

# REAL ESTATE SENTIMENT INDEX

1<sup>st</sup> Quarter 2014

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## About Real Estate Sentiment Index (RESI)

The Real Estate Sentiment Index (RESI) is jointly developed by the Real Estate Developers' Association of Singapore (REDAS) and the Department of Real Estate (DRE), National University of Singapore. The quarterly structured questionnaire survey is conducted among senior executives of REDAS member firms. RESI measures the perceptions and expectations of real estate development and market conditions in Singapore. RESI comprises a Current Sentiment Index and a Future Sentiment Index, tracking changes in sentiments over the past and the next 6 months respectively, and a Composite Sentiment Index which is the derived indicator for the current overall market sentiment. RESI scores range from 0 to 10, reflecting the extent of pessimism or optimism of the survey respondents. A "net balance percentage" approach is adopted to derive the scores for key determinants of the real estate market sentiment.



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*“The current and future sentiment indices have stayed below 4.1 for three consecutive quarters since 3Q13. The weak sentiments coupled with the declines in URA private residential prices indices in 4Q13 and 1Q14 are signals of the cooling down of the market.”*

**Sing Tien Foo**  
Associate Professor

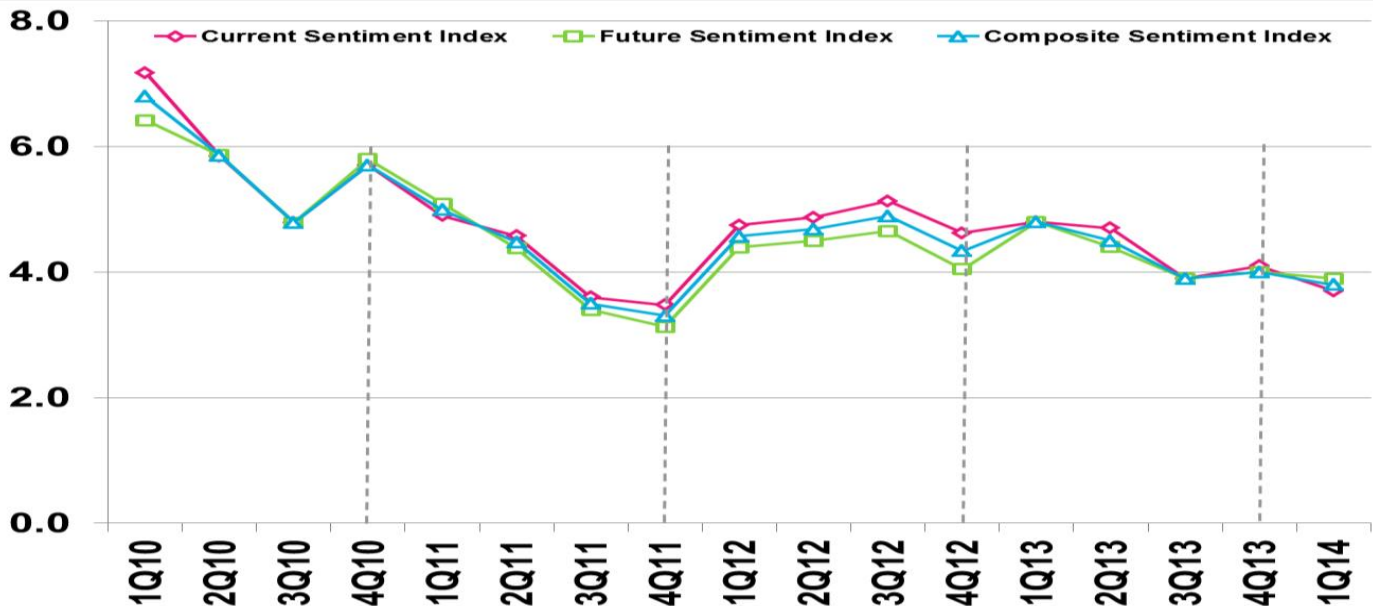
**How would you rate the overall Singapore real estate market (commercial, residential, hospitality etc) conditions over the time periods shown?**

**Current Sentiment Index:** The 1Q14 index stood at 3.7 down from 4.1 in 4Q13. The score reflects weaker current market sentiments.

**Composite Sentiment Index:** The overall sentiment is weaker at 3.8, against the backdrop of the existing property cooling measures and the total debt servicing ratio (TDSR).

**Future Sentiment Index:** The score declined slightly to 3.9 in 1Q14 from 4.0 in 4Q13. The respondents’ outlook for the market for the next six months was negative.

**Exhibit 1: Real Estate Sentiment Index**



Source: NUS-REDAS Research

*“The residential market is cooling down and new launches face lukewarm responses. We hope that future lands bids are more realistic and owners looking for collective en-block should manage their expectations in the current cooling measures.”*

*“Investors are looking to allocate their capital in assets with more upside risk as residential market continues to decline.”*

*“Residential performance will continue to decline due to market correction. Commercial and Industrial sectors will improve due to increase demand from Multi-Nation Corporations (MNCs).”*

**Comments from Survey Respondents**

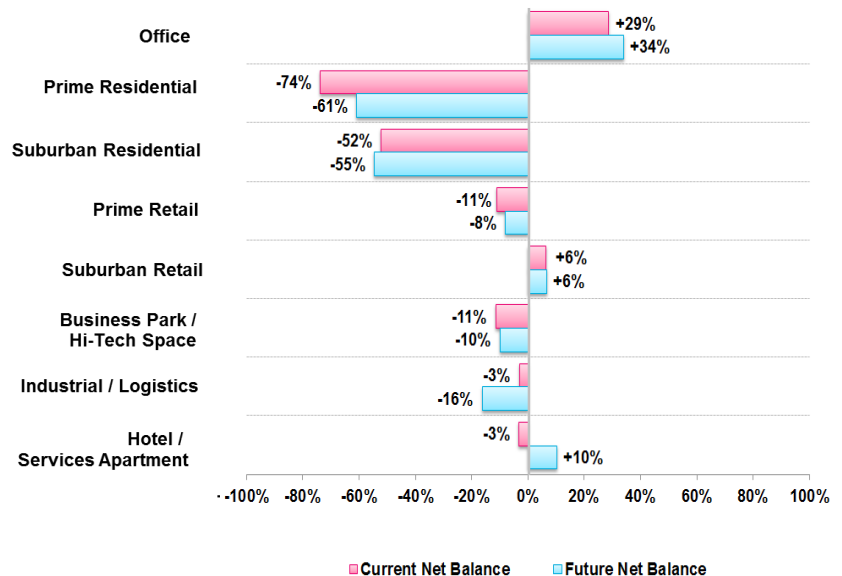
**How would you rate the general performance (rental, price, occupancy, purchases etc) of the sectors over the time periods shown?**

Prime and suburban residential sectors were the worst performing real estate sectors in 1Q14.

Sentiments in the prime residential sector showed a current net balance of -74% and a future net balance of -61% in 1Q14; while suburban residential sector showed a current net balance of -52% and a future net balance of -55% in 1Q14.

Office was the best performing real estate sector in 1Q14 with a current net balance of +29% and a future net balance of +34% in 1Q14.

**Exhibit 2: Real Estate Market Performance**



Source: NUS-REDAS Research

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*“Interest rates are likely to increase with the tightening of monetary policies. Money is likely to flow into equities and stocks, instead of debt instruments.”*

*“No major changes in financing accessibility compared to 6 months ago, but we are expecting a higher interest environment due to the tapering of the FED stimulus program. We are also expecting Singapore economic to grow well and attract more Foreign Direct Investment (FDI) into Singapore Property Market.”*

**Comments from  
 Survey Respondents**

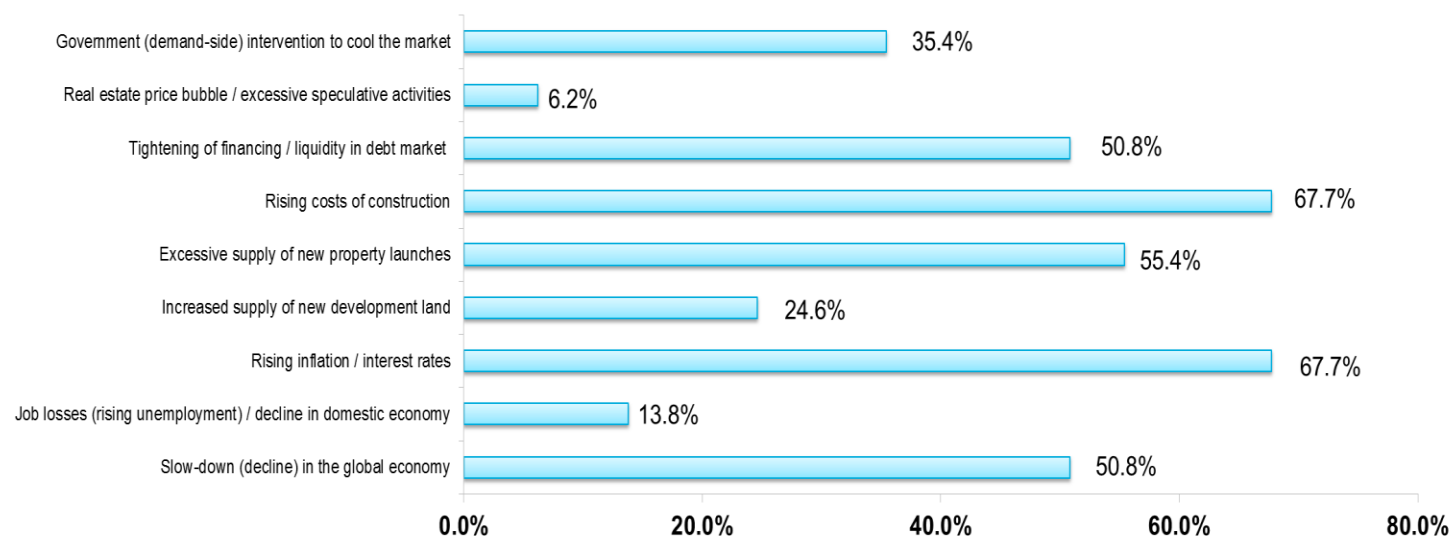
**Do you foresee any potential risks that may adversely impact market sentiment in the next 6 months?**

67.7% of the respondents surveyed in 1Q14 foresee that rising cost of construction, inflation and interest rates may adversely impact market sentiment in the next 6 months.

50.8% of them stated that there will be a tightening of financing, less liquidity in debt market and a slow-down in the global economy.

55.4% of them indicated that the property market will have an excess supply of new launches in the next 6 months.

**Exhibit 3: Potential Risks**



Source: NUS-REDAS Research

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*“Developers are concern about higher interest rates and they do not foresee any price increase in their projects in the near future.”*

*“Recent launches are not doing well. Developers are looking into their pricing strategy and their project launches.”*

*“It is a buyer’s market now. Buyers are price sensitive at low to mid-range condo projects, and they are not looking at any new high end project launches.”*

*“The cooling measures are gaining traction and there are clear evidences of the market correcting.”*

**Comments from Survey Respondents**

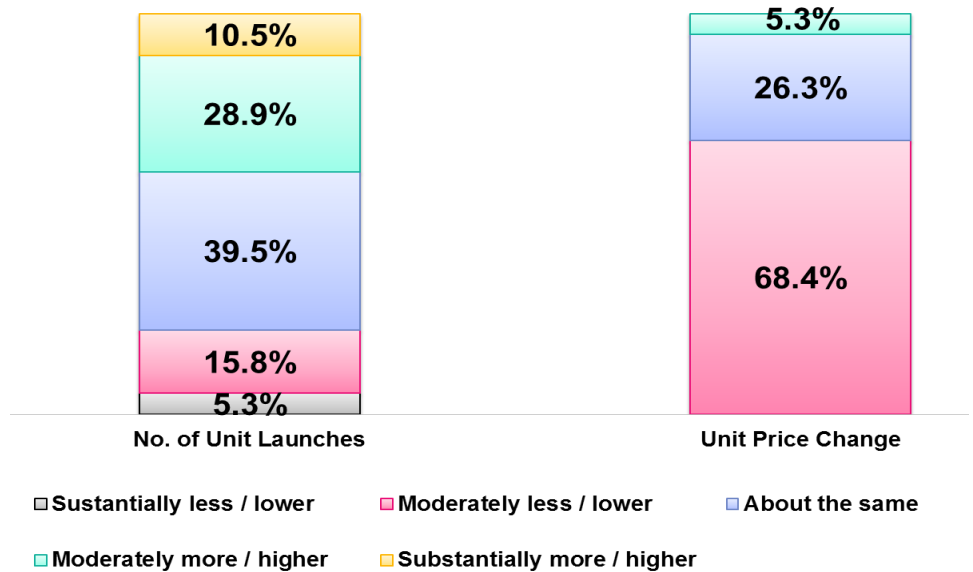
**What are your expectations regarding the number of new residential units to be launched in the next six months?**

39.5% of the developers surveyed in 1Q14 expect new property launches to hold at the same level in the next six months. 28.9% of the developers expect moderately more launches. 15.8% of them indicated that they would launch substantially more units, up by 14% from the last quarter.

**What are your expectations on the pricing of new residential launches in the next six months?**

In term of unit price change, 68.4% of the developers anticipate a moderate decrease in residential property prices in the next six months, up from 62% in 4Q13. 26.3% of them expect price to hold, down from 32% in the last quarter.

**Exhibit 4: Residential Launches & Prices**



Source: NUS-REDAS Research

*“In China, residential properties are typically built on land with 70-years tenure. If the world’s most populous nation with abundant land is able to manage its national housing needs, it is likely to be a matter of time that purchasers of such properties in Singapore get used to the system. With existing financing norms, it is difficult for buyers to obtain loans on homes with less than 30 years lease. However, homes with shorter leases could become more common in the future. It is anyone’s guess whether mortgage loans will be liberalized to specifically cater to a different tenure. The Government and banks could introduce, adopt and structure new schemes that will apply specifically to such properties. This broadens the spectrum of options available in the market.”*

*“If 60 years lease tenure becomes the new normal, there will be premium attached to the 99 years leases. This may have the unintended consequence of a spike in premium to such developments.”*

*“Individual home buyers will purchase their first home at the age of 25-30. The average lifespan is 80-85. Thus, 60 years leasehold should be adequate to cover an adult’s lifespan.”*

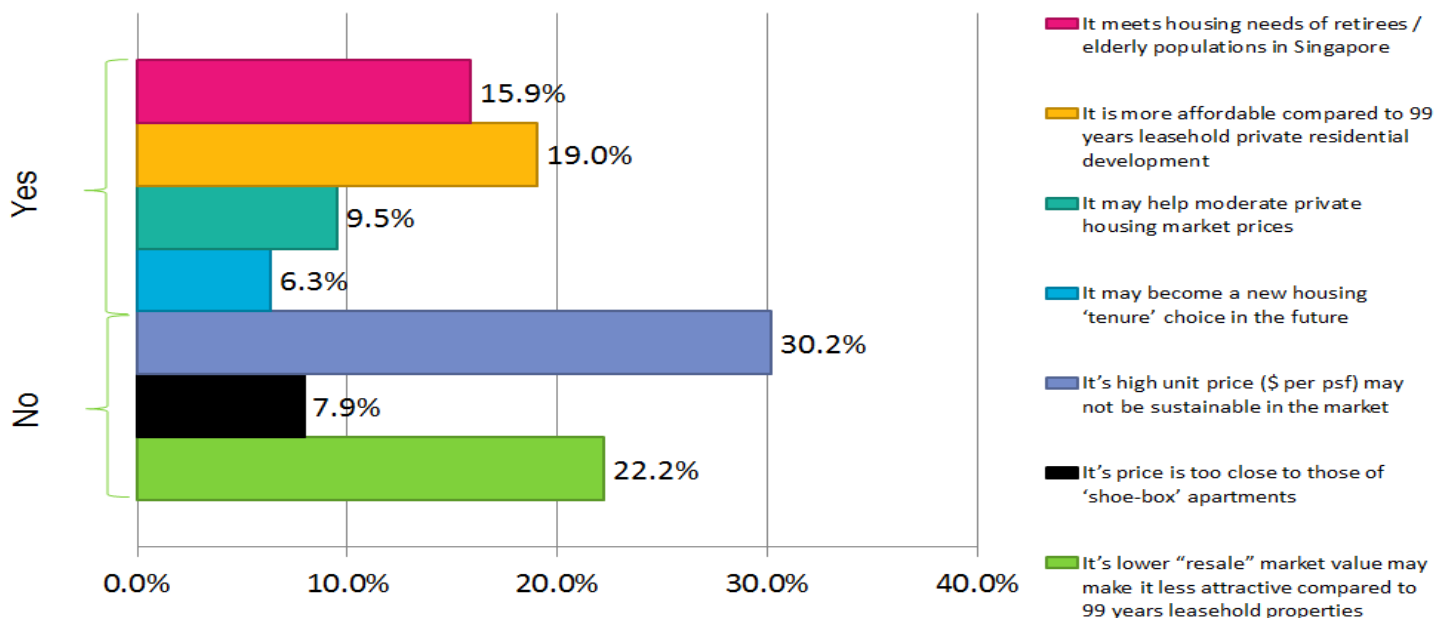
**Comments from  
Survey Respondents**

**Would you like to see more 60 years leasehold land being released by the government for private residential development in the market?**

36.5% of the respondents would like to see more such land released by the government; of which 19% of them felt that it is more affordable compared to 99 years leasehold private residential development.

63.5% of them will not like to see more 60 years leasehold land being released by the government for private residential development in the market; with 30.2% of them indicating that the high unit price (\$ per psf) for 60-year leasehold projects may not be sustainable in the market.

**Exhibit 5: 60 Years Leasehold Land**



Source: NUS-REDAS Research

*“We do not think that any of the above measures will be lifted up or tweaked within the next six months unless prices were to drop drastically (above 10%) as a whole in the market.”*

*“The cooling measures are definitely not a long term solution. The market needs to operate under ‘clear and transparent’ policies which to build a sustainable property market.”*

*“Cooling measures could be probably be tweaked when developers do not bid excessively for land tenders, as it will translate to lower selling prices for new launches.”*

*“The LTV could be aligned since the TDSR would have casted an overall requirement / control on borrowings.”*

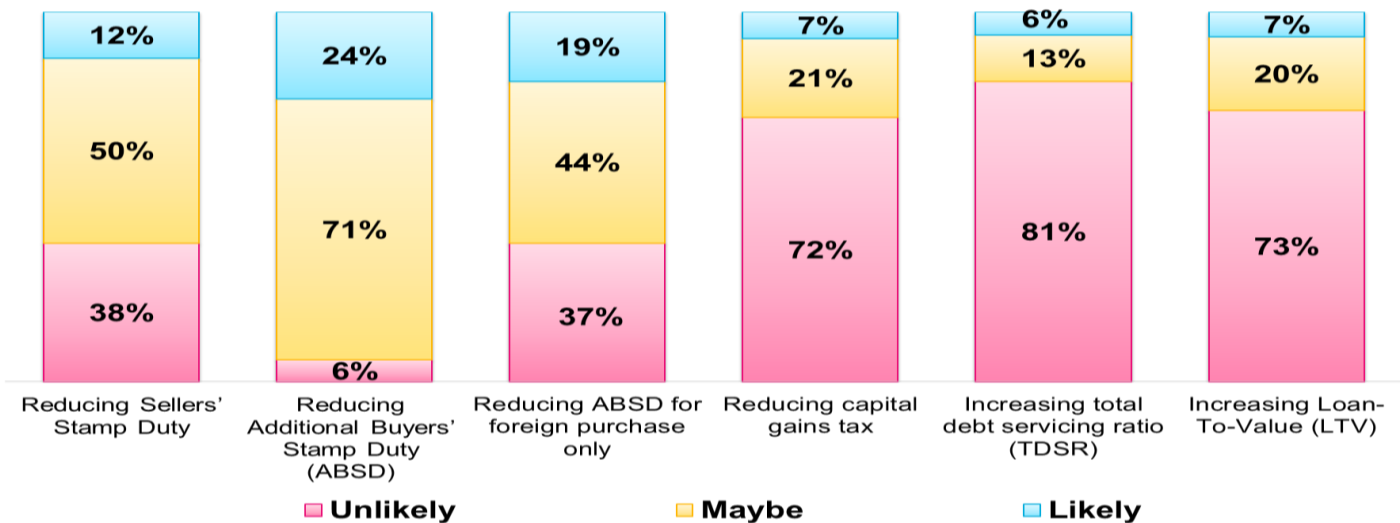
**Comments from  
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**Do you think the government will lift / tweak the existing cooling measures over the next six months?**

33.3% of the respondents anticipate that the government will lift and tweak the existing cooling measures over the next six months; of which 24% of the developers think that the additional buyers’ stamp duty will likely to be reduced.

70.6% of the developers felt that the government is unlikely to lift up or tweak the cooling measures.

**Exhibit 6: Lift Up / Tweak Cooling Measures**



Source: NUS-REDAS Research

# NUS-REDAS RESEARCH

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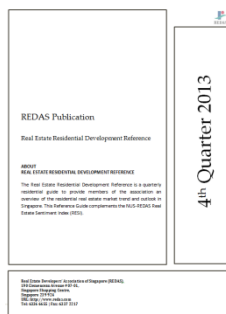
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#### Other REDAS Publications:



**REDAS Daily News**



**REDAS – Residential Reference Guide**

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#### Explanatory Note

The RESI is an objective and comprehensive measurement specifically gauging the confidence of senior executives in the Singapore real estate and development industry. The survey measures respondents' perceptions and expectations of current and future real estate market conditions. Respondents assess relative market conditions between now and in the past six months, as well as their expectations for the next six months. A standard format questionnaire is mailed out electronically to REDAS members. Respondents include developers, consultants, financial institutions, professional firms and service providers. The survey is thus representative of the overall Singapore real estate industry. The survey is conducted quarterly, in March, June, September and December.

A "net balance percentage" is used to indicate the overall direction of change in sentiment. This is the difference between the proportion of respondents who have selected the positive options ("better" and "increase") and the proportion of respondents who have selected the negative options ("worse" and "decrease"). A "+" sign in the scores denotes a net positive sentiment (optimism) and a "-" sign indicates a net negative sentiment (pessimism). The derived net balance scores are not weighted by the size of the respondents' business.

#### About REDAS

The Real Estate Developers' Association of Singapore (REDAS), established in 1959, is Singapore's premier business association in the real estate and development industry. REDAS represents some 250 members comprising developers, builders, real estate consultancies and allied professionals, bankers, REITs and fund managers. The Association actively engages regulators, policy makers and private sector partners to promote best practices and to support the growth of a vibrant and progressive industry for the creation of quality real estate in Singapore. REDAS regularly organizes activities such as networking sessions, seminars, charity golf tournaments and international business missions. To uphold the quality of products of members, REDAS also provide conciliation panel services for purchasers of residential property.

#### About NUS DRE

The NUS Department of Real Estate (DRE), first established as the Department of Building and Estate Management in 1969, is part of the School of Design and Environment (which also includes the Department of Architecture and the Department of Building). DRE aims to be the leading centre for real estate education and research in Asia with the mission to develop leaders and advance knowledge for the global real estate industry. The Department has a strong reputation in real estate research, especially in the areas of investment, finance, urban planning and economics. DRE has partnerships with leading global universities for research and other academic exchange. It also has strong links with the local real estate industry through collaborations in research and executive training.

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