Source: *The Business Times*, p11
Date: 30 August 2024

Singapore property players more optimistic in Q2 on expected interest rate cuts: NUS poll

Based on the survey, 73.1% of respondents indicate a slowdown in the global economy as the top risk

By Samuel Oh
samueloh@sph.com.sg

SENTIMENTS in the property market seem to be turning for the better in the second quarter, based on a survey by the Institute of Real Estate and Urban Studies (Ireus) at the National University of Singapore (NUS).

Market sentiments remained largely stable and cautiously positive as the market anticipates an improvement in economic performance in the second half of the year amid persisting global instability, said Ireus.

"The economic fundamentals here are sound, and in tandem with the upcoming easing of interest rates, we would expect overall market sentiment to improve further over time," said Ireus' director Professor Qian Wenlan, citing the 2.9 per cent year-on-year gross domestic product growth in Q2, based on the Ministry of Trade and Industry's advanced estimates.

The Current Sentiment Index – which follows changes in sentiment over the past six months – bottomed out at 4.2 in Q3 2023, and climbed to hit 4.8 in Q2 this year, up from 4.7 in the preceding quarter.

Notably, the Future Sentiment Index – which tracks sentiment changes in the next six months – remained constant at 5.1 in Q2, reflecting more optimistic sentiment, compared with the 4.5 recorded three quarters earlier.

The Composite Sentiment Index – comprising the Current Sentiment Index and Future Sentiment Index, and serving as a barometer of general prevailing sentiment – remained constant at 4.9 in Q2 2024, which is below the neutral score of 5.

"The market has remained conservative in view of various uncertainties," said Prof Qian.

"In addition to ongoing geopolitical conflicts, the stock market rout of Aug 5 earlier this month was triggered by fears of a US recession, which, in a hard-landing scenario, could percolate worldwide," she added.

Top risks

The survey found that 73.1 per cent of respondents indicated a slowdown in the global economy as the top risk to watch, with another 46.2 per cent of them citing rising construction costs as potential risks that may adversely affect sentiment over the next six months.

Concerns over job losses or declines in the domestic economy and the increased supply of new development land ranked third, cited by 38.5 per cent of respondents.

"There is, however, a silver lining amid such a grim landscape, since the US Federal Reserve has reversed its stance on interest rates and indicated that it will likely ease monetary policy," said Prof Qian.

Lower interest rates and increased credit availability could help reduce business expenses, alleviating current concerns about the rising costs of doing business, she noted.

Other negative factors that may impact market sentiment included excessive supply of new property launches, rising from 26.5 per cent in the previous quarter to 34.6 per cent in Q2.

About 30.8 per cent of respondents raised concerns about government intervention to cool the market, increasing from 11.8 per cent who said so in Q1.

The tightening of financing and liquidity in the market and rising inflation and interest rates showed significant declines during the quarter, with the former dropping from 47.1 per cent in Q1 to 19.2 per cent in Q2, and the latter decreased to 19.2 per cent in Q2, down from 50 per cent previously.

Only 7.7 per cent of the respondents said there is a risk of a real estate price bubble increasing in Q2, from 2.9 per cent in the previous quarter.

More than half of the respondents are expecting a moderately or substantially higher number of units to be launched in the next six months, says Ireus. PHOTO: BT FILE

By sector

In Q2, prime residential and business park/hi-tech space were the worst performing sectors, with a negative net current balance of 42 per cent.

In terms of future net balance, prime residential recorded negative 27 per cent while business park/hi-tech space posted negative 23 per cent.

"The slowdown in home sales in the prime private market and the rising vacancy in business parks could be possible causes of the weakening performance of the two sectors," said Sing Tien Foo, provost's chair professor of real estate at NUS Business School. He added: "More headwinds will be expected in these sectors, with uncertainty on interest rates and the global economic climate ahead."

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

The office sector showed a negative 19 per cent for its current net balance, but had the worst performance of negative 38 per cent for future net balance in Q2.

"Office and logistics rental growth (are) tepid as economic tardiness is crimping business confidence, while cost concerns remain high on the agenda," said a respondent.

Others such as suburban residential and industrial/logistics sectors continued to record negative scores in both its current and future net balances in Q2.

In contrast, suburban retail and the hotel/serviced apartments were the only two sectors with positive current net balance and future net balance.

When it came to prime retail's current net balance, the sector registered a negative 8 per cent while maintaining neutrality in its future net balance score.

What developers expect

For new project launches, 56.2 per cent of the developers surveyed in Q2 expect a moderately or substantially higher number of units to be launched in the next six months, while 31.3 per cent expect the number to remain the same. Only 12.5 per cent anticipate a lower number of new launches.

In terms of pricing, 25 per cent of developers believe prices to be moderately higher for new launches, up from 22.2 per cent in Q1. About 75 per cent expect the price level to remain the same. None of them believe that unit prices will decrease in the quarter.

A respondent added: "With increased options available, homebuyers are more discerning and price-sensitive. Developers may adjust pricing strategies, but major price corrections are improbable due to committed costs."

Developers flagged land costs as the top concern in Q2, cited by 87.6 per cent of them, slightly lower than the 88.9 per cent in Q1.

Other key concerns include labour (81.2 per cent), financing (81.2 per cent), building materials (75 per cent) and professional services (56.2 per cent).

The Real Estate Sentiment Index is the result of a poll among senior executives involved in Singapore's real estate and development industry, and includes developers, consultants, financial institutions, professional firms and service providers.