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High-end Condominiums

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1st November 2016

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Synopsis

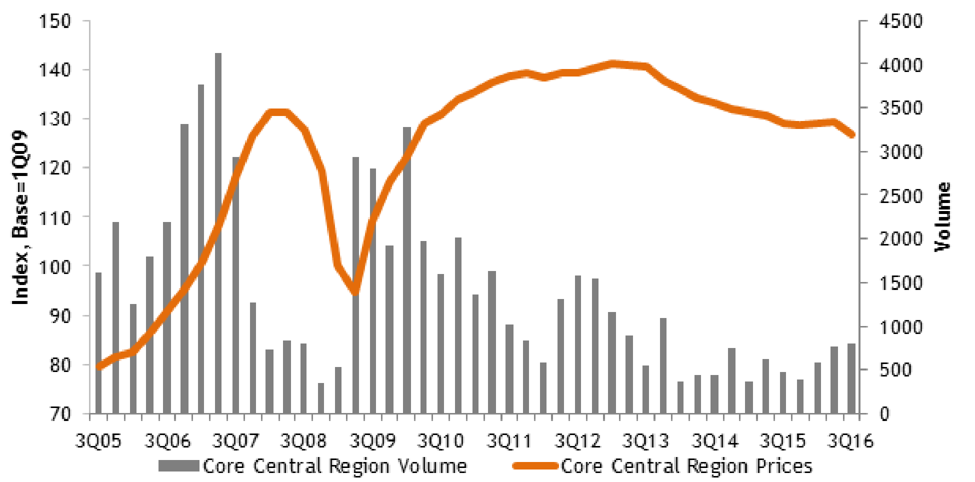
- Interest is building in the high-end market
- Prices showing signs of stabilisation and high-end market may take the lead
- Attractive bargains can be found
- Deferred payment schemes can lead to attractive returns
- Headwinds to persist but there is substantial upside potential

Interest is building in the high-end market

Despite cooling measures remaining unchanged, interest has been building in the high-end condo market. In this article, the definition of high-end condos would be condos located in the Core Central Region (CCR). The CCR consists of postal district 9 to 11 and the downtown core planning area. These are areas such as Orchard, Newton, River Valley and the Central Business District.

High-end sales volumes have increased in the first 3 quarters of 2016 compared to the same corresponding period in 2015, with rising demand due to the introduction of deferred payment schemes by several developers. Based on data from the Urban Redevelopment Authority (URA), a total of 2,145 private residential units (landed and non-landed) were sold in the CCR from Jan to Sep 2016, marking a 45.8% increase, compared to 1,471 CCR units sold in the same period in 2015. With prices still below their peaks and sentiment starting to improve, is now the best chance to enter into the high-end property market?

Exhibit 1: Core Central Region Prices and Volumes



Source: URA, OrangeTee Research

Prices showing signs of stabilisation

The property market has been on a soft landing since the implementation of the Total Debt Servicing framework (TDSR) in June 2013. Since 3Q13 to date, overall prices have come down by 10.8%, weighed down by cooling measures and worries about high volumes of incoming completions and the weak economy. By submarket, CCR non-landed prices have cumulatively fallen by 9.7% from 3Q2013 to 3Q2016, whereas prices in the Rest of Central Region (RCR) and the Outside Central region (OCR) fell by 9.7% and 9.4% respectively.

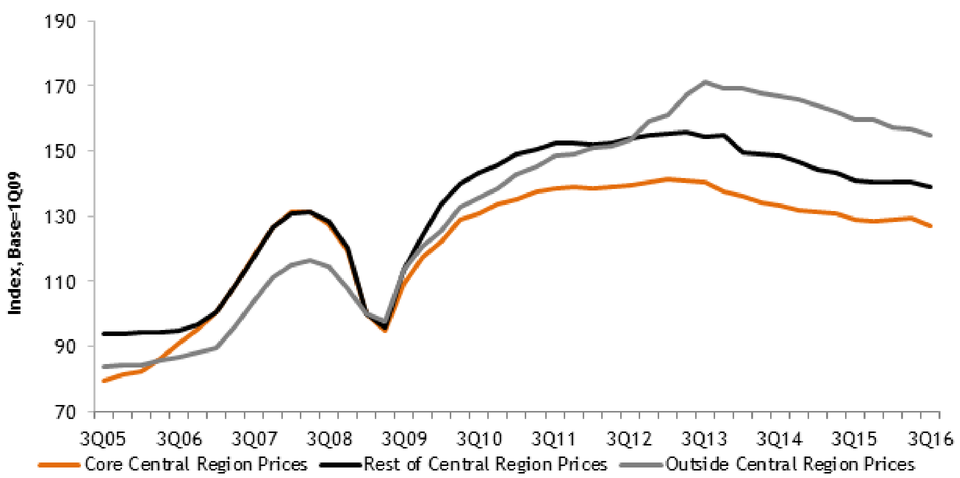
However, prices have started to show signs of stabilisation, with CCR prices falling only 1.3% in the first 9 months of 2016. RCR prices edged lower as well, falling only 0.8% in the same period. OCR prices fell the most, dropping 2.8%. To put this in context, CCR, RCR and OCR prices fell 2.2%, 3.9% and 3.7% in 2015, during the same corresponding period. The pace of price decline has slowed and is indicative of improving market sentiments and a stabilization of prices.

High-end market may stabilise earlier

The high end market is poised to stabilise earlier than the other submarkets, as CCR prices have not run up as much compared to the other submarkets during the last property boom. During the property boom of 2009-2013, CCR prices only rose 48%, whereas RCR and OCR prices rose 61% and 75% respectively over the same period. The implementation of the Additional Buyer Stamp Duty (ABSD) and loan curbs hit the high end market harder compared to the other submarkets due to their higher prices and higher proportion of foreign demand in the CCR.

Notably, in the preceding property boom of 2006 to 2008, with the absence of punitive cooling measures such as ABSD, it was CCR prices that led the rally, rising up 61%, compared to RCR and OCR which rose only 40% and 38% respectively.

Exhibit 2: Private residential non-landed prices by region



Source: URA, OrangeTee Research

Exhibit 3: Cumulative price growth during property booms and recessions

Time Period	CCR	RCR	OCR
Property Boom (4Q05 to 2Q08)	61%	40%	38%
Property Recession (2Q08 to 2Q09)	-28%	-27%	-16%
Property Boom (2Q09 to 3Q13)	48%	61%	75%
Property Recession (3Q13 to 3Q16)	-10%	-10%	-9%

Source: URA, OrangeTee Research

Attractive bargains can be found

Assuming that prices will return to their historical highs, there is attractive value proposition in the high-end condo market. As the property market continues to remain lacklustre, some owners are letting go of their units at significant discounts below their previous purchase price. There can be various reasons for this. Some might have exhausted their holding power in the midst of the weak rental market, or others might have sold to free up liquidity and pursue other opportunities. Given current depressed prices, there is a good margin of safety for buyers who are considering entering the market, barring sudden deterioration in the global economy.

Exhibit 4: Top 10 losses for CCR transactions for YTD 2016

Project Name	Address	Tenure	Sale Date	Price ($ psf)	Previous Sale Date	Previous Price ($psf)	% Price Difference
ROBERTSON BLUE	88 Robertson Quay #02-XX	Freehold	Mar-16	$1,257	Aug-12	$1,941	-35%
THE RITZ-CARLTON RESIDENCES SINGAPORE CAIRNHILL	65 Cairnhill Road #18-XX	Freehold	Mar-16	$2,508	Jun-13	$3,815	-34%
111 EMERALD HILL	111 Emerald Hill Road #06-XX	Freehold	Sep-16	$1,863	Oct-12	$2,528	-29%
THE ORCHARD RESIDENCES	238 Orchard Boulevard #40-XX	99 Yrs leasehold	Apr-16	$3,043	Jan-12	$4,057	-25%
OUE TWIN PEAKS	33 Leonie Hill Road #18-XX	99 Yrs leasehold	Aug-16	$2,182	Sep-12	$2,806	-22%
THE SAIL @ MARINA BAY	2 Marina Boulevard #16-XX	99 Yrs leasehold	Aug-16	$1,498	Dec-14	$1,909	-22%
ICON	10 Gopeng Street #13-XX	99 Yrs leasehold	Sep-16	$1,537	Mar-12	$1,950	-21%
LATITUDE	35 Jalan Mutiara #09-XX	Freehold	Apr-16	$1,737	Feb-12	$2,200	-21%
THE SAIL @ MARINA BAY	6 Marina Boulevard #06-XX	99 Yrs Leasehold	Mar-16	$1,626	Oct-12	$1,999	-19%
VISIONCREST	37 Oxley Rise #08-XX	Freehold	Sep-16	$1,896	Sep-13	$2,295	-17%

Source: URA, OrangeTee Research
*Based on caveats from 2010 to YTD2016 as at 25th Aug 2016

Weak rents to persist till 2017

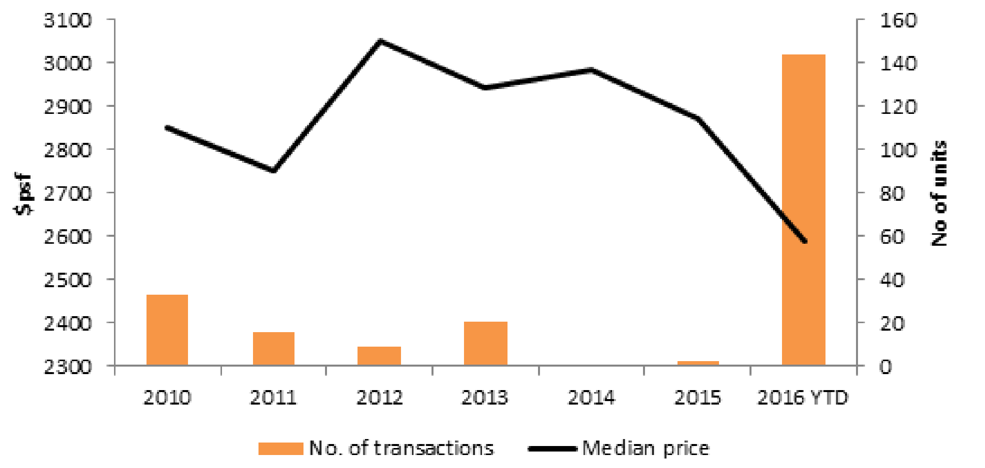
On the back of increasing supply and muted demand, rents have been on a downtrend. Overall CCR rents have come down by 10.6% since 3Q2013. RCR and OCR rents have moderated by 6.9% and 13.0% respectively in the same time period.

The weak rental market may continue to persist till 2017 given the substantial volumes of expected completions and the weak economic outlook. The market is expecting another 13,284 private residential units to be completed in 2017; this is 12% higher than the 10-year average of 11,890 units from 2006 to 2015. Though the majority of completions are located in the OCR, the trimming of housing budgets for expats will continue to weigh on the CCR rental market. Buyers who are contemplating entering the high-end market should ensure that they have the holding power to wait out the weak rental market.

Deferred payment schemes can lead to attractive returns

Deferred payment schemes (DPS) have been catching on in the market, since the recent success of OUE's Twin Peaks, which employed the scheme in April this year. Since rolling out the scheme, sales at OUE Twin Peaks have picked up, and all except a few units have been sold out in one of the 231-unit twin towers. A DPS basically allows buyers to defer the bulk of their mortgage payments. DPS schemes can vary depending on the terms and conditions set by developers. For example, the length of the deferment periods can differ among schemes or some do not allow buyers to rent out their units.

Exhibit 5: OUE Twin Peaks median prices and volumes



Source: URA, OrangeTee Research
*Based on caveats from 2010 to YTD 2016 as at 25th Aug 2016

The Monetary Authority of Singapore has recently announced that DPS should be treated as a benefit for the buyer and will be deducted from the purchase price when calculating the maximum loan amount. As such, the loan quantum would be lower, and buyers who opt for DPS may have to fork out more cash.

In the current market, where financing is tight due to loan curbs such as TDSR, a DPS allows buyers more flexibility and at the same time affords buyers some interest cost savings. For investors, delayed mortgage payments would alleviate pressure from the weak rental market. They would also be able to undercut other landlords, and offer more attractive rental rates due to lower holding costs.

However, buyers who opt for the DPS may be exposed to more risk. This is especially for buyers who have bought a unit under the DPS, but have not yet applied for a loan. Interest rate movements and the future value of the property would affect the loan amount. In a worst-case scenario, should interest rates rise and the value of the property fall, buyers may have to fork out more cash than expected, due to the lower loan amount.

Headwinds persist but there is substantial upside potential

As prices begin to show signs of stabilisation and volumes pick up, should investors now plunge into the high-end market? Over the short term, numerous headwinds persist. These include cooling measures, TDSR, a weak rental market, and a poor economic outlook. As such, one should not expect a robust recovery in prices. However, fundamentals remain unchanged, and Singapore is still an attractive locale for local and foreign investors alike. Given the availability of the DPS, attractive developer discounts and the gap between current and historical prices, the potential upside can be substantial. Buyers with deep pockets who are able to hold over the long term should consider looking into this submarket now.