

## Singapore Property: Sector Update

Friday, 06 July 2018

### Calling half-time: Penning our thoughts on property cooling measures

#### What was changed?

- **Increase in ABSD with tighter LTV:** Yesterday, the government hiked Additional Buyer's Stamp Duty ("ABSD") rates and tightened Loan-to-Value ("LTV") limits. Key changes from the [press release by Ministry of Finance](#) include:
  1. Singapore Citizens and Permanent Residents first property: LTV is tightened by 5%, with no change to ABSD.
  2. 2<sup>nd</sup>/subsequent properties: ABSD is raised by 5ppt with LTV tightened by 5%.
  3. For entities (including developers), ABSD is increased by 10ppt to 25%. In addition, developers will pay another 5% in ABSD (non-remittable).
- **Follow through from words:** We note this follows [MAS' Ravi Menon caution about 'euphoria'](#) after a [strong print in property prices \(2Q2018: +3.4% q/q\)](#). The government's main concern is if the sharp increase in prices could 'run ahead of economic fundamentals'. This may raise the risk of 'destabilising correction', due to rising interest rates and strong pipeline of housing supply.

#### Our thoughts: Maintain optimism to sustain through 2H2018, wary going into 2019

- **Unsurprising move by government:** [We had opined that further interventions are likely if prices continued to surge at the same pace as 1Q2018](#). We see this as a follow through from the government, with National Development Minister Lawrence Wong already cautioning about 'excessive exuberance' and MAS cautioning of the uncertainty in the supply-demand dynamics last year.
- **Remain optimistic in 2H2018 due to strong technicals...:** We think property prices will continue rising in 2H2018 given the strong technicals. [As a recap of discussions from our May 2018 update](#), displaced homeowners from collective sales will need to look for replacement homes while the supply has yet to fully come on stream. In addition, the aggressive bids by developers lead to higher price expectations by buyers. Developers may also hold up prices (and be less willing to cut prices) as their breakeven costs are higher. Meanwhile, we note strong property demand with new launches at Park Colonial, Riverfront Residences and Stirling Residences reportedly seeing buying frenzy (ahead of the changes in regulations).
- **... though pace may be slower:** Property cooling measures may not necessarily tank the market though we think the pace of increase will slow. The new property cooling measures, while somewhat punitive, is likely not intended to kill the property market – we note Ravi Menon 'welcome the recovery' of the property market. As a comparison when the first LTVs were implemented in 2010-11 and ABSD implemented in 2012-13, the market still continued in an uptrend for some time though the pace of increase slowed with fewer transactions. In Hong Kong, housing prices are 22.6% higher than Nov 2016 even when stamp duty was hiked by 15pp. With Singapore home ownership high and a sizable proportion of buyers already owning a primary residence, we think the main purpose is to suppress speculative tensions from building up, rather than curbing buying interest from owner-occupiers.
- **Reiterate our caution going into 2019:** [As per our May 2018 update](#), we continue to remain wary going into 2019. We share the same view on risks highlighted by the government on (1) risks of the upcoming supply and (2) rise in interest rates. Additionally, potential further interventions by the government. We maintain that pace of enblocs will slow, especially with increased costs now to be borne by developers. Developers would also be reassessing their marketing strategies, including some taking margin hits to move units.

#### Recommendation

- **Underweight the highly leveraged developers and Overweight the less leveraged ones:** Developers with higher leverage have less room to manoeuvre if units do not move and margins may be impacted if prices are reduced. As such, we Underweight OHLSP '20s, GUOLSP '19s and '20s, CHIPEN '21s and '22s as well as ASPSP '21s. We think the less levered developers have more headroom and Overweight HTONSP '20s and '21s, HFCSP '19s, CITSP '23s, '24s and '26s.

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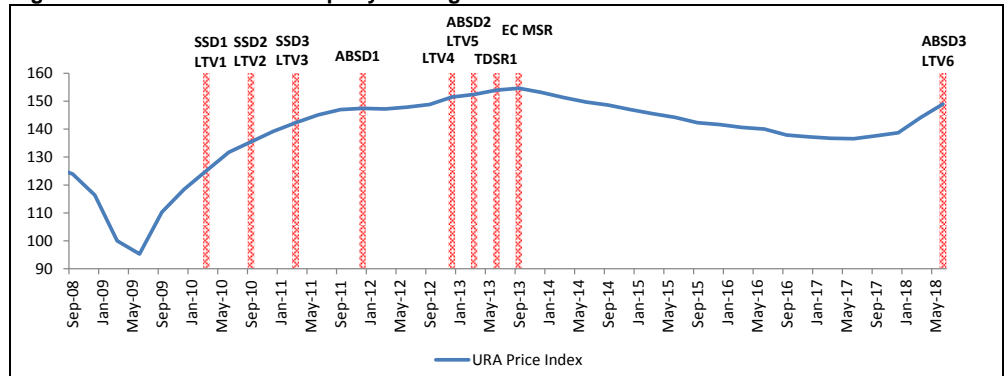
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**Figure 1: URA Price Index / Property cooling measures**



Source: URA, SRX, OCBC

#### **Analyst Declaration**

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