Making sense of pricier home loans| Caution for state land tenders | Sweet Spot new launches

Making sense of pricier home loans

BT businesstimes.com.sg

THE BUSINESS TIMES

Tuesday, October 11, 2022

THE LEVEL GROUND

Buying a home with a pricey home loan can still make sense

Even as interest rates rise, servicing a loan may become easier over time

LESLIE YEE
lyee@sph.com.sg

Home loan repayment
25 year loan of S$750,000

ANNUAL INTEREST RATE	MONTHLY REPAYMENT	INCREMENTAL CHANGE
2%	S$3,179	Not applicable
3%	S$3,557	S$378
4%	S$3,959	S$402
5%	S$4,384	S$425
6%	S$4,832	S$448

Compiled by BT

interest rates over the longer term.

Moreover, servicing a loan can become easier over time should a borrower's economic circumstances improve, albeit one needs to watch out for rising expenses due to caring for children or the elderly, for example.

For some people, it can make sense financially to opt to permanently rent a home instead of buying one. Monies tied up in funding a home purchase can be freed up to

Source: The Business times

While we brace ourselves for interest rates to continue its upward trend in the upcoming quarters, we assess the impact this would have on property buyers.

With a home loan of $750k over a 25-year period, the difference between a 2% and 4% interest rate translates to an additional $780 per month.

For a good proportion of new homes purchased between $1.5-2m, we can safely say the difference is at least above $1,000, and owners on floating rates may be feeling the pinch now. On the other hand, those on a progressive payment scheme for new launches may be feeling minimal impact. While previous newsletters have indicated that our government is confident property owners are able to afford their monthly mortgage payments and defaults are unlikely to surface given financial prudence through several rounds of cooling measures, how do we make sense of this for ourselves?

First, we try to ensure we are entering into a property that has potential for growth rather than on a downtrend or stagnating in value, or at least a safe entry price, such that the capital appreciation on our property negates the higher interest rates. For example, just entering into the market Q1 of this year and holding onto Q3, would have already covered our higher interest rates considering the property price index has grown 8% in the past three quarters.

Secondly, for those currently renting and sitting on the fence, it is becoming much riskier, as the waiting time in the red hot rental market inevitably eats into our savings, which could have been directed to an asset that appreciates over time. Lastly, even if mortgage rates rise to 4% or more, rates are unlikely to stay high for an extended period as it would be detrimental to global economies. Nevertheless we advocate financial prudency, most importantly planning our long-term goals so we are well-equipped each step of the way.

Caution for state land tenders

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Friday, November 04, 2022

Caution reigns at state land tenders, despite developers' low unsold private housing inventory

Plum site near Beauty World station garners just five bids, while Hillview Rise plot fetches four bids

By Kalpana Rashiwala
kalpana@sph.com.sg

AN AIR of caution prevailed at the latest government land sales (GLS) tender closings for two 99-year leasehold private housing sites near Beauty World and Hillview MRT stations.

The number of bids received was below market expectations.

However, the top bids for both plots came in within the range of expectations indicated by property consultants polled by *The Business Times* before the tenders for the two sites closed on Thursday (Nov 3).

The Hillview Rise site, which can generate about 335 homes, received four bids. A partnership between Far East Organization and Sekisui House placed the top bid of S$320.78 million, or nearly S$1,024 per square foot per plot ratio (psf ppr).

A site along Bukit Timah Link, a stone's throw from Beauty World MRT station, fetched five bids.

Far East Organization and Sekisui House's proposed scheme for the Hillview Rise site will comprise two blocks of 27 storeys with around 330 private homes. PHOTO: BT FILE

Muted participation

Provisional tender results for 99-year private housing sites

BIDDERS	BID PRICE (S$M)	S$PSF PPR
HILLVIEW RISE		
Far East Civil Engineering *(Far East Organization)* and Sekisui House	320.78	1,023.85
CDL Constellation *(City Developments)*	316.80	1,011.16
United Venture Development No. 6 *(UOL Group and Singapore Land Group)*	308.38	984.28
Sim Lian Land and Sim Lian Development	283.00	903.27
BUKIT TIMAH LINK		
Bukit One *(Bukit Sembawang Estates)*	200.00	1,343.13
Winchamp Investment *(Wing Tai)*	172.89	1,161.05
Sims Park *(Far East Organization)*	161.78	1,086.42
Sing Holdings	155.20	1,042.26
TID Residential *(Hong Leong Holdings and Mitsui Fudosan)*	138.49	930.00

Note: Name of holding companies/parent companies in italics

Source: URA, ACRA

CBRE's head of research for South-east Asia, Tricia Song, expects launch prices of S$1,800 to 1,900 per square foot (psf) for the new project that will come up on

Marc Boey, an executive director of Far East Organization, speaking on behalf of the joint venture between the company and Sekisui House, said that the Hillview Rise

Source: The Business times

On the supply side, while developers are still hungry for land, bids do seem less aggressive compared to last year, which may offer some respite for the Out of Central and Rest of Central regions especially.

We note this is largely due to the challenging climate developers are faced with such as cooling measures in the form of Additional Buyer's Stamp Duties, revisions in Gross Floor area definitions causing margins to be squeezed, not forgetting the high interest rate environment which increases their financing costs.

Fortunately, construction costs are expected to moderate in the upcoming months, which may provide developers with a little more breathing room, hopefully passing on some of these cost savings to consumers.

THE BUSINESS TIMES

BT businesstimes.com.sg

Thursday, November 03, 2022

Cost of construction materials to moderate in Q4, says construction consultancy Linesight

By Yong Hui Ting
yhuiting@sph.com.sg

CONSTRUCTION prices appear to be tapering off from its earlier volatility in the first half of the year, given a conservative outlook on the sector in the coming months.

Prices of steel rebar and flat steel are projected to decrease by 4.5 per cent and 3 per cent respectively from Q3 to Q4 2022. This trend is expected to continue as iron ore prices drop across Asia, according to a report by Linesight on Wednesday (Nov 2).

Meanwhile, concrete prices are expected to remain high and increase by 0.7 per cent, as the outlook for raw materials and elevated transportation costs persist.

"Although prices remain elevated as inflation proves to be one of the key challenges alongside supply chain delays and labour constraints, prices that are stable are expected to remain so for the coming months and into 2023, with some even trending downwards,"

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Source: The Business times

While new launch supply is short, new projects tend to offer modern amenities and prioritise efficiency, which are well-received by younger audiences. We also look forward to lifestyle concepts such as a cosmopolitan village, which is what Bukit Sembawang has planned for for their Bukit Timah Link plot, adding vibrancy to the Beauty World precinct.

Sweet Spot new launches

Between Q4 2022 to Q1 2023, we have identified a couple of projects you may want to consider due to its location, land size and growth potential through transformation.

Project	Location	Tenure	Expected average prices	Number of units	Developer
Sceneca Residences	Tanah Merah	99-year Leasehold	$1,900 – 2,100 psf	268	MCC Land
Terra Hill	Pasir Panjang	Freehold	$2,300-2,600 psf	270	Hoi Hup & Sunway
Blossoms By the Park	One-North	99-year Leasehold	$2,300-2,500 psf	265	EL Development
The Reserve Residences	Beauty World	99-year Leasehold	>$2,400 psf	740	Far East Organization
Lentor Hills Residences	Lentor	99-year Leasehold	$1,900-$2,200 psf	598	Hong Leong, Guocoland & TID

From past launches, we have seen healthy take up rates of above 70% during launch day, and we expect performances to likewise be healthy for these projects based on the limited supply, healthy demand, and financial prudence with strong household savings and low debt to income ratio.

Do let us know if you are keen on any of these launches, and we'll be happy to discuss their potential further in detail as well as keep you updated on the latest progress!

Kindest regards,
STL Properties

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INTEREST rates are rising – the three-month compounded Singapore Overnight Rate Average (Sora) has soared from under 0.2 per cent per annum at the start of the year to nearly 2.2 per cent as at value date Oct 7, 2022. A floating rate home loan that is pegged at 1 per cent plus three-month Sora will now cost around 3.2 per cent per annum.

Thus far, Housing Development Board (HDB) resale and private homes prices in Singapore have been resilient. Based on flash estimates by the Board and the Urban Redevelopment Authority, HDB resale and private home prices in the third quarter of 2022 are up 11.4 per cent and 13.2 per cent respectively from a year ago.

Rising home loan rates may not deter cash-rich buyers, save for when there is opportunity cost when deploying funds to buy homes.

Still, many homebuyers borrow. Perhaps, the interest rate hikes to date are manageable. But, the US Federal Reserve, which has been actively raising interest rates, is signalling further rate hikes.

Homebuyers may feel the pain should interest rates rise to 4 per cent or more per annum. For a 25-year loan of S$750,000, the monthly repayment is S$3,365 assuming an annual interest rate of 2.5 per cent, and S$3,959 or 18 per cent more, at a 4 per cent interest rate. Currently, DBS offers fixed rate home loan packages where borrowers can lock in an interest rate of 3.5 per cent per annum for two to five years.

Lending by private financial institutions to homebuyers is subject to loan-to-value (LTV) limits, as well as caps on total debt servicing ratio (TDSR) and mortgage servicing ratio (MSR). The TDSR cap on the portion of gross monthly income that goes towards repaying monthly debt obligations, including the loan being applied for, is 55 per cent.

The MSR cap of 30 per cent on the gross monthly income that goes towards repaying all property loans, including the loan being applied for, applies to buyers of HDB flats and executive condominium (EC) units, where the EC's minimum occupancy period has not expired. An interest rate floor of 4 per cent per annum is used to compute TDSR and MSR for home loans.

Historically, homebuyers have paid over 4 per cent per annum in home loan rates, such as in the late 1990s when my wife and I bought a home. Perhaps, we did not over-analyse the risk of being unable to service a relatively expensive multi-year home loan.

For young couples, signing a 25- or 30-year home loan can be daunting in an age, where disruption means there is often little visibility on job security. I suffered from retrenchment in 2002 while servicing a home loan. Fortunately, having a working spouse helped in giving some peace of mind to being able to make monthly repayments. Also, I managed to land a new job shortly thereafter.

Over the years, my wife and I received some pay increments, and I made some capital repayments on the home loan from the occasional healthy bonuses. All this helped to make servicing a home loan more manageable.

Borrowing at 4 per cent interest rate

It can make sense to take a multi-year loan to buy a home, even if home loan rates reach 4 per cent per annum.

Firstly, assuming a home generates an annual total return of over 4 per cent, funding its purchase by borrowing at 4 per cent per annum can make sense. If a home generates net yield of 2 per cent and capital gain of over 2 per cent per annum, the annual total return will top 4 per cent.

Secondly, a non-homeowner may incur home rental costs. One may spend close to the monthly repayment amount of a home loan on paying rent instead. When one buys a home, one owns an asset, which can appreciate over time. Also, one can use CPF funds to service a home loan, but not rental payments.

Thirdly, even if home loan rates here hit 4 per cent per annum or more, rates may not stay at such levels over a prolonged period. Central banks could lower interest rates should economies hit hard landings. With ageing populations in many places, higher savings rates could help rein in the level of interest rates over the longer term.

Moreover, servicing a loan can become easier over time should a borrower's economic circumstances improve, albeit one needs to watch out for rising expenses due to caring for children or the elderly, for example.

For some people, it can make sense financially to opt to permanently rent a home instead of buying one. Monies tied up in funding a home purchase can be freed up to invest in a promising business or investments that may offer higher returns versus homeownership.

Still, some people may end up spending more on consuming goods and services that provide no investment return, if they were not tied down to servicing a home loan.

Tighter borrowing limits

In this year's National Day Rally speech, Prime Minister Lee Hsien Loong highlighted how an estimated 150,000 new homes can be built in the future town in Paya Lebar after the Paya Lebar Air Base relocates in the 2030s. Lee gave the assurance that Singapore would not run out of space in the future, and that housing would be available and affordable.

Building new homes to meet demand takes time. Recently, the government acted to promote sustainable conditions in the property market by ensuring prudent borrowing and moderating demand.

Measures affecting borrowing that kicked in on Sep 30, 2022, include higher interest rate floors to compute TDSR and MSR, as well as the eligible loan amount for housing loans granted by HDB. The LTV for HDB housing loans was lowered to 80 per cent, from 85 per cent previously.

As home loans get costlier and economic conditions turn nastier, new homebuyers need to be extra prudent when signing multi-year home loans. Still, the ability to gear up helps young adults to realise their homeownership aspirations. A young adult, with no parental help, may need to secure a big home loan in order to bring forward his purchase of a home in which to build memories. Hopefully, first-time homebuyers will not see more curtailing of their ability to borrow.

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Caution reigns at state land tenders, despite developers' low unsold private housing inventory

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However, the top bids for both plots came in within the range of expectations indicated by property consultants polled by *The Business Times* before the tenders for the two sites closed on Thursday (Nov 3).

The Hillview Rise site, which can generate about 335 homes, received four bids. A partnership between Far East Organization and Sekisui House placed the top bid of S$320.78 million, or nearly S$1,024 per square foot per plot ratio (psf ppr).

A site along Bukit Timah Link, a stone's throw from Beauty World MRT station, fetched five bids.

Bukit Sembawang Estates' top bid of S$200 million or S$1,343.13 psf ppr was 15.7 per cent more than the second-highest bid from Wing Tai.

Said JLL Singapore's senior director of research and consultancy, Ong Teck Hui: "It was thought that the Bukit Timah Link site, which is relatively small and therefore less risky, would generate greater interest among developers, but only five parties bid for it. The top bid was, however, much more optimistic than the second-highest bid. While the inventory of unsold units remains low and there is a need for developers to replenish their land banks, there seems to be greater caution in bidding for sites in view of rising interest rates, the effects of the recent cooling measures and macroeconomic uncertainties."

This is the maiden tender closing following the late-September property cooling measures.

Also pointing to the more cautious approach among property developers, Nicholas Mak, the head of research and consultancy at ERA Realty Network, noted that the top bid of S$1,023.85 psf ppr for the Hillview Rise site is lower than the S$1,068 psf ppr land rate paid in 2018 for the nearby Midwood condo site.

"The distance between the Midwood and Hillview Rise sites is only about 230 metres," Mak added.

The S$1,023.85 psf ppr top bid for the latest Hillview Rise site was just 1.3 per cent above the second-highest bid, by City Developments.

Edmund Tie's head of research and consulting, Lam Chern Woon, said one reason for the relatively close bids for this site could be that developers are concerned about supply and price competition from the future development on the Dairy Farm Walk site, which was awarded in March this year at a significantly lower S$980 psf ppr.

Far East Organization and Sekisui House's proposed scheme for the Hillview Rise site will comprise two blocks of 27 storeys with around 330 private homes. PHOTO: BT FILE

Watch-and-wait approach

Summing up Thursday's tender closing, Knight Frank's head of research for Singapore, Leonard Tay, said: "The economic outlook has taken a pessimistic turn with increasing interest rates, inflation and recessionary pressures. Despite this, developers are still keen to acquire land, to provide new products to a private residential market that is currently undersupplied."

"These are challenging times indeed for developers, having to manage the risks of high construction costs, government intervention with cooling measures, paying non-remissible Additional Buyer's Stamp Duties (ABSD) as well as having to sell out within five years so as not to be liable for even more ABSD. Another dampener for developers is a revision in definitions of floor area, including air-conditioner ledges to be included as gross floor area; the changes will eat into developers' saleable area and margins for condo projects."

In addition, with increasing interest rates, developers now have to consider whether some homebuyers will turn and camp on the sidelines, adopting a watch-and-wait approach until economic uncertainties play themselves out, Tay added.

Muted participation

Provisional tender results for 99-year private housing sites

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CBRE's head of research for South-east Asia, Tricia Song, expects launch prices of S$1,800 to 1,900 per square foot (psf) for the new project that will come up on the Hillview Rise site, and S$2,200 to 2,300 psf for the new project on the Bukit Timah Link plot.

Chng Kiong Huat, the chief executive of Bukit Sembawang, the top bidder for the Bukit Timah Link plot, said: "We plan to curate a cosmopolitan village lifestyle within a 20-storey development with 160 apartment units, that we believe would appeal to young families and investors. This lifestyle concept would fit well into this location with its village vibe, and will provide an attractive option for buyers looking for a unique lifestyle, as they enjoy the gentrification and transformation of the Beauty World Precinct."

Within walking distance of the site are the Bukit Timah Nature Reserve and Bukit Batok Nature Park as well as various retail and food and beverage options.

Marc Boey, an executive director of Far East Organization, speaking on behalf of the joint venture between the company and Sekisui House, said that the Hillview Rise site presents an "excellent opportunity for the two of us to create another notable residential property project in the Upper Bukit Timah enclave".

The partners' proposed scheme for the Hillview Rise site will comprise two blocks of 27 storeys with around 330 private homes.

Located within an established private residential estate, the Hillview Rise land parcel is easily accessible via major roads/expressway and Hillview MRT station.

Schools such as CHIJ Our Lady Queen of Peace and Assumption English School are located nearby. Shopping malls such as The Rail Mall and HillV2 provide a wide array of shopping, dining and entertainment options nearby.

The land parcel is next to Hillview Community Club and near Bukit Batok Nature Park.

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By Yong Hui Ting
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"Although prices remain elevated as inflation proves to be one of the key challenges alongside supply chain delays and labour constraints, prices that are stable are expected to remain so for the coming months and into 2023, with some even trending downwards," wrote researchers in the report.

While there is a gloomy outlook for global economic activity, coupled with the slowing down of China's economy, demand stemming from investments in renewable energy is expected to contribute to copper prices staying relatively high.

Linesight predicted copper prices will increase by 1 per cent from Q3 to Q4, although they have dropped from the mid-2022 highs.

Even as prices stabilise, the lead times of long-lead equipment extended drastically since the start of 2022 as a result of material shortages, delays and price hikes throughout the supply chain. This has led to reduced commitment from suppliers for new projects.

Singapore recorded a 4.3 per cent and 3.9 per cent expansion in its retail and institutional construction sector from 2021 to 2022.

While Global Data recently revised its forecasts for the city-state's construction sector down to 3.5 per cent, Michael Murphy, director at Linesight Singapore, said growth will still be buoyed by a few ongoing infrastructure and energy-related projects that faced disruption at the onset of the pandemic, but which have resumed as of last year.

Non-landed new private homes* in OCR bought by HDB upgraders

Price range	2020	2021	2022
S$750,000 to < S$1 mil	1.6%	0.2%	0.0%
S$1 mil to < S$1.25 mil	28.9%	19.3%	1.1%
S$1.25 mil to < S$1.5 mil	52.8%	45.7%	11.2%
S$1.5 mil to < S$1.75 mil	15.9%	30.7%	51.7%
S$1.75 to < S$2 mil	0.8%	3.6%	28.1%
S$2 mil to < S$2.25 mil	0.0%	0.4%	7.9%

**800 – 1,000 sq ft*

Table: BT Digital • Source: PropNex Research, URA Realis (retrieved on Sep 15, 2022, data up till Sep 6, 2022)