

Are new cooling measures coming to Singapore's housing market?

Policy change expected if uptrend in home prices continues to pick up pace

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TALK is rife that policy tweaks could be on the horizon to cool Singapore's buoyant residential segment, as the government keeps an eye on the real estate market.

Home prices gained pace last year, even as the economy slipped into recession. A further acceleration in price trends in 2021 "may put the property market in frothy territory", said DBS Group Research.

A steady 2-3 per cent annual increase in the property price index, in line with household income growth, is supported by fundamentals. But an acceleration to over 5 per cent growth will tip the market into "bubble territory" and further pressure household affordability ratios, the DBS analysts wrote.

Observers have speculated that the recent sizzling sales momentum at Normanton Park and The Reef at King's Dock could be a catalyst for intervention. That, coupled with the 2.1 per cent quarterly price jump in the residential index in Q4, "certainly increased the possibility of authorities stepping in", said RHB analyst Vijay Natarajan. He reckons measures could come around mid-February, near Budget 2021.

According to Lee Nai Jia, deputy director of the Institute of Real Estate

and Urban Studies (IREUS) at the National University of Singapore, there will be a high probability of policy changes if the uptrend in private home prices picks up pace in the next few months while the economy still posts negative growth.

Suggestions from consultants, analysts and agencies varied widely, but a common theme was the expectation that additional measures will target

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investors rather than first-time homebuyers and upgraders. That follows Deputy Prime Minister Heng Swee Keat's comments in January, when he said the property market must remain stable so young Singaporeans can own their homes.

Among the ideas are higher stamp duties and tighter loan limits for sub-segment properties and foreigners.

One idea floated is to either set a minimum size for each unit or again

increase the average minimum size for new developments. The intended effect is to bump up home sizes for occupiers, while building fewer shoebox apartments that typically appeal to investors due to the lower quantum.

Currently, condos in most locations outside the Central Area must meet an average minimum unit size of 85 square metres (sq m), which determines the project's maximum number of units based on the allowable gross floor area. Developers still have the flexibility to build a range of unit sizes, including those below 85 sq m. More shoebox units have thus mushroomed, capitalising on investors' zeal and the chase for low quantum in absolute dollar terms.

The first time the average size was increased, it raised quantum (absolute prices) for smaller units as many buyers are happy to forgo some space for an upgraded lifestyle, said Huttons Asia research director Lee Sze Teck.

As for imposing a minimum size for each unit, ERA Realty key executive officer Eugene Lim noted that de-

velopers may not necessarily lower the per square foot (psf) price due to the high construction and land costs. Savills Singapore executive director of research and consultancy Alan Cheong believes such a measure will suppress demand only till buyers save up enough to afford larger units.

Some observers do not expect cooling measures – at least not till the second half of this year. The 2.2 per cent increase in private home prices last year "was mild and doesn't warrant intervention", said JLL Singapore's senior director of research and consultancy Ong Teck Hui. Still, he noted the acceleration in the quarterly price uptrend, from 0.3 per cent in Q2 to 2.1 per cent in Q4.

The performance of the different segments of the property market was not uniform either. For instance, though the rental market is showing initial signs of bottoming out, it is still not yet out of the woods, said Huttons' Mr Lee.

Colliers International senior director of investment services, Steven Tan, noted that the recent strong take-up rates were mainly for new launches; the secondary market had a less stellar showing. Based on median prices of non-landed private homes in the Outside Central Region, new sales commanded a 47 per cent premium over resales last year, noted Colliers' research head Tricia Song.

BT Explains

Are property curbs looming?

THE government has signalled that it is watching the property market closely amid rising prices in a pandemic. This has ignited speculation that more cooling measures may be on the cards. *The Business Times* breaks down the chatter from property consultants, developers, agencies and analysts on the possible policy changes. **By FIONA LAM**



SUGGESTIONS

Extend the minimum occupation period (MOP)







FOR

- Five-year MOP for HDB flats and executive condominiums could be extended for prime estates to reduce the "lottery" effect.
- Upgraders buying properties after their first homes' MOP was one reason for the robust sales last year. An estimated 30,169 HDB flats reached MOP in 2019, followed by 24,163 in 2020. A bumper crop of some 25,530 HDB flats will reach MOP in 2021.

AGAINST

- An extended MOP for all estates may be too harsh, as five years is long enough for some young families to outgrow their starter homes.
- This measure may shift some demand towards private properties, where there is no MOP.
- Any cooling effect on private housing and resale HDB flats will be observed only in the medium term.

<p>Impose minimum size for each dwelling unit, or increase the minimum average unit size for each project</p> 	<ul style="list-style-type: none"> ■ Fewer shoebox units with high psf prices; buyers drawn to low quantum will not be as quick to buy. ■ Developers will rethink their land bids and temper further price hikes. Bigger condo apartments will remain affordable on a psf basis, allowing more households to live and work from home comfortably. ■ This rule could be extended to HDB flats too. 	<ul style="list-style-type: none"> ■ Even if psf prices fall, overall quantum will likely rise again for bigger homes, making them less affordable for lower-income households. ■ Developers may not set a lower psf price for larger units either, as construction and land costs remain high. Buying activity may be suppressed only until the populace saves up enough to afford larger units. ■ The ideal minimum amount of space is subjective. This may constrain future supply in the local area too, driving up prices in the long run.
<p>Impose a capital gains tax, or increase the additional buyer's stamp duty (ABSD)</p> 	<ul style="list-style-type: none"> ■ Generally, the gains derived from the sale of a property in Singapore are not taxable at the moment; a tax could discourage flipping. Taxing profits will also curb exuberance from investors and upgraders. ■ Higher ABSD may counter the impact of ample liquidity and low interest rates, especially if applied to just investors and foreigners, and encourage financial prudence. 	<ul style="list-style-type: none"> ■ Taxing capital gains or increasing ABSD will likely further curb foreign inflows into Singapore, affecting the city-state's position as a financial and investment hub, and shift capital to other competitive regimes. Given the existing ABSD, imposing a capital gains tax could be overkill. ■ A capital gains tax will make it harder for genuine upgraders to afford their next homes.
<p>Lower borrowing limits such as loan-to-value (LTV), total debt servicing ratio (TDSR) or mortgage servicing ratio (MSR), or shorten mortgage tenures</p>	<ul style="list-style-type: none"> ■ Ultra-low interest rates and thus cheaper mortgages were a key driving force of asset price inflation. Tighter borrowing limits and shorter loan tenures will target this, especially if applied to just investors and foreigners, as well as second and subsequent properties. 	<ul style="list-style-type: none"> ■ Some buyers will have to use more of their liquid assets to buy properties, leaving them vulnerable to risks. A broad-brush approach that affects all buyers, including first-time homeowners, is not recommended.
<p>Extend five-year deadline for developers</p>	<ul style="list-style-type: none"> ■ Giving developers more time to complete and sell all units on a site so they qualify for ABSD remission will encourage them to space out their launches, reduce the "fear of missing out" among buyers, and slow new sales. 	<ul style="list-style-type: none"> ■ This will not deter developers from pricing end-product units higher, and may encourage them to bid for more land. Some developers may delay launches to make it look like there is a dearth of new units to drive prices higher.
<p>Regulate agents' commissions</p> 	<ul style="list-style-type: none"> ■ Capping commissions or requiring developers to declare how much they pay agents could rein in incentives for agents to move units, and improve market transparency. ■ It may curb the practice of some agents offering kickbacks to buyers from their high commissions of up to 10%. 	<ul style="list-style-type: none"> ■ The competitive nature of the agency business has kept the majority of commissions at 1-3%. Higher commissions can be justified where the units are harder to sell. ■ Regulations in this space could be tough to monitor and enforce.
<p>Increase government land supply</p> 	<ul style="list-style-type: none"> ■ The dwindling supply of new private homes and ECs could revive the en bloc frenzy, which may see aggressive land bids that later translate into higher price quantum for new units. Increasing land supply via government land sales (GLS) could help prevent the en bloc market from heating up. 	<ul style="list-style-type: none"> ■ The government cut the number of confirmed GLS sites for H2 2019 amid a dip in demand and a large supply then. A glut could return if too much land is released. In January 2021, URA said supply in the pipeline "will sufficiently cater to the housing needs of the population when completed over the next few years". ■ Developers that want freehold or 999-year leasehold sites and prime district locations could still choose the collective-sale route, as GLS residential plots generally have 99-year leasehold tenures and are in mass-market areas.