

The SiSAM Connect

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MARKET COMMENTARY

On 10 March 2017, the Singapore government announced the easing of property measures relating to the seller's stamp duty (SSD) as well as the total debt servicing ratio framework (TDSR). The changes were followed by the introduction of Additional Conveyance Duties (ACD) for Property Holding Equity (PHE), a new stamp duty imposed on residential property transactions involving significant changes in equity interest in entities that primarily hold residential properties. This effectively closed the previous differential in stamp duty treatment between such indirect property transactions and direct property deals. With these recent announcements, two questions invariably come to mind: (1) How would these policy changes affect our real estate outlook? (2) Does this signal more easing of the property measures by the government in the near future?

For (1), we are of the view that the recent changes in property measures do not represent an easing stance by the government; our bearish view on private residential properties remains and we believe that Singapore residential prices will continue its gradual downward trajectory in the near to medium term, barring any unforeseen market disruptions or global macroeconomic developments. On the contrary, the introduction of ACD will add greater pressure on developers that are still holding onto significant unsold residential stock. We could see the significant impact of ACD on developers' psyche when they rushed to hammer last minute deals before the new stamp duties come into effect. According to media reports, Sing Holdings' Robin Residences and at least two other bulk transactions were transacted to avoid the ACD. Sources revealed the other two projects as TwentyOne Angullia Park and The Lumos in Leonie Hill (both freehold district 9 projects). Another bulk sale is also believed to have been done at The Line @ Tanjong Rhu. For the developers that did not manage to clear their past due residential stock in time, they will now have to either slash prices further or face stiff QC penalties on their unsold units.

For (2), we believe that the Singapore government remains unconvinced that residential property prices have corrected to an appropriate level. Notwithstanding that Singapore residential prices has continued to decline for a record 14th consecutive quarter (cumulative decline of 11.7% since the September 2013 peak), the current home price index remains above the previous peak prior to the 2008 Global Financial Crisis. The relatively modest decline of 11.7% remains a far cry from the 41.7% decline post-Asian Financial Crisis, 20.7% post-SARS and 26.1% post-Global Financial Crisis. In spite of falling home prices, new developer launches and home sales have seen pick-ups recently, reflecting the still strong underlying demand by homebuyers and investors. We also note that the interest rate environment remains benign despite recent rate hikes by the US Fed. Prospect of further easing soon is remote.

WHAT'S HAPPENING ON THE GROUND?

- With the Singapore government closing a tax loophole with the introduction of ACD, developers may have to consider discounting their unsold luxury homes or pay stiff penalties for missing government-mandated sales deadlines. About 2,098 homes remain unsold in 57 projects and penalties on these could total about S\$647 million this year, according to industry estimates based on official data (Source: Straits Times, 3 April)
- Condo resale prices continued to dip in February in a sign that this market segment has yet to bottom out. Values declined by 0.3% from January to February, according to flash estimates of the NUS Singapore Residential Price Index (SRPI). The fall followed the 0.1% dip in values from December to January (Source: Straits Times, 29 March)
- Economists in Singapore are keeping a close watch on a scheduled monetary policy statement due in early April, following the release of factory output data that showed a broader uplift for the manufacturing sector. Data showed that factory output in February continued to grow by 12.6% from a year ago, beating economists' expectations of a 10% increase (Source: Business Times, 25 March)
- According to URA's latest flash estimates, Singapore home prices fell 0.5% in the first quarter of 2017, extending the drop in property values to a record 14th quarter. The three-and-a-half year decline is the longest since the data was first published in 1975 (Source: Bloomberg, 3 April)

- Developer Top Global is seeking a delisting from the Singapore Exchange (SGX) to avoid looming penalties it would otherwise have to pay for unsold homes a year from now. If successful, Top Global would become the 4th property firm in Singapore to exit SGX in recent years for this reason (Source: Straits Times, 29 March)
- Developers' residential sales momentum had picked up this year, even before the recent easing of the property cooling measures. A total 977 new private homes and 329 executive condominiums (ECs) were sold by developers in February - respectively 2.6 times and 1.8 times more than the numbers sold in January (Source: Business Times, 16 March)

Table 1: New Property Measures

Seller's Stamp Duty (SSD)

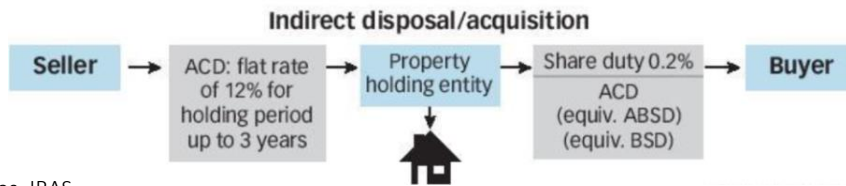
HOLDING PERIOD	JAN 14, 2011 TO MAR 10, 2017 INCLUSIVE* (%)	MAR 11, 2017 ONWARDS* (%)
Up to 1 year	16	12
More than 1 year and up to 2 years	12	8
More than 2 years and up to 3 years	8	4
More than 3 years and up to 4 years	4	No SSD payable

* For actual price or market value based on date of purchase or change in zoning

Total Debt Servicing Ratio (TDSR)

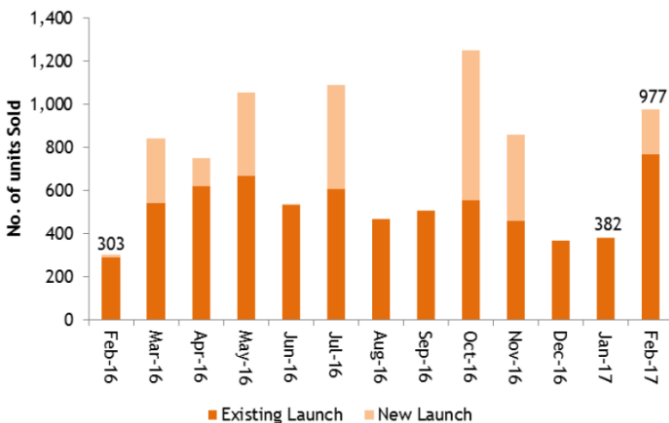
- ❖ For mortgage equity withdrawal loans (MWLs) with loan-to-value ratio (LTV) of 50% and below, TDSR is not applicable
- ❖ For MWLs with LTV of over 50%, TDSR will be applicable

Additional Conveyance Duties (ACD)



Source: Business Times, IRAS

Table 2: Primary Developer Residential Sales



Source: OrangeTee

	% Change		
	Month on Month	Year on Year	Year to Date *
Feb	155.8%	222.4%	130.6%
Jan	4.1%	17.9%	13.7%

*Based on Realis

Current Funds by SiSAM

SiS Real Estate Opportunity Fund | SiS Intrepid Venture | SiS Credit Fund

To find out more, email enquiry@sisasset.com.