

## TENTATIVE SIGNS OF BOTTOMING FOR PRIVATE HOMES MARKET

Economic growth in Singapore was lacklustre in 2016, against a backdrop of global uncertainty. Homebuyers and investors have been very discerning in their purchase decisions. This trend is likely to continue in 2017, but with the market exhibiting general acceptance of current price levels, the 'wait-and-see' attitude prevalent among potential buyers should turn to 'time-to-buy' decisions.

### Market Pulse

- **The Singapore economy grew by 2.0% in 2016**, according to the Ministry of Trade and Industry (MTI), beating the earlier forecast of 1.0% to 1.5%. MTI forecasted economic growth for 2017 at between 1.0% and 3.0%.
- **The three-month Singapore interbank offered rate (Sibor) climbed to 0.926% in December 2016**, in the wake of the Fed's rate hike announcement. This would, inevitably, raise the cost of financing for households either looking to make new purchases or those with outstanding floating rate mortgage loans. With upward pressure expected to continue, some banks have stopped offering various fixed-rate mortgage plans as at end- December, as they grapple with the uncertainty over the pace of interest rate hikes.
- **The banking industry's average property loan-to-value ratio reached 51.7% as at mid-2016**, gradually escalating from the previous low of 47.2% in Q4 2013 (Exhibit 1). A November 2016 MAS report said, however, that the risk profile of housing loans has improved, as most loans have LTVs of 80% or lower. Only a negligible share of housing loans is in negative equity. In addition, the debt servicing ratios of households have also improved since the introduction of the TDSR in June 2013.
- **The H1 2017 Government Land Sales List was released in mid-December 2016**, comprising five private residential sites on the Confirmed list yielding 2,330 units, and seven private residential sites (including one EC site) on the Reserve list yielding 5,135 private residential units (including 775 EC units). However, the HDB announced the deferment of the mixed-use site at Upper Serangoon located within the Bidadari precinct, from the H2 2016 programme to Q1 2017.
- **The total population of Singapore grew 1.3% in 2016, similar to the rate of 1.2% in 2015**. This was supported mainly by the growth of foreign population, as the resident population only grew by 0.8% in 2016, same as that in 2015.
- **Total Construction demand in 2016, measured by the total value of construction contracts awarded in the year, was \$26.1 billion** based on BCA's preliminary estimates, declining from \$27.0 billion in 2015. Public and private residential construction demand contributed \$3.3 billion and \$3.1 billion respectively. Public demand is expected to increase to between \$3.6 and \$3.9 billion in 2017, supported by a steady pipeline of new public housing construction and upgrading works. Conversely, private residential demand is expected to soften to between \$2.1 and \$2.9 billion, despite some sizeable upcoming condominium projects on various Government Land Sales sites (H1 2016 programme).



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Executive Director & Head,  
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"Despite concerns about rising trade protectionism, sluggish economic growth and weak labour market conditions, buying appetite for housing seems to have cautiously returned. It's too early to call an upturn but the foundations are being laid."

### Private Residential Home Prices Continued to Fall over all 4 quarters in 2016

- Private residential prices showed little sign of relief, with landed property prices having fallen 4.5% and non-landed prices (excluding EC) declining by 2.6% in 2016. Overall private home prices fell by 3.1% in 2016, but this is lower than the 3.7% drop in 2015.
- Of the market segments, Outside Central Region (OCR) private non-landed properties saw the largest average price decline of 3.4% in 2016, followed by Rest of Central Region (RCR) by 2.8%. Core Central Region (CCR) fell the least, by 1.2%.
- The OCR segment experienced the largest trough-to-peak run-up of 74.9% between Q2 2009 and Q3 2013, but also the smallest correction of 9.9% from the peak to date (Exhibit 2).

### Home-buying momentum gathered pace in 2016 compared to 2015, but outstanding unsold stock remains 2.6 times of annual transaction volume

- Total transaction volume in 2016 improved 16.0% from 2015 to reach 16,378 units (Exhibit 3). New sale and resale transactions contributed almost equally to the deal volume. Subsale transactions continued to fall, with the 505 transactions comprising just 3.1% of the total volume.
- In the CCR and RCR, the growth in transaction volume was supported by growth in both the new sale and resale segments. In particular, the RCR saw several attractive project launches last year which contributed to the strong activity, aided also by attractive pricing (Exhibits 4 and 5). In comparison, OCR saw new sale transaction volume fall 6.6% y-o-y.
- As at Q4 2016, the total stock of 21,002 unsold units against the 2016 transaction volume of 7,972 suggests 2.6 years of unsold stock assuming the transaction volume stays the same. But there is wide disparity across the regions. In the CCR, this ratio is about 8.3, given the low transaction volume of 682 units in 2016. This ratio is lowest in OCR, at 1.7 (Exhibit 6). But overall, it is significant to note that the unsold private residential units stand at an all-time low. Any unexpected pick-up in activity could quickly create another under-supply situation in the primary market.

### About 1 in 4 buyers in 2016 were foreigners

- This statistic has not changed significantly pre- and post-cooling measures, with approximately 1 in 4, or 24.7% of transaction volume being foreigners (PR and non-PR) (Exhibit 7).

### Exciting upcoming launches in H1 2017 expected to provide some support to transaction volume, while resale volume should continue to improve

- 2-bedroom and 3-bedroom types expected to remain the top sellers.
- However, in locations with good investment potential, 1-bedroom format types will be highly sought after.

### Completion pipeline expected to peak in 2017, putting further pressure on rentals after a lacklustre 2016

- Based on Knight Frank's analysis of a basket of private residential properties, rental yields fell in the high-end and mass-market segments, with average rents continuing their decline at a faster rate relative to the respective average prices (Exhibit 8).
- With close to 15,000 units slated for completion in 2017 - before the pipeline tapers, the leasing market is likely to experience further weakness.

### Market Outlook

- New sales volume in H1 2017 is expected to be boosted by the upcoming launches of several highly-anticipated projects such as Clement Canopy, Grandeur Park Residences and Park Place Residences at PLQ.
- **Total new sales volume for 2017 is projected to range from 8,000 to 9,000 units, amid gradually returning interest from locals and foreign buyers.**
- **Knight Frank projects that island-wide private home prices will decline by 1.5% to 3.0% y-o-y in Q4 2017.**
- According to Q4 2016 URA Quarterly Statistics, the OCR is expected to contribute more than half (55.0%) of the upcoming supply by end-2017. As such, mass-market homes are expected to see the greatest price softening among all segments (Exhibit 9).

EXHIBIT 1

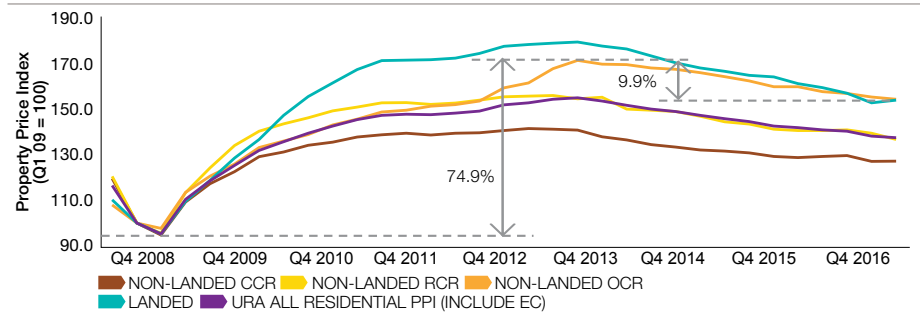
**Outstanding housing and bridging loans, and financial institutions average loan-to-value ratio**



Source: MAS, Knight Frank Research

EXHIBIT 2

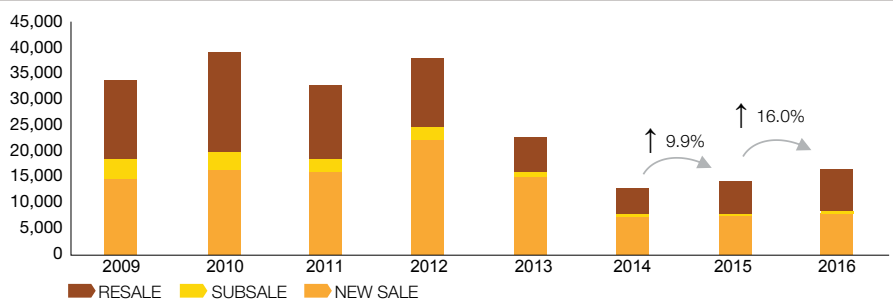
**URA Private Residential Price Indices**



Source: REALIS, Knight Frank Research

EXHIBIT 3

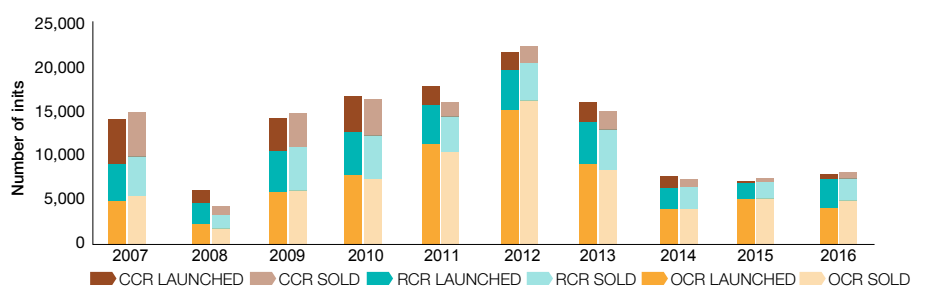
**Private residential market transaction volume (New Sale, Resale, Sub sale)**



Source: REALIS, Knight Frank Research

EXHIBIT 4

**Developers' Launches and New Sales by Market Segment**



Source: REALIS, Knight Frank Research

EXHIBIT 5

**Top 5 Private Residential Projects and Top 5 Executive Condominium Projects, by New Sale Volume in 2016**

S/n.	Project Name	Market Segment	Total No. of Units in Project	*No. of New Units Sold in 2016	*Average Price (\$ psf) in 2016
<b>Private Residential Projects</b>					
1	Lake Grande	OCR	710	552	\$1,354
2	Forest Woods	OCR	519	380	\$1,401
3	The Alps Residences	OCR	626	354	\$1,065
4	Gem Residences	RCR	578	305	\$1,425
5	The Poiz Residences	RCR	731	276	\$1,393
<b>Executive Condominiums</b>					
1	Wandervale	OCR	534	499	\$760
2	Treasure Crest	OCR	504	496	\$745
3	Sol Acres	OCR	1327	385	\$790
4	The Terrace	OCR	747	356	\$790
5	The Visionaire	OCR	632	298	\$808

Source: \*REALIS (based on data as at 17 February 2017), URA, Knight Frank Research

EXHIBIT 6

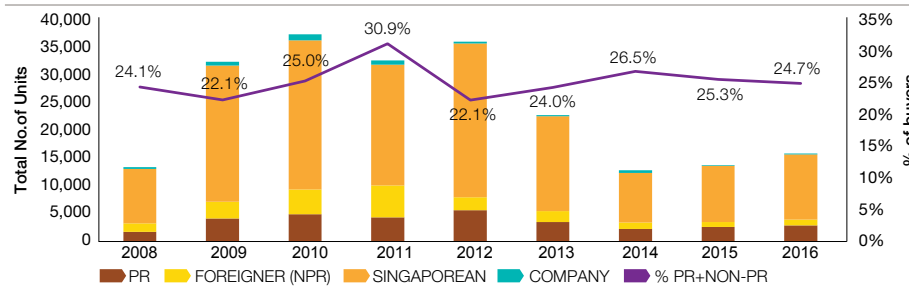
**Unsold Stock and 2016 New Sale Transaction Volume**

	CCR	RCR	OCR	Total
Unsold Stock as at Q4 2016	5,694	6,950	8,358	21,002
New Sale Transaction Volume in 2016	682	2,483	4,807	7,972
Unsold Stock as Multiplier of New Sale Transaction Volume	8.3	2.8	1.7	2.6

Source: REALIS, Knight Frank Research

EXHIBIT 7

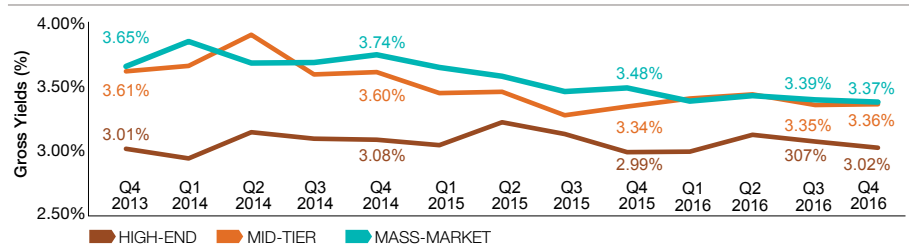
**Proportion of Homebuyers by residential status**



Source: REALIS, Knight Frank Research

EXHIBIT 8

**Gross Yields of Private Residential Property, by Market Segment**



Source: REALIS (based on data as at 17 February 2017), URA, Knight Frank Research

EXHIBIT 9

**Outlook for Private Home Prices**

Market Segment	Actual (as at Q4 2016) q-o-q %	Actual (as at Q4 2016) y-o-y %	Projected % Change in Prices for 12 months ending Q4 2017
Island-wide	-0.5%	-3.1%	-3.0% to -1.5%
Non-Landed CCR	+0.1%	-1.2%	-2.0% to +1.0%
Non-Landed RCR	-2.0%	-2.8%	-2.0% to -1.0%
Non-Landed OCR	-0.6%	-3.4%	-4.0% to -3.0%
Landed Homes	-0.8%	-4.5%	-2.0% to +1.0%

Source: URA, Knight Frank Research

For further information about the company, please visit [www.knightfrank.com.sg](http://www.knightfrank.com.sg)

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