

28 April 2023

Property | Real Estate

Real Estate

Neutral (Maintained)

A Surprise Harsh Measure To Cool Prices

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

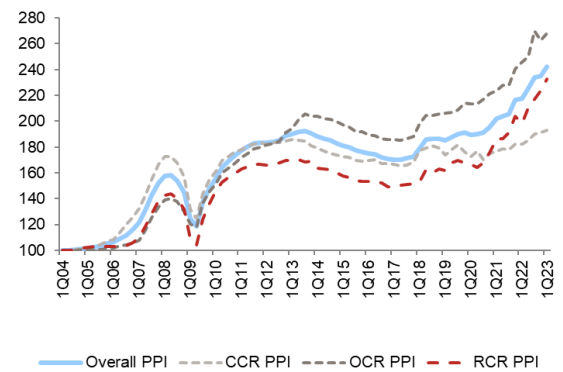
- Stringent measures targeting investors and foreigners.** The steep hike in the Additional Buyer's Stamp Duty (ABSD) targeting foreigners and investors is likely to mark the turning point in the cycle for residential prices, with buying sentiment likely to cool significantly. Although targeted, the measures are potent when coupled with the sharp interest rate hikes and weakening economy. Key impacts from the measure will be a sharp volume slowdown, price correction in the high-end segment and resale market, and new launch prices likely to flatten. Keep NEUTRAL.
- Measures targeted, unanticipated and pre-emptive in nature.** The Government's key rationale for implementing measures at this juncture is due to the recent renewed interest in local and foreign investor demand as well as acceleration of price increase in 1Q (+3.2%). While the price increase in itself is not significant, we believe the Government's concerns are centred on price acceleration coming at a time when Singapore as well as the global economy are facing a slowdown coupled with greater headwinds. Based on 2022 data, the majority 90% of transactions were by Singaporeans and permanent residents making their first purchases. Hence, we believe there will be continued interest in residential property from genuine home buyers, albeit, at lower price levels.
- Resale market and high-end segment should see a price correction.** Post measures, we expect further divergence in pricing expectations between buyers and sellers in the resale market. This should initially result in a slowdown in transaction volumes and eventually result in price corrections. We believe sellers are more likely to adjust their prices lower amid sharply rising holding costs and a slowing labour market. Similarly, the high-end luxury market will also be impacted as foreign buyers typically account for a significantly high proportion (20-40%) in this segment.
- Developers likely to postpone new launches, adjust and fine-tune the pricing strategy.** We note that high land costs paid during the past few years, steep increase in construction costs, and thin development margins limit developers' ability to cut prices. With relatively low inventory levels, developers are more likely in our view to adopt a wait-and-watch approach. Hence, we expect a price flattening instead of a price correction across new launches. Take-up rates, however, are likely to see a moderation to c.30% levels from the 40-60% seen in recent launches.
- Expect land prices to soften and en bloc market to collapse.** We believe the biggest impact from the measures will be on land purchases, with developers likely to turn more cautious with their bids in light of recent measures, increased land supply, and weakening macro conditions. In our view, this could pave the way for sustained lower property prices in the future and moderate the overall property market. En bloc market, which has been slowing down, is likely to come to a standstill on the back of pricing expectation mismatch.

Analyst

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Property 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	0.60	(8.6)	11.2	1.4	12.0	6.8
City Developments	Buy	9.75	33.2	12.9	0.7	5.4	4.1

Source: Company data, RHB

We maintain our pricing forecast of -2% to +2% range for 2023, with risks now tilted more to the downside. We lower our full-year resale volume assumptions – now expected to decline 10-30% YoY (vs 5-20% previously). New sale volumes are also expected to be lower at between 7,500-8,500 units (from 8,000-9,000 units).

Stock impact. We place our rating and TP of City Developments (CIT SP, BUY, TP: SGD9.75) under review. While we expect share prices to stabilise post the initial knee-jerk reaction, we believe that post-measures, the stock lacks a clear catalyst. We also note that CIT has substantially sold its residential land bank over the last two years and has unbilled residential sales of c.SGD5bn. While it still has four to five sites which can be launched over the next two years, we believe the overall impact from this measure is manageable. In addition, its income diversification from investment properties and hospitality portfolio mitigates downside risk. As the share price still trades at a deep discount to book value and RNAV, we believe there is downside support.

On the other hand, property agencies are expected to see greater impact from the measures as volumes are likely to see a significant slowdown. We maintain our Neutral rating on APAC Realty with an unchanged TP of SGD 0.60.

Figure 1: Adjustments to ABSD for residential properties

Additional Buyer's Stamp Duty ¹		Rates from 16 December 2021 to 26 April 2023 ²	Rates on or after 27 April 2023
Singapore Citizens	First residential property	0%	0% <i>(No change)</i>
	Second residential property	17%	20% <i>(Revised)</i>
	Third and subsequent residential property	25%	30% <i>(Revised)</i>
Permanent Residents	First residential property	5%	5% <i>(No change)</i>
	Second residential property	25%	30% <i>(Revised)</i>
	Third and subsequent residential property	30%	35% <i>(Revised)</i>
Foreigners	Any residential property	30%	60% <i>(Revised)</i>
Entities	Any residential property	35%	65% <i>(Revised)</i>
Trustees ³	Any residential property	35%	65% <i>(Revised)</i>
Housing Developers ^{4,5}	Any residential property	35% (remittable, subject to conditions) + 5% (non-remittable) ⁶	35% (remittable, subject to conditions) + 5% (non-remittable) ⁶ <i>(No change)</i>

Source: URA, MAS, RHB

Note: 1 The ABSD residential property count includes properties that are re-owned wholly, partially, or jointly with others.

2 The ABSD (Trust) rate was for the period from 9 May 2022 to 26 April 2023.

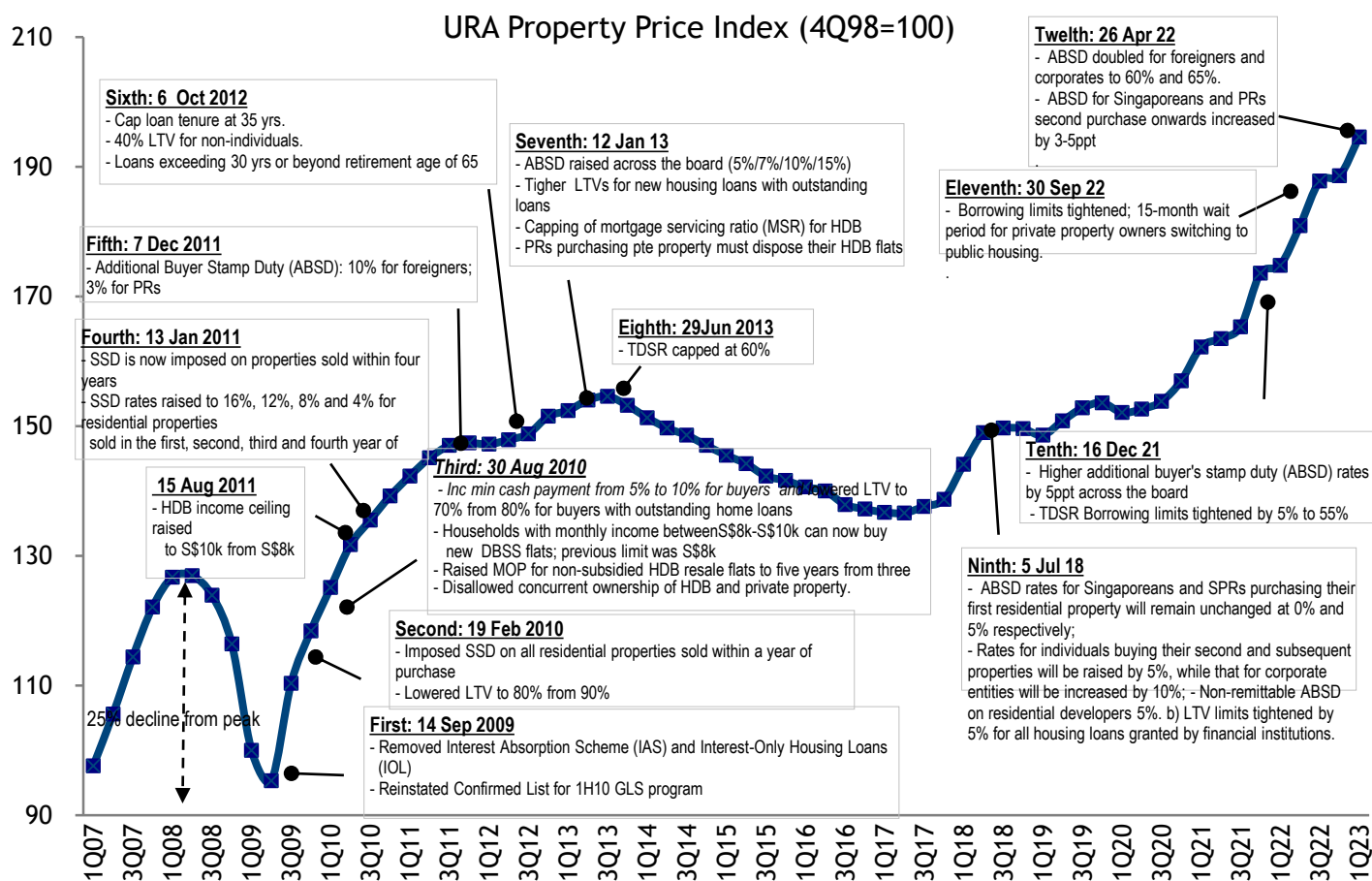
3 ABSD (Trust) is payable by a trustee of any trust when acting in that capacity, but excludes the following: (a) trustee for a collective investment scheme when acting in that capacity; (b) trustee manager for a business trust when acting in that capacity; (c) trustee for a housing developer when acting in that capacity. (a)/(b) and (c) are already subject to ABSD (Entity) and ABSD (Housing Developer) respectively, when they acquire residential property

4 Housing developers refer to entities in the business of housing development (i.e. construction and sale of housing units) with respect to the subject property acquired. These include trustees for housing developers.

5 Housing developers may apply for remission of this ABSD, subject to conditions.

6 This 5% will not be remitted and is to be paid upfront upon purchase of residential property.

Figure 2: Major cooling measures since 2009 at a glance



Source: URA, MAS, RHB

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