Performance of STI, private home resale market took different paths during pandemic

Private residential market resilience due to Singaporeans looking for investment, demand from HDB upgraders

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PRICES of private homes in the resale market proved more resilient than the Straits Times Index (STI) in 2020 as home prices rebounded to end-2019 levels in the months following the circuit breaker.

According to data from the National University of Singapore's Institute of Real Estate and Urban Studies (IREUS), the prices of completed homes – represented by the Singapore Residential Price Index (SRPI) – fell less sharply and recovered more quickly than the STI last year.

As the global pandemic escalated, the benchmark index shed 22.1 per cent between end December 2019 and end May 2020. However, the impact on the private residential market was far more muted, with prices of completed homes easing just 2.6 per cent for the same time period.

Between end-May 2020 and end-September 2020, as Singapore emerged from the circuit breaker and progressively reopened the economy, there was a divergence of fates. The STI dipped by around 1.8 per cent while home prices bucked the trend and edged up 2.6 per cent.

Taken together, the STI index slumped 23.4 per cent between end-2019 and end-September 2020, while the SRPI rebounded to levels seen at end 2019 in the months after the circuit breaker was lifted.

Likely reasons for the resilience exhibited by the private residential market include Singaporeans – and possibly foreign buyers – looking to the property market for investment purposes, as well as demand from HDB upgraders as they reached their minimum occupation period (MOP), suggested Lee Nai Jia, deputy director of IREUS.

In the case of the latter, "the active HDB resale market enabled them to sell their homes at higher prices, which supported upgrading to private apartments", Dr Lee went on to say. "There was stronger demand for HDB resale flats as more first-time homebuyers preferred a resale unit to having to wait for the completion of build-to-order (BTO) units due to the (longer) construction period."

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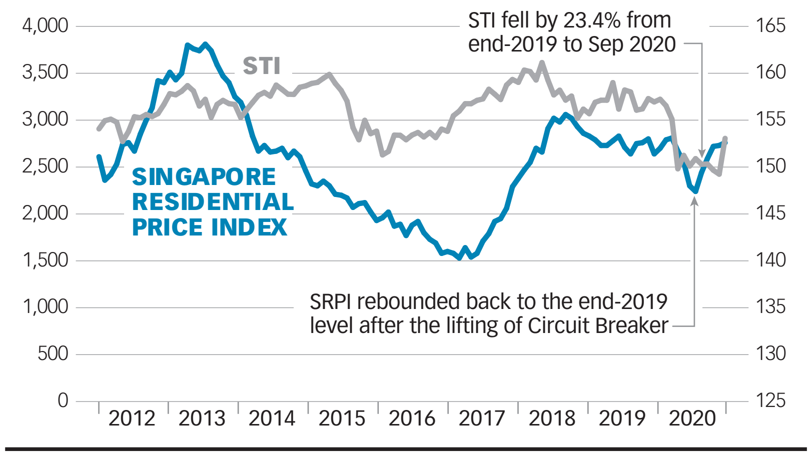
> **Lee Nai Jia, deputy director of IREUS**

Other possible factors cited include owner-occupiers looking at bigger homes after the pandemic forced many to work from home last year, as well as the budgetary measures rolled out by the government which have helped to save jobs and likely indirectly prevented the private residential market from crashing. These measures included the deferment of mortgage and loan payments.

At the same time, this recession has had an uneven impact on the economy, with sectors such as aviation, hospitality and retail facing more turbulence than others, such as the pharmaceutical and medical equipment sectors. As such, higher-income earners and/or those with robust household balance sheets may have chosen to park their funds in property.

Private residential market recovered faster



Sources: Bloomberg, IREUS, NUS

Before the Covid-19 outbreak hit, however, the STI and SRPI were trending in the same direction. The data shows that they typically tend to move in tandem, with the exception of policy shocks. For example, the SRPI slid 6.4 per cent between August 2013 and August 2014 after the government introduced the Total Debt Servicing Ratio (TDSR) framework for property loans in June 2013. However, the STI gained 9.8 per cent over the same time span.

When the STI began to recover at the end of 2016 following a period of decline starting July-August 2015 as China's economy sputtered and oil prices slumped, the resale market also began to gain momentum and was further bolstered by an exuberant flurry of en bloc sales; at least, until the government wheeled out fresh cooling measures in July 2018 in a bid to keep runaway prices in check. This resulted in a correction in resale prices.

"With Phase 3 and the availability of vaccines, we may see both the STI and SRPI moving in tandem due to the improvement in sentiment," Dr Lee added. "Sales momentum is likely to spill over to 2021, and prices are likely to maintain at the existing level." Likewise, he expects the STI to pick up further, although it remains more susceptible to shocks from the external environment, such as a new strain of the virus emerging and trade tensions.