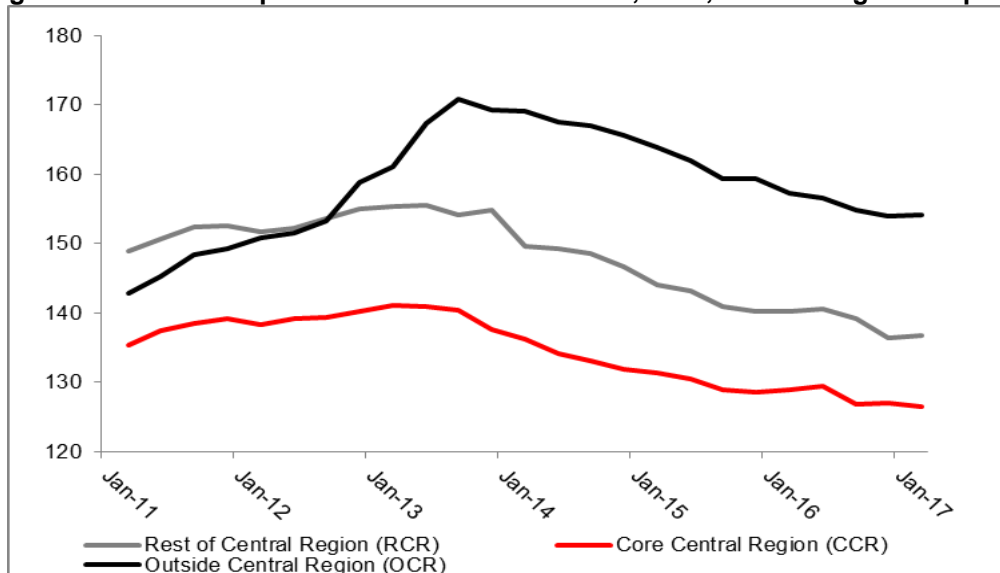
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**Figure 1: URA Price Index fell in latest quarter due to landed segment**



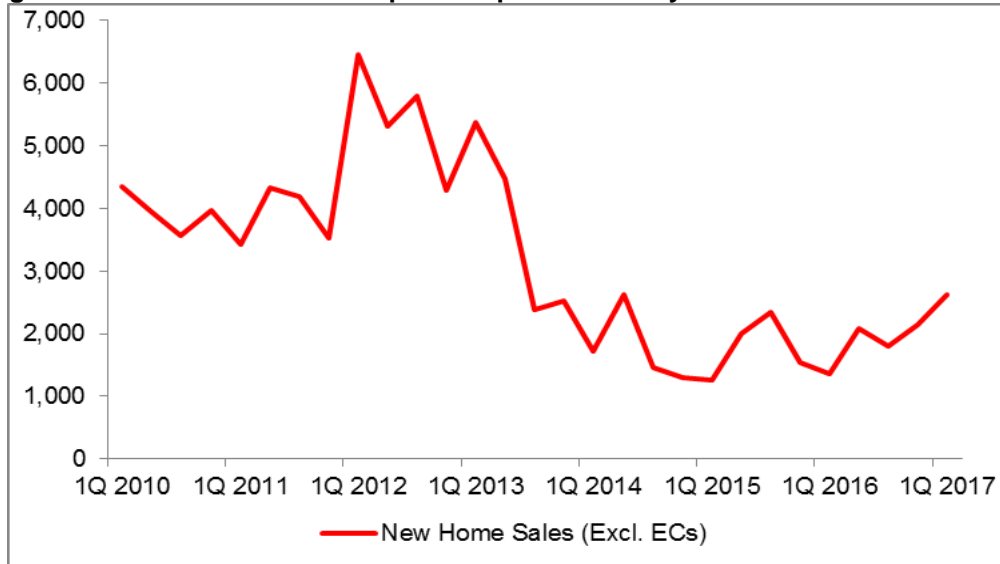
Source: URA, OCBC

**Figure 2: Non-landed prices have stabilized in CCR, OCR, RCR during latest quarter**



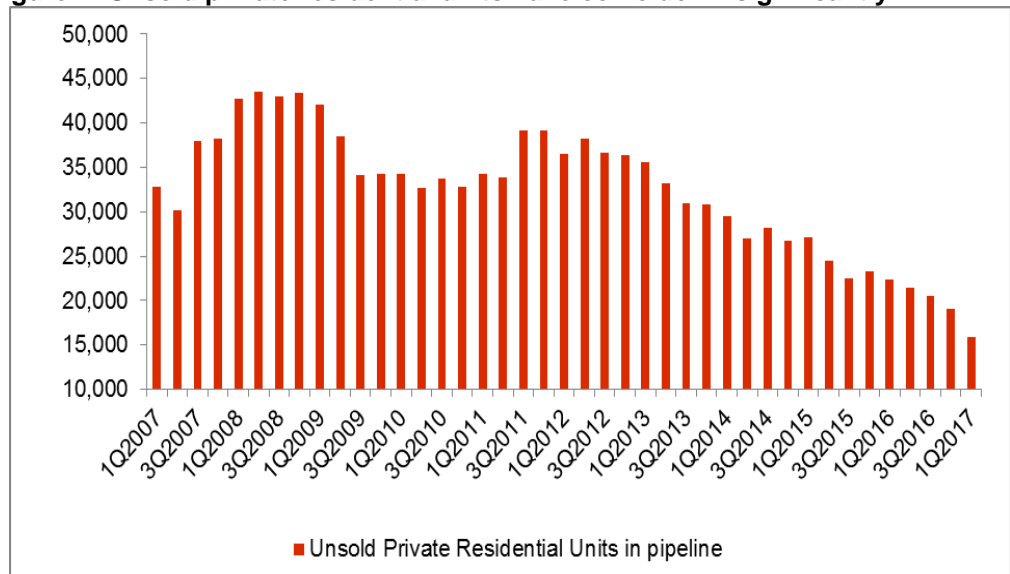
Source: URA, OCBC

**Figure 3: New home sales have picked up substantially**



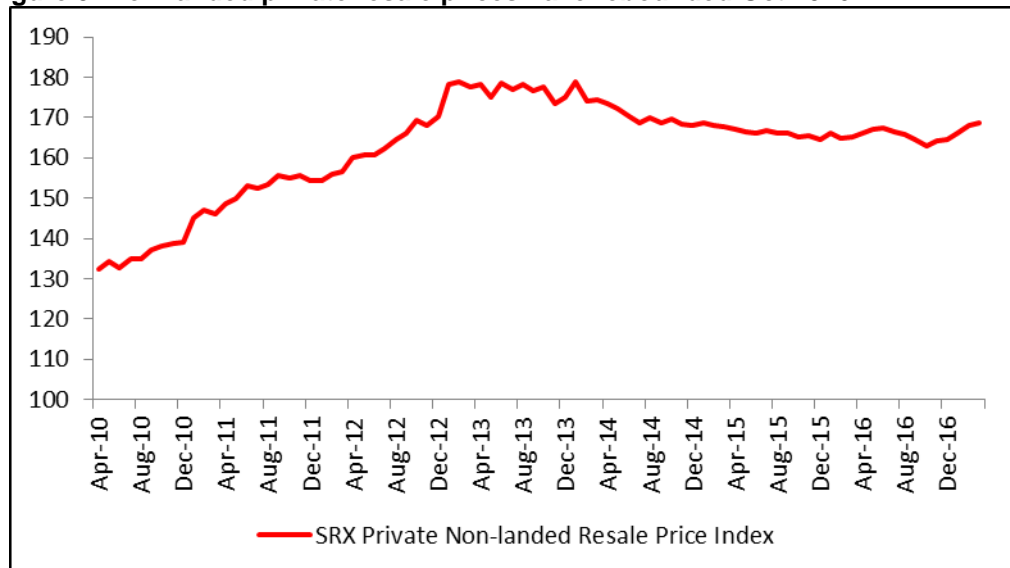
Source: URA, OCBC

**Figure 4: Unsold private residential units have come down significantly**



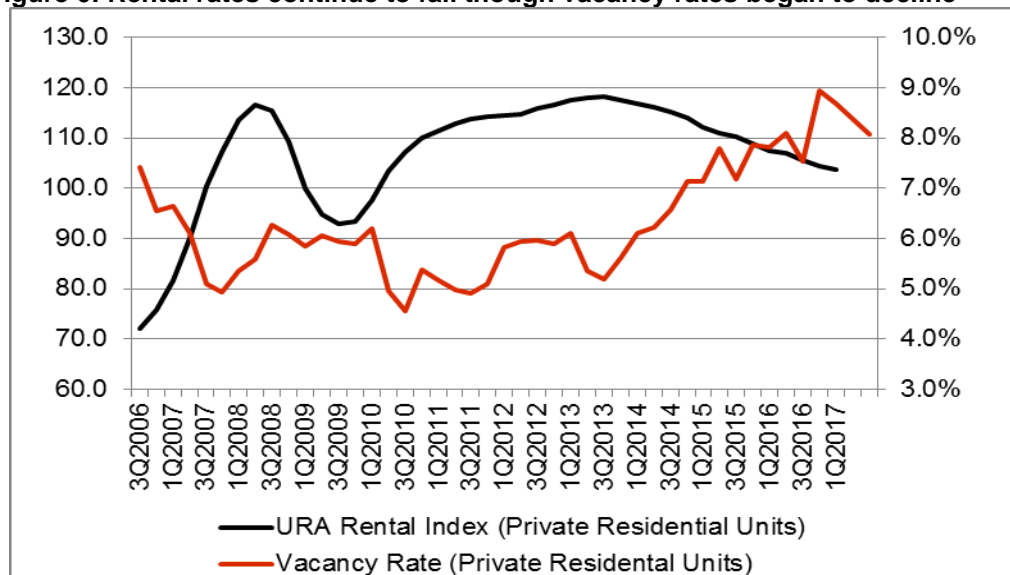
Source: URA, OCBC

**Figure 5: Non-landed private resale prices have rebounded Oct 2016**



Source: SRX, OCBC

**Figure 6: Rental rates continue to fall though vacancy rates began to decline**



Source: URA, OCBC

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