NUS National University of Singapore
Source: *The Business Times*, p4
Date: 2 February 2016

Developers' sentiment dips further in fourth quarter

The office sector was the worst performing sector – not surprising given the supply overhang this year

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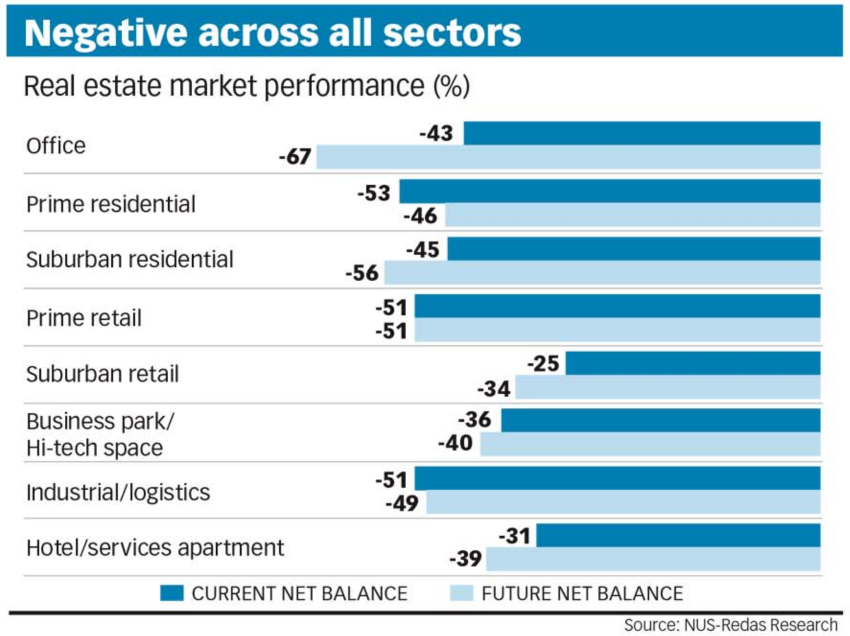

Singapore

DEVELOPERS' sentiment weakened further in the fourth quarter of last year, a survey by the National University of Singapore (NUS) and the Real Estate Developers' Association of Singapore (Redas) has found.

The Current Sentiment Index, which tracks changes in sentiment in the preceding six months, fell from 3.7 in Q3 to 3.6 in Q4.

The Future Sentiment Index, which tracks sentiment in the next six months, also took a dip – from 3.7 in Q3 to 3.4 in Q4.

These two readings culminated in a drop in the Composite Sentiment Index to 3.5; it was 3.7 in Q3.

A score under five indicates deteriorating market conditions, while a score above that, improving conditions.

In the quarterly survey conducted among senior executives of Redas' member firms, the office, suburban residential and prime-retail sectors emerged as the three worst-performing sectors in Q4.

The office sector had a current net balance of -43 per cent and a future net balance of -67 per cent.

The net balance is the difference between the proportion of respondents who expressed positive sentiments, and the proportion with negative ones.

The negative net balance was not surprising, given the supply overhang of more than four million square feet in gross floor area of office space slated for completion in 2016. Vacancy rates are expected surge past double digits this year, consultants have warned.

Nine in 10 of the respondents said they expect a slowdown in the global economy; three in four expect that rises in inflation and interest rates will hit market sentiment in the next six months.

More than six in 10 expect the property market to face further tightening in terms of finance and liquidity.

The survey report said: "Job losses, decline in domestic economy, excessive supply of new property launches are other potential risks that will adversely impact the market sentiment."

Seven in 10 developers said they expect new launches to increase moderately and hold at the same level in the next six months.

More than a fifth indicated that they would launch moderately fewer units – a slightly higher proportion than in the previous quarter.

On price changes, six in 10 developers anticipate a moderate decrease in residential property prices in the next six months.

On translational effects to the stock market, more than half the respondents said there will be moderate impact on the stock performance of real-estate investment trusts (Reits), especially with the recent interest rate hike by the US Federal Reserve.

This is because Reits are leveraged vehicles. That said, respondents do not think the current 25-basis-point increase will make much of a dent on the property market for now.

One respondent said: "What would really impact sales is a restructuring in the job market."

NUS real estate professor Sing Tien Foo, who led the study, said this comment was probably alluding to recent layoffs in the banking sector. Losing one's job can affect one's ability to finance a mortgage on a home; even if the ones laid off are expatriates who rent rather than buy, the homes they vacate will mean a loss of rental income for the home owners.

"There is a chain effect; one thing leads to another. To be sure, the employment market is still quite healthy. Moving forward, the situation shouldn't be that serious, even if we expect the economy to slow down slightly. This is probably more likely in the medium term."

Others expect the rate of increase of interest rates to be moderate in Singapore, as the global economy is still anaemic.

As for the impact of the state trimming its H1 2016 Government Land Sales programme (GLS) – comprising four Confirmed List sites and 12 Reserve List sites – about six in 10 developers said this will have minimal impact on the demand in residential and commercial property sectors.

One respondent said a lack of new launches may divert buyers to the secondary market: "The lower GLS supply will provide support for prices, which lead to lower new developer sales. Some buyers will revisit unsold and resale units in existing projects."

More than half the developers said the trimming of land supply will have moderate impact on the competitiveness in the bidding for GLS land.

More than six in 10 respondents expect the property market to face further tightening in terms of finance and liquidity; seven in 10 developers say they expect new launches to increase moderately and hold at the same level in the next six months.
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