Singapore property executives flag rising construction costs as top risk

The Real Estate Sentiment Index falls for the first time in Q2, after four quarters of rises. Real estate executives polled also cite rising inflation and cooling measures as concerns

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RISING costs of construction is the top potential risk factor that may temper sentiment in the next six months, a poll among senior executives of real-estate firms has found.

This finding came from the latest Real Estate Sentiment Index (RESI) published by the National University of Singapore Real Estate (NUS+RE), which represents the Department of Real Estate and the Institute of Real Estate and Urban Studies (IREUS) at the university.

The study's composite sentiment index, a derived indicator for overall real-estate market sentiment, fell for the first time in Q2, after four consecutive quarters of upward movement.

Higher development costs were likely responsible for positive sentiment easing in the second quarter of 2021, IREUS deputy director Lee Nai Jia said.

On a 10-point scale, the composite sentiment index came in at 6.7 for Q2, from 6.8 in Q1. Despite the slight drop, the index stayed above five, which points to overall sentiment on both current and future conditions remaining positive.

Increasing construction costs were flagged by 87 per cent of respondents as the biggest potential risk to adversely impact market sentiment in the next six months.

Next was rising inflation and interest rates, which was highlighted by 63 per cent of respondents.

Concerns of possible government intervention to cool the market remained a concern for 62.5 per cent of those polled, although there were fewer executives who felt it would be a potential risk for the six months ahead.

When it comes to future launches and sales, more than half (54 per cent) of developers surveyed in Q2 expect "moderately or substantially" more units to be launched in the next six months.

Nearly two-thirds (63 per cent) project prices of new launches to be moderately or substantially higher in the next six months, NUS+RE said.

More than two-thirds (69.6 per cent) of those surveyed also expect interest in government land sales and en bloc exercises to rise.

Dr Lee expects the RESI for prime retail and hotels or serviced apartments to decline further in Q3 due to the emergence of new clusters and the reversion to Phase 2 (Heightened Alert).

"That said, the future sentiment index ought to stay positive, given Singapore's substantial progress in its vaccination drive," Dr Lee said.

The future sentiment index stayed flat on the quarter at 6.7 in Q2, as executives remained upbeat on the market conditions for the next six months.

The current sentiment index, however, eased to 6.6 in Q2 from 6.9 in Q1 as there were fewer respondents who indicated that market conditions in Q2 were better than six months ago.

On a 10-point scale, the composite sentiment index came in at 6.7 for Q2, from 6.8 in Q1. A score above five points to overall sentiment on both current and future conditions being positive. BT FILE PHOTO