Emerging Value For Prime Residential Property

"With declined prices and gradual reduction in unsold inventory of luxury homes, the search for value is set to gather pace for prime properties."

ALICE TAN
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A period of weakness for luxury homes segment

It has been almost two years of doldrums for Singapore's private residential market in particular for the luxury homes segment since 2012 – a contrasting picture from the two initial buoyant years of 2009-2011 when record-low interest rates and increased foreign investment propelled luxury property demand. Sales performance of high-end private homes in the Core Central Region (CCR) has been much battered by the slew of property cooling measures in particular the 15% Additional Buyer's Stamp Duty (on top of the 3% stamp duty) imposed on foreign home buyers – who formed a notable proportion of around 30% in the luxury home buyers' market before the imposition of the ABSD. This led to the transaction volume in the CCR having fallen by almost half from 3,702 units in 2013 to 1,955 units in 2014, and therefore affected prices. The URA Non-Landed Private Residential Price Index for CCR has posted seven consecutive quarters of price declines and an overall decline of 6.6% from Q1 2013 to Q4 2014. While the regular news of falling prices may not be music to the ears for property sellers and investors, buyers who have been planning to acquire a luxury property can now explore a window of opportunity when prices are now lower.

Despite the prevailing context of weak sentiment besetting the private residential market, there still exists an inherent pool of prospective buyers who are currently waiting at the sidelines for the best available opportunity to invest in a luxury home. As both prospective buyers and sellers mull over their options to buy, sell or hold their property, a key question that is increasingly being floated in the marketplace at the start of 2015 is – Is it the right time to look at high-end residential market once again?

An identification of some key market trends combined with an in-depth price analysis of private home transactions in prime districts would offer further insights on the potential value proposition of the high-end private home segment.

Emerging value in prime districts

Value of a luxury home emerges as prices fall and the exclusivity of the location remains. Focusing on prime residential areas in the CCR, i.e. Districts 1, 2, 9, 10 and 11, Knight Frank analysed the transacted prices of non-landed residential properties according to the completion status and the age of the completed properties (see Exhibit 1).

Generally, most micro-segments posted annual price declines for the last quarter of 2014, with uncompleted properties in District 2 posting the steepest fall of 25.6% y-o-y to an average price of $2,167 psf in Q4 2014. Completed resale properties of between 4 to 7 years old in District 9 registered a decline of 22.4% to reach $1,983 psf for the same quarter. Resale properties in District 1 similarly saw downward price pressures, with properties of 4 to 7 years old transacted at an average price of $2,026 psf in Q4 2014, almost 20% lower compared to a year ago.

While prices of resale properties generally trend lower as the age of the property increases, the scarcity of certain prized homes in more sought-after locations would provide reasonable support to prices despite the overall weakness in private residential demand. Such locations include Ardmore, Nassim and Tomlinson areas. In another instance, resale properties (of about 8 to 14 years old) in District 10 are observed to show higher price resilience, as evidenced from the higher y-o-y price growth of 5.4% in Q4 2014 compared to the lower price increases for newer properties in the same district. While uncompleted high-end homes in Districts 1, 9 and 10 continued to command high prices, emerging value is increasingly evident for resale older properties in District 11 with average prices hovering between $1,500 and $1,600 psf in Q4 2014.

Attractive price offers for a good asset class

Plagued by continued price falls and prolonged weak sales, some developers have offered their properties at more attractive prices since early 2014 as the 7-year grace period under the Qualifying Certificate regulations nears expiry for an increasing number of luxury residential properties.

Buyers propped up sales in the CCR by 91% in July 2014 after developers moderated prices by as much as 20%.

For example, The Vermont on Cairnhill sold its remaining 37 units after adjusting prices by around 12% from $2,400 psf to $2,113 psf. Hallmark Residences, off Bukit Timah Road, sold 63% of its 75 units after lowering its selling prices by 14% to 20% from its initial launch price of $2,200 psf.

Gradual reduction in unsold inventory and future stock in CCR

Despite the overall price declines across all regions, it is evident that the unsold stock in the high-end market segment fell by 5.2% quarter-on-quarter (q-o-q) in 4Q 2014, marking its third consecutive quarter of decline. On a year-on-year basis (y-o-y), unsold stock decreased by 11.0% in 4Q 2014 (See Exhibit 2). This is observed to be a notable reduction compared to the 3.7% y-o-y decline for unsold stock of city-fringe homes in the Rest of Central Region, and the 13.9% y-o-y decrease in unsold inventory of mass market homes in Outside Central Region. The faster reduction in the unsold inventory of high-end homes for the past few quarters in 2014 suggests a recovery in buying interest for this segment.

While this year's impending supply of 3,292 private residential units in the CCR will continue to put downward pressure on prices at least for the first half of 2015 amid

EXHIBIT 1

Average transacted prices of uncompleted and completed non-landed residential properties

Completion Status/District	Average Price per sq ft (S$) *					Year-on-Year change (%)***
	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	
Uncompleted properties (new sale and sub-sale)						
District 1	$1,993	$2,085	$2,117	$2,027	$2,246	12.7%
District 2	$2,913	$2,581	$2,445	$2,426	$2,167	-25.6%
District 9	$2,252	$2,183	$2,178	$2,378	$2,321	3.1%
District 10	$2,025	$1,808	$1,922	$2,044	$2,045	1.0%
District 11	$1,876	$1,949	$2,049	$1,593	$1,746	-6.9%
Completed properties (new sale, sub-sale and resale)						
Up to 3 Years						
District 1	$2,721	$2,754	-	-	$2,699	-0.8%
District 2	-	-	-	$2,143	$2,014	-
District 9	$2,553	$1,840	$2,469	$2,337	$2,387	-6.5%
District 10	$1,820	$2,426	$2,119	$2,398	$1,854	1.9%
District 11	$1,734	$1,722	$1,745	$1,850	$1,848	6.6%
4 to 7 Years						
District 1	$2,531	$2,531	$2,230	$2,181	$2,026	-19.9%
District 2	-	$1,656	-	-	-	-
District 9	$2,557	$2,097	$2,428	$2,109	$1,983	-22.4%
District 10	$2,372	$2,239	$1,590	$1,575	$2,374	0.1%
District 11	$1,698	$1,860	$1,639	$1,710	$1,609	-5.2%
8 to 14 Years **						
District 2	$1,944	-	$1,672	-	$1,845	-5.1%
District 9	$1,794	$1,940	$1,812	$1,777	$1,745	-2.7%
District 10	$1,873	$1,879	$1,569	$1,908	$1,974	5.4%
District 11	$1,581	$1,472	$1,491	$1,490	$1,495	-5.4%

Source: REALIS (analysis based on caveats lodged as at 25 February 2015), Knight Frank Research

* Price analysis excludes transactions with unknown completion date.
** No transactions in District 1.
*** Actual percentage changes may vary due to rounding.

prevailing property cooling measures (see Exhibit 3), the gradual decline in the upcoming supply of high-end homes would ease the supply glut and vacancy levels beyond 2016.

Furthermore, the cutbacks in available supply of private homes under the Government Land Sales programme will reduce the availability of high-end residential property within the next three years, raising the limited supply situation and supporting the attractiveness of high-end homes in the medium term.

Conducive fundamentals support appeal for luxury homes

The lower property prices have now presented greater value for high-end residential properties, which offers reasonably stable rental income in the short term as high-income tenants keep their preference for prime residential properties. Invariably, luxury properties in the CCR remain as good asset class for investors because of their location and prestige that accompanies them, offering added capital downside protection as well as capital gain potential in the long term.

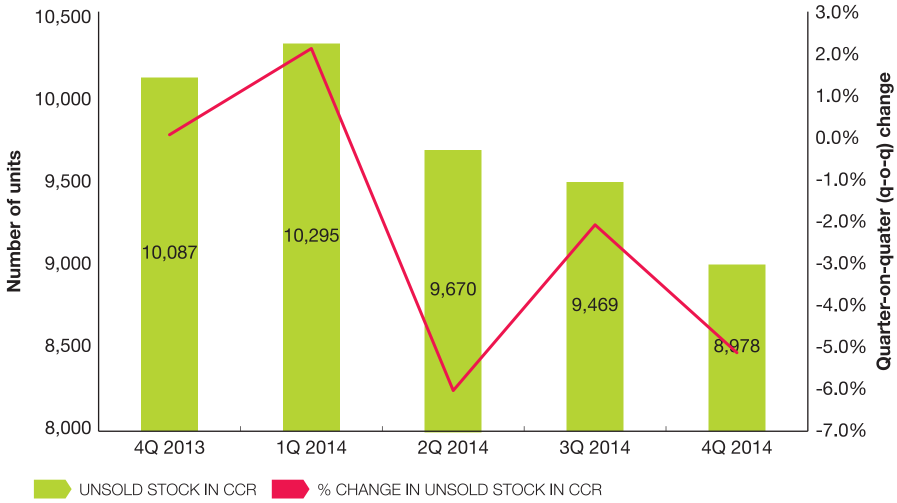
Notwithstanding the existing muted sentiment and headwinds that property investors face, Singapore still holds considerable appeal as a favoured market in Asia for real estate investment. The strong accolades of Singapore have largely supported the sound market fundamentals for Singapore real estate – a healthy economy, conducive business environment, low unemployment rate, progressive city planning and a high standard of living.

Anticipating the future trends of limited supply, investors could return to the high-end homes market as early as the second half of 2015, a period where overall private home prices could have declined by about 5% to 6% to 'acceptable levels' and any potential adjustments to property cooling measures could be on the cards in a bid to restore demand for Singapore residential property.

Extracts of this Research House View were published in The Business Times Property Supplement article "Emerging Value for Prime Residential Property" dated 19 March 2015.

EXHIBIT 2

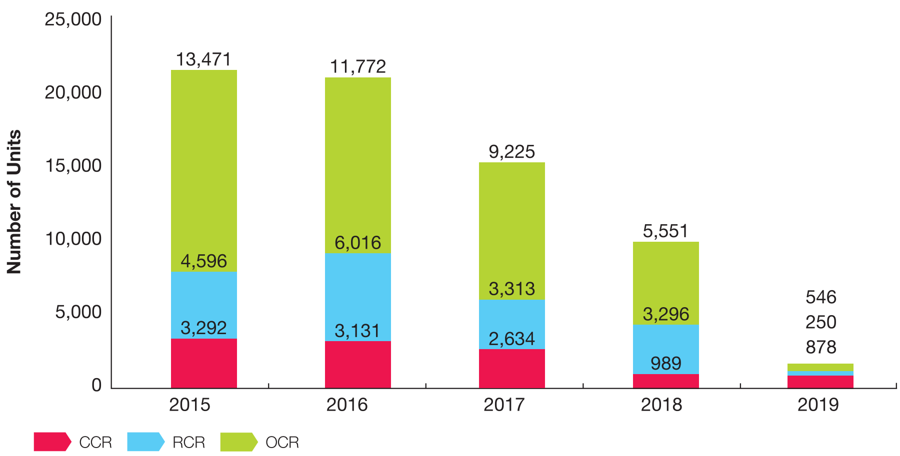
Unsold Stock of Private Residential Homes in Core Central Region



Source: REALIS, Knight Frank Research

EXHIBIT 3

Upcoming Supply* of Private Residential Units (as at 4Q 2014), by market segment



Source: URA, Knight Frank Research

* The above estimates for upcoming supply only include figures for new development and redevelopment projects with provisional and written permission.

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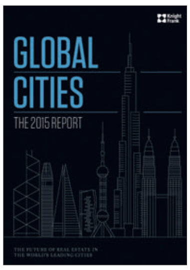

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