NUS National University of Singapore

Source: *The Business Times*, p24
Date: 23 October 2018

Cooling measures 'dampened developers' sentiment'

Real Estate Sentiment Index indicates that sentiment fell sharply in the third quarter from the second, after the imposition of tougher ABSD rules in July

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PROPERTY-cooling measures announced in July have dampened sentiment towards the Singapore property market, says the latest quarterly Real Estate Sentiment Index (RESI), which assesses perceptions and expectations of real estate development and market conditions in Singapore from the developers' standpoint.

The composite index, comprising a Current Sentiment Index and a Future Sentiment Index, fell sharply to 4.0 in the third quarter from 6.6 in the second quarter on the back of July's additional buyer's stamp duty (ABSD) measures.

The Current Sentiment Index, which tracks changes in sentiment over the past six months, slipped to 4.0 in Q3 2018 from 6.7 in Q2 2018; the Future Sentiment Index, which tracks changes to sentiment in the next six months, sank to 4.2 in Q3 2018 from 6.4 in Q1 2018.

RESI is jointly developed by the Real Estate Developers' Association of Singapore (Redas) and the National University of Singapore's Department of Real Estate (DRE). It surveys senior executives of Redas member firms and uses a "net balance percentage" to score key determinants of sentiment in the real estate market.

For the prime residential sector, the current and the future net balances slumped to 58 per cent and -45 per cent in Q3, from 63 per cent and 58 per cent in Q2.

For the suburban residential sector, the current and future net balances tumbled to -60 per cent and -45 per cent in Q3 from 53 per cent and 37 per cent in Q2. The survey attributing the abrupt changes in respondents' sentiments to a pessimistic outlook in the residential sectors.

Survey respondents said the "unexpected and surprising" July 6 cooling measures are "extremely disruptive" and have dampened sentiments in the residential market.

Also, they said, developers are "so heavily penalised with hefty ABSD" that it makes land-banking decisions "challenging and risky", citing the growing numbers of unsuccessful en bloc transactions in recent months.

Respondents suggested that the government maintain a constant land supply rather than withdraw sites or have sudden surges in supply, because such actions could have "strong impact on market highs and lows".

The office sector was the strongest performing out of the sectors surveyed, with its current and future net balances each rising 45 per cent.

Meanwhile, in collective sales, 90.2 per cent of all respondents felt the en-bloc market would be "seriously affected" by the latest ABSD in the next six months.

Residential properties in the core central region (CCR) are relatively more sensitive to the ABSD policy than those in the outside core region (OCR), the survey said. New non-landed residential property launches in CCR – comprising postal districts 9, 10, 11, the Downtown Core and Sentosa – are likely to face more resistance with the new ABSD.

Survey respondents cited rising inflation and interest rates, a slow-down or decline in the global economy and the tightening of financing or liquidity in debt markets as the top three potential risks that could hit market sentiment in the next six months.

External economic shocks, a slowdown in local economic growth and the latest cooling measures were also cited as risks which could further dampen the local property market.

National University of Singapore associate professor Sing Tien Foo said: "The uncertainties in the external economic conditions, coupled with the high transaction costs imposed by the new ABSD policies, may have a double-whammy impact on the local residential markets.

"The sharp declines in the Q3 2018 sentiments reflect bleak outlooks of the property players, especially on the residential markets in the next six to 12 months."

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> **NUS Associate Professor Sing Tien Foo**