

AGENT COMMISSIONS

Property agent commissions may not rise with higher developer ABSD: poll

By Fiona Lam
fiolam@sph.com.sg
@FionaLamBT

Singapore

REAL estate honchos do not expect the latest hike in additional buyer's stamp duty (ABSD) for developers to drive further increases in property agents' commission rates, a survey by the National University of Singapore Real Estate (NUS+RE) has found.

The poll results also imply that the spike in agent commissions in recent years – to around 2 to 3.9 per cent for new private homes, for instance – have been a product of circumstances, said the Institute of Real Estate and Urban Studies (IREUS) deputy director Lee Nai Jia.

"Higher ABSD and the concomitant deadlines, and units becoming harder to sell due to increased competition, put the bigger property agencies in a stronger position while salesperson productivity and professionalism took a backseat," he noted.

For its fourth quarter of 2021 poll, NUS+RE sought the views of 42 senior executives in Singapore's real estate sector, including 22 developers.

NUS+RE represents IREUS and the Department of Real Estate.

The current commission rates for new sales and resales of private homes appear to be significantly higher than those before the July 2018 round of cooling measures, going by the survey findings.

Under the 2018 curbs, the ABSD rate was increased to 25 per cent for developers if they fail to sell all units in a new development within 5 years. Some developers thus reacted to the ABSD hike by shelling out higher commissions to incentivise agents to move new units in their developments.

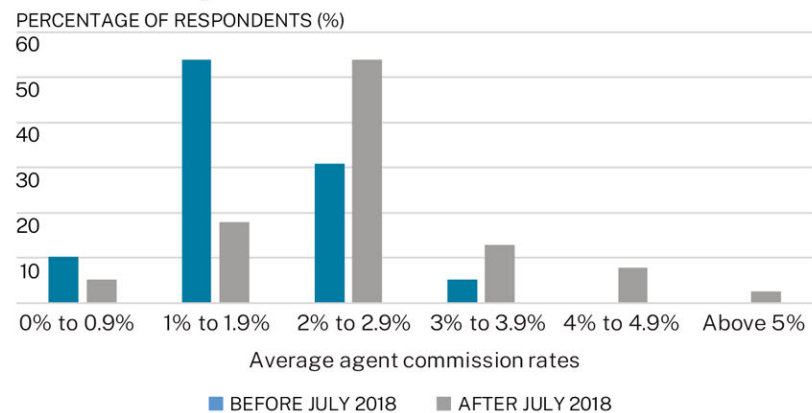
That being said, current commission rates have not softened despite the recent surge in private home sales.

Before July 2018, commissions for new sales ranged from 1 to 1.9 per cent, said half of the respondents. Another 28 per cent of them noted that the previous rates stood at 2 to 3 per cent.

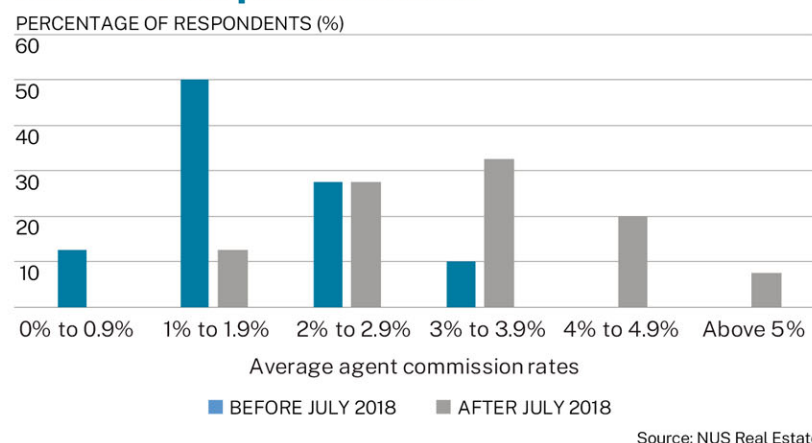
In contrast, today's levels are in the 3 to 3.9 per cent range for new sales, said a third of the executives. And about 28 per cent of them have seen commissions of between 2 and 2.9 per cent in 2022.

As for the resale market for private homes, over half of the respondents said commissions used to hover between 1 and 1.9 per cent prior to July 2018. That has since moved into the 2 to 2.9 per

Resales of private homes



New sales of private homes



Impact of latest increase in ABSD for developers

MARKET	AGENT COMMISSION RATES WILL...		
	DECREASE	STAY UNCHANGED (% of RESPONDENTS)	INCREASE
Private new sale	5	54	41
Private resale	3	85	13
HDB resale	5	82	13

Source: NUS Real Estate

cent range presently, said 54 per cent of the executives.

Notwithstanding the new measures rolled out in December 2021, the survey participants expect commission rates to keep steady.

More than half of them reckon that commissions for new sales of private homes will remain unchanged after the revision of ABSD to 35 per cent (the remissible component) for developers, while 41 per cent anticipate an increase.

Over 80 per cent of the respondents think that commissions in the resale market for Housing Board (HDB) flats and private housing will be stable.

Although the latest measures may compel real estate developers to raise commissions, the limited supply of new launches is likely to offset some of the pressure, Dr Lee said. Besides, most developers are already working on smaller projects to mitigate the risk.

"Separately, sellers in the resale market will face less pressure, as individual owners do not face the deadlines that affect developers," he added.

Typically, in an active residential market with strong housing demand, commissions for sellers' agents are expected to be lower than during a market slump, all things being equal.

This comes as buyers will be more forthcoming in seeking available units via property listing platforms, which means sellers' agents do not need to expend as much effort in securing prospective clients and can incur lower costs for advertisement and cold calling.

Yet, in 2021, higher agent commissions were prevalent in Singapore, even as residential real estate transactions reached new highs.

The strong positive correlation between agent commissions and housing prices in the city-state –



Dr Lee: "The high ABSD rates mean that developers with substantial inventory of units need to move sales quickly or they may incur losses if they fail to do so."

with both variables moving in tandem – is unlike what has been observed in some other markets, including the US.

Roughly 8 in 10 of the executives surveyed attributed the lofty commissions in Singapore to the greater pressure to sell all units within the 5-year deadline imposed by the ABSD rules.

Dr Lee told *The Business Times*: "The high ABSD rates mean that developers with substantial inventory of units need to move sales quickly or they may incur losses if they fail to do so."

And if a project's sales fail to take off in the first week of its launch, the developer will face even more pressure to raise agents' commissions to boost sales, especially if there are competing projects in the area, he said.

Nearly 6 in 10 of the respondents supported the hypothesis that the increased competition arising from more new launches in the market has also pushed commissions up.

Another factor cited was that the marketing agencies with extensive networks commanded higher fees. Some 52 per cent of the executives selected this as a reason for the rise in commissions. Ostensibly, the substantial market share of such agencies has strengthened their bargaining power.

Only a quarter of the respondents said higher fees are paid to the more experienced agents and agencies with good track records. And just 28 per cent indicated that higher commissions are meant to reward value-added services and greater professionalism of agents. These findings suggest that "market dynamics have apparently pivoted to reward sheer scale (of the agencies) rather than the quality of work done", Dr Lee said.