8 December 2014

# Singapore Property Sector

## Headwinds continue into 2015 for residential sector

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### SINGAPORE | PROPERTY | SECTOR UPDATE

- Private residential price index slid for 4th consecutive quarter in 3Q14, -0.7% q-q.
- Drop had been gradual, only -3.9% from peak in 3Q13 vs a rise of 60% since 2009
- Cooling measures are likely to stay in the near term
- Expect headwinds in the residential sector with the stringent financing environment and upcoming influx of residential completions in next 2 years

**Property Sector**

| Company | Rating | Price (S$) | TP (S$) | Mkt. Cap. (S$mn) |
|---|---|---|---|---|
| Amara | Buy | 0.505 | 0.70 | 291 |
| GLP | Accumulate | 2.63 | 3.03 | 12728 |
| Ho Bee | Accumulate | 1.95 | 2.33 | 1302 |
| OUE | Accumulate | 2.03 | 2.52 | 1847 |
| Sinarmas Land | Buy | 0.60 | 0.96 | 1825 |

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### Sector Overview

The Property Sector in our Singapore coverage consists of Property developers/holding companies, engaged in businesses of property development, trading, ownership/management and services.

### What is the news?

The 3Q14 residential market remains weak as private residential prices and sales activities continue to soften by cooling measures and global macro uncertainties. Accordingly to URA, the 3Q14 private residential price index slid for the 4th consecutive quarter with a drop of 0.7% q-q, bringing the price 3.9% lower than the peak in 3Q13. The pace of decline however slowed for this quarter. The transacted volume for overall private residential market fell to 2955 units, the 2nd lowest quarter since 2009. This is mainly attributed to subdued demand resulted from the stringent financing regulations and the Hungry Ghost Festival which traditionally had deterred home buyers. Furthermore, developers had held back on new launches and focused on moving old inventory from previous launches. This led to a plunge in new launched units to 1294 and primary sales to 1531 units, a steep decline of 54% and 43% q-q respectively. 3Q14 recorded the lowest number of new units launched and sold since 2009. Following the slowdown of the residential housing market, the government scaled back the land supply for residential developments on the 1H15 Confirmed List of the Government Land Sales (GLS) program with six residential sites for about 3020 houses. This is about 23% lower than the 3900 houses on 2H14 Confirmed List.

### Outlook for the residential sector

In summary, we feel that the residential market outlook remains challenging with cooling measures likely to stay in the near term. Since 2009, the property price index rose by 60%. However, the prices have been resilient with a gradual fall of 4% since peak in 2Q13. Government will likely maintain the stringent financing environment to temper the demand of houses and weigh down the home prices into 2015. Developers will have to price their projects more competitively and double up the marketing efforts to realize sales considering the large supply of houses to hit the market in coming 2 years. The residential price is still correcting and should only see a price reversal in 2016 onwards.

### Investment Action

We prefer developers with less residential exposure and have strong organic growth through acquisitions or development projects. We like (1) Amara Holdings Ltd for the future earnings growth with the completions of Amara Bangkok and JV project CityLife@Tampines in FY15 (BUY Rating, TP: $0.70); (2) Sinarmas Land, an Indonesian property player with a huge land bank, superior profit margins and low gearing ratio of 2% (BUY Rating, TP: $0.96); (3) GLP for its market leader position and the favourable demand supply dynamics for the industrial property market in China and Japan (Accumulate rating, TP: $3.03).



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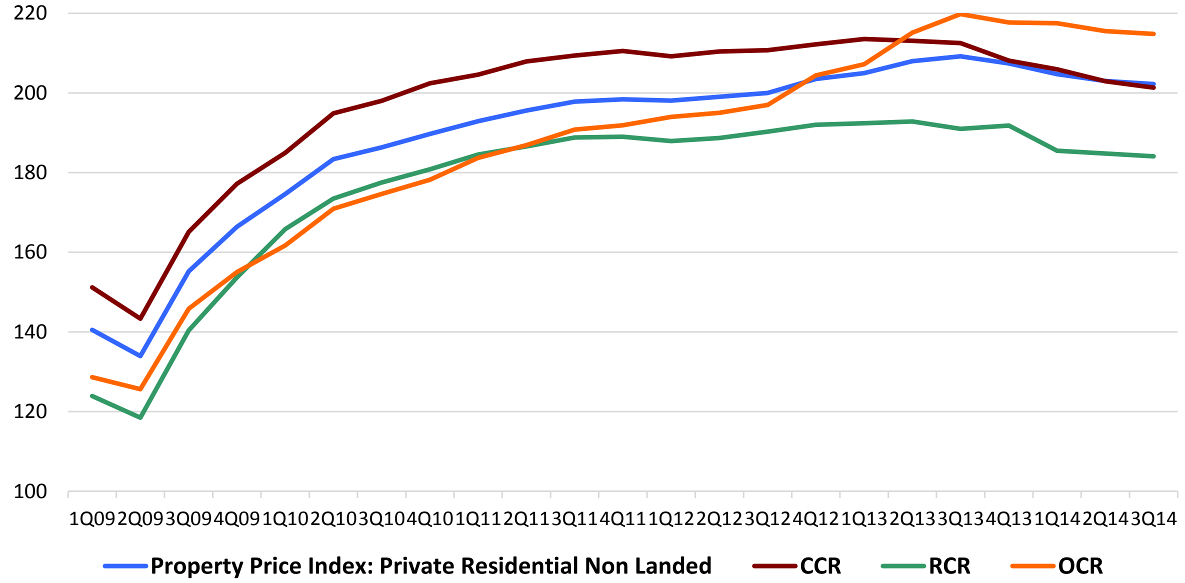
### Private Residential Index still declining, but at a slower pace

The 3Q14 residential market remains weak as private residential prices and sales activities continue to soften by TSDR cooling measure policy and global macro uncertainties. Accordingly to URA, the 3Q14 private residential price index slid for the 4th consecutive quarter with a drop of 0.7% q-q, bringing the price 3.9% lower than the peak in 3Q13. The pace of decline however slowed for this quarter. We see the greatest fall of -0.8% q-q in Core Central Region (CCR), followed by -0.4%q-q in Rest of Central Region (RCR) and -0.3% in the Outside of Central Region (OCR). Median Price for new non-landed houses was lower at $1.02mn with better take-up rate for smaller units. Median size shrunk from 829 sqf in 2013 to 753 sqf in 9M14.

The transacted volume for overall private residential market fell to 2955 units, the 2nd lowest quarter since 2009. This is mainly attributed to subdued demand resulted from the stringent financing regulations and the Hungry Ghost Festival which traditionally had dissuaded home buyers. Furthermore, developers had held back on new launches and focused on moving old inventory from previous launches. This led to a plunge in new launched units to 1294 and primary sales to 1531 units, a steep decline of 54% and 43% q-q respectively. 3Q14 recorded the lowest number of new units launched and sold since 2009. Primary sales volume for 4Q14 may inch higher with more project launches like Marina One Residences, Sophia Hills and TRE Residences. Developers will boost up the marketing efforts like giving "early bird" price discount or include other promotions to push for initial sales. We expect the new sales volume to be in a range of 7500-8500 units in 2014.

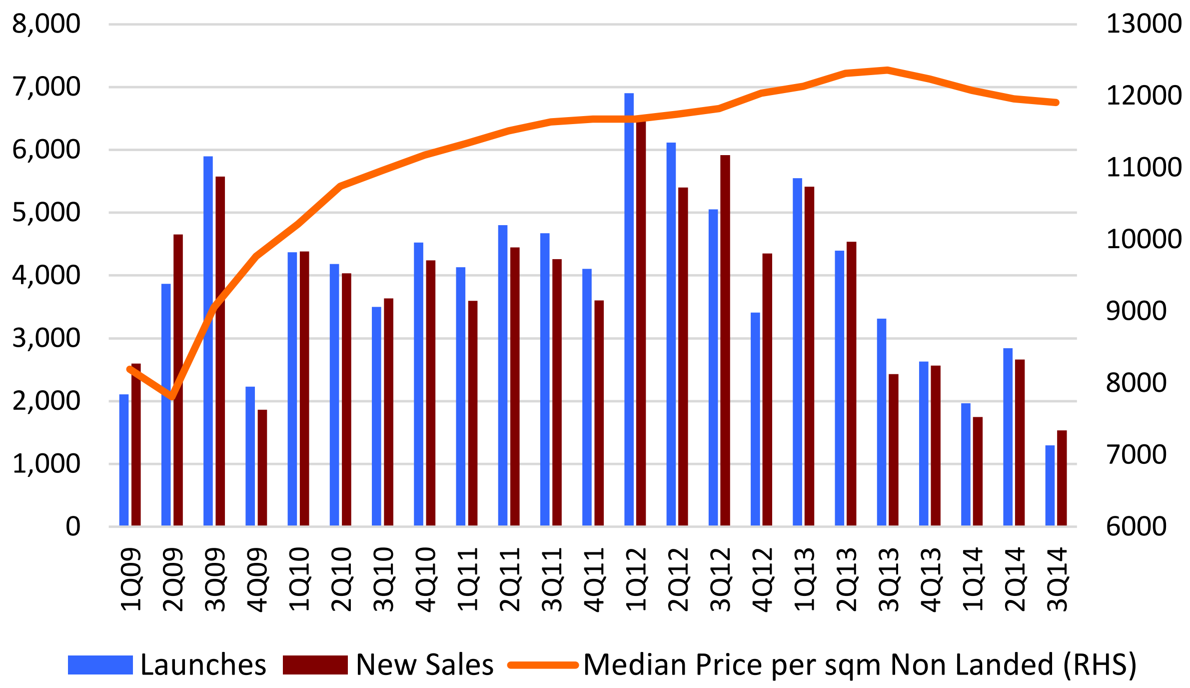
The Government announced the 1H2015 GLS Programme on 4 Dec 2014, with 6 Confirmed List sites and 13 Reserve List sites. Following the slowdown of the residential housing market, the government scaled back the land supply for residential developments with six residential sites (including 1 EC site) for about 3020 houses (including 490 units). This is about 23% lower than the 3900 houses on 2H14 Confirmed List. With the residential sites on the 1H15 Confirmed List located in OCR and RCR, it will help to moderate the demand-supply imbalance for the residential market in the CCR and improve the market performance of the sluggish luxury housing segment over time.

**Figure 1: Falling Private Residential Property Index for the 4th consecutive quarter in 3Q14**



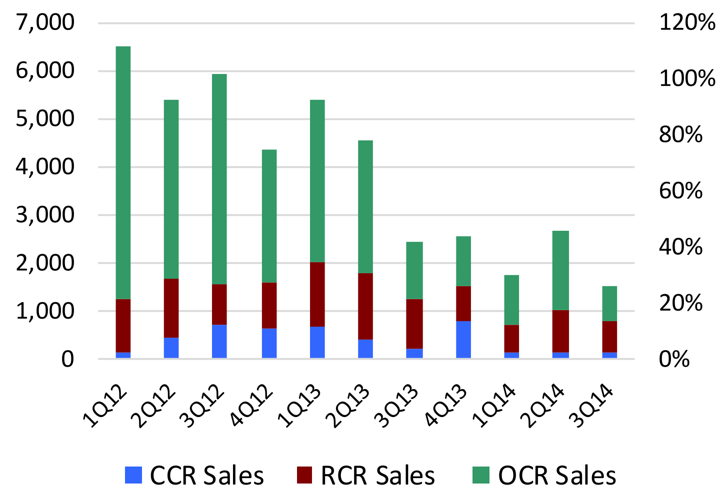

Source: URA, CEIC

**Figure 2: Lowest launches and primary sales quarter since 2009**



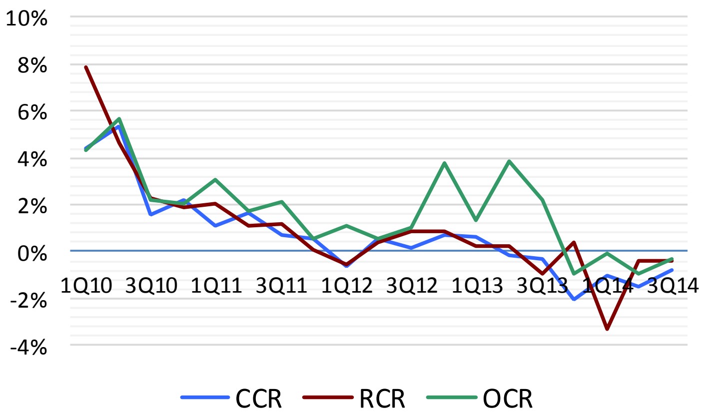

Source: URA

**Figure 3: Primary sales by regions**



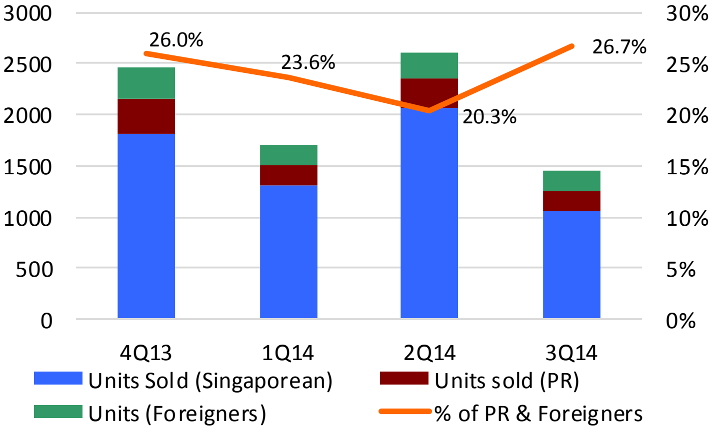

Source: CEIC

**Figure 4: Percentage of price index change q-q. Price decline highest for Core Central Region (CCR) at -0.8%, followed by Rest of Central Region (RCR) at -0.4% and Outside of Central Region (OCR) at -0.3% in 3Q14**



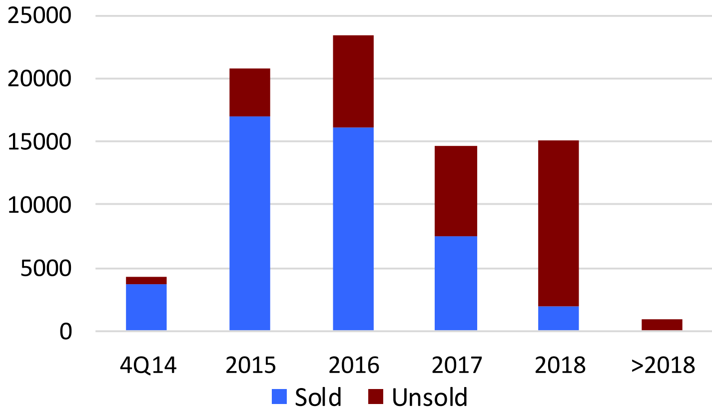

Source: CEIC

**Figure 5: Residential ownership of primary sales. A higher percentage of new units sold to PR and foreigners in 3Q14**




Source: URA

**Figure 6: Upcoming completions of private residential supply pipeline**

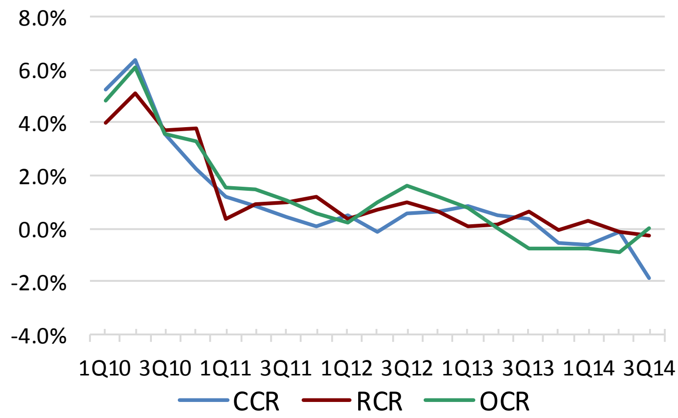



Source: URA

### Falling Rental Index sees no bottoming out yet

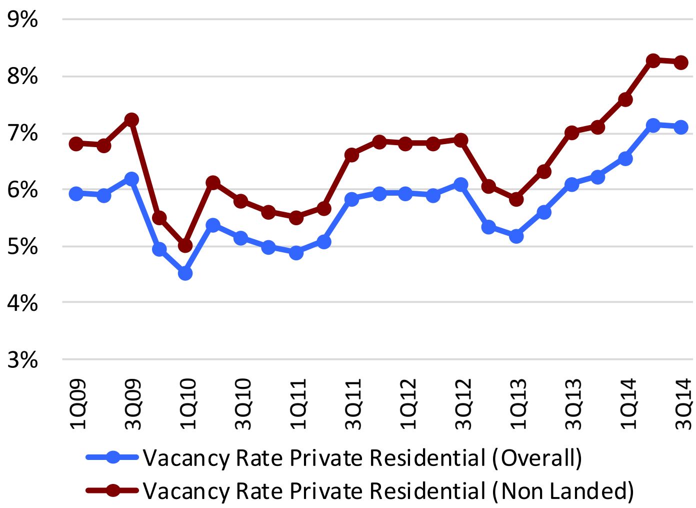
Similarly, the 3Q private residential rental index continued to head south of 0.8% q-q after a dip of 0.6% in the previous quarter. This is the 4th consecutive quarter of decline. The decline is led by falling rent with the widest margin of 1.9% in core central region while there is no change for rents in the outside central region. The vacancy rate is 7.1%, unchanged from previous quarter after rising for 5 consecutive quarters. Moving forward, the rental market will still face downward pressure with the anticipated stream of new completions and stricter foreign labour policies.

**Figure 7: Percentage change of Property Rental Index q-q. Highest decline (-1.9%) for rental in Core Central Region (CCR). This is the 4th consecutive quarter of decline for CCR Rental.**




Source: CEIC

**Figure 8: Vacancy Rate of Private Residential remains flat at 7.1% in 3Q14 after 5 quarters of increase since 1Q13**

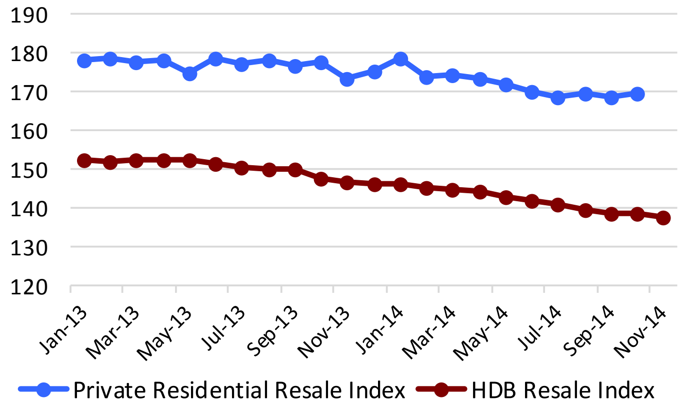



Source: CEIC

**Improved resale market performance in Oct 2014 does not signal a recovery market**

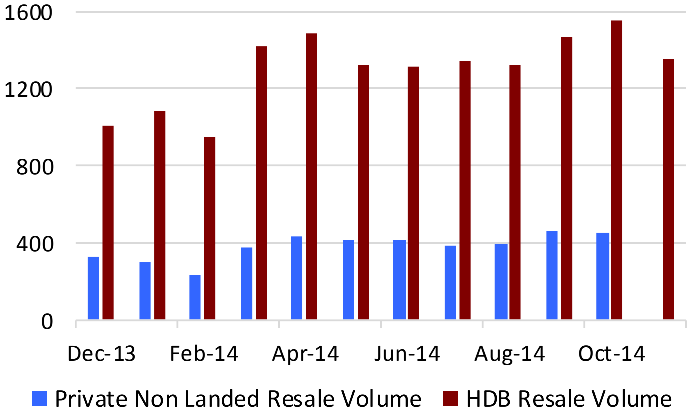
There was a slight improvement of 0.1% and 0.4% on a monthly basis for the private residential and HDB resale index respectively in Oct 2014. However, this is not a signal that the market is recovering. In the latest update, the HDB resale index has declined 0.8% m-o-m to 137.5 for Nov, the lowest since TSDR was introduced. The leadtime to secure a deal is longer now. On average, it takes about 6 months to close a deal for condominium and 3 months for HDB vs less than 3 months in 2013. Within the next 2 years, there will be a flood of new homes completions and it is expected that 6,000 HDB upgraders will take the keys to their BTO flats each year. Therefore, we reckon the resale price to edge lower into 2015 as the HDB upgraders will be compelled to sell off the current units at lower price expectations. The transaction volume is expected to improve as the potential buyers will enter the market as the price falls.

**Figure 9: Downtrend for the Resale Index for private resdential and HDB**




Source: SRX

**Figure 10: Resale volume for residential (non landed) and HDB**




Source: SRX

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