Residential sales briefing

Singapore

April 30, 2008

"Singapore's residential market turned cautious in the face of the turmoil in global stock markets and the anticipated recession in the US. However, the fundamentals of the local market are still strong enough to ride out the current turbulence"

- Cautious sentiments prevail with low sales volumes
- Fewer new units launched and sold as developers and buyers adopt a wait-and-see attitude
- Prices generally remain firm with a moderate increase island-wide

Image: Sunrise Gardens, Sunrise Avenue

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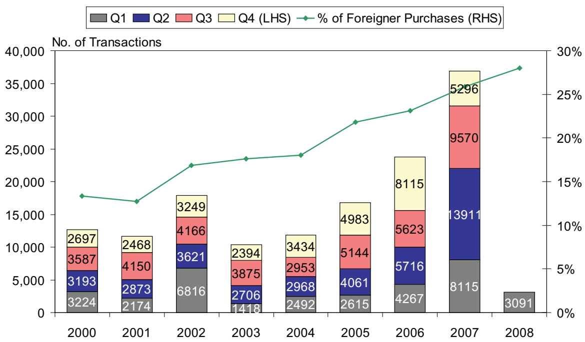
Market Overview

The impact of the US economic slowdown arising from its financial market debacle has dampened sentiment in Singapore's residential market. As a result, the number of sales transactions dropped for a third consecutive quarter in Q1/2008, with 3,091 deals worth about S$4.36 billion. These are similar to the levels seen in Q1/2005 and Q1/2006, when the market was reflecting a "cautiously optimistic" mood. New sales and sub sales accounted for 16.5 per cent and 12.1 per cent of total sales transactions in Q1/2008 respectively.

In spite of the softening market, the share of private home purchases by foreigners increased steadily to 28.0 per cent, surpassing the 25.9 per cent recorded for the whole of last year. We expect this trend to continue in the medium to long term supported by the influx of foreign high net worth individuals and foreigners working in Singapore.

Total Number of Transactions and Foreign Purchases, 2000 – 2008



Source: URA, Savills Research & Consultancy

Poor sentiment has caused developers to adopt a "wait and see" approach by delaying residential launches. Only 1,395 private residential units were launched in Q1/2008, 62.9 per cent lower than 3,759 in Q3/2007 and 18.8 per cent lower than 1,719 in Q4/2007. Looking across the regions, the Core Central Region (CCR) dropped 44.9 per cent over the previous quarter, followed by the Rest of Central Region (RCR) declining by 58.9 per cent. In contrast, the Outside Central Region (OCR) saw an increase of 59.8 per cent quarter-on-quarter. We expect the postponement of launches to continue over the next two quarters as developers with strong holding power may choose to wait until the global financial crisis clears and market sentiment improves.

Two major launches in Q1/2008 were the 405-unit Waterfront Waves in Bedok Reservoir and the 625-unit The Quartz in Buangkok, which launched 180 units and 265 units respectively. Other launches in the reviewed quarter include the 50-unit Wilkie 80 on Wilkie Road, the 45-unit Cosmo on Guillemard Crescent, the 106-unit The Verve on Jalan Rajah and a few boutique projects located in Telok Kurau.

According to the Urban Redevelopment Authority (URA), 835 new units were taken up in Q1/2008, down from 1,529 in Q4/2007. The low transaction volume was mostly due to a cautionary wait-and-see stance adopted by property buyers/investors amid current uncertain market conditions. Even so, some projects have reported favourable sales figures. 108 out of the 180 units at Waterfront Waves were snapped up at prices as high as S$920 per sq.ft., Wilkie 80 was sold out within three days of its launch, and Cosmo sold 41 out of 45 units mostly within the first week of its launch between S$1,048 per sq.ft. and S$1,152 per sq.ft.

Institutional investors, also, turned more cautious and investment sales in the residential market were affected, as evidenced by the reversal of the decision to purchase 97 units at GuocoLand's high-end Goodwood Residences. Kuwait Finance House had agreed in December 2007 to buy these four-bedroom apartments for $818.4 million or at a median price of S$3,200 per sq.ft. It was reported that the two parties are in talks with 'a view to a grant of fresh options for units in the development'.

Nevertheless, there are still some bright spots in the current environment. For instance, a private fund managed by ARA Asset Management group bought the remaining 53 units at Chip Eng Seng/ Citadel's 68-unit Grange Infinite for S$389 million.

The responses to the government land sales were mixed in the reviewed quarter. Low bids were seen for sites which were not considered well-located, such as the condominium site at Simei Street 4 and the landed housing site at Westwood Avenue (Jurong). Both sites received only two bids, and the latter was withdrawn by the government due to lower-than-expected prices. On the other hand, a condominium site on West Coast Crescent attracted a total of 12 bids by major and mid-sized developers and contractors, while a Yishun condominium site received a bullish top bid of S$350 per sq.ft. per plot ratio, a new record in the area. Having accumulated land banks over the last two years, developers are more selective in land acquisitions, faced with higher construction costs and tighter credit terms.

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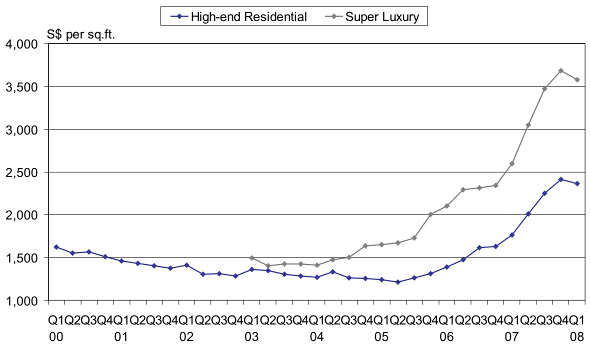
Capital Value

Compared with other segments, the high-end residential market may be more vulnerable under the current volatile conditions. As a result a slowdown was seen in the sales of high-end and luxury residential housing. Based on a smaller number of transactions in Q1/2008, the average price of high-end residential[1] declined marginally by 2.1 per cent to S$2,360 per sq.ft. from Q4/2007, the first drop after increasing for 10 consecutive quarters since Q3/2005. The average price of super luxury residential[2] slipped 2.9 per cent to S$3,577 per sq.ft. in Q1/2008 from S$3,683 per sq.ft. in Q4/2007.

Average Prices of High-end and Super Luxury Non-landed Residential, Q1/2000 - Q1/2008



Source: Savills Research & Consultancy

In contrast, the overall price levels according to URA's statistics for Q1/2008 have not weakened. The price index of non-landed private residential property island-wide was 181.2 in Q1/2008, surpassing the last peak of 171.7 reached in Q2/1996. Despite the subdued sales activity in the reviewed quarter, the price index has shown a quarter-on-quarter increase of 3.7 per cent, albeit at a slower pace than last quarter. Of the different geographical regions, CCR and OCR led the way with a price increase of 3.8 per cent in Q1/2008, followed by RCR with 3.3 per cent.

Outlook

In view of the turbulence in the global financial markets and the US economic slowdown, Singapore's residential market is likely to soften over the next two quarters. The market, especially for new sales, will remain relatively subdued as the standoff continues between property buyers who are looking for a bargain and developers who are waiting for sentiment to improve.

However, we expect that the residential sales market could post a moderate growth in tandem with recovering sentiment when greater certainty returns to the markets generally and the extent of sub-prime becomes clearer. Singapore's economy is forecast to grow by between 4 and 6 per cent in 2008 with Q1/2008 GDP growth estimated at 7.2 per cent. This, together with rising wages, high employment levels and sustainable housing demand particularly in the mass market, should provide the fundamentals to support the residential market.

Therefore, private housing prices are expected to increase by 5 to 10 per cent over 2008. If the US enters a mild recession and the credit crunch clears up in the first half of the year, the price growth may well surpass the upper half of our forecast range.

1 'High-end residential' is defined as the luxury developments located in districts 1, 4, 9, 10 and 11.

2 'Super luxury residential' is defined as luxury developments that have crossed S$2,500 per sq.ft. in Q4/2006, including new launches in the reviewed quarter.

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