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Hike in Buyer's Stamp Duty could spur developers to set practicable prices to manage price expectations of homebuyers

Higher Buyer's Stamp Duty (BSD) rate for residential properties beyond S\$1.0 million

- With effect from 20 February 2018, all buyers of residential properties of beyond S\$1.0 million are subjected to higher buyer's stamp duty (BSD). Under the new BSD rate structure, buyers will need to pay 1% on the first S\$180,000, 2% on the next S\$180,000, 3% on the next S\$640,000 and 4% on the proportion of the purchase price or market value of the residential property in excess of S\$1.0 million (see Exhibit 1). Before this, buyers pay a BSD of 1% on the first S\$180,000, 2% on the next S\$180,000 and 3% for the balance of the proportion of the purchase price or market value of the residential property.
- The BSD rate structure prior to 20 February 2018 will still apply if the Option to Purchase has been granted on or before 19 February 2018, and is exercised on or before 12 March 2018 or upon the expiry of the Option to Purchase, whichever is the earlier. Buyers may apply to the Inland Revenue Authority of Singapore (IRAS) for remission to apply the BSD rates prior to 20 February 2018.
- There is no change in the BSD rates for non-residential properties.

Exhibit 1: Changes in BSD rate structure on residential properties

Purchase price or market value of residential property	BSD rates before 20 February 2018	BSD rates on and after 20 February 2018
First S\$180,000	1%	1%
Next S\$180,000	2%	2%
Next S\$640,000	3%	3%
Remaining Amount	3%	4%

Source: IRAS (as at 19 February 2018)

- The new BSD rate structure can be simplified to the following formula:

a) For property value S\$1 million or less	$\text{BSD} = \text{Purchase Price} \times 3\% - \$5,400$
b) For property value more than S\$1 million	$\text{BSD} = \text{Purchase Price} \times 4\% - \$15,400$

Source: Knight Frank Research

HOUSE VIEW

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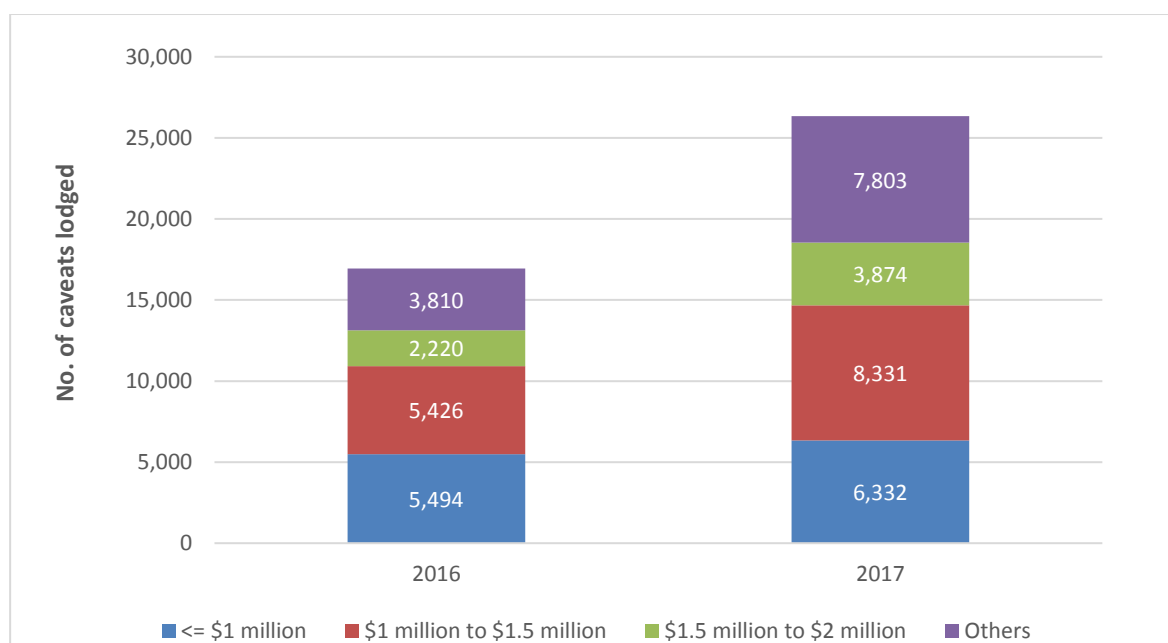
Enhanced Proximity Housing Grant (PHG) by HDB to encourage family members to live closer

- Families buying HDB resale flats to live with their parents or married children will receive a PHG of S\$30,000, up from S\$20,000 previously.
- Singles who are buying resale flats to live with their parents will also receive a PHG of \$15,000, up from the S\$10,000 previously.
- While there is no change for the PHG for families or singles buying resale flats near their parents or married children, the proximity condition has been increased from a 2km radius to a 4km radius.

Increasing number of caveats lodged for residential properties beyond S\$1.0 million price tag

- The new BSD rate structure has a greater impact on higher-priced properties. With overall private home prices increasing by 1.54% in the second half of 2017 and coupled with rising development costs, the price brackets of private homes could have shifted upwards over the past year.
- Analysing the demand for private residential properties by price brackets, the number of caveats lodged for residential properties beyond S\$1.0 million rose to 20,008 units in 2017, higher than the 11,456 units registered in 2016. Correspondingly, the proportion of caveats lodged for residential properties beyond S\$1.0 million was also higher at 76% in 2017, compared to 67.6% registered in 2016. Residential properties priced between S\$1.0 million and S\$1.5 million accounted for the largest proportion of sales caveats lodged for both years.

Exhibit 2: Higher number of caveats lodged for private residential properties beyond \$1.0 million in 2017



Source: REALIS as at 20 February 2018, Knight Frank Research

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Marginal impact for residential properties priced within the sweet spot price quantum of between S\$1.0 million and S\$1.8 million

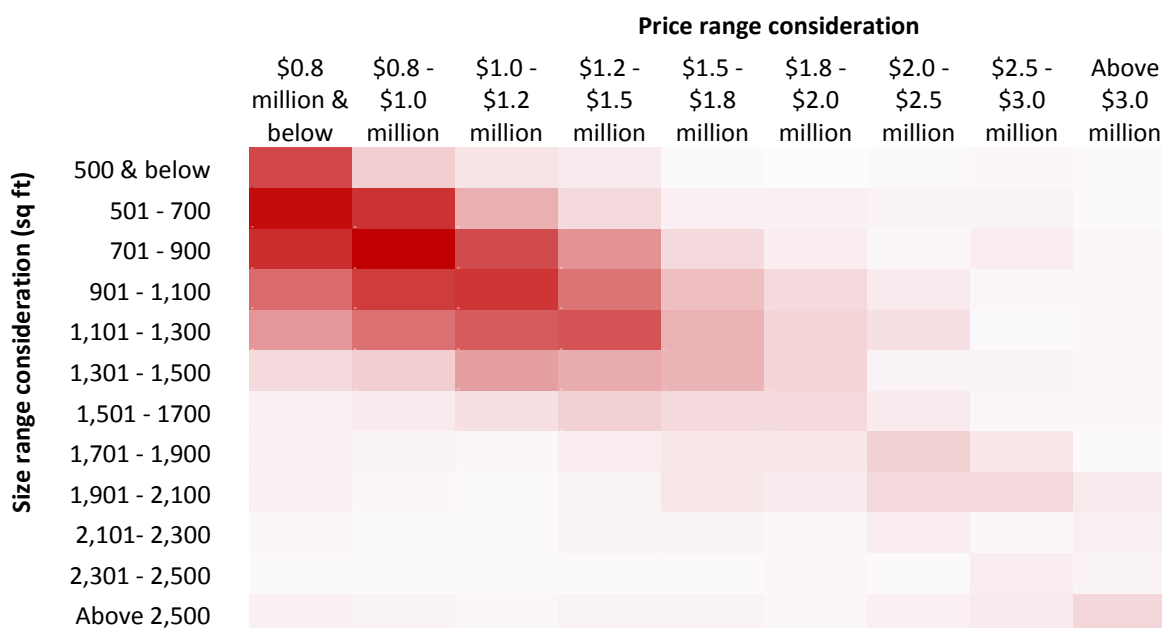
- The impact of the revised BSD rates may be marginal on home buyers since the stamp duty cost burden for properties beyond S\$1.0 million to \$2.0 million is viewed to be not overly excessive. For instance, a S\$2.0 million home purchase will translate to an additional S\$10,000 BSD quantum (see Exhibit 3).
- As such, private homes in the mass market segment are likely to be less affected by the new rate structure as the sweet spot price quantum of between S\$1.0 and S\$1.8 million for most unit types, according to our Homebuyers' Sentiment Survey, will still translate to a manageable BSD payable for most buyers in higher-income groups (see Exhibit 4). The HDB resale market is unlikely to be significantly impacted by the revised BSD rate structure since majority of the transactions are still below the S\$1.0 million price quantum.

Exhibit 3: Impact of the revised BSD on residential properties

BSD payable	\$1.5 million	\$1.8 million	\$2.0 million
Before 20 February 2018	\$39,600	\$48,600	\$54,600
On and after 20 February 2018	\$44,600	\$56,600	\$64,600
Difference	\$5,000	\$8,000	\$10,000

Source: Knight Frank Research

Exhibit 4: Homebuyers' preference according to property size and price quantum



Source: Homebuyers' Sentiment Survey 2018, Knight Frank Research

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Crucial for developers to set practicable prices to manage the price expectations of homebuyers as they balance current stamp duty costs and prospects of future capital appreciation

- Overall, non-landed private residential property prices fell by about 9.7% between Q3 2013 and Q3 2017, before a slight uptick of 1.1% y-o-y in Q4 2017. The new BSD rate structure could temper the revived exuberance for residential property, albeit for the short term as potential buyers recalibrate their budgets due to the higher BSD payable for properties beyond S\$1.0 million. Yet considering the significant drop in property prices in the past four years, the marginal hike in the BSD should not dissuade buyers from entering the market. Rather, such buyers are likely to trim their price offers to factor the increase in BSD payable.
- Secondly, displaced owners from successful collective sales transactions will continue to sustain the residential market. With such owners needing to find a new home, it is possible that a considerable proportion of the collective sales proceeds will be invested back to the property market.
- Meanwhile, buyers of homes at S\$1.0 million and below are not affected by this new structure and interest for lower-priced properties is expected to increase as buyers take advantage of the unaffected BSD rate. As such, we envisage the transaction volume of residential properties of S\$1.0 million and below price levels to move higher in the next 6 to 9 months of 2018. Similarly, transaction volume of private homes with price tags of between S\$1 million to S\$1.8 million is slated to increase for 2018.
- Going forward, setting practicable prices for private homes would be a key step for both developers and property sellers, to manage the price expectations of homebuyers as they balance the additional stamp duty costs against the prospects of future capital appreciation. Private homes in the RCR and CCR segments with higher price tags would be more sensitive to the new BSD rate structure. Target homebuyers for mid-tier and high-end homes would consider other potential upside factors for the future value of the property to outweigh additional BSD cost. Effective and creative pricing would therefore be a key objective for developers who are planning to launch their residential projects in the next 10 months of 2018.

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