Interest rates and correlation with Property Price Index |Gradual increase in foreign buyers | Current Market Gaps

Interest rates and correlation with Property Price


Tan warns that "risks in the global economy remain significant", with a global economic slowdown and "strong external inflationary pressures" posing major headwinds. PHOTO: BT FILE

Recession, stagflation not expected for Singapore in 2023: Alvin Tan

Source: The Business times

As we move into the second half of the year, many property buyers and owners have valid concerns over interest rates and recession fears. While we are constantly reassured that Singapore is in a position to overcome global shocks, we inevitably feel waves of impact from the global slowdown as an open economy and are vulnerable to inflationary pressures as a smaller nation.

As we expect higher interest rates to stay, we review the implications on property prices, and identify any significant impacts they may have by first exploring historical data. Figure 1 below shows our Property Price Index (PPI) all the way from 2002, and compares it with Interest Rates (based on the 3month SIBOR). Based on this chart, it would be difficult to infer any meaningful correlation between the two, although between 2004 to 2006 when interest rates climbed to the 5% mark, property prices were on a steady uptrend, and more recently between 2017 to H2 2019 we also notice the gradual uptrend in property prices when interest rates peaked.

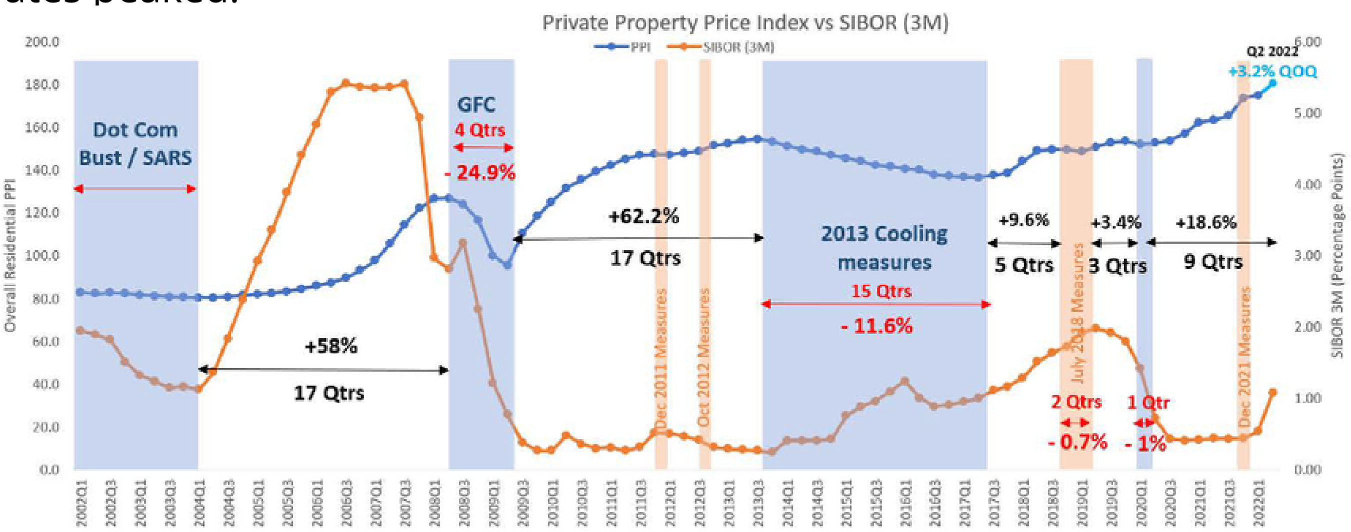

Figure 1: Private Property Price Index vs Interest Rates Source: PropNex Research, URA (2Q 2022 figures are flash estimates released on 1 July 2022), ABS

However, even if interest rates do not affect the appreciation of our asset, it can erode our profits or move our breakeven position further away as financing costs increase. The good news is, a glimpse into the past will show that elevated interest rates do not last forever, and often tend to fall after a period of time to stimulate the economy. Nevertheless we stay prudent, and ensure our monthly mortgages are comfortable, with sufficient reserves for rainy days, before making any big decisions.

We also want to examine the relationship between median rentals and interest rates to determine what we can potentially look at for potential buyers of investment properties. In the preceding decade we saw an inverse relationship where rentals were high when interest rates were low and vice versa. However in recent years, the trend seemed to have broken and rental rates have been rising at a much faster pace than interest rates.

Chart below :

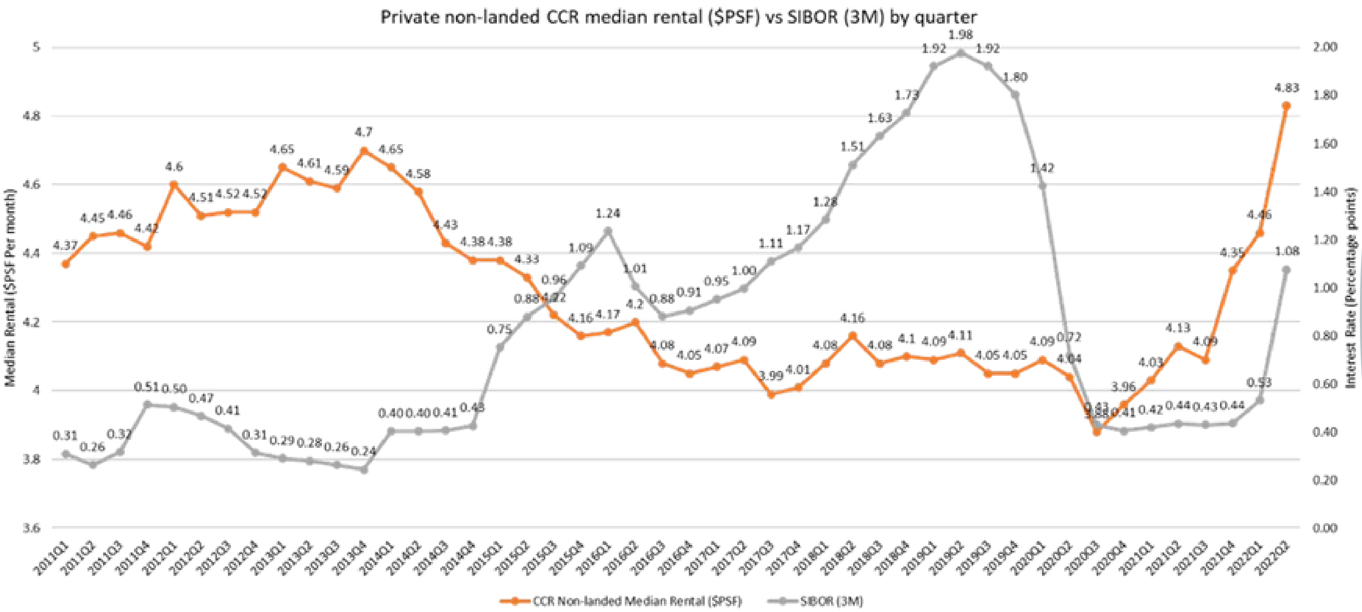

Figure 2: Median Rental vs Interest Rates, Source: PropNex Research, URA Realis (rental data for 2022 up to May 2022), ABS

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THE BUSINESS TIMES

BT businesstimes.com.sg

Residential property rentals may stay high this year

Some industry watchers expect rental demand to hold firm with the continual inflow of foreigners and expatriates and positive economic climate

By Michelle Zhu
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CONDOMINIUM and Housing Board (HDB) rental prices continued their upward trajectory in June 2022, climbing by 2.1 per cent and 2.3 per cent from the previous month, respectively.

This represents the 18th consecutive month of rental growth for condos as HDB rents rose for the 24th straight month, according to the latest flash figures from SRX Property and 99.co released on Thursday (Jul 14).

It also marks new highs for the rental prices of both property classes, said Christine Sun, senior vice-president of research and analytics at OrangeTee & Tie. Sun attributed the past few months' surge in rental prices to the return of expatriates, permanent residents and international students with the almost complete easing of Singapore's border controls.

"HDB upgraders continue to add to the demand pool as many have rented units after selling their existing flats as they wait for the completion of their new homes and to avoid paying additional taxes on second properties. New units' completion slowed down due to severe disruptions to global supply chains, lack of manpower and the rising cost of building materials," added Sun. She foresees rental demand to hold firm with the continual inflow of foreigners and expatriates, which may keep rents elevated in H2 2022.

Likewise, Huttons chief executive Mark Yip is anticipating residential property rents to increase further in the second half of the year, backed by a positive economic climate that is supportive of higher employment.

Year on year, overall condo rents increased by 21.1 per cent and overall HDB rents grew 17.9 per cent.

Condominium rents in the Core Central Region (CCR), Rest of Central Region (RCR) and Outside Central Region (OCR) increased month on month by 2.2 per cent, 2.4 per cent and 1.7 per cent respectively – and 18.6 per cent, 21.3 per cent and 22.8 per cent on year.

About 4,175 condo units were rented in June 2022, up 4.7 per cent from the 3,989 units rented the previous month but 18 per cent lower on a year-on-year basis.

99 Group's head of research Pow Ying Khuan said the higher monthly RCR growth in rents could be due to the reopening of Singapore's offices after previous work-from-home policies, which saw employees moving closer to the city to result in greater demand in the region. This contrasts with the previous year when the work-from-home trend saw major demand shift towards suburban homes due to lower rental expenses, he said.

The uptick in June HDB rents was driven mainly by rental price growth for non-mature estates (3.1 per cent) compared to mature estates (1.5 per cent) with near-equal increases across all room types at 2.6 per cent for 3 and 4-room flats and 2.3 per cent for 5-rooms and executives.

Year on year, mature estates and non-mature estates saw rent increases of 15.7 per cent and 20.2 per cent respectively, with 5-rooms climbing at a steeper 19.2 per cent followed by 4-rooms (17.8 per cent), 3-rooms (17.6 per cent) and executive (14.6 per cent) units.

Pow highlighted the possibility that higher month-on-month demand for rental housing in non-mature estates could have resulted from tenants searching for apartments or homes with newer facilities, amenities and environments.

He believes the gradual spread in month-on-month increases across estate types and room types may be indicative of a back-to-office and back-to-school trend.

"It is also probable that demand for 5-rooms was highest year on year due to tenants wanting more space for themselves and their children, as they worked from home and went through home-based learning throughout 2021," said Pow.

HDB rental volumes however fell both month on month and year on year to 1,395 flats rented in June 2022, declining 8 per cent from 1,516 units in May 2022 and down 23.9 per cent from the previous year.

Yip of Huttons believes the lower monthly rental volumes could be due to some Malaysians not renewing their leases, and going back to their pre-Covid days of commuting daily to work in Singapore. "HDB landlords are increasing their asking rents to compensate for the increase in interest rates on their other housing mortgage," he observed.

By room type, 39.6 per cent of total June 2022 volumes are from 3-room HDB units, with 33.2 per cent from 4-rooms, 21.7 per cent from 5-rooms and 5.4 per cent from executive flats.

Year on year, overall condo rents increased by 21.1 per cent and overall HDB rents grew 17.9 per cent. PHOTO: ST FILE

Source: The Business times

For investors renting out their property, do expect to enjoy a superior performance for your monthly rental, while for those who are thinking if an investment property is worth your while with the rising interest rates, speak with us for a detailed calculation on your financial position and potential yield from your investment property.

Gradual return of foreign buyers

In the previous newsletters we mentioned the gradual return of foreign buyers into our property market. It is now evident the world's rich are still flocking to Singapore to park their funds for various reasons, which bodes well for Singapore real estate and the economy as well as jobs.

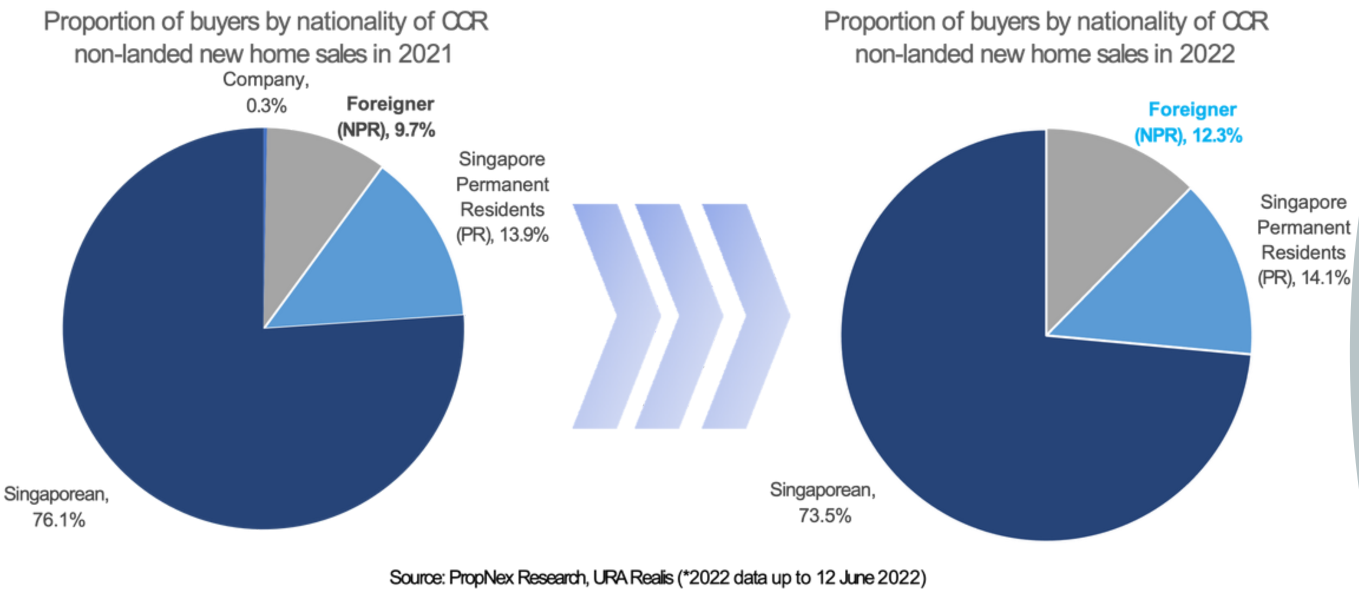


Figure 3: Increase in number of foreign purchasers 2021 vs 2022

It is little wonder why developers continue placing higher bids in Government Land Sales or En-bloc programmes especially as we see the addition of 2,800 High Net Worth Individuals (HNWIs) in Singapore this year.

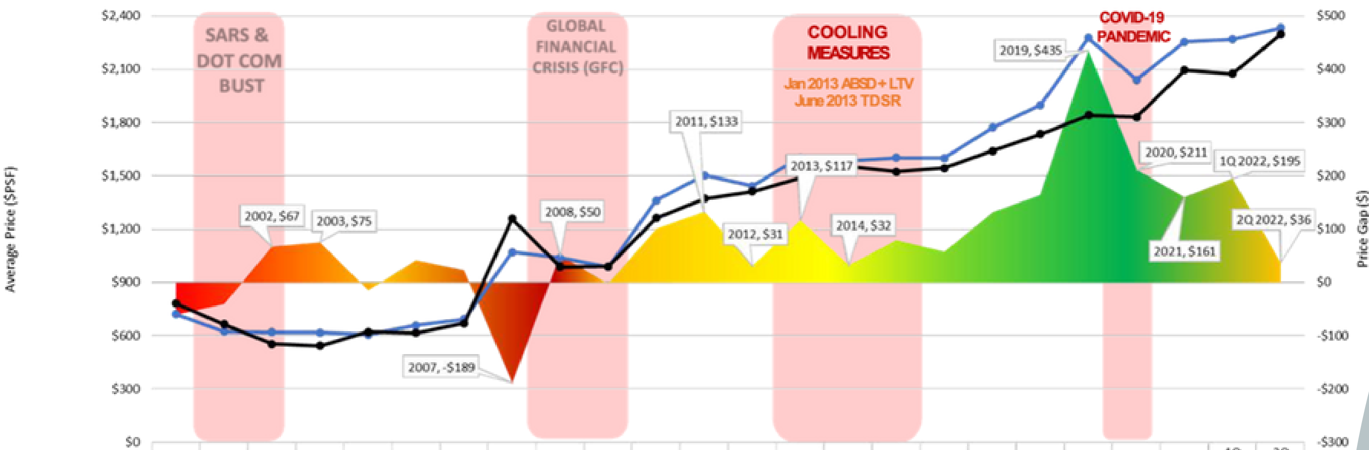
Figure 4: Top 10 countries where UHNW are flocking to (SG is 3rd with 2,800 UHNW in 2022), Source: Henley Global Citizens Report 2022

Country	Projected net inflows of HNWIs (2022)	% of HNWI Gained
UAE	4,000	4%
Australia	3,500	1%
Singapore	2,800	1%
Israel	2,500	2%
USA	1,500	0%
Portugal	1,300	2%
Greece	1,200	3%
Canada	1,000	0%
New Zealand	800	1%

Current Market Gaps

While we know Freehold usually demands a premium, we notice a shrinking gap between Freehold and 99-year leasehold properties in the Rest of Central region, which provides a safe entry for existing RCR Freehold properties.

RCR non-landed new home sales Freehold vs 99-year leasehold average price ($PSF)



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Gap (RCR FH-99LH)	-$62	-$41	$67	$75	-$15	$42	$23	-$189	$50	-$3	$100	$133
Freehold	$720	$623	$619	$618	$606	$658	$693	$1,069	$1,038	$986	$1,361	$1,503
99-year LH	$782	$664	$552	$542	$621	$616	$670	$1,258	$988	$990	$1,261	$1,371

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	1Q 2022	2Q 2022
Gap (RCR FH-99LH)	$31	$117	$32	$80	$57	$131	$164	$435	$211	$161	$195	$36
Freehold	$1,442	$1,603	$1,585	$1,602	$1,600	$1,771	$1,899	$2,276	$2,041	$2,254	$2,268	$2,333
99-year LH	$1,411	$1,486	$1,552	$1,523	$1,543	$1,640	$1,735	$1,840	$1,830	$2,094	$2,073	$2,298

Source: PropNex Research, URA Realis (*2Q 2022 data up to 30 June 2022)

In conclusion, there are still many opportunities out there and numbers have shown it is better to be in a property than out, as the earlier purchaser tends to end up paying less for a property with better attributes, as opposed to the later joiner. Additionally, for some of our clients anticipating fire sales due to increase in interest rates or a potential recession, we believe the holding power of property owners are still strong. As for younger families, cooling measures such as the Total Debt Servicing Ratio (TDSR) have been set in place, ensuring homeowners have sufficient reserves to prevent foreclosures from overleveraging. Speak with us for an in-depth discussion today!

Kindest Regards,
STL Properties

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Tuesday, July 05, 2022

SINGAPORE ECONOMY

Tan warns that "risks in the global economy remain significant", with a global economic slowdown and "strong external inflationary pressures" posing major headwinds. PHOTO: BT FILE

Recession, stagflation not expected for Singapore in 2023: Alvin Tan

By Annabeth Leow
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SINGAPORE is not expected to see a recession nor "stagflation" in 2023, Minister of State for Trade and Industry Alvin Tan told Parliament on Monday (Jul 4).

Noting that economic activity has been resilient so far, he added: "For the rest of the year, the recovery in international travel and domestic demand with the lifting of Covid-19 restrictions will help to mitigate some of the weaker external demand."

That's even as he highlighted "a significant rise in inflation" here in 2022, amid supply disruptions from the Russian war in Ukraine and the Covid-19 situation in economies like China.

Tan was replying to a slate of questions on the outlook for Singapore's economic performance, in the face of challenges such as global and domestic inflation, and a rise in interest rates worldwide.

People's Action Party (PAP) MP Desmond Choo (Tampines GRC) had asked about the impact of inflation on consumer demand and business sentiment here, while Cheng Li Hui (Tampines GRC) and Shawn Huang (Jurong GRC) asked whether Singapore could experience a recession or stagflation – that is, economic stagnation and high inflation – in the next few years.

Pointing to the recent expansion in non-oil domestic exports, industrial production, and retail and food and beverage sales, Tan reiterated that growth is likely to come in at the lower half of the official forecast range of 3.0 per cent to 5.0 per cent in 2022, and "to moderate further next year".

He told the House that inflation "is likely to pick up further in the coming months but should start to moderate towards the end of the year if external inflationary pressures recede", and added that "at this stage, we do not see or do not expect a recession or stagflation in 2023".

Continued on Page 3

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Tuesday, July 05, 2022

Recession, stagflation not expected for Singapore in 2023: Alvin Tan

Continued from Page 1

But Tan also warned that "risks in the global economy remain significant", with a global economic slowdown and "strong external inflationary pressures" posing major headwinds.

Besides potential escalations in the Russia-Ukraine war and Covid-19 pandemic, other threats to the economy include a shake-up of financial market stability "if monetary policy tightening in advanced economies is faster than expected", he said.

Tan noted that central banks worldwide have already raised interest rates to tackle climbing inflation – a trend that has pushed up Singapore's domestic interbank interest rates as well.

He said the scope of the domestic increase has been moderated by a stronger Singapore dollar, but added: "As global interest rates could increase further, businesses and households should bear in mind the rising cost of borrowing when making borrowing decisions."

To a follow-up question from Choo on whether inflation has caused demand destruction, Tan said: "Thus far, the higher inflation readings in recent months have not led to any significant cutback, at least in household consumption."

PAP MP Liang Eng Hwa (Bukit Panjang) separately asked if the economy was in "overdrive mode", and whether its expansion was sustainable and healthy.

In response, Tan said the economy was "operating slightly above potential", while labour market conditions were expected to stay tight "but a significant overheating ... is unlikely".

He added that "we should grow if we can grow", as strong growth would support job creation, wages, economic vibrancy and foreign investment, and help to address inflationary pressures.

"As global interest rates could increase further, businesses and households should bear in mind the rising cost of borrowing when making borrowing decisions."

Minister of State for Trade and Industry Alvin Tan

Friday, July 15, 2022

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