Ageing population not a problem for Singapore property prices| Higher Property Tax rates and Annual Value | Households Gear up to buy Property | Market direction for 2023

Ageing population not a problem for Singapore property prices

While median age of Singapore residents rose from 37.4 years to 42.1 years from 2010 to 2022, the worry is a potential fall in demand as population ages. While analysing impact on demand, we notice several phenomenon. One, down-graders contribute to a vibrant market for the various segment groups be it Landed Properties to Condominiums, Condominiums to HDB, or even large HDBs to smaller ones.

THE BUSINESS TIMES

BT businesstimes.com.sg

Tuesday, December 06, 2022

THE LEVEL GROUND

An ageing population is not a problem for the private residential market in Singapore

It can offer rich pickings for developers who are able to meet the needs of the growing ranks of affluent elderly who are able to live independently

LESLIE YEE

Singapore residents

Breakdown by selected age groups

	2022	CHANGE FROM 2021 (%)
Number of residents	4,073,239	▲ 2.2
Number aged 65 years & over	678,133	▲ 6.1
Number aged 70 years & over	430,203	▲ 6.6
Number aged 80 years & over	135,827	▲ 3.4
Number aged 90 years & over	22,942	▲ 3.9

SINGAPORE'S population is rapidly ageing – could an ageing population be a major headwind for the private homes market?

The median age of Singapore residents rose from 37.4 years in mid-2010 to 42.1 years in mid-2022. Around 16.6 per cent of the resident population is aged 65 years and over in mid-2022, versus about 9 per cent in mid-2010.

While rising home loan rates could be a passing threat, what may hurt home prices in the longer term is a potential fall in demand as the population ages. If many people stop working as they age, income levels and the ability to fund upgrading of homes fall.

... needs. Staying in an HDB home instead of a private one typically results in paying much lower monthly management fees.

Downgraders help contribute to a vibrant housing market. Some people who move from private to HDB homes may zero in on certain choice resale units and pay top dollar for them, which in turn benefits those who sell their HDB homes and buy a private home.

Private homeowners will need to wait out 15 months after selling their private homes before they can buy a non-subsidised HDB resale flat. This wait-out period does ...

... above who are moving from a private home to a four-room or smaller HDB resale flat.

Also, some older persons may be fine buying a leasehold home with say 30 years of land lease outstanding, as they will not outlive the land lease tenure. This in turn improves the liquidity for older leasehold homes.

Independent and income-earning

Critically, an ageing population does not translate into much weaker demand for homes because more of the elderly may work to live independently and are still in...

For wealthy elderly persons, whether locals or foreigners, living in Singapore can be desirable because of the good infrastructure, political stability, high-quality healthcare and high level of public safety.

Source: The Business times

Hence, even if the ageing population results in a reduced pool of income earners, it scarcely causes a dent in demand or transaction volumes, as shifts in portfolios are still likely to take place especially as the older population cash out of their asset for retirement, or when they move to a smaller home once their children have moved out.

Let's take a deeper look at the data from Singapore Department of Statistics to see if this trend is in line with Resident Household Data. In Table 1 below, we see private resident households growing 21% in the past 10 years despite the ageing population. Of note, 1 and 2-room HDB flats have grown a whopping 71% over the past ten years, most likely led by down-graders from the older generation. Resident households in condominiums and apartments have also grown 64%, we believe led by more fragmented and smaller family units. On the other hand, resident households in landed properties have dropped, also supporting the fact that more elderly are downgrading and right-sizing their housing, cashing out for retirement.

Table 1

	Growth (2012-2021)
Total Resident Households	21%
Total HDB Dwellings	16%
HDB 1- And 2-Room Flats	**71%**
HDB 3-Room Flats	13%
HDB 4-Room Flats	17%
HDB 5-Room And Executive Flats	8%
Condominiums And Other Apartments	**64%**
Landed Properties	-1%
Other Types Of Dwelling	8%

Source: Singapore Department of Statistics

This data is further supported by Table 2 shown below, where the number of 1 person and 2 person households grew 99% and 43% respectively in the past 10 years. Concurrently, the number of 4, 5 and 6 person households dropped 1%, 6% and 14% respectively. This corroborates the trend of smaller family households and fewer multigenerational families living together.

Table 2

	Growth (2012-2021)
Resident Households	21%
1-Person Households	**99%**
2-Person Households	**43%**
3-Person Households	25%
4-Person Households	-1%
5-Person Households	-6%
6-Person Households Or Larger	-14%

Source: Singapore Department of Statistics

Two, more elderly seek to live independently and still earn an income. Aged 65 and above, single resident households grew by 131%. Simultaneously, labour force participation rate for those aged 65 years and above grew from 17.6% in 2010 to 32.1% in 2022. Furthermore, retirement age and re-employment age will rise further to 65 years and 70 years respectively by 2030.

While some may look towards neighbouring countries with a lower cost of living for retirement, Singapore as a high-quality sanctuary still remains attractive. One outcome we feel the ageing population might translate to is for leasehold homes with shorter leases left to still have liquidity from this growing pool of homebuyers. Developers have likewise future proofed new projects to cater for flexible work-from-home spaces, with integrated developments offering the allure of amenities downstairs especially for older folks who want to avoid the hassle of commuting for groceries or banking services.

Higher tax rates and annual value

THE BUSINESS TIMES

BT businesstimes.com.sg

Saturday, December 03, 2022

Double whammy of higher tax rates, higher annual values could hit rental property owners

Analysts believe investors, particularly those with properties in the OCR and RCR, will soon feel the pinch from the increase

By Ry-Anne Lim
limmir@sph.com.sg

RESIDENTIAL property investors in Singapore could soon face a double whammy from higher property tax rates and an increase in annual values of both private and public housing, said analysts.

On Friday (Dec 2), the Ministry of Finance and Inland Revenue Authority of Singapore (Iras) announced that the annual values (AV) of most residential properties will be revised upwards from Jan 1, 2023, as part of their annual review of properties to calculate property tax payable. The AV assessment is based on estimated annual rent if the property was rented out.

Since AVs were last revised on Jan 1, 2022, Iras said market rentals of Housing and Development Board (HDB) flats and private residential properties had

Non-owner occupier tax rates

ANNUAL VALUE (S$)	EFFECTIVE JAN 1, 2023	PROPERTY TAX PAYABLE (S$)
First 30,000	11%	3,300
Next 15,000	16%	2,400
First 45,000		5,700
Next 15,000	21%	3,150
First 60,000		8,850
Above 60,000	27%	

ANNUAL VALUE (S$)	EFFECTIVE [illegible]	PROPERTY TAX PAYABLE (S$)
First 30,000	10%	3,000
Next 15,000	12%	1,800
First 45,000		4,800
Next 15,000	14%	2,100
First 60,000		6,900
Next 15,000	16%	2,400
First 75,000		9,300
Next 15,000	18%	2,700

The majority of HDB residents will pay between S$30 and S$70 more in property tax after rebate in 2023, said the Inland Revenue Authority of Singapore on Friday (Dec 2). PHOTO: BT FILE

Source: The Business times

As rentals climb and landlords cheer, property investors should be mindful of the rise in property taxes especially as their annual value increases.

While the increase is less significant for lower valued properties, it does affect those even at the middle range with rents $5000/month and above, which at this point includes 2 bedder condominiums in the Rest of Central Region and 3 bedders in the Out of Central Region. Property taxes for an investment property with rentals of $5,000/month increases from $6,900 to $8,850, which is a difference of $1,950 a year.

For rentals at $7,500/month, property tax increase becomes more significant from $12,000 to $16,950, a whopping $4,950 increase. While landlords cheer the increase in rental income, we should nevertheless count our costs to ensure the numbers are still in our favour.

Households gear up to buy property

THE BUSINESS TIMES

BT businesstimes.com.sg

Saturday, November 26, 2022

Companies deleveraging while households gear up to buy property: MAS financial stability review

Heightened financial vulnerability from tighter financing conditions, crypto and climate risks

By Tan Nai Lun
tnailun@sph.com.sg

THE unwinding of pandemic-induced precautionary buffers has made Singapore's companies, households and banks more financially vulnerable this year, said the Monetary Authority of Singapore (MAS) in its annual Financial Stability Review on Friday (Nov 25).

MAS expects all three sectors to remain resilient in the face of potential global macro-financial shocks next year, but flagged pockets of risks among highly leveraged households and smaller businesses.

In its review, MAS said the Singapore economy will slow to a "below-trend pace" in 2023 amid weakening external demand, high inflation and tighter financing conditions. It also noted emerg-

MAS expects Singapore companies, households and banks to remain resilient in the face of potential global macro-financial shocks next year, but flagged pockets of risks among highly leveraged households and smaller businesses. PHOTO: ST FILE

Source: The Business times

As we approach 2023, while MAS expects Singapore companies, households and banks to remain resilient, certain headwinds such as weakening external demand, high inflation and tighter financing conditions inevitably leads to slowing of the economy.

For the property market, we have seen firm underlying demand and strong purchasing power giving rise to prices despite rising interest rates. This rise is especially significant in Out of Central Region (OCR) properties catering mostly to own-stay buyers.

Other than households more vulnerable with higher expenditures relative to their income, non-performing home loan ratios are at a decade low of 0.3%, presenting very healthy leverage positions of households.

Where do we see the market heading to in 2023?

Due to the timely introduction of cooling measures in 2022 which has kept our property market stable, significant drops in the property price index are unlikely especially due to ready demand and shortage of supply. However, due to the high interest rate environment, tighter loan restrictions and looming slowdown in the economy, we see opportunities in the 1st half of 2023 as motivated sellers become more cognizant of buyers' affordability especially on higher quantum properties, and able to agree on more reasonable prices around past transacted ones, rather than fishing for high cash over valuation offers.

Additionally, the supply of new launches H1 2023 would provide a large plethora of options rather than the limited supply we saw in 2022. This window of opportunity will not last for a long time as prices are expected to start picking up again once interest rates start to drop, economy picks back up and existing supply gets snapped up. Not to forget China's loosening of Covid restrictions, which could possibly add to demand for our local private properties both for purchase and rental.

We have lots more opportunities and strategies we'd like to share with you, contact us for a quick chat today!

Kind regards,
STL Properties

THE BUSINESS TIMES

BT businesstimes.com.sg

Tuesday, December 06, 2022

THE LEVEL GROUND

An ageing population is not a problem for the private residential market in Singapore

It can offer rich pickings for developers who are able to meet the needs of the growing ranks of affluent elderly who are able to live independently

LESLIE YEE
lyee@sph.com.sg

Singapore residents
Breakdown by selected age groups

	2022	CHANGE FROM 2021 (%)
Number of residents	4,073,239	▲ 2.2
Number aged 65 years & over	678,133	▲ 6.1
Number aged 70 years & over	430,203	▲ 6.6
Number aged 80 years & over	135,827	▲ 3.4
Number aged 90 years & over	22,942	▲ 3.9

Note: figures are for end-June

Compiled by BT based on data by Singapore Department of Statistics

For wealthy elderly persons, whether locals or foreigners, living in Singapore can be desirable because of the good infrastructure, political stability, high-quality healthcare and high level of public safety. PHOTO: BT FILE

SINGAPORE'S population is rapidly ageing – could an ageing population be a major headwind for the private homes market?

The median age of Singapore residents rose from 37.4 years in mid-2010 to 42.1 years in mid-2022. Around 16.6 per cent of the resident population is aged 65 years and over in mid-2022, versus about 9 per cent in mid-2010.

While rising home loan rates could be a passing threat, what may hurt home prices in the longer term is a potential fall in demand as the population ages. If many people stop working as they age, income levels and the ability to fund upgrading of homes fall.

Downgrading one's home, as in selling an owner-occupied home and replacing it with a less pricey one, may be a growing trend with an ageing population. Think of people who move from large landed homes to condominiums, or from freehold to older leasehold private homes, or from private homes to Housing and Development Board (HDB) homes, or from large HDB flats to smaller ones.

Such moves make sense. Often, paper gains on the appreciation of a long-held home are realised. Downgrading frees up cash to be invested in high quality bonds or dividend paying equities that generate payouts of a few per cent per annum to help fund retirement needs. Staying in an HDB home instead of a private one typically results in paying much lower monthly management fees.

Downgraders help contribute to a vibrant housing market. Some people who move from private to HDB homes may zero in on certain choice resale units and pay top dollar for them, which in turn benefits those who sell their HDB homes and buy a private home.

Private homeowners will need to wait out 15 months after selling their private homes before they can buy a non-subsidised HDB resale flat. This wait-out period does not apply to people aged 55 and above who are moving from a private home to a four-room or smaller HDB resale flat.

Also, some older persons may be fine buying a leasehold home with say 30 years of land lease outstanding, as they will not outlive the land lease tenure. This in turn improves the liquidity for older leasehold homes.

A future-ready housing developer may want to cater to potential home buyers in their 70s or 80s, who are looking for homes that are easy to move around in and offer the flexibility to work-from-home

Independent and income-earning

Critically, an ageing population does not translate into much weaker demand for homes because more of the elderly may seek to live independently and are still income-earning.

One or two-person resident households, headed by an older person, are a fast-growing demographic. Resident households comprising a married household reference person, who is aged 65 years and over, and a spouse grew by 162 per cent between 2010 and 2021. Over the same period, the number of one-person resident households with a person aged 65 years and older grew by 131 per cent, while the number of resident households grew by 21.4 per cent.

Possibly, as homes get smarter and older people get more adept with using technology, many older people may be better able to live on their own. Savvy entrepreneurs could offer more services to cater to the rising number of elderly who live independently.

The labour force participation rate among residents aged 65 years and over grew from 17.6 per cent at mid-2010 to 32.1 per cent at mid-2022 – faster than the growth in the labour force participation rate from 66.2 per cent to 70 per cent among residents aged 15 years and over. Between mid-2010 and mid-2021, the labour force participation rate among residents aged 75 years and over more than doubled from 5.4 per cent to 11.8 per cent.

Effective Jul 1, 2022, the retirement age and re-employment age in Singapore rose from 62 to 63 years and from 67 to 68 years respectively. The retirement age and re-employment age will rise further to 65 years and 70 years respectively by 2030. With a tight labour market and tailoring of work conditions to better suit older workers, expect higher labour force participation rate among the elderly.

Quality healthcare and safety

Many places in Asia, including nearby destinations, offer much cheaper alternatives to live out one's golden years. The pitch from those selling homes overseas can be for a Singaporean to sell his home here, buy a bigger place overseas, enjoy a cash windfall from such an exercise and live in a place where one's money stretches much further.

But even for older Singaporeans, who stop working, the pull of moving overseas may not be strong. Some may have children who work here as job prospects for young adults are relatively bright, and hence want to live here to be close to family members. Many older folk may choose to live in Singapore because they value the access to the high quality and affordable public healthcare system.

For wealthy elderly persons, whether locals or foreigners, living in Singapore can be desirable because of the good infrastructure, political stability, high-quality healthcare and high level of public safety.

Some wealthy older folk may in fact want to invest more in their homes here because they spend more time at home as they age and seek a high-quality sanctuary to live out the golden years.

Megatrends such as greater adoption of remote working, growth of online retail, and climate change are challenging property developers and landlords to offer spaces that meet the evolving needs of users. Add to that an ageing population, but one with older persons who are possibly fairly active and wealthy.

A future-ready housing developer may want to cater to potential home buyers in their 70s or 80s, who are looking for homes that are easy to move around in and offer the flexibility to work-from-home. Living in an integrated development, where one can easily access groceries, food, banking services and medical facilities, could be alluring to older homeowners who stop driving. Also, some of the elderly may prefer new homes to avoid the hassle of renovating an older unit.

Instead of spelling peril for the private homes market, an ageing population can offer rich pickings for developers who are able to meet the needs of the growing ranks of the affluent elderly.

THE BUSINESS TIMES

BT

businesstimes.com.sg

Saturday, December 03, 2022

Double whammy of higher tax rates, higher annual values could hit rental property owners

Analysts believe investors, particularly those with properties in the OCR and RCR, will soon feel the pinch from the increase

By Ry-Anne Lim
limmin@sph.com.sg

RESIDENTIAL property investors in Singapore could soon face a double whammy from higher property tax rates and an increase in annual values of both private and public housing, said analysts.

On Friday (Dec 2), the Ministry of Finance and Inland Revenue Authority of Singapore (Iras) announced that the annual values (AV) of most residential properties will be revised upwards from Jan 1, 2023, as part of their annual review of properties to calculate property tax payable. The AV assessment is based on estimated annual rent if the property was rented out.

Since AVs were last revised on Jan 1, 2022, Iras said market rentals of Housing and Development Board (HDB) flats and private residential properties had risen by more than 20 per cent. The AVs of residential property will therefore be revised from Jan 1, 2023, to reflect this, it said.

Owners of higher-value properties and those holding properties for rent will see a larger tax bill, in line with revised rates announced in Budget 2022. Changes were made to put in place a more progressive structure, with higher value and non-owner-occupied residential properties being taxed at higher rates. Owner-occupiers of one- and two-room HDB flats continue to be exempted from paying property tax.

Owner-occupiers of one- and two-room HDB flats continue to be exempted from paying property tax.

Analysts believe that investors, particularly those with properties in the Outside Central Region (OCR) and Rest of Central Region (RCR), will soon start feeling the pinch from this increase.

Based on CBRE's calculations and assuming AVs increase by 20 per cent in tandem with residential rentals, non-owner occupiers holding properties with a current AV of S$30,000 would have an AV of S$36,000 in 2023. Their property taxes will climb by S$1,260 or 42 per cent next year.

Properties with a current AV of S$60,000 would have an AV of S$72,000 next year, with property taxes rising by S$5,190 or 75.2 per cent.

Properties with current AVs of S$90,000 would have an AV of S$108,000 next year, with a hike in property taxes of S$9,810 or 81.8 per cent.

"(This) will further cream off the rental gains so far for investors or non-occupier homeowners," said Tricia Song, head of research at CBRE South-east Asia.

Non-owner occupier tax rates

ANNUAL VALUE (S$)	EFFECTIVE JAN 1, 2023	PROPERTY TAX PAYABLE (S$)
First 30,000	**11%**	**3,300**
Next 15,000	16%	2,400
First 45,000		**5,700**
Next 15,000	21%	3,150
First 60,000		**8,850**
Above 60,000	**27%**	

ANNUAL VALUE (S$)	EFFECTIVE JAN 1, 2015	PROPERTY TAX PAYABLE (S$)
First 30,000	**10%**	**3,000**
Next 15,000	12%	1,800
First 45,000		**4,800**
Next 15,000	14%	2,100
First 60,000		**6,900**
Next 15,000	16%	2,400
First 75,000		**9,300**
Next 15,000	18%	2,700
First 90,000		**12,000**
Above 90,000	**20%**	

At current AVs and revised tax rates:

- For properties with AV of S$30,000, property tax will increase by S$300 or 10% in 2023.
- For properties with AV of S$60,000, property tax will increase by S$1,950 or 28.3% in 2023.
- For properties with AV of S$90,000, property tax will increase by S$4,950 to S$16,950 or 41.3% in 2023.

Assuming AVs are revised upwards by 20% on average:

- Properties with current AV of S$30,000 would have AV of S$36,000 in 2023, and 42% higher or S$1,260 more property tax payable.
- Properties with current AV of S$60,000 would have AV of S$72,000 in 2023, and 75% higher or S$5,190 more property tax payable.
- Properties with current AV of S$90,000 would have AV of S$108,000 in 2023, and 81.8% higher or S$9,810 more property tax payable.

Source: Iras and CBRE

Executive director of research and consultancy at Savills Singapore Alan Cheong added that the property taxes payable have already risen sharply as rentals in both the OCR and RCR soared by 25 to 50 per cent – or even more in certain instances – in 2022.

"Therefore, the amount of property taxes payable under the existing rates will still be very much higher even without the need to raise them," he said.

Cheong added that the rise in property taxes is unlikely to curb property investment appetite. This is because some homeowners may "feel the need to lease out their properties to cover their monthly overheads, such as personal expenses or mortgage payments", he said, and more so with rising interest rates and a slowing economy amid a strong rental market.

The majority of HDB residents will pay between S$30 and $70 more in property tax after rebate in 2023, said the Inland Revenue Authority of Singapore on Friday (Dec 2). PHOTO: BT FILE

ERA Realty head of research and consultancy Nicholas Mak highlighted that landlords might use this as an opportunity to raise their rent, especially for those looking to renew rental leases.

"However, based on our calculations, the actual increase in rental on a monthly basis for a typical three-bedroom condo unit in the OCR and RCR is about S$100 per month," he said.

"Many tenants are already feeling the pain from rising rentals over the past one and a half years. Landlords should be mindful not to be too greedy and kill the goose that lays the golden eggs."

To mitigate the effect of higher AVs, all owner-occupied properties will receive a one-off property tax rebate capped at S$60, equivalent to 60 per cent of the 2023 property tax bill, said the Ministry of Finance and Iras in a press statement on Friday.

This means that the majority of HDB residents will pay between S$30 and S$70 more in property tax after rebate next year, compared with the property tax this year, they said.

Government revenue from property taxes rose 49.3 per cent to S$4.67 billion in FY21, from a lower base of S$3.13 billion in FY20 when the government granted qualifying non-residential properties property tax rebate for the period of Jan 1, 2020 to Dec 31, 2020.

Compared to the S$4.76 billion collected in FY19, it dipped 1.9 per cent in FY21.

With both property tax rates and annual values being revised upwards, revenue from property tax looks set to grow further. Despite the hike in property taxes, PropertyGuru country manager of Singapore Tan Tee Khoon expects homeowners to be more concerned about economic uncertainties and rising interest rates. "Separately, we expect AVs to stabilise in 2023 since the rent increase is likely to slow as the supply crunch starts to ease," he said.

For next year, the owner of a five-room HDB flat would see their 2023 property tax payable increase by S$40.80 to S$52.80, to S$148 to S$196 after rebate – an almost 40 per cent increase at least.

For three-room HDB flat owners, property tax payable in 2023 will go up by S$7.20 to S$30.40 in 2023, to S$20.80 to S$40 after rebate. Owners of four-room HDB flats would pay an additional S$33.60 to S$45.60 in property tax next year, at S$107.20 to S$155.20.

For executive flats, property tax payable ranges from S$176.80 to S$224.80 after rebate next year, an increase of S$55.20 to S$67.20 from this year.

Iras added that property owners who face financial difficulties may approach them for assistance to discuss a suitable payment plan before the end of next January, including appealing for a longer payment plan.

THE BUSINESS TIMES

BT businesstimes.com.sg

Saturday, November 26, 2022

Companies deleveraging while households gear up to buy property: MAS financial stability review

Heightened financial vulnerability from tighter financing conditions, crypto and climate risks

By Tan Nai Lun
tnailun@sph.com.sg


MAS expects Singapore companies, households and banks to remain resilient in the face of potential global macro-financial shocks next year, but flagged pockets of risks among highly leveraged households and smaller businesses. PHOTO: ST FILE

THE unwinding of pandemic-induced precautionary buffers has made Singapore's companies, households and banks more financially vulnerable this year, said the Monetary Authority of Singapore (MAS) in its annual Financial Stability Review on Friday (Nov 25).

MAS expects all three sectors to remain resilient in the face of potential global macro-financial shocks next year, but flagged pockets of risks among highly leveraged households and smaller businesses.

In its review, MAS said the Singapore economy will slow to a "below-trend pace" in 2023 amid weakening external demand, high inflation and tighter financing conditions. It also noted emerging vulnerabilities from climate change and cryptocurrency assets.

A severe flooding shock across the Asean-5 economies – Indonesia, Malaysia, the Philippines, Singapore, and Thailand – could mean material losses for banks and insurers. Over the long run, physical and transition risks could also have a significant impact on banks' and insurers' balance sheets.

Meanwhile, the ease of access to crypto assets creates greater opportunities for cross-border capital flight and for shocks in the crypto ecosystem to spread through the traditional financial system. Growth in decentralised finance could also increase the proportion of unregulated financial services activity in the economy.

Corporates likely resilient

Among Singapore's corporates, a recovery in earnings as of the second quarter this year has eased leverage risks and raised debt servicing ability.

The corporate sector's debt-to-GDP ratio fell to 149 per cent in Q2 2022 from 156 per cent in Q2 2021.

The banking system's corporate non-performing loan (NPL) ratio fell to 2.3 per cent in the third quarter of 2022 from 3 per cent in Q3 2021.

But liquidity risks have increased significantly as cash buffers built during the pandemic are drawn down, while maturity risks have risen slightly due to an increase in the proportion of short-term debt usage.

Also, although not an immediate and material concern, there has been a rising trend of default risks in recent months.

The utilities and oil and gas sectors saw the steepest rise in probability of default, amid soaring commodity prices provoked by the war in Ukraine, while construction companies continue to see a rising trend due to supply-side challenges.

Small and medium-sized enterprises (SMEs) remain more vulnerable than large ones, with the accommodation and retail sectors having a higher proportion of vulnerable SMEs.

Bank loans to SMEs have risen 8.7 per cent over the year to Q3 2022, above the overall corporate sector loan growth of 3.3 per cent.

The NPL ratio for SMEs has fallen, although banks recognise that profits – typically leaner for SMEs – may be hit by headwinds from rising rates and persistent inflation.

Household debt manageable for most

The balance sheets of Singapore's household sector strengthened in the first three quarters of 2022, amid robust employment gains and strong wage growth.

But household financial vulnerabilities rose in Q3 on the back of higher maturity risks, as households took on more short-term debt.

Housing loans were the key driver of rising household debt, although debt grew at a slower pace since property market cooling measures were implemented in December 2021.

Housing NPL ratios also fell to a decade-low level of 0.3 per cent, while financial institutions and borrowers have built significant buffers against falling property valuations.

MAS' stress test suggested most households should be able to maintain their debt servicing ratios even under conservative scenarios of significant income losses and sharp interest rate hikes, while non-performing mortgage loans are expected to remain low.

But MAS flagged vulnerabilities among households that are more leveraged or have higher expenditures relative to their income.

Meanwhile, private residential property prices have continued to rise despite rising interest rates. This reflects firm underlying demand and strong purchasing power, MAS said.

Property prices rose by an average of 2.7 per cent quarter on quarter in the first three quarters of 2022, above the average gain of 2.6 per cent in 2021, with properties in the outside of central region (OCR) registering the strongest pace of increase.

Transaction volumes were 10 per cent above pre-Covid-19 levels, although they have fallen from recent highs in 2021.

As for rentals, strong leasing demand has caused the overall vacancy rate to fall to 5.7 per cent in Q3, below the 10-year average of 6.8 per cent, with rental prices increasing across all regions.

MAS expects the ramp-up in newly completed private residential units will alleviate some tightness in the rental market.

Banks continue to post strong financials

The banking sector in Singapore has emerged from the pandemic with strong capital and liquidity buffers, although economic uncertainties may weigh on credit risk management, MAS noted.

Credit growth has remained healthy amid growth in non-bank and interbank loans. The sector also had healthy capital buffers and low NPL ratios of 1.8 per cent as of Q3.

But MAS pointed out that tighter financial conditions and higher costs may weaken debt repayment capabilities of borrowers and hit the asset quality of banks. Resident leverage risk rose in 2022 amid a decline in liquidity buffers, although the sector's liquidity positions remained strong.

MAS expects banks will have sufficient liquidity to intermediate Singapore dollar and foreign currency loans, but noted heightened risks of liquidity imbalances in key international financial markets. The local banks have maintained strong capital and liquidity positions and registered higher net profits, as rising interest rates boosted net interest margins and interest income, MAS added.

The overall asset quality of local banking groups also improved, with the NPL ratio falling to 1.3 per cent in Q3 2022 and remaining below the overall banking system's NPL ratio.