

Singapore Property Sector

A surprise fresh set of cooling measures

SINGAPORE | REAL ESTATE | SECTOR UPDATE

- New cooling measures: Higher Additional Buyer's Stamp Duty and LTV tightening.
- Negative short-term impact on transaction volumes and prices but makes for a more sustainable upcycle with more gradual price increases.
- Property price increases have been backed by income growth which has outpaced home price increases.
- We maintain our **OVERWEIGHT** view on Singapore Property Sector even as we reduce assumed selling prices for selected projects and increase sector RNAV-discount.

What is the news?

The Singapore government announced that it is raising the additional buyer's stamp duty (ABSD) and tightening the loan-to-valuation (LTV) limits for residential property purchases in a bid to cool the local property market and keep prices in-line with economic fundamentals.

With the exception of ABSD rates which will remain unchanged for Singaporeans and PRs buying their first residential property, ABSD rates for all other individuals including foreigners have been increased by 5 percentage points, and 10 percentage points for entities. An additional non-remittable ABSD of 5 percentage points has also been imposed on developers. Meanwhile, LTV limits will be tightened by 5 percentage points for all housing loans granted by financial institutions, excluding loans granted by HDB (Refer to Appendix).

What do we think?

Fresh set of cooling measures came as a surprise, but we view it as short term pain for longer term gain. Punitive measures this time should cause major slowdown in home price increase – we do not foresee further cooling measures. We had previously assumed further price upside potential of c.20% before substantial risks of government intervention. Prices at that level would have then brought us back to 2010/2013 affordability ratios based on median home prices/household incomes. And those were 2 years where the government 1) started cooling measures and 2) dished out the more stringent TDSR cooling measure (Fig 3), which would have signalled government's slight unease at those affordability levels. Recall that the previous round of "cooling measures" this year came in February when the government increased top marginal buyers stamp duty from 3% to 4% for residential properties worth above S\$1mn. As this round of measure is more punitive vs the February measures, we expect it to have its intended impact of moderating the pace of price growth and do not foresee further cooling measures. The government's prudent measures for price increases to be better moderated and gradual would be positive for a more sustainable property housing market upcycle. Home prices have grown 7.4% in the first two quarters from end 2017. We now expect flat price movements until end 2018 vs 10% for full year previously.

Property price increases have been backed by income growth which has outpaced home price increases since 2010. Home prices could still grow 20% before we hit previous peak affordability levels seen in 2013. Household income have grown at a CAGR of c.5% since we recovered post GFC from 2010, outpacing the growth of residential home prices of c.2.5%. This has been the fundamental factor behind the 9% increase in private property price index since 3Q17, along with improved sentiment. Going by the affordability metric of median home prices over household income, prices could still potentially rise 20% before we hit the peak "expensive" levels in the previous decade, last seen in 2013.



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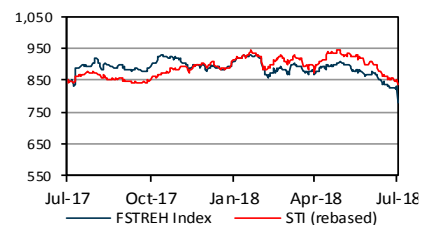
6 July 2018

Overweight (Maintained)

INDEX PERFORMANCE (%)

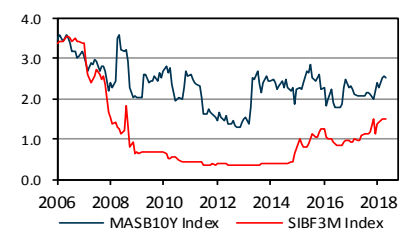
	1MTH	3MTH	1YR
FSTREH RETURN	(4.3)	(3.5)	0.5
STI RETURN	(6.5)	(3.0)	3.7

FSTREH VS. STI



Source: Bloomberg, PSR

3-month Sibar (%) & 10-year SGS (%)



Source: Bloomberg, PSR

CapitaLand (CAPL SP)

ACCUMULATE (Maintained)

LAST DONE PRICE	SGD 3.02
FORECAST DIV	SGD 0.10
TARGET PRICE	SGD 4.19
TOTAL RETURN	34.3%

City Developments (CIT SP)

ACCUMULATE (Maintained)

LAST DONE PRICE	SGD 9.38
FORECAST DIV	SGD 0.18
TARGET PRICE	SGD 12.60
TOTAL RETURN	31.8%

Chip Eng Seng (CHIP SP)

BUY (Maintained)

LAST DONE PRICE	SGD 0.80
FORECAST DIV	SGD 0.04
TARGET PRICE	SGD 1.15
TOTAL RETURN	36.9%

Ho Bee Land (HOBEE SP)

ACCUMULATE (Maintained)

LAST DONE PRICE	SGD 2.29
FORECAST DIV	SGD 0.08
TARGET PRICE	SGD 2.98
TOTAL RETURN	25.7%

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Property transaction volumes to be negatively impacted in short term as buyers digest new taxes and increased liquidity requirements. Jan-May total transaction volumes came in at 11,006 units, a 5.7% decrease YoY. While we initially expected volumes to pick up in 2H18 driven by higher primary sales with increased launches, the fresh set of cooling measures will no doubt negatively impact buyer sentiment, volumes and prices in the short run. We have accordingly adjusted our assumed selling prices (ASPs) downwards by an average 7% for select projects under our coverage.

En bloc frenzy to slow due to additional 5% non-remittable ABSD for developers. A slower en bloc frenzy could have the effect of slowing incremental supply. Nonetheless, supply in the pipeline of 52k units remain near one of the lowest levels over the last decade, vs the high of 96k in 2013.

Developers who bought land earlier at lower prices will have greater flexibility to adjust prices, which is even more crucial at current juncture. Amongst the developers under our coverage, we have not priced in redevelopment surplus for launches further out due to the higher uncertainties involved. For counters under our coverage, projects at risk of more compressed margins due to higher land prices would include CAPL's Pearl Bank and City Dev's Amber Park, West Coast Vale, and Handy Road sites.

Property Counters under our coverage which are affected

CapitaLand (CAPL SP, Maintain Accumulate, Target price unchanged at \$4.19)

CapitaLand's existing Singapore residential inventory as at FY17 end has been largely sold. The only addition to land bank in 2018 has been the Pearl Bank en bloc in February for S\$1,515psf. We have not factored in any redevelopment surplus for Pearl Bank in our target price. We continue to like CAPL for its stable base of recurring income.

City Developments (CIT SP, Maintain Accumulate, Target price reduced from \$13.40 to \$12.60)

We have not factored in redevelopment surpluses for later-dated launches Amber Park, West Coast Vale, Handy Road and Sumang Walk due to higher uncertainties involved. Our ASPs for remaining inventory and near term launches stay unchanged due to our previous conservative estimates, including South Beach (S\$4k psf) and The Tapestry (S\$1,350psf). However, due to the change in government stance towards a more tightening nature and CDL's heavy exposure to Singapore residential segment, we increase our discount to RNAV from 15%-20% which could reduce target price to S\$12.60.

Chip Eng Seng (CHIP SP, Maintain Buy, Target price reduced from \$1.21 to S\$1.15)

We adjust our ASPs for Park Colonial down to S\$1,750psf from S\$1,900psf, to better reflect selling prices at actual launch last night. We have not factored in any surplus from redevelopment of Changi Garden. Our target price will potentially be reduced to S\$1.15 from S\$1.21 with the above ASP cut.

Ho Bee Land (HOBEE SP, Maintain Accumulate, Target price maintained at \$2.98)

Ho Bee's main exposures to Singapore residential are the three Sentosa condominiums for which we have assumed conservative ASPs of S\$1,500psf. Our assumptions and target price remain unchanged.

Investment actions

Maintain **OVERWEIGHT** on Singapore Property Sector. Further cooling measures from here would be key risks for a downgrade. We remain positive on the sector based on 1) Better affordability ratios now vs peak levels in 2013 despite the past 4Q of price increases due to income growth outpacing home price increase since post GFC. 2) Supply still low – outstanding supply in pipeline of 52k units still one of lowest levels in last decade, vs high of 96k in 2013. 3) Demand to be still supported by household formation rates due to our demographic structure and en bloc liquidity from displaced owners.

Appendix

Figure 1: New ABSD rates

Table 1: Adjustments to ABSD Rates for Residential Property

	Rates on or before 5 July 2018	Rates on or after 6 July 2018
SCs buying first residential property	0%	0% (No change)
SCs buying second residential property	7%	12% (Revised)
SCs buying third and subsequent residential property	10%	15% (Revised)
SPRs buying first residential property	5%	5% (No change)
SPRs buying second and subsequent residential property	10%	15% (Revised)
Foreigners buying any residential property	15%	20% (Revised)
Entities buying any residential property	15%	25% (Revised) [#]
		Plus additional 5% for developers [^] (New, non-remittable) [*]

[#] As entities, developers will also be subject to the ABSD rate of 25% for entities. Developers may apply for remission of this 25% ABSD, subject to conditions (including completing and selling all units within the prescribed periods of 3 years or 5 years for non-licensed and licensed developers respectively). Details are provided under the Stamp Duties (Non-licensed Housing Developers) (Remission of ABSD) Rules and the Stamp Duties (Housing Developers) (Remission of ABSD) Rules.

Source: Ministry of National Development Singapore, PSR

Figure 2: Tightened LTV limits

Table 2: Revised LTV Limits on Housing Loans Granted by Financial Institutions

	1st Housing Loan	2nd Housing Loan	From 3rd Housing Loan
Individual Borrowers			
LTV Limit	<u>Existing Rules</u> 80%; or 60% if the loan tenure is more than 30 years* or extends past age 65 <u>Revised Rules</u> 75%; or 55% if the loan tenure is	<u>Existing Rules</u> 50%; or 30% if the loan tenure is more than 30 years* or extends past age 65 <u>Revised Rules</u> 45%; or 25% if the loan tenure is	<u>Existing Rules</u> 40%; or 20% if the loan tenure is more than 30 years* or extends past age 65 <u>Revised Rules</u> 35%; or 15% if the loan tenure is
	more than 30 years* or extends past age 65	more than 30 years* or extends past age 65	more than 30 years* or extends past age 65
Minimum Cash Down Payment	No change to existing rules		
	5%; or 10% if the loan tenure is more than 30 years* or extends past age 65	25%	
Non-Individual Borrowers			
LTV Limit	<u>Existing Rule</u> 20% <u>Revised Rule</u> 15%		

* 25 years, where the property purchased is a HDB flat.

Source: Ministry of National Development Singapore, PSR

Figure 3: Previous rounds of cooling measures from 2010-2013

Date	Name of Cooling Measure	Details
20-Feb-10	Seller's Stamp Duty (ASDD) 1	Sell a property within 1 st year: pay amount same as buyer stamp duty (BSD)
	Loan-to-value (LTV) adjustment 1	Reduced from 90% to 80%
30-Aug-10	SSD 2	1 st year: pay amount equals to BSD, 2 nd year: 2/3 BSD, 3 rd year: 1/3 BSD
	LTV adjustment 2	1 st loan: 80%, 2 nd loan: 70%
14-Jan-11	SSD 3	1 st year: 16% of purchase price, 2 nd year: 12%, 3 rd year: 8%, 4 th year: 4%
	LTV adjustment 3	1 st loan: 80%, 2 nd loan: 60%
8-Dec-11	Introduction of Additional Buyer's Stamp Duty (ABSD)	1 st property - SC: 0%, PR: 0%, F: 10% 2 nd property - SC: 0%, PR: 3%, F: 10% 3 rd property - SC: 3%, PR: 3%, F: 10%
6-Oct-12	LTV adjustment 4	1 st loan: 80% and 60% if loan tenure > 30 years or borrower's age exceeds 65 when loan ends, 2 nd loan: 60% and 40% with same tenure and borrower's age conditions
12-Jan-13	ABSD adjustment 1	1 st property SC: 0%, PR: 5%, F: 15% 2 nd property SC: 7%, PR: 10%, F: 15% 3 rd property SC: 10%, PR: 5%, F: 15%
	LTV adjustment 5	1 st loan: 80% and 60% with same tenure and borrower's age conditions 2 nd loan: 50% and 40% with same tenure and borrower's age conditions 3 rd loan: 40% and 20% with same tenure and borrower's age conditions
	Mortgage Servicing Ratio (MSR) adjustment 1	Up to 35% (reduced from 40%) of gross monthly income (GMI) is allowed for repayment of loans on HDB Flats
29-Jun-13	Introduction of total debt servicing ratio (TDSR) to private properties	Up to 60% of GMI is allowed for repayment of loans on a private property
28-Aug-13	MSR adjustment 2	MSR reduced to 30% from 35%
9-Dec-13	MSR extended to EC	MSR now applies to loans of EC purchases
	Resale levy on EC	Second-timer purchase of EC directly from developers are required to pay resale levy

Source: Monetary Authority of Singapore, Housing Development Board, Phillip Securities Research (Singapore)

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