Why demand for homes will remain strong in 2023 | A home is still affordable in S'pore

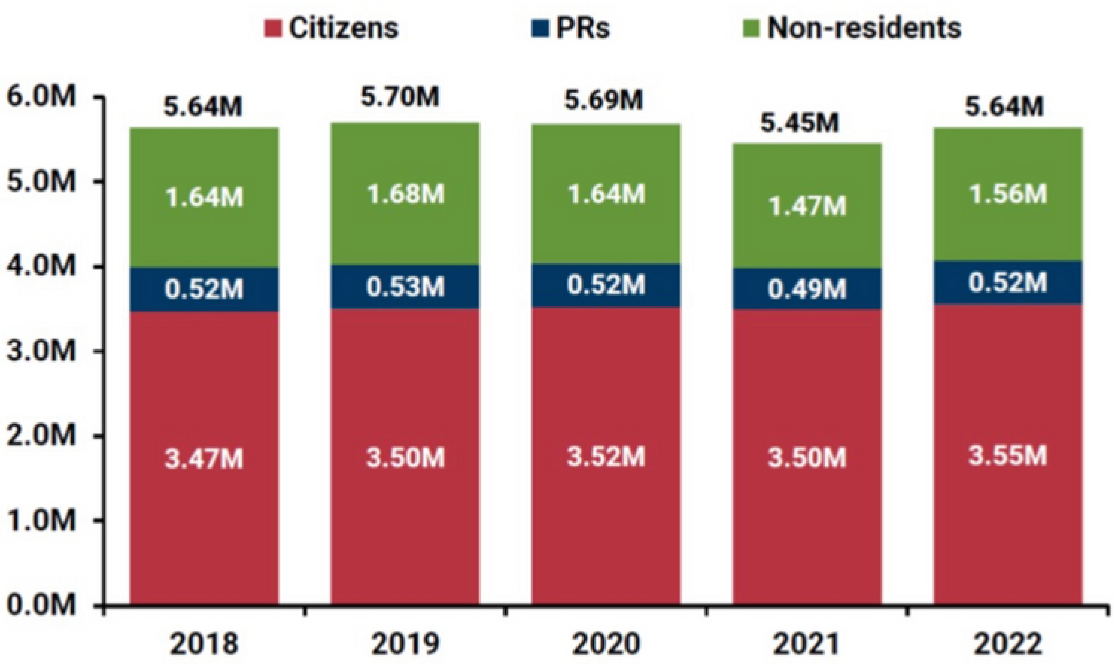
Why demand for homes will remain strong in 2023

As we welcome the new year, we want to highlight some key reasons that demand for homes will remain strong.

1. **New Residents**

Having had a negative growth in population due to Covid back in 2020 and 2021, we are currently behind time for the nation's 6.9m population white paper. In 2022, our population grew by 190,000 from 5.45m to 5.64m - we may have felt this on the road with increased traffic jams or crowds during major events such as countdown parties. This contributed to increased demand for rental properties in 2022, apart from just the commonly attributed factor of supply chain disruptions.

Chart 1: Total Population by residency status, as of June 2022



Source: Department of Statistics

Numbers of new PRs (6.3%) and Citizens (1.6%) grew faster in 2022, compensating for the drop from 2020 to 2021.

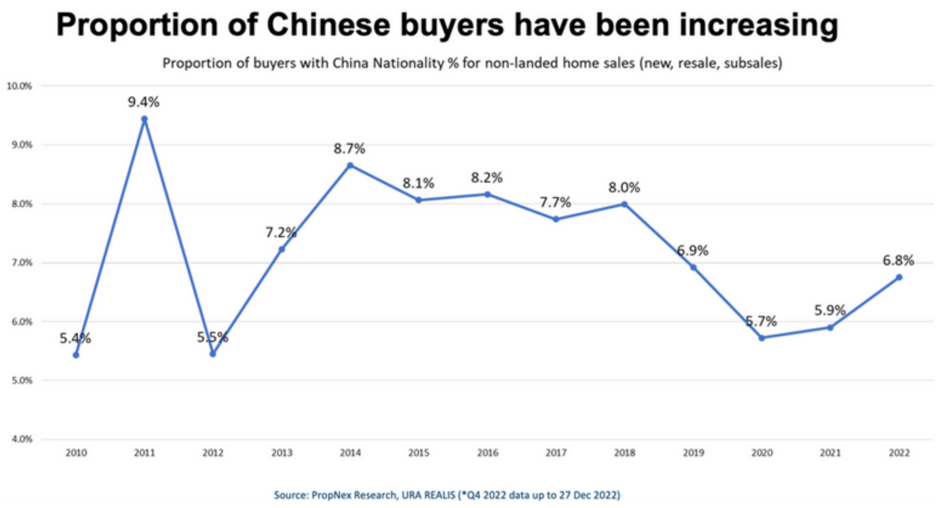
Table 1.1 Singapore Population Size and Growth by Residential Status

Year	Number ('000)					Average Annual Growth[1] (%)				
	Total Population	Singapore Residents			Non-Residents	Total Population	Singapore Residents			Non-Residents
		Total	Citizens	PRs			Total	Citizens	PRs	
2000	4,027.9	3,273.4	2,985.9	287.5	754.5	2.8	1.8	1.3	9.9	9.3
2010	5,076.7	3,771.7	3,230.7	541.0	1,305.0	1.8	1.0	0.9	1.5	4.1
2015	5,535.0	3,902.7	3,375.0	527.7	1,632.3	1.2	0.8	1.0	-	2.1
2016	5,607.3	3,933.6	3,408.9	524.6	1,673.7	1.3	0.8	1.0	-0.6	2.5
2017	5,612.3	3,965.8	3,439.2	526.6	1,646.5	0.1	0.8	0.9	0.4	-1.6
2018	5,638.7	3,994.3	3,471.9	522.3	1,644.4	0.5	0.7	1.0	-0.8	-0.1
2019	5,703.6	4,026.2	3,500.9	525.3	1,677.4	1.2	0.8	0.8	0.6	2.0
2020	5,685.8	4,044.2	3,523.2	521.0	1,641.6	-0.3	0.4	0.6	-0.8	-2.1
2021	5,453.6	3,986.8	3,498.2	488.7	1,466.7	-4.1	-1.4	-0.7	-6.2	-10.7
2022	5,637.0	4,073.2	3,553.7	519.5	1,563.8	3.4	2.2	1.6	6.3	6.6

Source: Department of Statistics

Additionally, the percentage of PMETs (Professionals, Managers, Executives, Technicians), generally having a higher purchasing power has increased from 62 to 64% from 2021 to 2022. *(Source: Ministry of Manpower)*

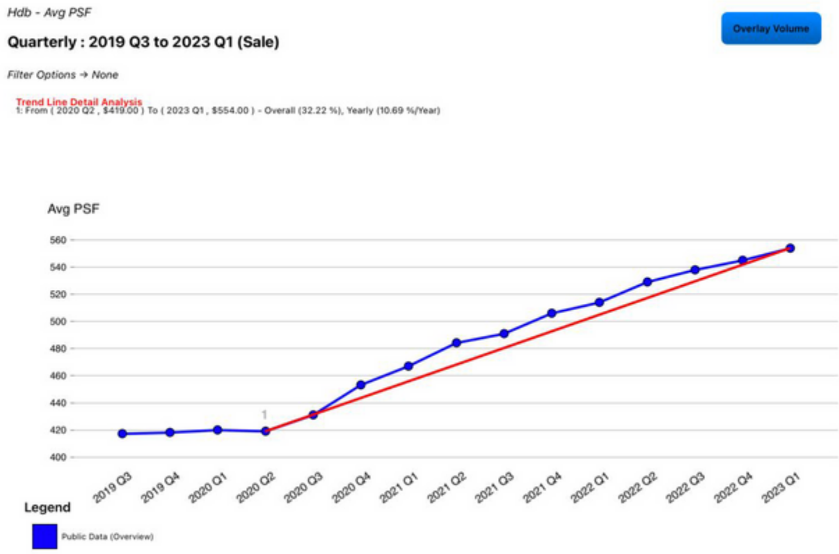
2. **China has reopened**



An increase in demand of property purchase amongst foreigners has been seen especially among the Chinese nationals who view Singapore as a safe haven to park their assets. Family offices in Singapore soared and almost doubled in 2020. As of 2021, there were 700 family offices set up in Singapore.

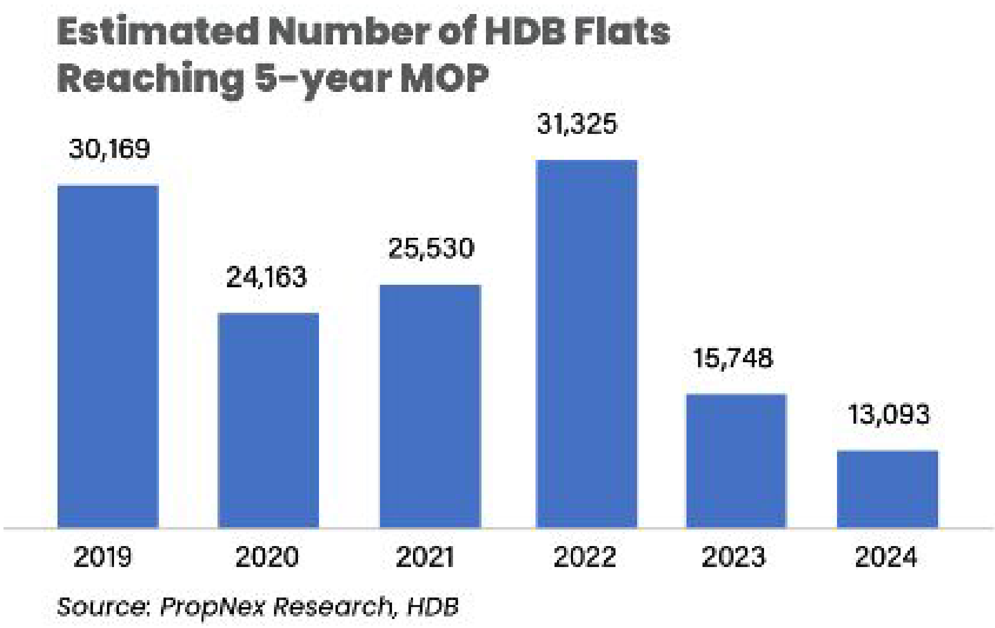
3. **Upgraders from HDB MOP**

While HDB Prices have been increasing 32% since the pandemic, HDB owners' incomes have also increased compared to 5-7 years ago when they first purchased their HDB flats. This is coupled with aspirations to upgrade to private housing, hence increasing demand for mass market condos.

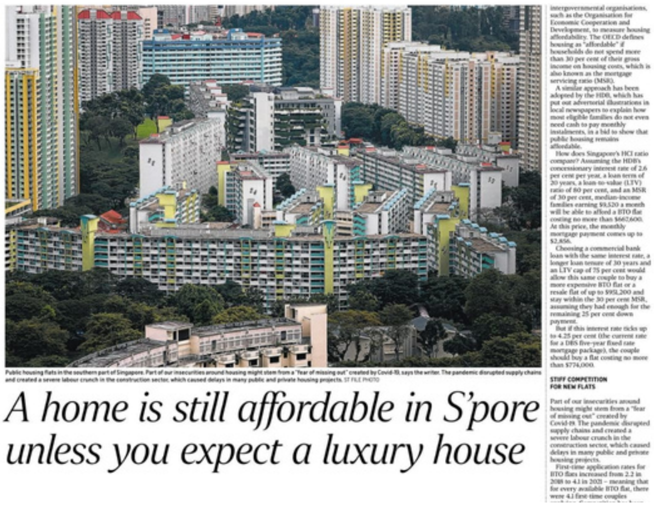


Not to forget upgraders from Executive Condos who cashed out a large sum of profits where a good number start to look out for mid to high end properties.

Source: HDB



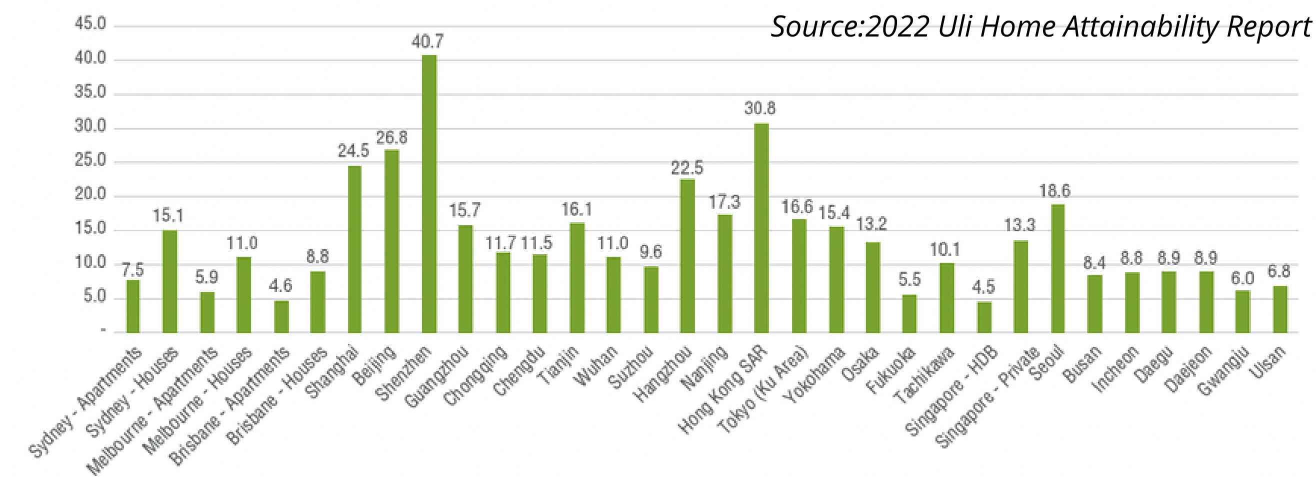
A home is still affordable in S'pore



Despite sensational news of a $1.42m HDB flat being transacted or new launches sold at record prices on launch day, one gets a clearer picture of the situation when they understand one's affordability. Yes, prices have moved to a new price tag, and perhaps the ideal location, size and type of home we previously desired is no longer attainable and we feel we are late to the game.

Nevertheless, when we put have a look at neighbouring cities in the Figure below, we realise Singapore still has stable, affordable public housing to fall back on, and the average home price to annual household income ratio for private properties are still a far cry from cities such as Hong Kong or Shenzhen, and even lower than Seoul or Tokyo.

FIGURE 5 Median/Average Home Price–to–Median Annual Household Income Ratios



Now that we have some understanding of the current market, how do we time our exit, and realize our profits? Speak with us more for a comprehensive overview of your property portfolio and let's plan your long term goals together!

Kindest Regards,
STL Properties

THE STRAITS TIMES

Thursday Jan 26, 2023

Public housing flats in the southern part of Singapore. Part of our insecurities around housing might stem from a "fear of missing out" created by Covid-19, says the writer. The pandemic disrupted supply chains and created a severe labour crunch in the construction sector, which caused delays in many public and private housing projects. ST FILE PHOTO

A home is still affordable in S'pore unless you expect a luxury house

A closer look at metrics that measure affordability reveals some surprising statistics

Sing Tien Foo

The Singapore residential property market has defied gravity over the past two years.

Despite the circuit breaker halting most activities from April to June 2020 and severely impacting most sectors across the economy, the property market chugged on.

In-person viewing, transactions and the taking of possession of homes were suspended. But creative real estate agents shifted online to conduct 360-degree virtual tours using new virtual reality technology, e-marketing tools and Zoom.

Stories such as that of Mr Fawzi Jaafar, who stepped into his newly bought three-room Housing Board flat for the first time in August 2020 after relying solely on virtual viewings to inspect his potential home, have been commonplace.

Housing activities increased steeply after restrictions were eased in June 2020. Resale HDB transactions rebounded quickly from the low of 424 units in April 2020 and 363 units in May to average monthly sales of more than 2,350 units from June 2020 to December 2022. A similar pattern was seen in private non-landed housing transactions.

The demand surge triggered a robust pickup in housing prices over the past two years. Urban Redevelopment Authority and HDB indexes measuring the pulse of the private and public housing markets grew for 11 consecutive quarters between the second quarter of 2020 and the fourth quarter of 2022 by about 22 per cent and 25 per cent, respectively.

HOUSING AFFORDABILITY UNDER THE SPOTLIGHT

Judging from recent headline-grabbing news, one is tempted to conclude that homes will fly off the shelves like hot cakes. The launch of AMO Residence, a private condominium project in Ang Mo Kio Rise, saw 98 per cent of units sold on the first launch day in July 2022. With average prices exceeding $2,100 per sq ft, this is peculiar for a non-landed private home in the rest of central region.

A similar narrative has played out in the public housing market. A five-room resale HDB flat in Dawson Road went for an eye-popping $1.418 million in July 2022. Over 340 million-dollar flats were sold in 2022.

However, zooming out to get a macro view of the housing market should calm nerves. These million-dollar transactions make up less than 2 per cent of the total of 19,900 four-room and bigger flats transacted in the resale HDB market in 2022.

With aims to cool the market, the Government also swiftly intervened in September 2022 to impose tighter borrowing rules and require private housing owners to stay out of resale HDB markets for 15 months after selling their residential property.

Perhaps in increasing the interest rate floor for HDB loans to 3 per cent when computing loan eligibility, the authorities had also hoped to signal the possibility of interest rates rising beyond the current concessionary rate of 2.6 per cent, and nudge home buyers to price in those projections.

Still, news of housing price indexes ticking upwards over the past two years amid a steep rise in mortgage interest rates has not dampened sales. On the other hand, public fears over the rising costs of home ownership have created concern that HDB flats will be priced out of the younger generation's reach.

ASSESSING AFFORDABILITY BASED ON INCOME

Many people tend to fixate on sensational headline prices and episodic cases suggesting that residential property prices continue to skyrocket. But having a clearer picture of housing affordability demands a greater resolution of the situation and that we avoid relying on snapshots of outrageous sales.

Academics commonly use the median housing price-to-income ratio (PIR) which benchmarks transacted prices of various housing types against income levels to get a broader view of whether housing price increases are outstripping income growth.

The PIR in Singapore in the last 20 years for Build-To-Order (BTO) and resale HDB flats has remained relatively stable. It comes in under 5, meaning the average HDB flat costs five times the median annual income of Singapore citizens. Indeed, this metric suggests housing in Singapore remains affordable, with affordability enhanced if housing grants are factored in.

The PIR for private non-landed houses is 12.7 as at 2021, though the number is slightly lower than the last peak of 14.1 in 2014. This falls in the severely unaffordable PIR range of above 5.1 set by the Demographia International Housing Affordability.

The Demographia report is published by North American public policy think-tanks Urban Reform Institute and the Frontier Centre for Public Policy. The study assesses housing affordability in eight markets (Australia, Canada, China, Ireland, New Zealand, Singapore, Britain and the United States).

Still, Singapore's private non-landed homes remain more affordable than those in Hong Kong (with the highest PIR of 23.2) and are on a par with those in Sydney (15.3) and Vancouver (13.3).

Across neighbourhoods, the most expensive five-room flat – at SkyVille @ Dawson in Queenstown – sold for $1.42 million, $1 million more than the lowest price of $373,888 for a five-room flat in Woodlands in 2022. ST PHOTO: DESMOND FOO

Is housing affordable and accessible? Yes, if you choose an HDB flat that suits your income level... Yet we tend to fixate on the outliers, on million-dollar HDB flats and private condominiums, which comprise a small part of the market.

LOOK AT PRICE DISPERSIONS, NOT JUST PRICE INDEXES

A second common practice adopted is for people to look at the price indexes to discern if housing is becoming less affordable. Indeed, a quick glance can give the impression that housing prices have risen dramatically.

Prior to Covid-19, private non-landed homes were transacted at a median price of $1.3 million in 2019, compared with $1.62 million in 2022. The average prices were higher at $1.62 million and $1.96 million for non-landed transactions in 2019 and 2022, respectively.

The average prices were close to the 70th percentile of all transacted prices in those respective categories, meaning that seven in 10 private non-landed housing buyers pay below the average price for homes in their categories.

In other words also, the average prices were skewed by the most expensive houses in the 30 per cent price range, mostly located in the city centre.

The story gets more interesting when we break down price dispersions across housing types. In the HDB markets, prices were less dispersed than in the private market. Four-room or bigger resale flats sold in 2022 saw an average price of $616,000 and a median price of $580,000.

But we tend to focus on extremes. Across neighbourhoods, the most expensive five-room flat – at SkyVille @ Dawson in Queenstown – sold for $1.42 million, $1 million more than the lowest price of $373,888 for a five-room flat in Woodlands in 2022.

Prices are even less dispersed for BTO flats, perhaps reflecting the Government's approach to regulating their pricing to ensure affordability for young couples. The average and median prices for four-room and bigger BTO flats were about $474,000 and $456,000, respectively, in 2022.

Looking at polar ends here can similarly lead us to lose focus on this bigger picture. A five-room BTO flat near Ang Mo Kio MRT station was priced in the upper range of $878,000 in a 2022 BTO exercise, whereas five-room flats in non-mature estates such as Yishun, Bukit Batok and Punggol were priced in the upper range of $450,000 that same year.

Price distributions like these imply that housing affordability is a relative question involving the sorting of households with different income levels.

To comfortably afford the $1.42 million resale HDB flat at Dawson, and keep the PIR at 5, the new owners must earn more than $23,000 a month or have huge savings to keep the monthly mortgage repayments low. However, the PIR approach does not consider savings and monthly mortgage payments.

The question of affordability also becomes irrelevant if this family intends to explore more inexpensive options in non-mature estates instead.

For households making less but aspiring to live closer to the city centre, the new prime location housing model provides options that come with trade-offs, including a longer minimum occupation period, a clawing back of profits during the resale and strict qualifying conditions.

HOUSING COSTS AND MONTHLY MORTGAGE PAYMENTS

The housing expenditure or costs to income (HCI) ratio is a third benchmark used by intergovernmental organisations, such as the Organisation for Economic Cooperation and Development, to measure housing affordability. The OECD defines housing as "affordable" if households do not spend more than 30 per cent of their gross income on housing costs, which is also known as the mortgage servicing ratio (MSR).

A similar approach has been adopted by the HDB, which has put out advertorial illustrations in local newspapers to explain how most eligible families do not even need cash to pay monthly instalments, in a bid to show that public housing remains affordable.

How does Singapore's HCI ratio compare? Assuming the HDB's concessionary interest rate of 2.6 per cent per year, a loan term of 20 years, a loan-to-value (LTV) ratio of 80 per cent, and an MSR of 30 per cent, median-income families earning $9,520 a month will be able to afford a BTO flat costing no more than $667,600. At this price, the monthly mortgage payment comes up to $2,856.

Choosing a commercial bank loan with the same interest rate, a longer loan tenure of 30 years and an LTV cap of 75 per cent would allow this same couple to buy a more expensive BTO flat or a resale flat of up to $951,200 and stay within the 30 per cent MSR, assuming they had enough for the remaining 25 per cent down payment.

But if this interest rate ticks up to 4.25 per cent (the current rate for a DBS five-year fixed rate mortgage package), the couple should buy a flat costing no more than $774,000.

STIFF COMPETITION FOR NEW FLATS

Part of our insecurities around housing might stem from a "fear of missing out" created by Covid-19. The pandemic disrupted supply chains and created a severe labour crunch in the construction sector, which caused delays in many public and private housing projects.

First-time application rates for BTO flats increased from 2.2 in 2018 to 4.1 in 2021 – meaning that for every available BTO flat, there were 4.1 first-time couples applying. Competition has been stiff, with the success rates for first-timers in their first BTO applications hovering between 20 per cent and 24 per cent, Minister for National Development Desmond Lee revealed last November.

Unsuccessful applicants likely looked for substitutes and aggravated demand in the resale HDB and private non-landed markets.

Plans by the authorities to ramp up the supply to 100,000 new BTO flats between 2021 and 2025, coupled with the change in policy to give first-time applicants a higher chance of securing a BTO flat in non-mature estates, should ease the demand overhang for young couples, though it will not immediately eliminate the BTO queue.

First-time applicants vying only for BTO flats in mature estates will continue to face stiff competition, given their popularity. In the August 2022 BTO exercise, four-room flats at Central Weave @ AMK and at Sun Plaza Spring in Tampines were oversubscribed by 7.9 times and 16.1 times, respectively.

THE BOTTOM LINE

So is housing affordable and accessible? Yes, if you choose an HDB flat that suits your income level. Public housing policy interventions through increasing supply, restricting downgrading private home owners from buying an HDB flat immediately and setting aside more BTO flats for first-timers have insulated HDB buyers against more sharply rising prices in both the BTO and HDB resale markets.

Yet we tend to fixate on the outliers, on million-dollar HDB flats and private condominiums, which comprise a small part of the market.

In fact, these findings beg the question of whether when Singaporeans discuss housing affordability, they already have a type of house in mind – luxurious private residential homes, which remain out of reach for the average household and go against the need to be prudent when housing is a long-term investment.

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THE BUSINESS TIMES

BT businesstimes.com.sg

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Singapore, Dubai to lead price growth in prime residential markets

But Savills notes that both cities are not immune to higher interest rates and wider economic headwinds

By Chong Xin Wei
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SINGAPORE and Dubai will lead prime residential markets globally in 2023, with capital values in the two wealth magnet cities projected to grow 6 to 7.9 per cent, said Savills on Tuesday (Feb 7). But it noted that both markets are not immune to higher interest rates and wider economic headwinds.

Singapore's forecast prime price growth is flattish, compared to its prime residential capital value growth of 6.8 per cent last year. In December 2022, the average prime capital value in the Republic is US$1,780 per square feet (psf).

"Moving into 2023, Singapore's prime residential market is facing a situation where there are few new launches. With the reopening of borders in China to outbound travel, the potential for this segment of the private residential market to outperform the others is very high," said Alan Cheong, executive director of research and consultancy at Savills Singapore.

Dubai's forecast prime price growth is muted compared with its 12.4 per cent capital value growth in 2022. Its average prime capital value in December 2022 was US$730 psf.

Across the world, many prime residential markets are set for a slowdown in 2023, with average price growth of 0.5 per cent forecast for the 30 global cities monitored by Savills in its prime residential world cities index.

"Recessionary conditions, a higher interest rate environment and inflation will weigh on prime residential performance although the second half of the year holds some potential for global economic growth," said Paul Tostevin, head of Savills World Research.

Of the 30 global cities monitored by Savills, 17 will record slower growth than in 2022, with several posting declines, while the remaining 13 are forecast to record equal or slightly enhanced growth this year. Cities expected to see low

> **Across the world, many prime residential markets are set for a slowdown in 2023.**

to modest levels of capital value growth in 2023 include Lisbon, Athens, Rome, Milan, Barcelona and Madrid, where prime property is coveted as a safe-haven asset and inflation hedge in times of turmoil. Milan, southern Europe's top performer in 2022 with capital value growth of 5.7 per cent, expects to post price growth of between 4 and 5.9 per cent this year.

Among the regions tracked by Savills, prime prices are forecast to take a dive in nine cities, and Hong Kong is expected to fare the worst. In Hong Kong, prime prices fell by -8.5 per cent in 2022 and global macro conditions are set to further impact the market with expected price falls of between -7.9 and -6 per cent. But Savills noted the city remains the world's most expensive prime residential market at US$4,070 psf.

In the wider Asia region, Seoul and Tokyo were stronger-performing cities last year, with prime prices rising 4.9 per cent and 4.1 per cent, respectively. But growth is mixed across major Chinese cities as the region's annual growth in 2022 ranged from 3 to -2 per cent. As Covid-19 restrictions eased towards the later half of the year, Hangzhou and Shanghai saw improved performance of 1.8 per cent and 2 per cent, respectively.

Although nationally low prime property volumes, an indebted real estate sector, weak consumer confidence and slower growth have placed downward pressure on price growth in China compared to previous years, Savills forecasts growth of up to 3.9 per cent in Hangzhou, Guangzhou, Beijing, Shanghai and Shenzhen this year.

Savills World Cities Prime Residential Index

CITY	CAPITAL VALUE FORECAST-2023 (%)	CAPITAL VALUE GROWTH-2022 (%)	AVERAGE PRIME CAPITAL VALUE DEC 2022 (US$ PSF)
Dubai	**+6 to 7.90**	**12.4**	**730**
Singapore*	**+6 to 7.90**	**6.8**	**1,780**
Miami	+4 to 5.90	25.4	1,440
Milan	+4 to 5.90	5.7	1,450
Cape Town	+2 to 3.90	5.1	260
Rome	+2 to 3.90	3.1	1,330
Kuala Lumpur	+2 to 3.90	2.9	270
Hangzhou	+2 to 3.90	2.3	1,260
Madrid	+2 to 3.90	2.2	710
Barcelona	+2 to 3.90	1.6	650
Mumbai	+2 to 3.90	0.1	1,040
Geneva	>0 to 1.90	6.2	2,350
Lisbon	>0 to 1.90	5.6	1,280
Tokyo	>0 to 1.90	4.1	1,950
Guangzhou	>0 to 1.90	3.1	1,480
Athens	>0 to 1.90	2.3	1,070
Beijing	>0 to 1.90	2.1	1,520
Paris	>0 to 1.90	1.4	1,550
Shanghai	>0 to 1.90	1.1	2,060
Bangkok	>0 to 1.90	0.6	810
Shenzhen	>0 to 1.90	-1.6	1,670
New York	-3.9 to -2	6.1	2,680
Seoul	-3.9 to -2	4.9	1,760
Los Angeles	-3.9 to -2	1.8	1,570
Amsterdam	-3.9 to -2	0.6	970
Berlin	-5.9 to -4	4.9	1,160
London	-5.9 to -4	1.9	1,820
Sydney	-5.9 to -4	-3.7	1,720
San Francisco	-5.9 to -4	-5.2	1,500
Hong Kong	-7.9 to -6	-8.5	4,070

*Prime Capital Value in Singapore is a 90% apartment and 10% housing weighting

Source: Savills Research

SEEKING LUXE REAL ESTATE

KENNETH SZETO
Partner,
Withers KhattarWong

The Singapore real estate market is likely to remain buoyant in 2023

PHOTO: BT FILE

2022 has been described as the year of the crypto crash, when virtual currencies suddenly lost their lustre, even before many could wrap their heads around what they were. The stock market didn't fare well either, as tech stocks plummeted, with the Nasdaq Composite index falling by a third.

However, brick-and-mortar real estate in Singapore has not only weathered the crypto storm in the background, but has also gone on to scale greater heights, notwithstanding factors like the Ukraine war, post-pandemic inflation and worldwide supply chain crunches.

Various market watchers and analysts appear to agree on a number of trends in the Singapore real estate market.

GAP IN LUXURY PROPERTY?

As Singapore continues to shine as a desirable destination for ultra high-net-worth individuals to live in, it is becoming apparent that there is a gap in uber-luxury apartments like those in leading global cities such as Hong Kong, New York and London. This is an observation by a veteran private client property consultant, who noted that the gap in this segment remains highly relevant as only Singapore citizens and exceptional permanent residents are permitted to build and own their bespoke trophy Good Class Bungalows.

Our tiny red dot of a city boasts some of the highest land costs in the world, yet UHNW clients may struggle to find a range of aspirational apartment homes in Singapore with the fittings and features on par with, say, 432 Park Avenue in New York, No. 1 Grosvenor Square, London or The Opus in Hong Kong. Undoubtedly, statement properties by their very exclusive nature are not easily sold. The stamp duty rules in place also do not incentivise developers to acquire land sites to build such properties, because hefty stamp duty payments apply if unsold inventory remains five years after the developer's original land acquisition.

However, this is undoubtedly a segment with real demand, and it remains to be seen if our existing property regulations can be finetuned to encourage developers to fill this gap in the residential real estate market, so that we can truly come into our own as a top global city.

BEST OF BOTH WORLDS

The pandemic was the major reset button no one saw coming. Pre-pandemic and pre-lockdown, major corporations never had to test contingency capabilities in terms of skeletal staff strength in the office supporting everyone else working from home. During the pandemic, employees themselves found reserves of energy to work almost non-stop, blurring the once clearer boundary between work and home, and creating concerns over personal wellness along the way.

As Covid receded and movement restrictions eased, upgrading one's lifestyle took on an urgent impetus. Hybrid flexible working policies became an important distinguishing factor when it came to hiring and retaining talent.

In the office sector, hybrid working didn't result in corporations and businesses shrinking their real estate footprint at the end of their existing lease terms for significant cost savings, as some predicted. People now want the best of both worlds – face-to-face interaction and office socialising opportunities to build camaraderie within work teams, coupled with the flexibility on some days to be at home with your pet to do work that did not require human interaction. Indeed, many businesses and corporations have found that to "right-size" their office spaces, the overall trend was towards maintaining rather than shrinking their office space. We are also seeing a trend towards hybridisation away from single-purpose property types.

PRICES NOT COMING DOWN

Prices are unlikely to come down across the real estate segments, but the rate of price increases may moderate somewhat.

Local resident demand remains very strong. Extended work-from-home arrangements made many people relook at their work/home environments. Many emerged from the pandemic with new pets (including esoteric plants) and a family fleet of designer bicycles. It was unsurprising that once the rules were relaxed to allow for home viewings, upgraders took to the market with a vengeance, seeking out larger prime-location units. New-launch condominium prices in suburban parts of Singapore breached a new S$2,100 psf record, and the average freehold new launch price in core central region areas averaged S$3,000 psf and more. Prices which were once eye-watering are now accepted as the new norm. At the rarefied top end of the market, the entry purchase price point for a GCB has also almost doubled from five years ago.

The Singapore government has also largely succeeded in marketing Singapore to the world as a safe, well connected, politically stable and business-friendly place, and this has also attracted a lot of private wealth. The results are evident in the jump in the number of single family offices (SFOs) in recent years.

These initiatives, along with the progressive reopening of borders elsewhere, translated into a steady influx of new residents, driving average rental rates up in 2022 by up to 25 per cent. At the top end of the market, reported GCB rentals topped S$200,000 per month. There is a general sense that the available inventory of larger-sized condominium units and even newly developed GCBs for rent is limited in the face of the overwhelming demand. Transaction activity slowed in Q4 2022, as the latest round of property cooling measures (largely targeted at the public housing market) took effect, coinciding with soaring mortgage interest rates. However, this is anticipated to pick up again after the Chinese New Year, albeit possibly with a more moderate rate of price increases.

BUOYANT MARKET

All in all, despite near-term headwinds caused by inflationary pressures, spiking interest rates and a potential global downturn round the corner, the Singapore real estate market is likely to remain buoyant in 2023, as the post-pandemic opening up of economies continues to spur the transformation of our urban landscape.

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