Singapore Sector Update

17 January 2023

Property | Real Estate

Real Estate

Stable But Sluggish Year Ahead

Neutral (Maintained)

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

Top Picks	Target Price
City Developments (CIT SP) – BUY	SGD9.75

- **Risk-rewards balanced; Top Pick: City Developments.** The local residential market is set to stay resilient in 2023 despite rising interest rate pressures, as low inventory and supply, relatively healthy household balance sheets, and rising rental yields limit the downsides. 2022 property prices came in ahead of our expectations at 8.4%. For 2023, we expect prices to slow down to the -2% and 2% range with volume seeing a slight moderation. Listed developers have priced in most of the downside risks and continue to trade at an attractive 50-60% discount to RNAV. NEUTRAL.
- **Primary market prices to remain steady…** Despite rising interest rates impacting buyers' affordability, we expect new launch prices to remain on a slight uptrend based on three key factors: i) Rising land acquisition costs, ii) developers' low inventory levels and higher cost pressures that limit room to cut prices, and iii) upgrader demand and higher rental yields supporting the market. The number of new 2023 launches are set to double that of 2021, at c.10,000 units, which should provide more buying choices and alleviate some of the price pressures seen last year. As a result, buyers are set to be more selective, with projects having the right amenities – eg near good schools and mass rapid transit (MRT) stations – seeing strong demand. We expect new launch prices in 2023 to be 0-3% higher vs 2022.
- **…while resale prices could likely see slight moderation.** On the other hand, resale prices are more susceptible to small price corrections from rising interest rates in our view. This is as rising interest rates, coupled with a weak economic outlook, greatly impact over-leveraged borrowers – they may now be more willing to lower their pricing expectations. Anecdotally, we see a notable increase in the turnaround time for the sale of resale units, which we attribute mainly to the growing pricing expectation mismatch. The downside though is supported by the relatively strong household balance sheets and Singapore's rising status as a global financial hub. Similarly, we expect the Housing & Development Board's (HDB) resale segment (especially larger units) will be impacted by the latest cooling measures. Overall, we expect resale prices to be in the -3% and +1% range.
- **Resale volume to continue slowing down.** 2022 new home sales (ex-executive condominiums or ECs) fell short of our expectations at 7,384units (-43% YoY) due to a dearth of new launches. We expect 2023 new sale volume to be slightly higher (8,000-9,000 range) mainly driven by significantly higher new launches. Resale volume though is expected to take a hit on pricing expectation mismatch and rising interest rates. We expect resale volume to be 5-20% YoY lower in 2023.
- **Healthy presales and investment income support developers' earnings.** The strong residential pre-sales in 2021-2022 has resulted in healthy unbilled sales for developers – this will be progressively recognised in 2023-2024. Most developers also have a high proportion of recurring income stream (50-80%) from investment properties, which should remain stable. We do not expect any significant rise in cap rates for Singapore's commercial and hospitality assets limiting write-downs or impairments.

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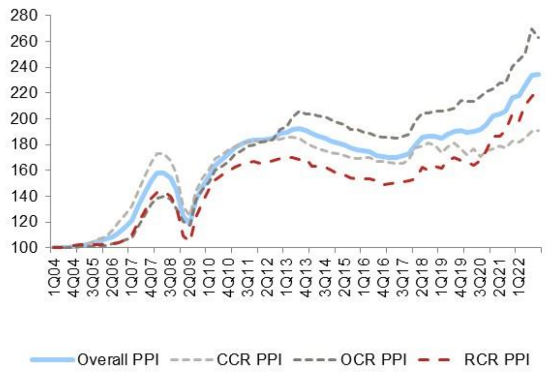
Singapore Residential Price Index (1Q04 =100)

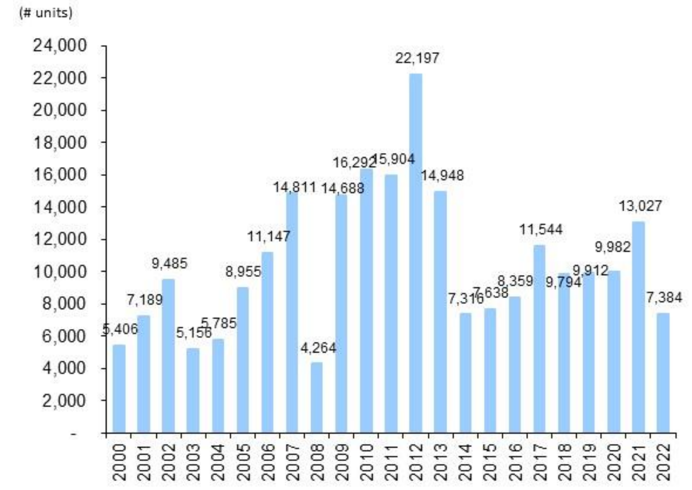


Source: Company data, RHB

Company Name	Rating	Target (SGD)	% Upside (Downside)	P/E (x) Dec-23F	P/B (x) Dec-23F	ROAE (%) Dec-23F	Yield (%) Dec-23F
APAC Realty	Neutral	0.60	0.6	10.2	1.2	12.0	7.4
City Developments	Buy	9.75	23.6	15.6	0.8	5.3	2.5

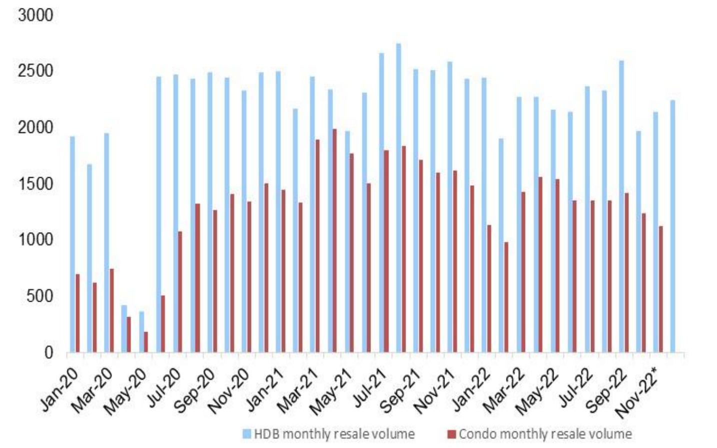
Source: Company data, RHB

Figure 1: Private sales (ex-ECs) to remain flat in 2023



Source: Urban Redevelopment Authority (URA), RHB

Figure 2: Monthly resale volume (ie HDB units, condominiums, etc)



*Note: *Condominium resale estimates for Oct-Nov 2022*
Source: SRX, RHB

First launch of 2023: Sceneca Residence saw a healthy 60% sales on launch day, with 160 of the 268 units sold at an ASP of SGD2,072 per sq ft. The strong sales despite the sharp increase in interest rates again reiterates buying demand for projects with strong attributes – in this case, Seneca Residence is directly connected to the Tanah Merah MRT station and has an integrated retail mall.

The ASP for this project is 5-10% above our expectations and is also 30-40% higher than nearby resale projects such as Casa Merah and Optima @ Tanah Merah. The 1-2-bedroom units in this development remained popular among buyers – most were fully sold-out, which reinforces our view that demand remains strong for units priced below SGD1.5m where buying affordability remains the highest. Buying interest stemmed mainly from locals – similar with previous launches – with 88.5% of buyers being Singaporean and the remainder comprising permanent residents or foreigners.

Huttons Asia estimates 10,000-12,000 units will be launched in 2023 with the majority (50%) located in the Rest of Central Region (RCR). This is followed by 30% in the Outside Central Region (OCR) and 20% in the Core Central Region (CCR). Projects we expect to garner strong interest include the Jalan Tembusu site, and The Continuum and Marina View sites.

Figure 3: Major launches in 2023 by region

No.	Project name	Location	Region	Lease tenure	Estimated Units
1	Blossoms by the Park	Slim Barracks Rise	RCR	99-year leasehold	275
2	Gems Ville	Lorong 13 Geylang	RCR	Freehold	24
3	Jalan Tembusu	Jalan Tembusu	RCR	99-year leasehold	638
4	Terra Hill	Yew Siang Road	RCR	Freehold	270
5	The Continuum	Thiam Siew Avenue	RCR	Freehold	807
6	The Hill@One-North	Slim Barracks Rise	RCR	99-year leasehold	142
7	The Reserve Residences	Jalan Anak Bukit	RCR	99-year leasehold	737
8	Lentor Hills Residences	Lentor Hills Road	OCR	99-year leasehold	598
9	Sceneca Residences	Tanah Merah Kechil Link	OCR	99-year leasehold	268
10	The Botany at Dairy Farm	Dairy Farm Walk	OCR	99-year leasehold	386
11	2, 4 and 6 Mount Emily Road	Mount Emily Road	CCR	Freehold	18
12	8 Shenton Way	Shenton Way	CCR	99-year leasehold	215
13	Marina View	Marina View	CCR	99-year leasehold	748
14	Newport Residences	Anson Road	CCR	Freehold	256

Source: URA, Huttons Research, The Business Times

Household debt and interest rates

Household balance sheet remains in good shape. Based on the Monetary Authority of Singapore's (MAS) financial stability review or FSR in Nov 2022, household sector balance sheet strengthened in 9M22, with healthy net wealth positions and liquidity buffers on the back of robust employment gains and strong wage growth. But financial vulnerability increased slightly as households took on more short-term debt (proxied by credit card borrowings). MAS' stress test also suggests that most households should remain financially resilient even under conservative scenarios of significant income losses and a full pass-through of sharp interest rate hikes. Non-performing mortgage, as a result, is expected to remain low, but segments of vulnerabilities exist, with households that are more leveraged or have higher expenditure relative to income likely to face difficulties in debt servicing.

Aggregate household debt rose 3.1% YoY to SGD363.7bn as of 3Q22, but growth rate has slowed since hitting a peak of 7.4% in 4Q21, moderated by Dec 2021's cooling measures. We expect the household debt to continue to rise, albeit, at a slower pace in 2023. Overall cash and deposits (3Q22) of SGD569bn also well exceeded the total household debt. Housing NPL ratio has fallen to a decade low of 0.3% from 2Q20 high of 0.53% indicating healthy loan servicing abilities. Average loan-to-value or LTV ratio of outstanding housing loans continues to be on a steady downtrend, falling from high of about 53.5% in 2017 to 43% as of 3Q22.

Figure 4: Household debt and YoY growth (%)

Source: Monetary Authority of Singapore (MAS), RHB

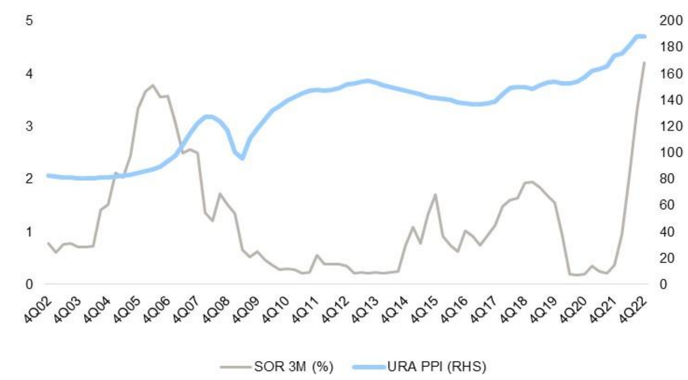
Figure 5: Housing NPL ratio (%)

Source: MAS, RHB

Nearing housing loan interest rate peak. The Singapore Interbank Offered Rate (SIBOR), Swap Offer Rate (SOR) and 3-month Singapore Overnight Rate Average (SORA) have jumped to 4.25%, 4.21% and 3.1% by end 2022 from below 0.5% at the start of the year. Previously, banks mostly pegged their floating-rate home loans to SIBOR and SOR but, as per MAS regulations, they have switched to the SORA benchmark since 2021.

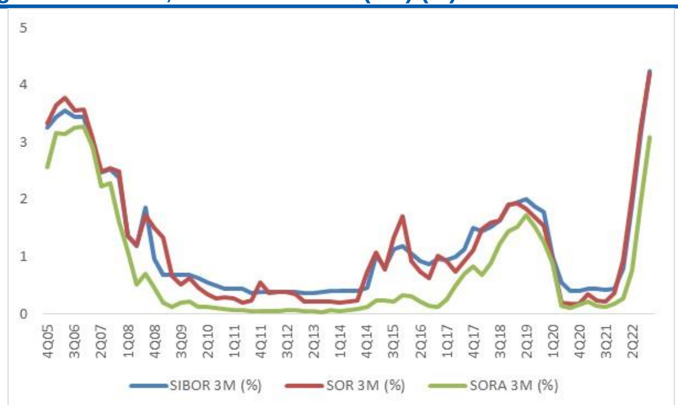
As the Government does not have an implicit interest rate policy, Singapore's benchmark interest rates tend to closely track the US Federal Reserve (US Fed) fund rates, albeit, with a slight lag (3-6 months). With the US Fed likely to raise rates by a smaller quantum of 25bps this year, Singapore's housing loan interest rate benchmark is also expected to peak around 4.25-4.75% later this year, in our view.

Figure 6: URA Price Index vs 3-month SIBOR



Source: URA, Bloomberg, RHB

Figure 7: SIBOR, SOR and SORA (3m) (%)



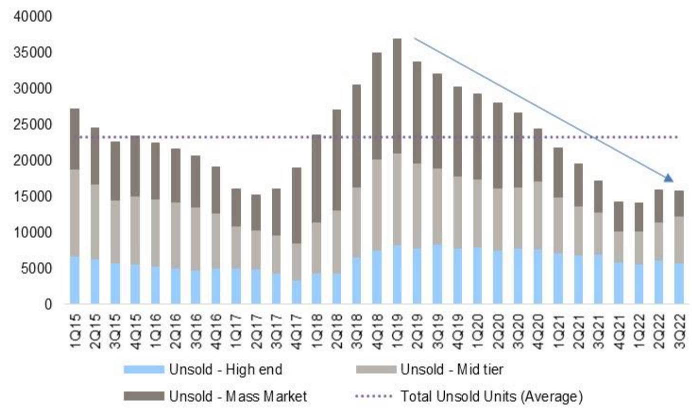
Source: Bloomberg, RHB

Supply and inventory

Unsold inventory remains well below historical levels supporting prices. The number of unsold units in the pipeline with planning approvals stands at 37% below the 10-year average at c.15,677 units, although this is a slight 9% increase when compared to end 2021. The mid-tier segment accounts for 42% of unsold units in the pipeline, followed by the high-end (36%). Meanwhile, mass market inventory remains low (22%) or only 3,417 units. The low supply in our view gives developers a strong incentive to hold on to their project prices in existing launches despite rising interest rate pressures.

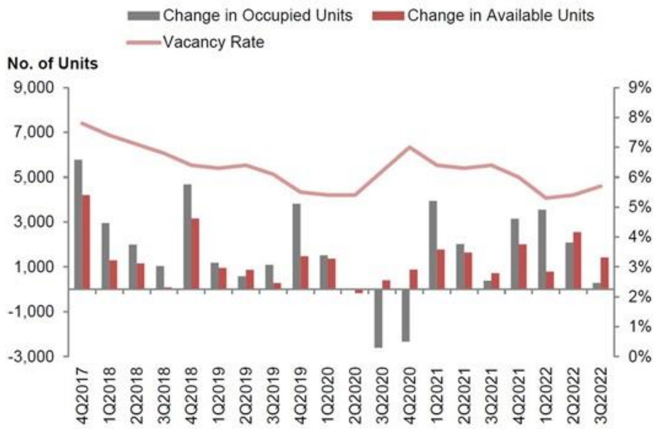
While the Government has increased the land supply in the recent Government Land Sales or GLS exercise, it will take 1-2 years for the higher supply to come on-stream and the quantum is insufficient to slowdown pricing momentum in our view. In 3Q, overall vacancy rates increased slightly by 30bps, but remains low vis-à-vis the historical average of 5.7%. With more projects likely completed in 2023, we expect the vacancy rates to rise slightly and hover around the 6% level.

Figure 8: Unsold units have been on a decline since 1Q19



Source: URA, RHB

Figure 9: Vacancy rates remain low

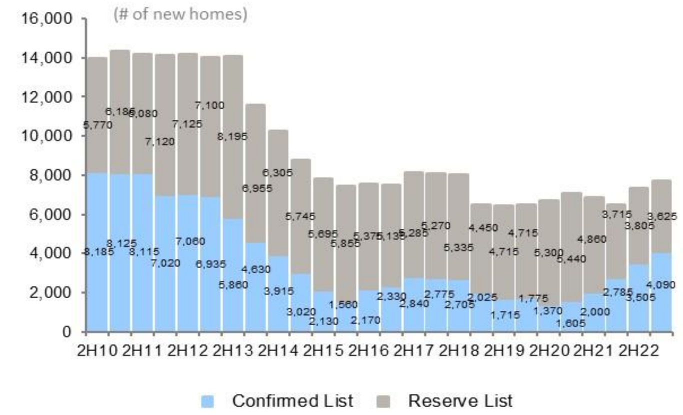


Source: URA, RHB

Increase in confirmed list land supply but still insufficient to deter rising land costs. For 1H23, Government announced a 17% HoH increase in residential units to 4,090 units via its confirmed list land sales programme. 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 Urban Redevelopment Authority or URA.

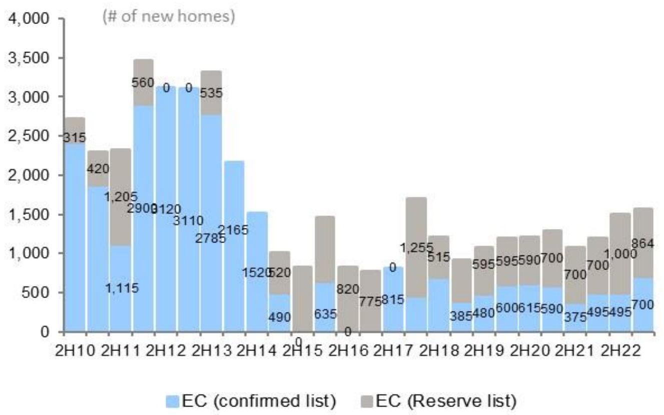
Although there has been an incremental increase in land supply via the confirmed list since last year, the quantum of increase is insufficient in our view compared to the strong take-up and fall in inventory levels seen in the market over last two years. Developers are therefore sitting with very limited landbank and remain hungry for good sites. This in turn has resulted in healthy competition for land and feeding into higher launch prices. Hence, we expect developers to continue to bid relatively aggressively for good sites available under the GLS programme to replenish their falling inventory.

Figure 10: Non-landed sites under the GLS programme (including ECs)



Source: URA, RHB

Figure 11: EC land supply under the GLS programme



Source: URA, RHB

Rental market

Rental market to cool in 2H with more projects completed in 2023. The rental market, which has been diverging from the Property Price Index in the past, has started to stage a good recovery since end 2020. This has been due to a combination of reasons from the delays in project completion due to manpower shortage, 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.

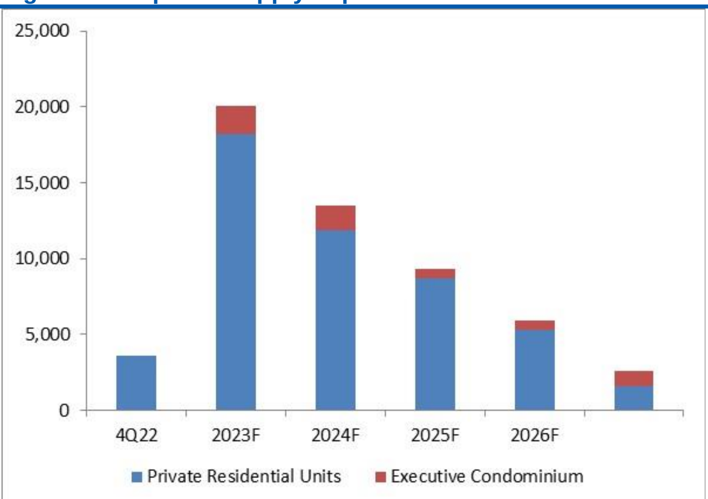
As a result, non-landed property rental rose sharply by 8.3% QoQ in 3Q vs 7.1% in previous quarter, led by a 10% increase in RCR. For 9M22, rents rose by a staggering 21% and this follows a 10% increase in the previous year. A similar trend was observed across the public housing segment, with the Singapore Real Estate Exchange or SRX data showing HDB rents rising 27.8% YoY as of Nov 2022.

Based on the expected completion dates reported by developers, 3,619 units (including ECs) will be completed in the last quarter of 2022. Another 20,098 units (including ECs) are expected to be completed in 2023. In total, around 28,800 units (including ECs) are expected to be completed in 2022 and 2023, which is close to three times the 10,400 units completed in 2020 and 2021. This will help to cater to housing needs in the immediate term.

Overall, we expect rental pressure to persist in 1H23, with rents likely to increase in the low to mid-single digits but should to flatten out in 2H23 as more projects are completed. For 2023, we expect private and HDB rents to be rise by 3-7%.

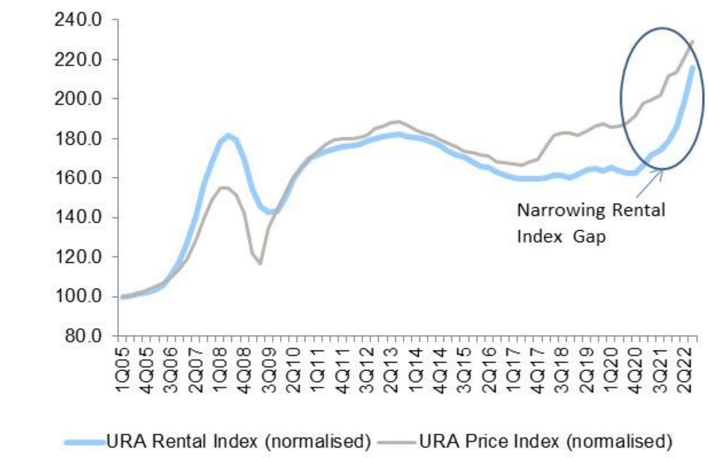
This sharp spike in rents over the last two years has narrowed the rental gap vs price increase (Figure 13) and boosted rental yields, which, in our view, is another supporting factor for prices to stay resilient.

Figure 12: Pipeline supply of private units and ECs



Source: URA, , RHB

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



Source: URA, RHB

Top Pick: City Development (CIT SP, BUY, TP: SGD9.75). CIT's focus and priority has rightly shifted back to Singapore after several overseas missteps – the group remains the largest listed developer proxy in terms of Singapore residential landbank (>2,000 units). In addition, it has been making active effort in recycling some of its older capex intensive hospitality assets, into a mix of investment cum development portfolio.

We remain upbeat on its recent transition and, along with a potential recovery in the hospitality sector, the stock should remain on the investor's radar in 2023. Valuation remains fairly cheap – the counter is trading closer to -1SD levels from its long-term average in terms of book value and RNAV.

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