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Potential buyers queueing to book units at the launch of Blossoms by the Park at the weekend. It was the first condominium launched since the Government made a swift and decisive move last week to intervene in the private housing market, with a doubling of the additional buyer's stamp duty for foreigners to 60 per cent and a smaller hike for Singapore citizens and permanent residents.
ST FILE PHOTO

Impact of ABSD hike on housing market could go two ways

The cooling measures aimed at reining in a runaway private property market come at a time when global conditions could precipitate a hard landing

Sing Tien Foo

Since the Covid-19 pandemic struck, the Singapore property market has defied gravity. Private residential prices have continued to surge in contrast to those of other Asia-Pacific cities, which declined over the same period.

That pattern may be coming to an end, after the latest round of cooling measures.

The Government made a swift and decisive move to intervene in the private housing market last week, with a whopping doubling of the additional buyer's stamp duty (ABSD) for foreigners to 60 per cent and a smaller hike for Singapore citizens and permanent residents (PRs).

Although the move caught many local buyers, foreign investors, real estate agents and developers off guard, the response came equally quick. City Developments pushed back a scheduled preview of its prime development project Newport Residences, which sits on the former Fuji Xerox Towers site in Anson Road in the Central Business District and was expected to be priced above $3,000 per sq ft (psf).

The last few rounds of cooling measures have been manifestly inadequate to rein in an overheating private residential market, which has seen a cumulative growth in the price index for 12 consecutive quarters since the Covid-19 circuit breaker.

Urban Redevelopment Authority (URA) flash estimates just two weeks ago showed a robust quarter-on-quarter growth of 3.2 per cent in the private home price index in the first quarter of 2023. The buyer's stamp duty hikes announced at Budget 2023 have been inadequate in stemming demand for higher-value properties.

STEMMING HIGH FOREIGN DEMAND AND SPILLOVER EFFECTS

"We want to make this a pre-emptive measure," National Development Minister Desmond Lee said last Thursday, noting that foreign purchases accounted for 7 per cent of all private property transactions in the first quarter of 2023, an increase from the 3 per cent to 4 per cent average in recent years.

Such a surge could push residential properties in downtown Singapore to astronomical heights, well beyond the reach of most Singaporeans. The average unit prices for projects in the core central region (CCR) reached $2,960 in the first quarter, a 4.3 per cent increase year on year, while prices hit $2,640 in the rest of central region (RCR), a 15.2 per cent increase.

These have had spillover effects to projects in the outside central region (OCR), with outpriced buyers flocking to new launches. The OCR psf price has shot up by 16.3 per cent since mid-2022 to $2,080 in the first quarter of 2023, driven largely by the July launch of the 372-unit AMO Residence, which set a new $2,110 psf benchmark for the area.

Many subsequent projects in this region sold most of their units over their launch weekends despite being priced at more than $2,100 psf – including Sceneca Residence, The Botany at Dairy Farm and Lentor Modern, with Singapore citizens making up more than 90 per cent of buyers.

MODERATING EFFECT ON NEW PROJECT LAUNCHES

It is clear the goals of the ABSD hikes are twofold: First, the revised ABSD rates for foreigners aim to slow capital inflows that make Singapore residential property a hot investment asset, with one of the strongest rental markets in the world.

Second, the slight bump in ABSD rates to 20 per cent for Singapore citizens and 25 per cent for PRs imposes higher costs on price-sensitive local investors snapping up second and subsequent properties.

Combined, these two should have a moderating effect on new project launches.

Developers may be compelled to review their pricing and marketing strategies, especially if foreign demand dissipates altogether from the markets. They may reconfigure project compositions to increase smaller-sized units to meet the demand of more price-sensitive local buyers.

At the same time, they may need to set more attractive pricing to sell larger penthouse units popular among foreign buyers. These are the same buyers who snapped up a duplex penthouse unit at Klimt Cairnhill for nearly $30 million in February, but who may not return with the new 60 per cent ABSD.

Price discounts will be the last resort and applied only to projects near their remission deadline for developers to avoid paying the full 40 per cent ABSD for residential developments if any unit remains unsold within five years of the acquisition date.

Developers at the 37-unit 38 Jervois project in the Tanglin neighbourhood slashed prices by up to 24 per cent to clear the balance of 16 unsold apartments in June 2020.

SCENARIO 1: MAKING CENTRALLY LOCATED APARTMENTS MORE AFFORDABLE FOR LOCALS

Still, the market could really go two ways after this latest move.

Most property watchers and analysts project the impact to be small, given that foreigners make up only a handful of total transactions in the private residential market, with local first-time buyers and local owner-occupiers ready to pounce on good deals and fill the void.

This first optimistic scenario could see private home prices rising between 2 per cent and 4 per cent for the full year in 2023. Developments with smaller units should have an easier time offloading homes without needing to adjust prices.

Blossoms by the Park, the first condominium launched since the ABSD hikes were announced, sold about 75 per cent of its 207 units at its weekend launch, with most of the apartments snapped up comprising one- and two-bedroom units. Ninety-six per cent of buyers were Singapore citizens and PRs.

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The overall long-term effect might be to make private residential homes, particularly those in the CCR and RCR, more accessible to middle- and higher-income Singaporeans.

SCENARIO 2: REPEAT OF THE HOUSING TUMBLES OF 1997 AND 2008

However, a less optimistic second scenario could unfold, given the high interest rate environment and the rising spectre of a recession. The last two economic crises in 1997 and 2008, driven by a real estate bubble, saw a 57 per cent and 27 per cent drop in the private residential market price index from the peak after a period of exuberant expansion.

The outbreak of the 1997 crisis caused private property prices to decline for 10 consecutive quarters. The impact of the global financial crisis in 2008 was comparatively short-lived, with the private property market taking a V-shaped recovery after a year. Housing Board prices were relatively insulated, especially in 2008.

The cumulative private property price growth of close to 20 per cent over the past two years also seems to mimic conditions leading up to the housing market tumbles in 1997 and 2008, where developers and buyers rushed to enter the market and outbid others for a piece of the pie. They were subsequently caught by surprise as lending tightened and banks reassessed their exposure, leading to less funding available and higher interest rates as the crisis played out.

Amid the persistence of the Ukraine war, geopolitical tensions and the limits of China's reopening, the gloomy global outlook this time around could dampen liquidity if a prolonged recession occurs.

Observers are keenly watching both the property market and financial indicators for warning signs that Singapore may be heading into this second scenario. Worryingly, the cost of financing a property investment has increased, with the Singapore Overnight Rate Average surging to a 17-year high of 3.58 per cent in April. Bankruptcy applications, a leading indicator, saw a rise of 13.4 per cent in 2022, although bank sales of distressed properties have not yet seen an uptick over the same period.

For investors depending on rental cash flows, these rising interest rates have thus far been cushioned by a buoyant private housing rental market. The URA private residential property rental index increased by 27 per cent in 2022.

However, a sustained high interest rate environment could strain the finances of owner-occupiers who have committed to long-term mortgage loans and do not rely on rentals to ease their higher mortgage payments.

A rapid cool-down in the private property market – if stubbornly high interest rates cause buyers to pull back at the same time as home owners who borrowed cheaply during the pandemic to purchase homes now feel the heat of higher mortgage payments and want to sell – can trigger a downturn in Singapore.

The recent cooling measures are undoubtedly aimed at taming runaway prices to avoid this painful reset. The deeper worry is that they come too little, too late.

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