

Property players less optimistic in Q3, expect 'muted outlook' for suburban residential market

Rising inflation or interest rates seen as top potential risk factor that may adversely impact future sentiment: NUS Institute of Real Estate and Urban Studies

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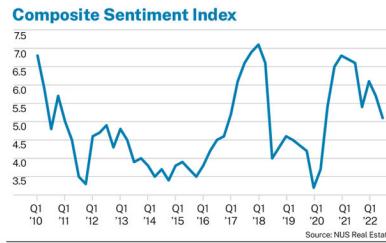
PROPERTY players in Singapore have turned more pessimistic in the third quarter of 2022, with economic clouds gathering even as prices continued to rise and new residential launches scored strong sales in recent months.

According to a survey by the National University of Singapore's Institute of Real Estate and Urban Studies (IREUS), respondents expect a negative future net balance in most real estate sectors, save the hotel and serviced apartment sector, which recorded the only significant positive future net balance of 68 per cent. Its current net balance in Q3 2022 stands at 86 per cent.

The suburban residential sector recorded the lowest future net balance of -19 per cent, from the current net balance of 35 per cent. This was followed by the suburban retail sector with a future net balance of -8 per cent and current net balance of 38 per cent; the industrial and logistics sector with a future net balance of -5 per cent and current net balance of 46 per cent; and the business park and hi-tech space with a future net balance of -3 per cent and current net balance of 35 per cent.

Current and future net balance percentages are used to indicate current and future sentiment, based on the difference between the proportion of respondents who have selected the positive and negative options in the poll.

Only two other property market sectors, the office and prime residential segments, recorded positive future net balances of 11 per cent and 3 per cent, respectively,



from their current net balance of 54 per cent and 30 per cent, respectively.

The prime retail sector saw a neutral outlook at 0 per cent, from a current net balance of 43 per cent.

Market segmentation

The contrast in outlooks between the prime and suburban residential markets is likely due to market segmentation, said IREUS director Sing Tien Foo.

"Suburban homes in the outside central region typically attract locals," he said. "The tightening of the total debt servicing ratio introduced by the latest property curbs, taken in tandem with rising interest rates, are expected to crimp the purchasing power of home seekers here in Singapore."

Demand for prime residential properties in the core central region, on the other hand, is bolstered by foreign purchases, institutional capital, and high-net-worth individuals, who are "more resilient against such financial hui-

dles", said Sing. He noted also that Singapore attracted a record \$544.8 billion of new money inflows in 2021.

Overall, "sentiment in the market declined amid the upward price momentum, and strong sales in new private residential property launches in the recent months", said Sing. "The global headwinds and interest rate hikes by the Federal Reserve bring new uncertainties to the market."

In its latest quarterly *Real Estate Sentiment Index* (RESI) report, the National University of Singapore Real Estate's (NUS+RE) research showed that the composite index – comprising a Current Sentiment Index and a Future Sentiment Index – inched down 0.6 percentage point to 5.1 per cent in the third quarter, from 5.7 per cent in the previous quarter.

The Current Sentiment Index, which follows changes in sentiment over the past six months, slipped to 5.4 per cent in Q3 from 6.1 per cent in Q2. The Future Sentiment Index, which tracks senti-

ment change in the next six months, similarly dropped to 4.8 per cent in this quarter from 5.3 per cent in the previous quarter.

Respondents unanimously flagged rising inflation or interest rates as the top potential risk factor that might adversely impact market sentiment in the next six months. Around eight in 10 respondents also indicated "tightening of financing and liquidity in the debt market" and "rising costs of construction" as potential risks.

Another top risk was "a decline in the global economy", with 86.5 per cent of respondents citing this in Q3, from 83.3 per cent in Q2.

Government intervention

There was also growing concern over "government intervention to cool the market", which saw the highest jump in respondents zeroing on this as a risk factor – up to 37.8 per cent in this quarter, from 26.7 per cent in the previous quarter.

Meanwhile, worries over "job losses and a decline in domestic economy" softened, with 32.4 per cent of those polled seeing this as a top risk, while fears of "the real estate bubble or excessive speculative activities" fell back, with just 2.7 per cent picking this out.

Going forward, about 28 per cent of survey respondents expect fewer units to be launched in the next six months, while around 43 per cent of respondents expect launch volumes to be about the same.

More than half of the survey respondents also expect unit prices of new launches in the next six months to be moderately higher. About a third expect new launch

prices to maintain at the same price level, while only 9.5 per cent expect prices to be lower.

An unnamed respondent said: "Prices will (continue to) rise as developers bought land at quite high prices, but they will be more measured in pricing due to the new (cooling) measures, slower buying momentum, and rising interest rates."

However, Sing from IREUS cautioned that wage growth today will not be able to keep pace with the property market's current rate of inflation.

"Price growth, if not softened, will further drive a wedge between buyers' earning and purchasing power and affordability in the housing market, which may risk long-term sustainability," he said.