15 January 2024

Property | Real Estate

Real Estate

Neutral (Maintained)

A Sluggish Year Ahead

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

- **Still NEUTRAL; prices to moderate further in 2024.** Private residential property prices rose more than expected – by 6.7% YoY in 2023 (2022: +8.6% YoY) – buoyed by selective new launches. However, the price increases continued to come in at lower volumes, indicating more selective demand amid a growing mismatch in pricing expectations. We expect 2024 to be a slow grinding year, with a further moderation in property prices. Key catalysts remain a healthy economy and resilient household balance sheets, with headwinds being increasing supply and higher interest rates.
- **Expecting muted 1H, slightly better 2H.** We expect property prices to remain largely flattish in 1H24, weighed by higher interest rates and likely cautious buyer sentiment. However, with economic growth expected to accelerate (RHB economists expect 2024 Singapore GDP growth to be +3% YoY, vs +1.2% YoY in 2023) and interest rates anticipated to fall in 2H, we expect property prices to recover. Overall, we raise our 2024 price forecasts to 1-4% (from 0-2% previously), mainly on the back of brightening prospects of a soft landing for the global economy. This should result in a more stable job market and higher wage growth.
- **Volumes to remain sluggish amid signs of buyer fatigue.** We estimate full-year private residential purchases (excluding executive condominiums (ECs)) for 2023 to be slightly below 7,000 units, or c.7% lower than 2022 levels. Overall private residential transaction volumes fell 15% YoY in 2023 to 18,510 units (up until mid-Dec 2023,) based on Urban Redevelopment Authority (URA) estimates, indicating a steeper decline in resale market transactions. For 2024, we expect primary market transactions to be slightly higher, at 7,000-7,500 units, mainly due to a higher number of new launches expected to come on-stream, while secondary market transaction volumes are likely to remain flattish. We also anticipate developers (especially in the high-end segment) of selected projects to start offering soft discounts to move inventory amidst increasing competition.
- **Further cooling measures likely if prices continue to climb.** Minister for National Development Desmond Lee, in his latest public remarks (link), noted that property prices are not expected to rise indefinitely, as signs of moderation are seen in public and private markets. We regard this as another sign of the Government continuing to closely monitor the property market and, possibly, more demand-side measures could be implemented if the price increase steepens (+3-5% QoQ). This could be in the form of further increases to additional buyer's stamp duty (ABSD), seller's stamp duty (SSD) for investment property purchases, and lower loan to value.
- **Rents expected to shrink by 5-10% in 2024** as vacancy rates (8.4%) have started to climb higher on the back of more project completions (post normalisation of pandemic-led construction delays). This, coupled with sharp hikes in overall market rental rates in the last three years (+56%) reducing affordability, has led to the market being poised for a correction in 2024. We expect rental rates to fall across all market segments, with the high-end segment likely seeing the maximum impact.

Top Picks | **Target Price**

Top Picks	Target Price
City Developments (CIT SP) – BUY	SGD8.20

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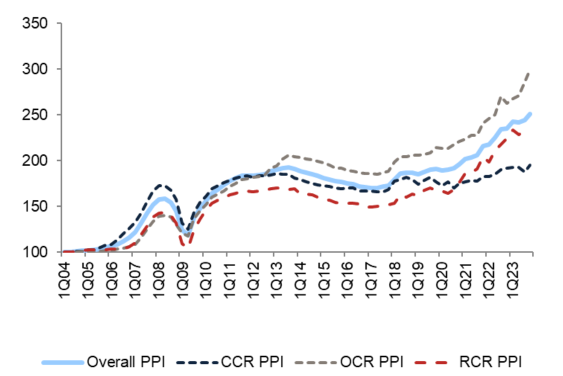
Private price indices by region (1Q04 = 100)



Source: Company data, 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	0.46	(8.7)	14.8	1.1	7.2	5.1
City Developments	Buy	8.20	27.9	14.2	0.6	4.3	2.8

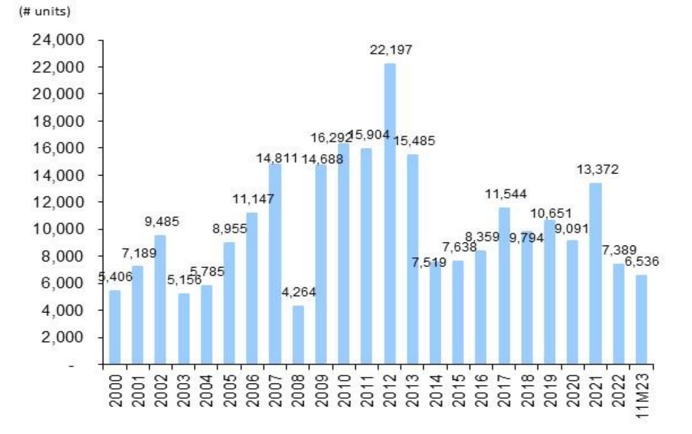
Source: Company data, RHB

Stock impact – developers are still the deep-value plays, but the sector lacks strong catalysts

City Developments remains our Top 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.SGD5bn, based on our estimates. While it still has a few residential sites that are expected to be launched in 2024, we believe the landbank is well spread across segments and regions of Singapore, and we see limited inventory risks at this juncture. In addition, its hospitality portfolio investment properties are expected to continue to do well. This counter is trading at a deep discount to book value and RNAV (>60%).

On the other hand, property agencies are likely to trade sideways amid slower transaction volumes and a weaker demand outlook. We maintain our NEUTRAL rating and TP of SGD0.46 for APAC Realty.

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

Supply and inventory

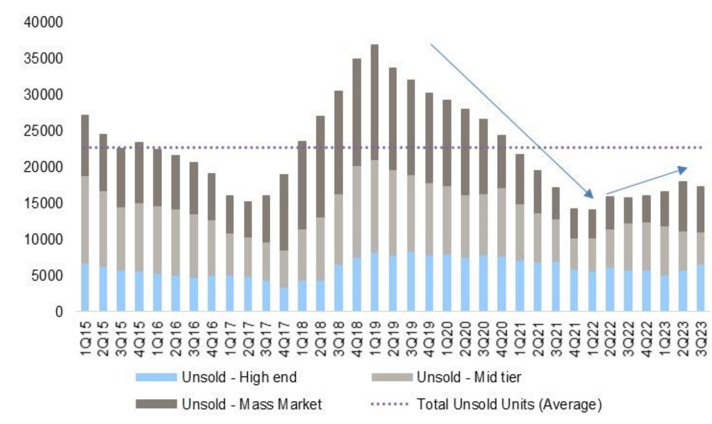
Unsold inventory is expected to increase as a result of higher supply and slower sales. Since inventory levels bottomed in 1Q22, the number of unsold units has been slowly creeping up – although it dipped slightly QoQ in 3Q23. Overall, the number of unsold units in the pipeline with planning approvals stand at c.17,161 units, which is 22% higher than the 1Q22 low but still 24% below the long-term average (Figure 3).

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. This is followed by the mass market segment (36%), while inventory for the mid-tier segment remains relatively low, at 26% of the total or c.4,525 units. The key reason for the low inventory in the mid-tier segment is the relatively robust take-up rate of some recent new launches in the mid-tier market, due to their attractive locations and pricing.

For 2024, we expect inventory to build up steadily, on the back of a strong new launch supply pipeline and more selective buying demand. In addition, the Government has been steadily ramping up the supply in the latest Government Land Sales (GLS) exercise. 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.

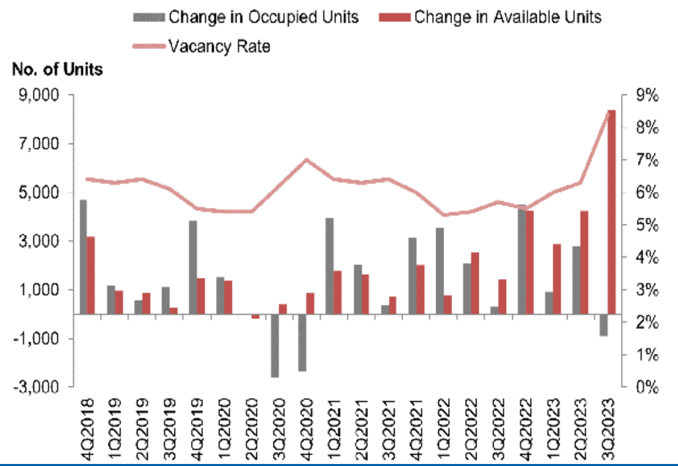
The impact from increasing supply is beginning to be felt in the vacancy rates. Overall vacancy rates in 3Q23 jumped to 8.4% from 6.3% in the previous quarter. Unsurprisingly, the high-end properties have the highest vacancies at 10%, followed by 9.3% in the mid-tier segment, and 7.3% for mass market properties. The increasing vacancy rates, in our view, are a precursor to and key driver of the anticipated rental rate decline.

Figure 3: Unsold units have been on a decline since 1Q19



Source: URA, RHB

Figure 4: Rising vacancy rates with more projects being completed

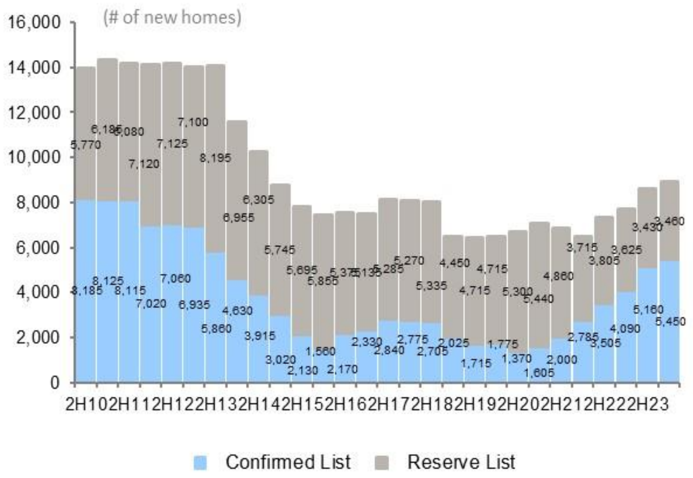


Source: URA, RHB

Land bids to moderate with more choices and reduced appetite. The Government has been steadily increasing private housing supply since 2022 to cater to the increasing demand and moderate price growth. For 1H24, it announced a 6% HoH increase in the number of confirmed-list residential properties to 5,450 units. This 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: 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 the URA.

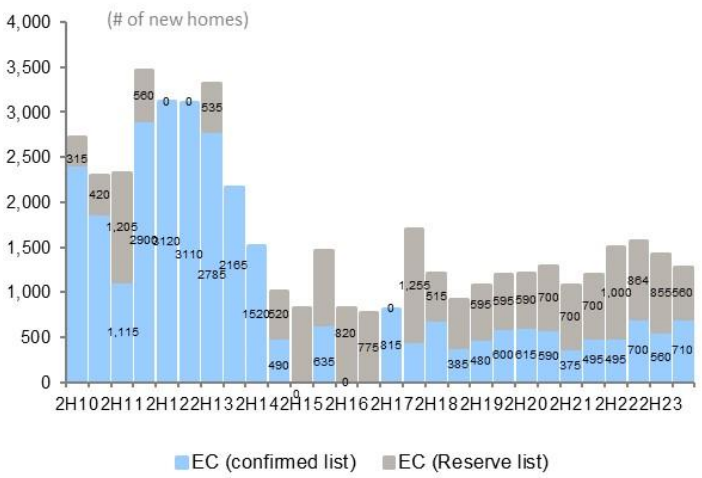
The steady increase in land supply is starting to have the desired effect, with some moderation in land bids observed in recent land sales. Developers have also accumulated more landbank in the last two years, and have turned much more selective on sites and prices. This trend is expected to continue for upcoming land bids, and should soften the overall land prices – thereby having a corresponding moderating effect on prices upon the upcoming launches.

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



Source: URA, RHB

Figure 6: EC land supply under the GLS programme



Source: URA, RHB

Household debt and interest rates

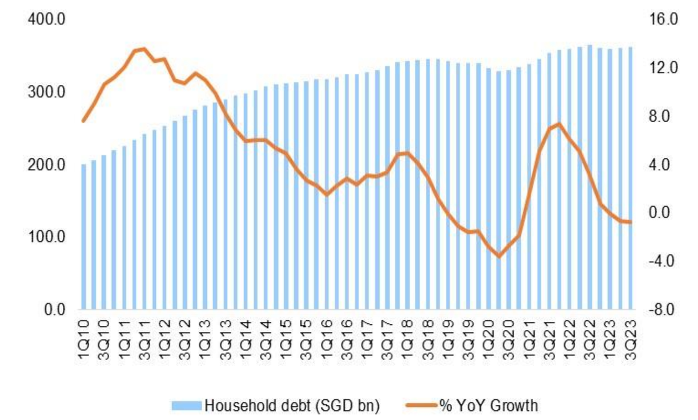
Household balance sheet remains in healthy shape despite pressure from the interest rate increase. Based on the Monetary Authority of Singapore's (MAS) financial stability review or FSR in Nov 2023, the household sector's balance sheet remains resilient despite the increases in cost of living and debt service burden in recent quarters.

Household deleveraging continued in every quarter of 2023, in light of the higher interest rates, with aggregate household debt decreasing by 0.7% YoY to SGD361.2bn as of 3Q23. As a result, 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 see a flattish-to-slight increase this year, mainly driven by higher supply from new launches. The housing non-performing loans (NPL) ratio, though, slightly ticked up in 3Q – albeit still at a low 0.24%, 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 of 3Q22.

Overall cash and deposits (3Q23), on the other hand, continued to steadily rise with a 7% YoY increase as of 3Q23 to SGD607bn, well exceeding the total household debt. Household sector net wealth similarly saw a 7.6% YoY jump to SGD2.7trn, largely supported by sustained growth in liquid assets and in the value of residential property assets.

Looking ahead, MAS 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 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 7: Household debt and YoY growth (%)



Source: MAS, RHB

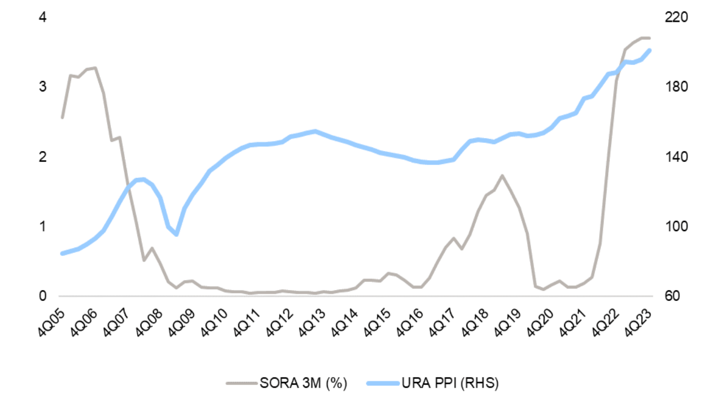
Figure 8: Housing NPL ratio (%)

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 end-Dec 2023, the SORA (3-month) stands at 3.71%, which is about 70bps higher than what it was in early 2023. Typically, the spread of mortgage loans above SORA (3m) across banks range from 50-100bps.

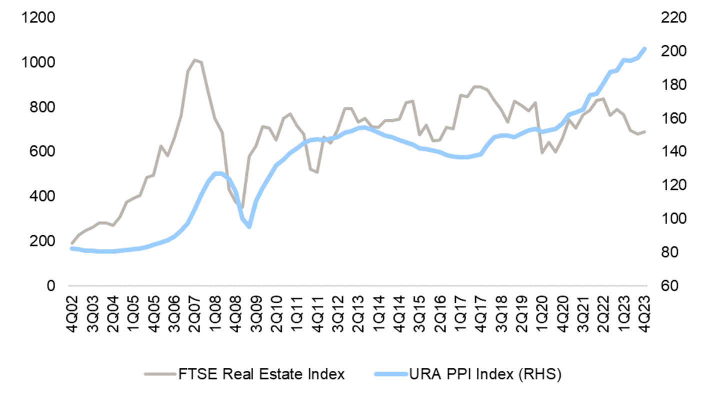
As the Singapore Government does not have an implicit interest rate policy, based on past correlations, the benchmark interest rates tend to closely track the US Federal Reserve (US Fed) fund rates, albeit with a lower amplitude and a lag (3-6 months). Premised on this, the lag effect of current US interest rate peaks will likely be felt in 1H24, with rates expected to decline after that. 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 9: URA price index vs SORA



Source: Bloomberg, RHB

Figure 10: FTSE Real Estate Index vs URA PPI



Source: Bloomberg, RHB

Rental market

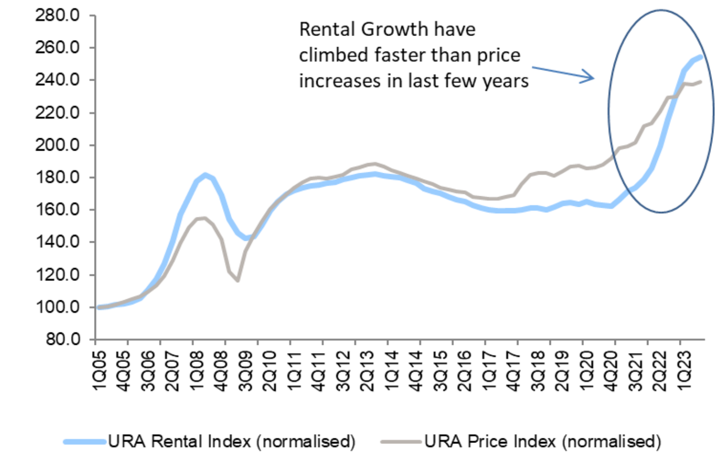
Rental rates are expected to fall by 5-10% in 2024, after running up sharply in the last three years. The rental market, which has been diverging lower from the Property Price Index in the past, started to undergo a good recovery since end 2020. This has been due to a combination of reasons including delays in project completion due to the manpower shortage, a sharp influx of foreigners post-COVID-19 – amid the rising status of Singapore as a major global financial hub – and also an increase in locals seeking short-term rental accommodation.

As a result, the non-landed property rental index has risen by 56% over the last three years as of 3Q23, well outpacing the 27% growth in property prices during the same period. The mid-tier segment saw the biggest rental rate increase of 59% over the last three years, while the mass market and high-end rental index rose 49% during the same period. The pace of the rental rate growth, however, has started to ease, with a meagre 0.8% QoQ hike seen during 3Q23. With COVID-19-related tailwinds on rental demand easing and rising headwinds from higher supply and reduced affordability, we believe the overall rental market peaked in 4Q23, and expect a 5-10% correction in 2024.

This sharp spike in rental rates over the last three years resulted in the rental index climbing much faster than the price index, reversing the gap seen during 2016-2019 (Figure 13). However, with rental rates expected to fall, we expect the rental index to converge towards the price index by end-2024. The softening of the rental market, coupled with broad-based inflationary factors, should moderate the overall rental yields and reduce the demand for investment properties, in our view.

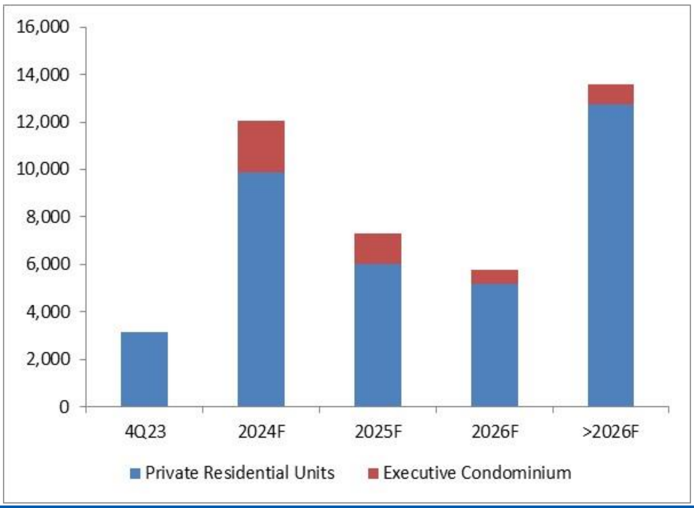
Based on expected completion dates reported by developers, 3,167 units (including ECs) should have been completed in the last quarter of 2023. Another 12,032 units (including ECs) are expected to be completed in 2024. In total, c.22,500 units (including ECs) are expected to be completed until 2025.

Figure 11: Private home price vs rental index (1Q05 = 100)



Source: URA, , RHB

Figure 12: Expected completion of private units and ECs



Source: URA, RHB

New private residential launches

More than 12,000 units in the launch pipeline for 2024. According to EdgeProp (link) about 42 projects (c.12,750 units) are expected to be launched in 2024. This is c.40% higher than the 10-year average (2013-2022) new launch supply of 8,941 units and c.20% higher than the 10-year average demand of 10,084 units.

The supply is well spread all across Singapore, with units for the mass market forming the majority of it. The increased supply, if it materialises (i.e. developers proceed with launches instead of deferring them) will present a wide range of choices for buyers. This may boost competition and could likely trigger a price war, with more developers pricing units more attractively and possibly offering soft discounts to move their inventory during project launches. Overall, this is likely to moderate the launch take-up rate to 20-40% levels (from 40-70% in the last two years) with only selected projects seeing the most robust interest. Projects we expect to garner strong interest include those at the Toa Payoh site, Jalan Tembusu site, and One Sophia (Figure 13)

Overall buying interest has been mainly from locals, with Singaporeans and permanent residents accounting for c.97% of demand in new launches. Purchases made by foreign buyers have trickled down post the latest cooling measures, which resulted in the ABSD doubling to 60% from 30%. We expect this trend to continue in 2024 as well.

Figure 13: Major 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: OCR – Outside Central Region, RCR – Rest of Central Region and CCR – Core Central Region
Source: The EdgeProp

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