Asia Credit Research

OCBC Bank

Singapore Property: Sector Update

Friday, 10 March 2017

Relaxation of property measures: Penning down our thoughts

What was changed?

- MOF, MND, MAS ("Government") today announced adjustments to the Seller's Stamp Duty ("SSD") and Total Debt Servicing Ratio ("TDSR") framework.
- The SSD holding period will be reduced to 3 years (Previous: 4 years) from 11 March 2017. Previously, SSD is payable by those who sell a residential property within 4 years of purchase. Under the new rules, the SSD rate for the 1st/2nd/3rd/4th year will be changed from 16%/12%/8%/4% to 12%/8%/4%/nil.
- The Total Debt Servicing Ratio ("TDSR") will no longer apply to mortgage equity withdrawal loans with loan-to-value ratios of 50% and below. Under the TDSR, borrowings against the value of properties are not allowed if the TDSR threshold (60% of monthly gross income) is exceeded.
- The 2nd Minister for Finance is also looking to introduce legislative changes to treat transactions in residential properties on the same basis regardless whether they are transacted directly or through a transfer of equity interest.

Our thoughts:

- The impact of the reduction of SSD's holding period by 1 year may be marginal. The previous rounds of SSD had limited impact on prices and transactions.
- The property cooling measures that had the most impact, in our view, are the Additional Buyer's Stamp Duty ("ABSD") and Loan-to-Value ("LTV") ratios. These remain unchanged, and we do not foresee changes to the ABSD and LTV in the near-term with the Government mentioning that "the current set of property market measures remains necessary to promote a sustainable residential property market and financial prudence among households".
- In so far as the property market is concerned, we see limited impact from the TDSR tweaks as it will likely only benefit a small group (e.g. retirees without income will be able to borrow against their properties).
- The legislative changes may close one avenue for companies to dispose properties without incurring the ABSD. Transactions which avoided the ABSD include City Developments' Nouvel 18 Profit Participation Securities scheme and CapitaLand's sale of 100% stake in Nassim Hill Realty with 45 unsold units to Wee Cho Yaw.

Assessment of the property market:

- Bucking the trend of falling property prices in 2016, we highlighted[1] that the SRX data in Jan 2017 painted a healthier market with 1.1% m/m increase in condominium resale prices and 3.8% m/m increase in new units sold.
- The recent launches did well, including Grandeur Park Residences (58% sold out of 720 units) and The Clement Canopy (near 200 units sold out of 505 units).
- In the Singapore Budget 2017, the CPF housing grant was increased, which may fuel resale HDB transactions and in turn spillover into the private residential market.
- Nevertheless, we prefer to reassess the market when the full quarter's data is out as it may be difficult to extrapolate one month's of data. In our Singapore 2017 Credit Outlook, we mentioned that the general property market may remain weak as the Government measures that cooled the property market continue to be in place. While the SSD is eased, we think ABSD and LTV are the more impactful cooling measures. A number of developers are facing looming deadlines to sell the developments or face punitive fees in ABSD and/or Qualifying Certificate ("QC").
- **Recommendation:** We do not foresee material changes in the credit profile of the larger cap developers (e.g. CapitaLand, City Developments) which are reasonably diversified. On valuations basis, we like CITSP '24s trading at 3.24% YTW. If the Singapore property market sees a substantial pickup, we think Wing Tai Holdings will be a prime beneficiary, and we are OW on WINGTA '22s, '23s and '24s.

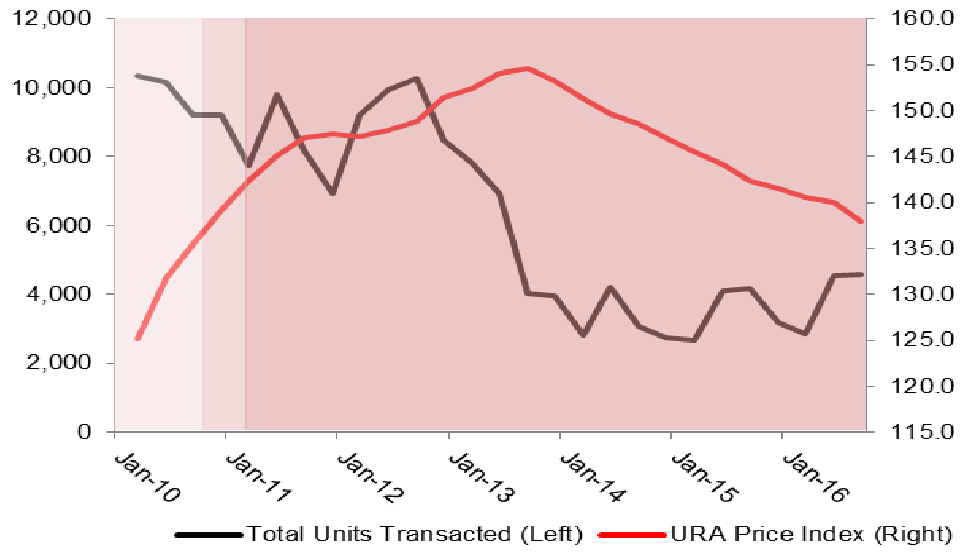
Treasury Advisory
Corporate FX &
Structured Products
Tel: 6349-1888 / 1881
Interest Rate Derivatives
Tel: 6349-1899
Investments &
Structured Products
Tel: 6349-1886

GT Institutional Sales
Tel: 6349-1810

OCBC Credit Research
Wong Hong Wei
+65 6722 2533
wonghongwei@ocbc.com

[1] OCBC Asian Credit Daily - 16 Feb 2017

Figure 1: SSD has limited impact on URA Property Price Index and units transacted



*Shaded Area represents period after SSD rate change. According to IRAS, from 2010 to 2016, there were a total of 2 revisions. SSD was first implemented in Feb 2010. First revision was made in Aug 2010, followed by a second revision in Jan 2011.

Source: URA, IRAS, OCBC