

13 July 2020

Property | Real Estate

Real Estate

Overweight (Maintained)

Showing Resilience; Maintain OVERWEIGHT

- **Stay OVERWEIGHT – CapitaLand is our Top Pick.** Despite a sharp deterioration in economic outlook, the property sector has largely remained resilient, as anticipated. Key reasons are ultra-low interest rates, government economic stimulus, predominant local buying and healthy household balance sheets pre-crisis. Developers' low margins have also limited price wars. We stay OVERWEIGHT on the sector mainly on valuation grounds, with developer stocks trading at attractive 40-60% discounts to book value.
- **General Election 2020 unlikely to change private real estate policy course.** The return of the ruling People's Action Party, albeit with a lower vote share (61% vs 70% in 2016), should not result in any significant change in real estate policy measures in our view. With recent data showing a resilient property market by price and volume, we expect the Government to stay cautious and not to relax any cooling measures at this juncture. Any relaxation ahead is likely to be data driven, ie if the Government sees property prices or market conditions deviating sharply vs economic fundamentals. Compared to past crises (Global Financial Crisis (GFC), SARS epidemic), the Government is now on much better policy footing to steer the market on the back of nine rounds of cooling measures. In the unlikely case of property prices continuing to rise, we also do not rule out potential additional tightening measures which could come in the form of further tightening of loan-to-value ratios. We also anticipate possible tweaks on the public housing front instead in terms of land lease tenures and use of Central Provident Fund savings to purchase homes.
- **June private home sales to double from May.** Real estate activity has picked up pace since the reopening of the economy in June, with real estate agencies reporting brisk sales across many show flats ([New Home Sales To Double That Of May](#)). We expect June new sales volumes to reach c.1k units – double that of May volumes and c.20% higher than Jun 2019 monthly sales. Similarly, Housing & Development Board (HDB) resale volumes also showed a near sevenfold jump in June ([HDB Resale June](#)), indicating strong pent-up demand.
- **Prices resilient so far; limited room for developers to cut prices.** 2Q Urban Redevelopment Authority (URA) flash data show private residential prices falling 1.1% QoQ vs -1% in 1Q20. The limited price fall in 2Q is due to market-supportive factors highlighted above and developers adopting a wait-and-watch strategy, in our view. Another key difference limiting the price fall is development margins which largely remain squeezed at 5-15% vs 20-30% pre-GFC. This is due to higher land cost paid amidst increased competition. Construction costs are also expected to rise on higher manpower costs, further limiting margins. With most planned new launches in 1H seen to come on-stream in the next few months, we expect more completion and developers to offer more soft discounts to attract buyers. Overall, we see a 5-10% property price correction and a 30-40% decline in private residential volumes for 2020.
- **Key risks to watch out for in 2H** are the potential impact of a second COVID-19 wave and sustainability of economic data post initial stimulus.

Stocks Covered 4
Rating (Buy/Neutral/Sell): 4 / 0 / 0
Last 12m Earnings Revision Trend: Negative

Top Pick

CapitaLand (CAPL SP) - BUY

Target Price

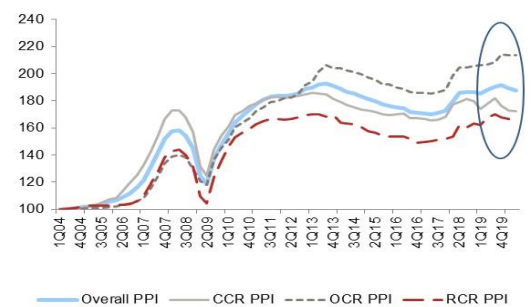
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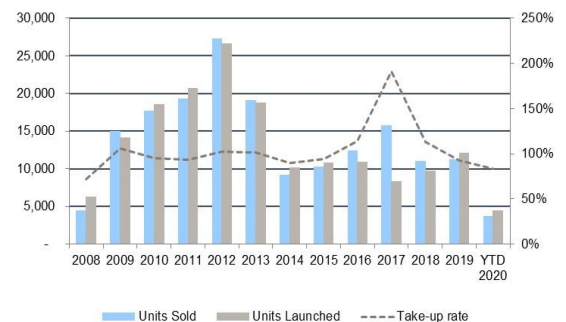


Property price indices by region (1Q04 = 100)



Source: URA, RHB

Units launched vs sold



Source: URA, RHB

Company Name	Rating	Target Price(SGD)	% Upside (Downside)	P/E (x) Dec-20F	P/B (x) Dec-20F	Yield (%) Dec-20F
APAC Realty	BUY	SGD0.50	29.8	13.3	0.9	3.8
CapitaLand	BUY	SGD4.00	37.4	10.4	0.6	4.1
City Developments	BUY	SGD9.50	9.0	19.8	0.9	2.3
Oxley	BUY	SGD0.29	20.8	4.7	0.6	5.2

Source: Company data, RHB

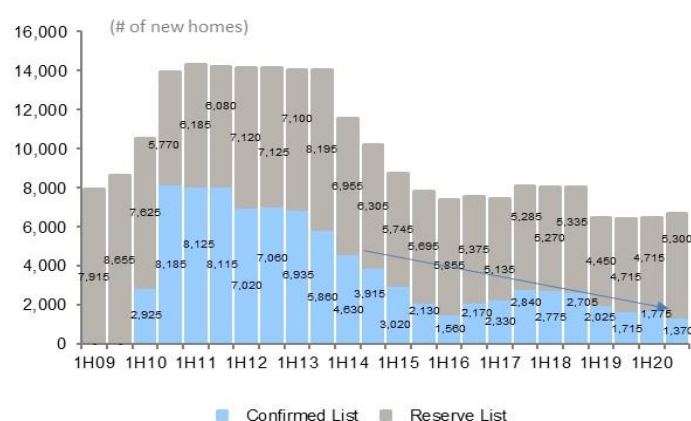
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Demand-supply imbalance reducing; further moderation in Government Land Sales (GLS) supply supportive of long-term fundamentals. The GLS programme for 2H2020 signalled a further moderation in confirmed list supply (23% lower compared to 1H20), and this is also the lowest in the last decade (Figure 1). This was offset by an increase in reserved list supply (which is launched only if a developer submits an acceptable bid to the Government). The Government noted that this is to avoid potential supply shortfalls over the medium to long term. The move is in line with our expectations of the Government using supply-side measures to calibrate the property market instead of more severe demand-side measures which could have an adverse impact if market conditions change.

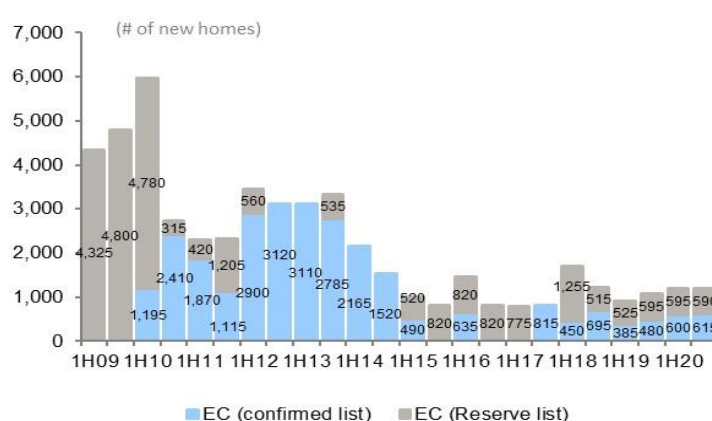
After peaking in 1Q19, unsold units have been on a declining trend with 31,099 units (including executive condominiums, or EC) as at 1Q20 compared to 38,710 units as at 1Q19 (Figure 4). Similarly, overall vacancy rates have also declined to 5.4% (Figure 3). While there are still some units in the launch pipeline arising from the 2017-2018 en bloc cycle supply, pressure should ease past 2021 if demand stays resilient.

Figure 1: Non-landed residential sites under the GLS programme (including EC)



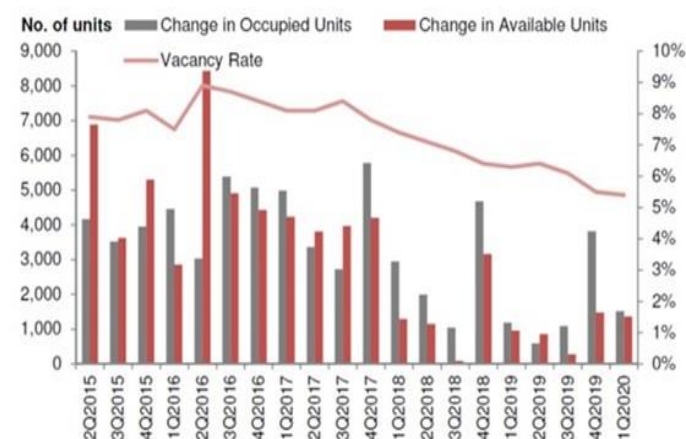
Source: URA, RHB

Figure 2: EC land supply under the GLS programme



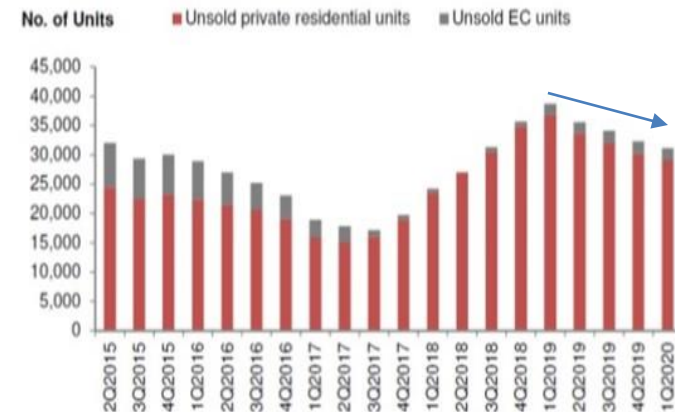
Source: Bloomberg, RHB

Figure 3: Supply, demand and vacancy rates



Source: URA

Figure 4: Unsold private residential units (including EC)



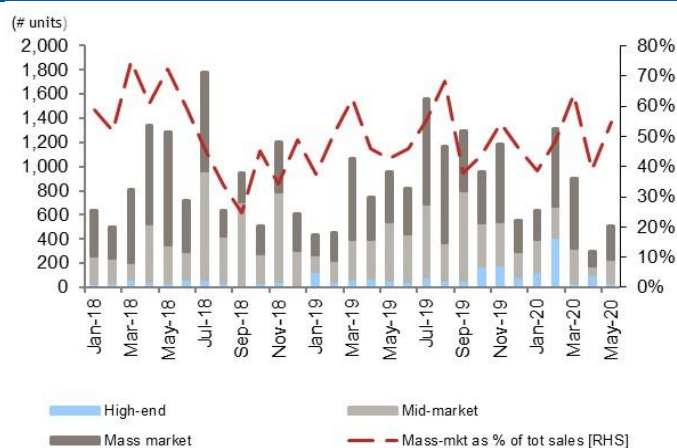
Source: URA

Mass market segment to continue to outperform the rest. Among various property segments, mass market is expected to be the most resilient, fuelled by genuine upgrader demand and affordability. The high-end segment will be the hardest hit in the near term as it has a high proportion of foreign buying and investor demand. For May, the mass market and mid-tier segments accounted for the bulk of total sales at 55% and 37%, with c.75% of the units sold in the market below SGD2,000psf (Figures 5 and 8).

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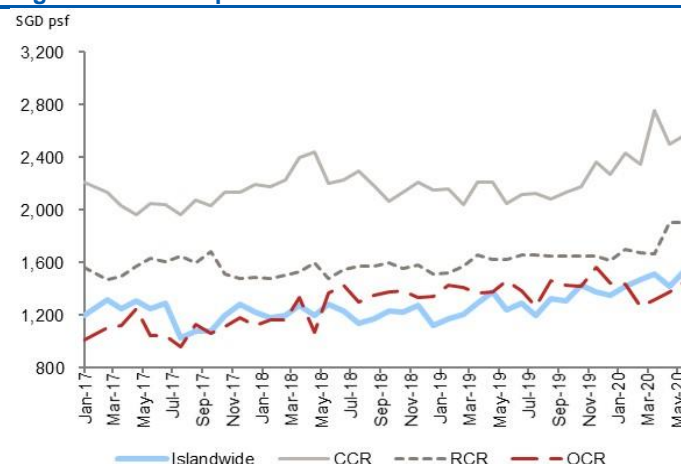
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Figure 5: Segment breakdown (new sales)



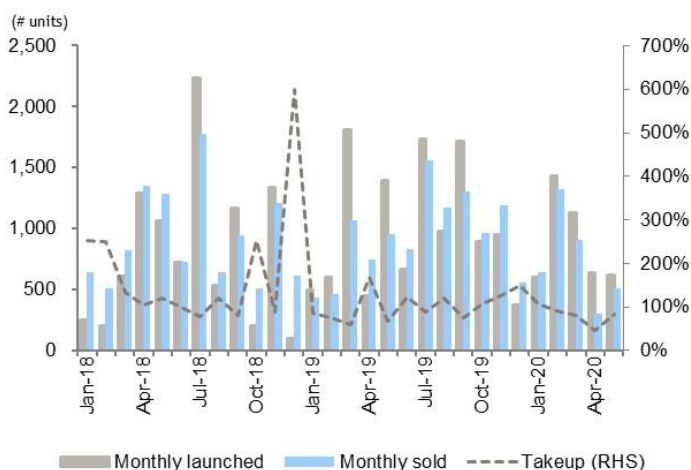
Source: URA, RHB

Figure 6: Median price of new home sales



Source: URA, RHB

Figure 7: Private home (ex-EC) sales/launches/take-up



Source: URA, RHB

Figure 8: Price segment breakdown (including ECs) – May 2020

Median price segment breakdown	New sales (units)	% sold in May-20
<SGD1,000psf	1	0.2%
SGD1,000-1,500psf	127	25.0%
SGD1,500-2,000psf	313	61.5%
SGD2,000-2,500psf	45	8.8%
>=SGD2,500psf	23	4.5%
TOTAL	509	100.0%

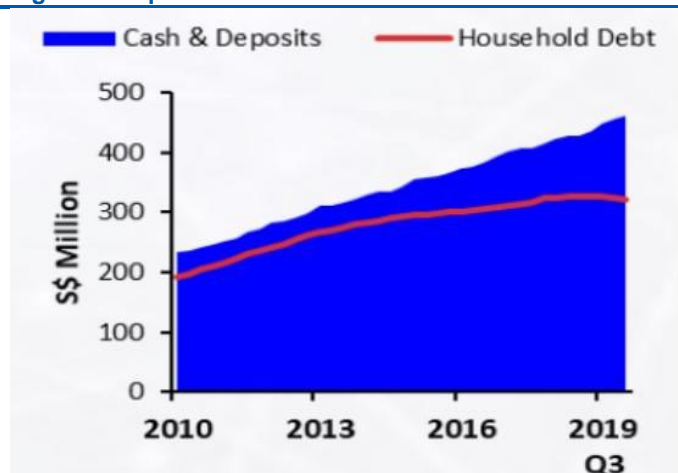
Source: URA, RHB

Strong household balance sheets pre-COVID-19 and local buying limit fire sales. The Monetary Authority of Singapore's Financial Stability Review (Nov 2019) indicates that household balance sheets remain strong, with the average loan-to-value ratio of housing loans declining from 54% in 2017 to 49% as at 3Q19. In addition, buying demand over the last few years has been local driven (more than 90%), with foreigners accounting for only 6% of the total. Speculative buying as defined by sub-sale transactions has also remained low at less than 2% compared to pre-GFC levels of 10-15%.

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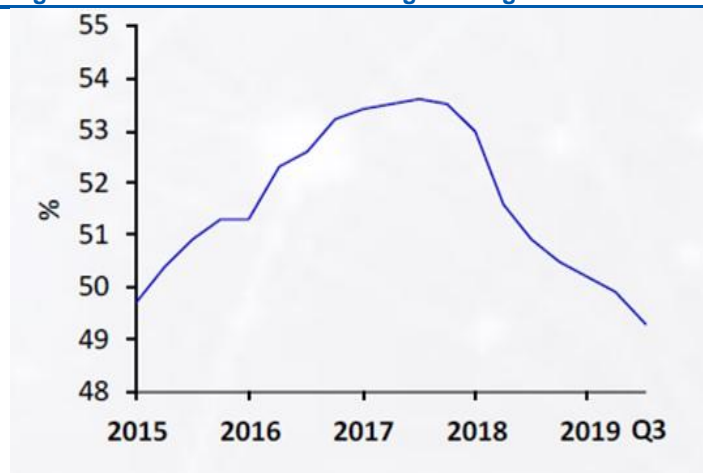
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Figure 9: Liquid assets exceed total liabilities



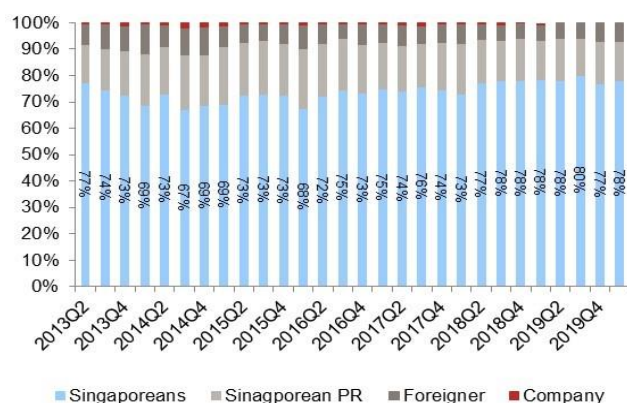
Source: MAS, RHB

Figure 10: LTV ratio of outstanding housing loans



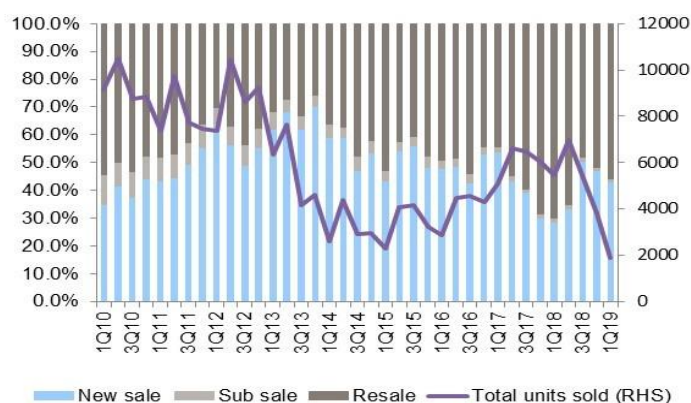
Source: MAS, RHB

Figure 11: Private home purchases by nationality



Source: URA, RHB

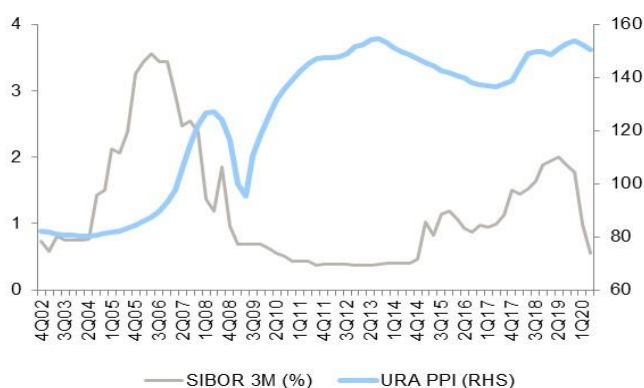
Figure 12: Private home sales breakdown by segments



Source: URA, RHB

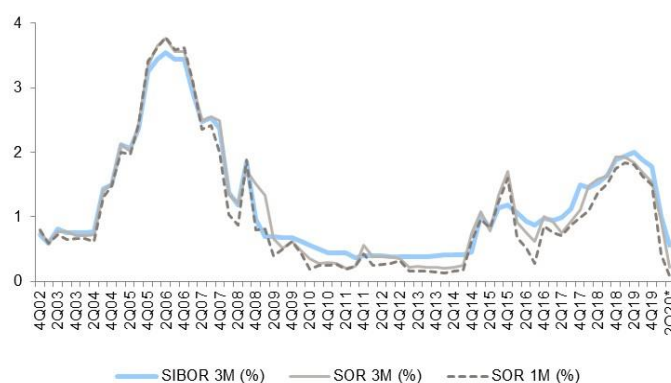
Persistent low interest rates and liquidity remain supportive. A key difference between the current crisis and past ones has been the central bank's coordinated swift response to inject liquidity and its intentions to keep interest rates lower for longer. This has resulted in SIBOR rates – to which home loans are mostly pegged – falling to historic lows (Figure 14) and, more importantly, expected to stay at low levels.

Figure 13: URA Price Index vs SIBOR 3m



Source: URA, RHB

Figure 14: Key interest rates at historic lows



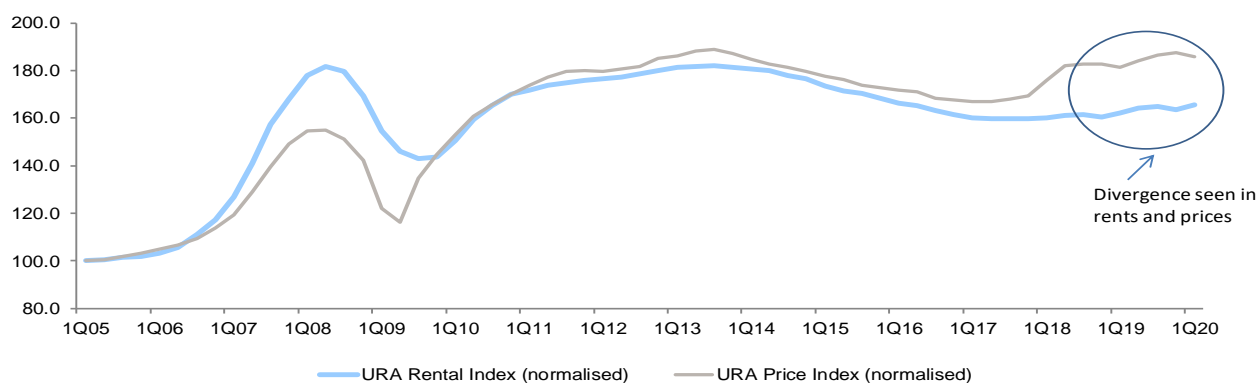
Source: Bloomberg, RHB

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Rental segment weakness expected to persist. While property prices have been slowly trending higher in 2018-2019, the rental market has remained weak and seen a divergence in rents and prices (see Figure 15) due to factors which include tightened immigration and lower perks for expatriates. With COVID-19 severely impacting jobs and household income, this weakness is expected to persist. The impact of weak rental yields is, however, mitigated by low interest rates and better holding power among locals and developers.

Figure 15: URA Private Home Sale Index vs Rental Index (1Q04 = 100)



Source: URA, RHB

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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