

Real Estate

Neutral (Maintained)

Weak Market Signs

Stocks Covered: 2
 Rating (Buy/Neutral/Sell): 1 / 1 / 0
 Last 12m Earnings Revision Trend: Negative

Top Pick

City Developments (CIT SP) – BUY

Target Price

SGD7.30

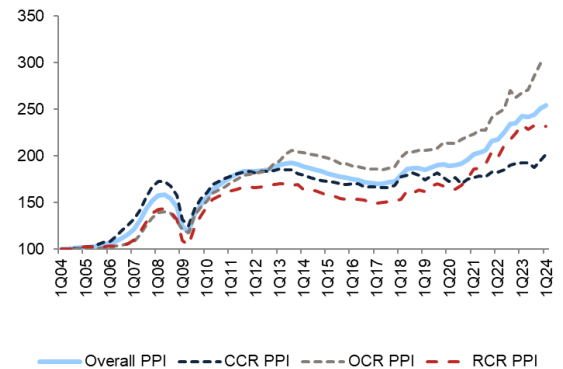
- Residential market in a tug of war.** Singapore's property market has been gradually cooling off with weakness starting to emerge in the form of lacklustre land bids, delayed new launches and sliding transaction volumes. Prices, on the other hand, have remained largely resilient on strong household balance sheet and growing household income. We expect this trend to continue for the rest of the year, with some recovery in buying sentiment anticipated in early 2025 on potential rate cuts and stronger economic recovery. Keep NEUTRAL.
- Sales volume likely to remain tepid...** May's new home sales volume (excluding executive condominiums (ECs)) slumped 79% YoY to a record low of 221 units. YTD-May new sales stand at 1,697 units (-48% YoY). Key reasons behind low transaction volumes include a lack of major new launches and postponement of some of the planned launches amid selective buying demand and growing price resistance. With market conditions remaining soft, we believe developers will continue to delay their new launches with overall launches for the year likely to come in far below the earlier anticipated >12,000 units. As such, we revise down our full year transaction volume estimates by 15-20% to 6,000-6,500 units for 2024. Resale transactions (1Q) too were down 5% QoQ at 2,689 units and are expected to see flattish growth for the full year.
- ... with prices continuing to moderate.** Based on the Urban Redevelopment Authority (URA) data, non-landed residential property prices (1Q) rose 1% after rising 6.6% last year. We expect the price growth to continue to moderate and maintain our 1-4% pricing expectation for the full year with risks tilted towards the downside. Key reasons for price resilience include expectations of stronger economic growth in 2H, stable labour market and low household debt levels resulting in limited market stress. However, the slow build-up in unsold inventory and high interest rates should keep price growth in check.
- Lacklustre land bids – a sign of uncertainty ahead?** Developers have turned more cautious in land banking since late last year with sites under government land sales (GLS) receiving only 1-4 bids (vs 7-10 bids previously) and winning bids coming in below market expectations. The cautious bids are reflective on the uncertain market outlook amidst elevated interest rates and could potentially aid in the further easing of property prices in the future. With weak bidding interest, we believe the Government could likely lower the supply in the upcoming government land sales programme and add more attractive sites to revive developers' buying interest.
- Further cooling measures less likely.** The gradual easing of property prices reduces the risk of additional market cooling measures in the near term with the Government expected to continue to keep a close watch on price trends in the next few quarters.
- Rentals to decline 5-10% in 2024,** driven by more project completions and a slowdown in the influx of foreigners post-COVID-19. We expect rental rates to fall across all market segments, with the high-end segment likely seeing the maximum impact.

Analyst

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Private price indices by region (1Q04 = 100)



Source: URA, RHB

Company Name	Rating	Target (SGD)	% Upside (Downside)	P/E (x) Dec-24F	P/B (x) Dec-24F	ROAE (%) Dec-24F	Yield (%) Dec-24F
APAC Realty	Neutral	0.44	9.6	11.9	0.9	7.5	6.6
City Developments	Buy	7.30	38.3	14.4	0.5	3.6	2.3

Source: Company data, RHB

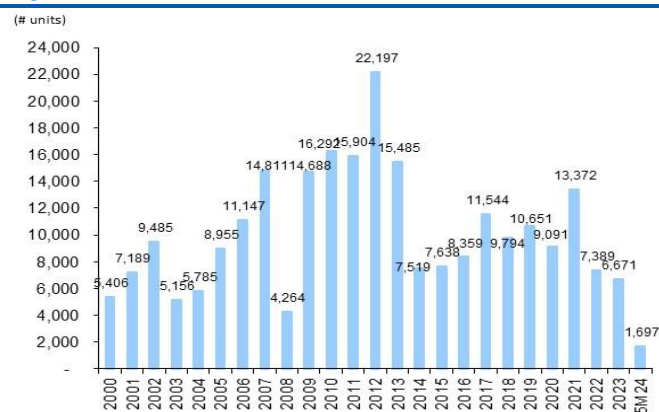
Delayed launches amid selective demand

Project launches likely to be pushed back to 2025 resulting in potential oversupply. At the start of the year based on EdgeProp ([link](#)), about 42 projects (c.12,750 units) were expected to be launched in 2024. However, based on URA's latest data, only 1,865 units (excluding ECs) have been launched so far with only two major project launches (over 300 units) since the start of the year. This, in our view, indicates developers are not confident on market demand and are likely waiting for a better market window that could potentially arise from interest rate cuts and stronger economic growth later this year. However, the likely delay and pushing out of new launches could have a bunching up effect that may eventually result in an oversupply in 2025 and keep a lid on the price growth. It could also likely trigger a price war that may result in developers offering more soft discounts to move inventory.

Dual-paced market. Demand for new launches remains two-paced with only selective launches with attractive pricing and strong attributes seeing a healthy take-up. An example would be Lentor Mansion (launched in March) saw a strong take up of 75% (400 units sold) over launch weekend while Lentoria which was launched in the same locality in early March saw only 19% take up (50 units sold) during launch weekend. We expect a similar trend for the rest of the year with projects that have strong developer branding, attractive location, pricing and limited micro-market supply garnering stronger response over others. Key launches we would be watching for include the upcoming Sora and Toa Payoh site in 2H24 (Figure 3).

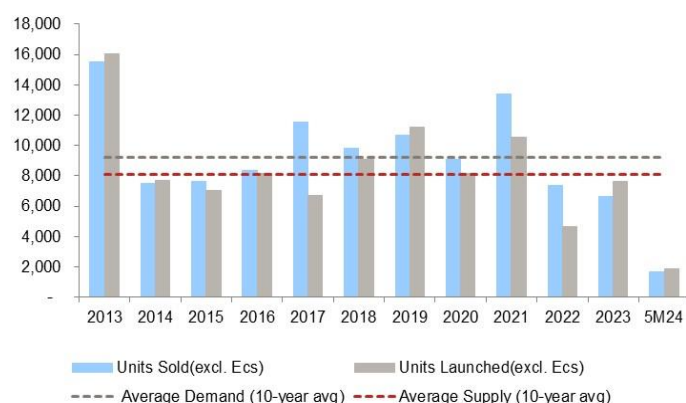
Buying interest has been mainly from locals, with Singaporeans and permanent residents accounting for c.98% of demand in new launches. Purchases made by foreign buyers have trickled down to a single digit post latest stringent cooling measures, which resulted in the Additional Buyer's Stamp Duty or ABSD doubling to 60% from 30%. We expect buying profile to remain similar in 2H24, as well.

Figure 1: Private sales (ex-ECs) to remain flat in 2024



Source: Urban Redevelopment Authority (URA), RHB

Figure 2: Falling take-up rates point to selective demand



Source: URA, RHB

Figure 3: Major planned launches in 2024 by region

No.	Project name	Location	Region	Lease tenure	Estimated Units
1	Tampines Avenue 11 GLS site	Tampines Avenue 11	OCR	99-year leasehold	>1,000
2	Former Chuan Park	Lorong Chuan	OCR	99-year leasehold	916
3	Lentor Mansion*	Lentor Gardens	OCR	99-year leasehold	533
4	Tengah Plantation Loop site	Tengah Plantation Loop	OCR	99-year leasehold	508
5	Lentor Central Site	Lentor Central	OCR	99-year leasehold	Estimated at 475
6	Sora**	Yuan Ching Road	OCR	99-year leasehold	440
7	Hillhaven*	Hillview Rise	OCR	99-year leasehold	341
8	Jalan Tembusu site	Jalan Tembusu	RCR	99-year leasehold	847
9	Lorong 1 Toa Payoh site	Lorong 1 Toa Payoh	RCR	99-year leasehold	777
10	Pine Grove site	Pine Grove	RCR	99-year leasehold	565
11	Marina View Residences	Marina View	CCR	99-year leasehold	683
12	Marina Gardens GLS site	Marina Gardens Lane	CCR	99-year leasehold	790
13	One Sophia	Sophie Road	CCR	99-year leasehold	367
14	Newport Residences	Anson Road	CCR	Freehold	246

Note: * Launched Projects; ** Upcoming at end-June
 Note 2: OCR - Outside Central Region, RCR - Rest of Central Region and CCR - Core Central Region
 Source: The EdgeProp

Cooling land tender and rising GLS supply

Lacklustre land bids – a sign of uncertainty and lack of developers' confidence. Developers' interest in land tenders has moderated considerably since the start of the year, with the launched seven sites receiving only 1-4 bids in comparison to 7-8 bids seen at land tenders in the recent past. A site in Upper Thomson Road which requires the developer to incorporate serviced apartments in the project meanwhile closed with no bids. The prices of some of the winning bids have also been considerably lower by 10-30% in comparison to nearby sites, which we believe is partially due to developers factoring in higher construction costs and lower gross floor area efficiency post recent changes in regulations.

The weak bids in our view is due to a combination of the ramping up of land supply and reduced risk appetite among developers on the back of thinning development margins and uncertain macroeconomic environment coupled with a series of cooling measures that has curbed demand. Overall, the moderating land bids reflect developers' view of softening market conditions and potentially buffering in a small price correction ahead.

Figure 4: Land tender awards since the start of the year

S.No	Tender Closing Date	Type	Location	Winning Bidder	Tender Price (SGDm)	Tender Price (SGD psf ppr)	Winning Margin	No. of bids
1	18-Jan-24	Residential/1st story commercial	Media Circle	Qinjian Realty and Forsea Residence	395.29	1,191	2.7%	3
2	1-Feb-24	EC	Plantation Close	Hoi Hup Realty and Sunway	423.38	701	1.6%	4
3	1-Feb-24	Residential/1st story commercial	Orchard Boulevard	UOL and Singapore Land	428.28	1,617	2.5%	4
4	4-Apr-24	Residential/1st story commercial	Upper Thomson Road (Parcel B)	GuocoLand and Hong Leong	779.56	905	n.a	1
5	4-Apr-24	Residential/1st story commercial	Zion Road (Parcel A)	City Developments and Mitsui Fudosan	1,106.89	1,152	n.a	1
6	14-May-24	Residential	Holland Drive	City Developments and Mitsui Fudosan	805.39	1,285	5.2%	3
7	20-Jun-24	Residential	River Valley Green (Parcel A)	Wingtai Holdings	464.00	1,325	4.3%	2

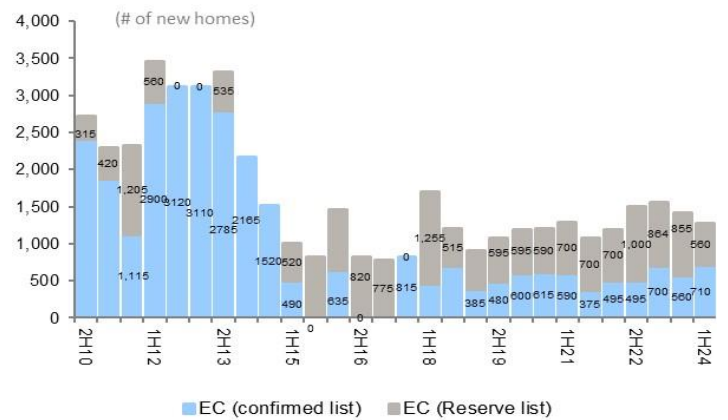
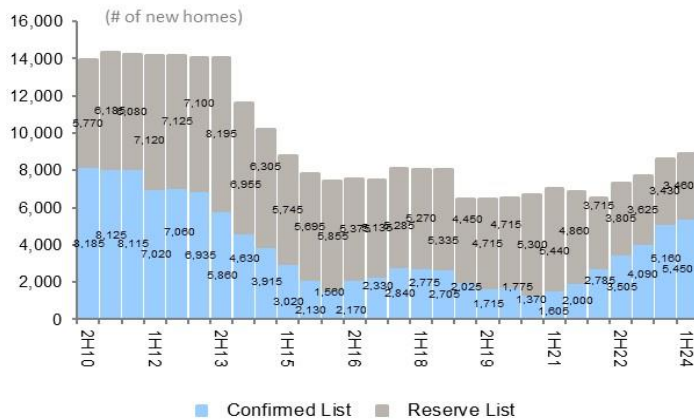
Source: URA, Housing Development Board (HDB), RHB

2H24 GLS supply could be lowered and tweaked amid waning demand. The Government has been steadily increasing private housing supply since 2022, in order to moderate price growth. For 1H24, it announced a 6% HoH increase in the number of confirmed list residential properties to 5,450 units. This is the highest supply on the confirmed list in a single GLS programme since 2H13. The supply from the confirmed list has also been tweaked slightly higher HoH. Note that sites on the confirmed list are automatically launched for tendering as per the planned schedule, while sites on the reserve list need to be triggered by a developer with a committed acceptable minimum price set by URA.

With the steady increase in land supply starting to have the desired effect of moderating price growth and increasing buying choices, we believe the Government could lower land supply slightly in the upcoming 2H land sales programme to be announced later this month. Developers have also accumulated more landbank in the last two years, and have turned much more selective on sites and prices. Overall, we expect the soft land acquisition trend to persist, resulting in sluggish bids, and correspondingly, having a moderating effect on prices in the near future.

Figure 5: Non-landed sites under the GLS programme (including ECs)

Figure 6: EC land supply under the GLS programme



Source: URA, RHB

Source: URA, RHB

Unsold inventory and vacancy rates

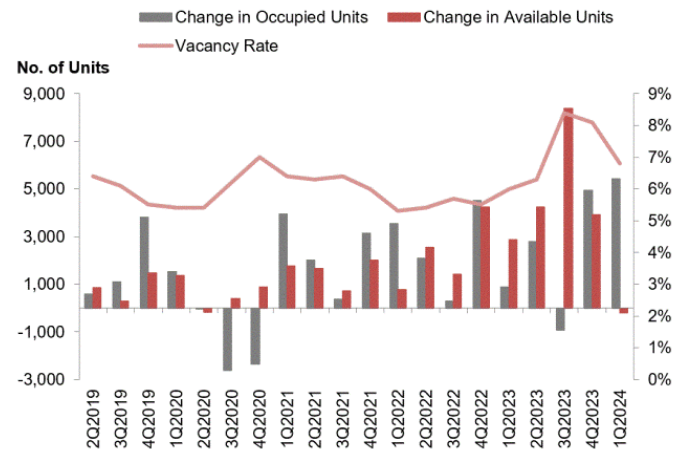
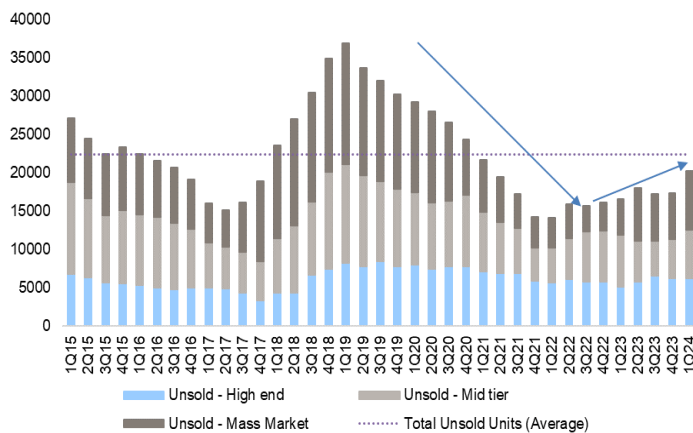
Unsold inventory to rise as slower sales and rising supply hit the ground. Inventory levels have been slowly creeping up after hitting a 15-year low of c.14,087 units in 1Q22. The slower take-up at recent new launches have resulted in a 17% QoQ increase in unsold units to 20,204 units as of 1Q24. This is still 9% below the long-term average. Diving into market segments, the high-end segment accounts for the majority (38%) of unsold units available. This is not surprising, as this segment has been the hardest hit by the latest sector cooling measures targeting foreign buyers. This has resulted in slower sales and a steady build-up in inventory.

Moving into 2024-2025, we expect inventory to build up steadily, on the back of a strong new launch supply pipeline and more selective buying demand. The increased supply and relatively high interest rate environment will be a key factor in keeping the price growth in check in the coming years, in our view.

Impact from the increasing supply is also starting to be felt in vacancy rates. Overall vacancy rates in 1Q24 moderated to 6.9%, from 8.1% in the previous quarter, but is higher than the 5-year average of 6.3%. Unsurprisingly, high-end properties have the highest vacancies at 8.9%, followed by 6.6% in the mid-tier segment and 6.0% for mass market properties. The rising vacancy rates, in our view, are a key driver of the anticipated rental rate decline.

Figure 7: Unsold units have been steadily rising

Figure 8: Vacancy rates stabilises after a sharp spike



Source: URA, RHB

Source: URA, RHB

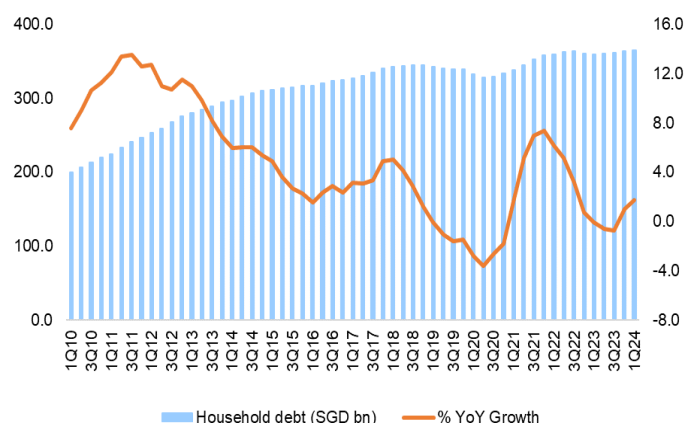
Household debt and interest rates

Household balance sheet remains healthy despite pressure from the interest rate increase. Overall household debt grew by moderate 1.7% YoY, flat QoQ to SGD365bn as of 1Q24, based on official data. Household assets on the other hand rose at a much faster pace of 7.2% YoY to SGD3.2trn as at end of 1Q24 on the back of rising household income and asset price increases.

Based on the Monetary Authority of Singapore’s (MAS) financial stability review or FSR, aggregate household debt as a share of personal disposable income (3Q23) is now at a decade-low of 1.2. MAS noted this was driven by a confluence of a moderation in household debt and continued income growth. We expect household debt growth to be flattish-to-a-slight increase this year as transaction volume remains tepid. Housing non-performing loans (NPL) ratio despite slightly ticking up in last few quarters, remains low at 0.29%, which is well below the 10-year average of 0.37%. The average loan-to-value or LTV ratio (3Q23), similarly, remains well below the long-term average, at 41% vs 43% as at 3Q22.

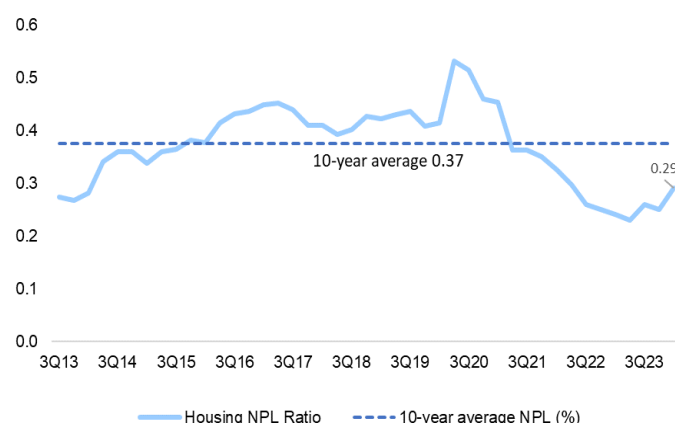
FSR noted that borrowers who are expected to refinance in 2024 – especially those on existing fixed rate loan packages – would likely see a step-up in mortgage rates. However, MAS’ adverse stress scenario simulation covering borrowers who are expected to undergo refinancing in 2024 shows that most of these households would still be able to service their mortgages under conservative assumptions of higher interest rates and income loss. A small segment of highly leveraged borrowers could be more vulnerable to repayment risk.

Figure 9: Household debt and YoY growth (%)



Source: MAS, RHB

Figure 10: Housing NPL ratio (%)



Source: MAS, RHB

Housing loan interest rate likely nearing a peak... Singapore has been transitioning loan packages from Singapore Dollar Swap Offer Rate (SOR) and Singapore Interbank Offered Rate (SIBOR) to Singapore Overnight Rate Average (SORA). SIBOR will cease after end-Dec 2024, and SORA will replace SIBOR as the key interest rate benchmark for Singapore Dollar Interest Contracts. SORA, which has been administered by MAS since 2005, is the volume-weighted average borrowing rate in Singapore’s unsecured overnight interbank cash market. As of Jun 2024, the 3-month Compounded SORA stands at 3.66%, which is about 4bps lower than what it was in early 2023. Typically, the spread of mortgage loans above SORA across banks ranges from 30-100bps.

As the Singapore Government does not have an implicit interest rate policy, based on past correlations, the benchmark interest rates tend to closely track the US Federal Reserve (US Fed) fund rates, albeit with a lower amplitude and a lag (3-6 months). Premised on this, we believe that 3-month SORA will likely hover around the current levels and slowly start easing off in 2025 from the lag effect of anticipated rate cuts by the end of the year. With household balance sheets relatively in a favourable position overall, we expect the peaking of interest rates to have a limited effect and stress on the housing market.

Figure 11: FTSE Real Estate Index vs URA Property Price Index (PPI)

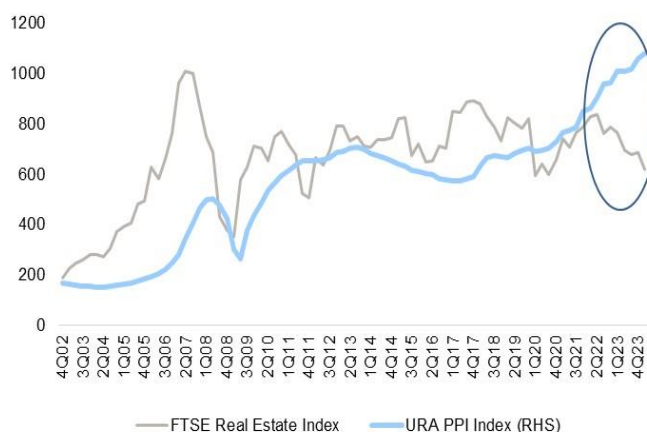
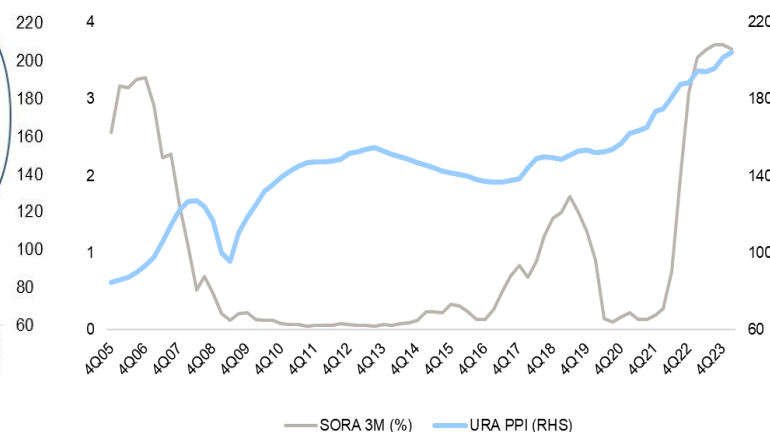


Figure 12: URA PPI vs SORA



Source: Bloomberg, RHB

Source: Bloomberg, RHB

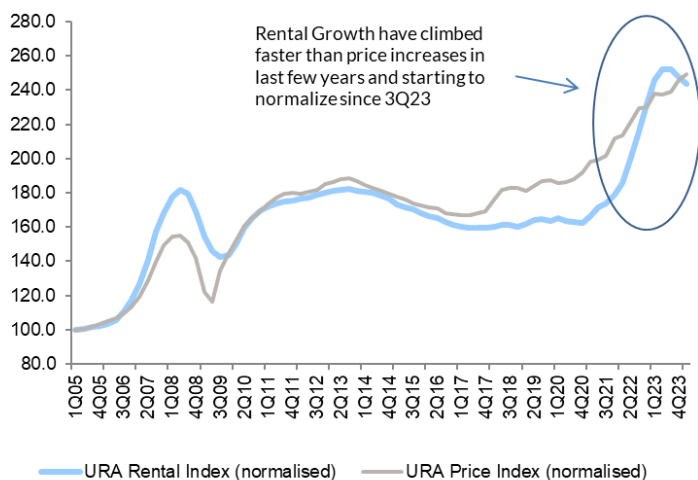
Rental market to further ease for the rest of 2024

Rental to fall by 5-10% in 2024, after running up sharply over the last three years. After rising by c.55% over the three years till 3Q23, the rental market has started to cool by registering consecutive quarterly declines in 4Q23-1Q24 and has since declined 3% from its peak. This comes as the key reasons behind the recent run-up construction delays, COVID-19 led demand surge from locals as well as rising influx of foreigners have started to ease and reverse.

The recent spike in rental market growth has resulted it in closing the gap with price appreciation in the last decade with both seeing c.150% increase since 2005. However, the increase in cost of holding investment properties from rising interest rates, higher stamp duties, property taxes and upkeep expenses mean that net rental yield for residential properties remains low at c.2-3% which is currently below mortgage rates, making property investment purely a capital appreciation play. This in our view is likely to temper the long-term property investment demand unless some of the existing measures are relaxed.

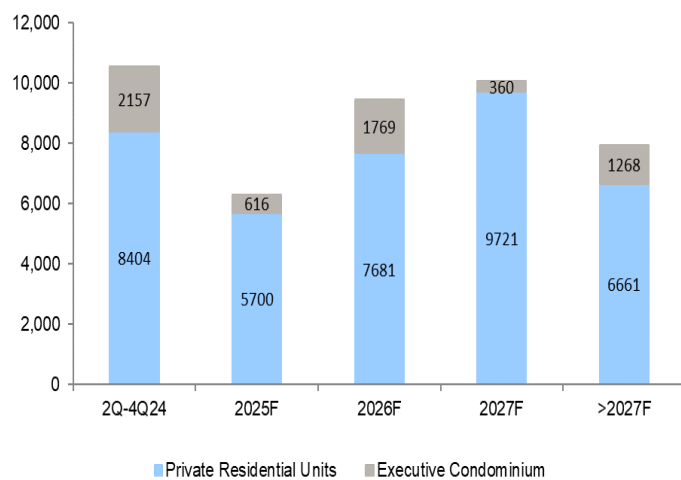
Based on URA data, another c.10,561 units (including ECs) are expected to be completed between 2Q-4Q24 this year, which is likely to result in further weakening of the rental market. Overall, we expect rents to continue to fall in the subsequent quarters by up to 10% in 2024 before stabilising closer to the end of the year as project completion is expected to fall significantly by c.40% in 2025.

Figure 13: Private home price vs rental index (1Q05 = 100)



Source: URA, RHB

Figure 14: Expected completion of private units and ECs



Source: URA, RHB

Stock impact – developers are still deep value plays, but with no strong catalysts

City Developments (CIT SP, BUY, TP: SGD7.30) remains our Pick. CIT has sold a substantial portion of its Singapore residential landbank over the last two years, and has unbilled residential sales in excess of c.SGD4bn, based on our estimates. While it still has about five to six projects that can be launched over the next two years, we believe the landbank is well spread across segments and regions of Singapore, and we see limited inventory risks at this juncture. However, a key concern is its growing debt and financing cost pressure as a result which is weighing on its bottomline. But a potential significant divestment of assets as guided by management (c. SGD1bn) in the near term could alleviate debt concerns and act as a share price catalyst. CIT is trading at near historic lows and below the -2SD levels of P/BV and P/RNAV.

On the other hand, property agencies are likely to trade sideways amid slower transaction volumes and a weaker demand outlook. We maintain our NEUTRAL call and TP of SGD0.44 for APAC Realty.

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Not Rated:	Stock is not within regular research coverage

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