NUS National University of Singapore

Source: *The Business Times*, p14
Date: 10 February 2023

Developers turn conservative in pricing approach to residential projects: poll

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DEVELOPERS may be turning more conservative in pricing residential projects, a quarterly survey of the property industry showed, as sentiment in the sector softened.

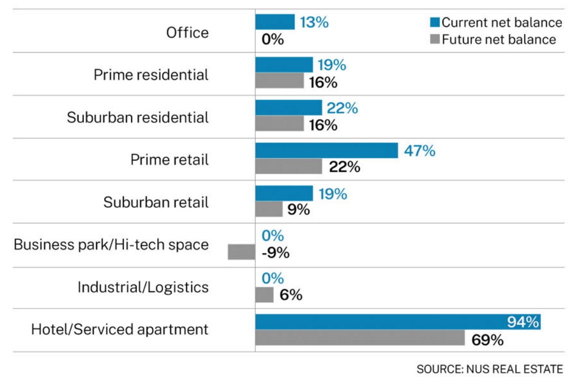
In the fourth quarter, 71 per cent of developers polled expected prices of new launches in the next six months to "maintain at the same price level", up significantly by 38 percentage points compared to Q3. Meanwhile, 29 per cent of those surveyed expected new launch prices to be "moderately higher". In Q3, 56 per cent had expected pricing to go up.

The survey was carried out by the National University of Singapore's (NUS) Institute of Real Estate and Urban Studies (IREUS).

An unnamed respondent said: "Buyers are expected to turn more price-sensitive and prudent in the face of headwinds, rendering it challenging for further price hikes. Prices are likely to hold firm with marginal gains possible for projects with exceptional locational and product attributes."

IREUS director Qian Wenlan noted that while home prices are still on an "upward trajectory", concerns over long-term affordability will become "more salient" as home buyers recalibrate trade-offs between housing expenditure and consumption in other areas.

Real estate market performance



Some 47 per cent of developers expected a "moderately or substantially higher number of units" to be launched in the next six months, recording an increase of 19 percentage points. About the same number expect launches to be maintained.

Developers highlighted job losses as factor to watch. Asked about potential risks that might adversely impact sentiment over the next six months, concerns over job losses or decline in the domestic economy was the highest increase, rising from 32.4 per cent in Q3 to 56.3 per cent in Q4.

Respondents unanimously flagged rising inflation or interest rates as the top potential risk factor – just as they did in Q3. About 91 per cent of respondents also indicated a slowdown in the global economy as a potential risk.

Anxiety over government intervention saw a notable decline as a risk factor, to 25 per cent in Q4 from 37.8 per cent in Q3.

Concerns over supply of development land and new property launches rose slightly quarter-on-quarter from 0 to 6.3 and 9.4 per cent, respectively.

The composite Real Estate Sentiment Index – comprising a Current Sentiment Index and a Future Sentiment Index – remained at 5.1 per cent in Q4. The Current Sentiment Index, which follows changes in sentiment over the past six months, slipped to 5.3 per cent in Q4 from 5.4 per cent in Q3.

The Future Sentiment Index, which tracks sentiment change in the next six months, inched up to 4.9 per cent in Q4 from 4.8 per cent in the previous quarter.

Sentiment was most buoyant in the hotel and serviced apartment sector, which recorded a substantial significant positive future net balance of 69 per cent. Its current net balance in Q4 2022 stands at 94 per cent.

The business park and high-tech space was the only sector to record a negative future net balance of -9 per cent, from the current net balance of 0 per cent.

The suburban retail sector registered a future net balance of 9 per cent and current net balance of 19 per cent.

The prime retail sector saw a future net balance of 22 per cent and current net balance of 47 per cent.

The prime and suburban residential sector recorded a future net balance of 16 per cent each and current net balances of 19 and 22 per cent, respectively.

With increased cost of mortgage loans setting in, homebuyers appeared to have turned a tad conservative, noted IREUS. It added that Q4 2022 was the first time in more than two years that home prices grew at the slowest pace.

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

The office sector had a neutral outlook at 0 per cent, from the current net balance of 13 per cent. Additionally, the industrial and logistics sector registered a future net balance of 6 per cent, from the current neutral outlook.

The rising cost of inflation and the credit crunch induced by high interest rates may have put many expansionary plans on hold, and at the same time raised caution in firms, said IREUS' Qian.

"After announcing an interest rate hike of 25 basis points on Feb 1, the US Federal Reserve cautioned that it would be premature to declare victory over inflation," she said. "Conditions are still skewed to the downside, and sentiments may not pick up anytime soon until we see more stability in financial markets and loosening credit availability."

Overall, "sentiment has been positive in Q4 2022, but the future outlook is still uncertain amid rising interest rates, high inflation, and looming economic risks", said Sing Tien Foo, provost's chair professor of real estate at NUS.