LACKLUSTRE PERFORMANCE TO 2H 2014 AS SLOWDOWNS IN NEW SALE VOLUME AND PRICES PREVAIL

Overall private home prices decreased by 0.7 per cent in 3Q 2014 with property prices in the Core Central Region (CCR) having the steepest quarter-on-quarter (q-o-q) decrease of 0.8 per cent. New sales volume fell by 42.6 per cent q-o-q to 1,531 units in 3Q 2014. Rents softened across all market segments partly due to the increased supply of private residential homes. New sales volume is likely to breach below 1,500-unit level going into the final quarter of the year, with some highly anticipated project launches expected to counter the traditionally quiet year-end period.

"As the existing property cooling measures and TDSR ruling continue to affect buyers' appetite for private homes, further price moderation is likely in most market segments, though the decline is forecast to be less pronounced. A gradual return of buyers into the market is expected early next year, in view of potential demand and the prospect of prices bottoming out."

DR. TAN TEE KHOON
Executive Director
Residential Services

Developers launched a total of 6,101 units in the past nine months in 2014. Over the same period, 5,940 new units were sold, or a monthly average of 660 units per month. 3Q 2014 saw 1,294 new units launched and 1,531 new units sold, translating to 60.9 per cent and 37.0 per cent year-on-year (y-o-y) falls respectively. On a quarterly basis, the number of new private landed and non-landed residential unit launches (excluding Executive Condominiums) in 3Q 2014 declined by 54.5 per cent. Similarly, new sales volume has dropped by 42.6 per cent q-o-q.

The sharp drop in new units launched for the third quarter is mainly contributed by the current muted market sentiment with the onslaught of property cooling measures and the Total Debt Servicing Ratio (TDSR) ruling. These factors have markedly affected buyers' appetite for private property and developers' confidence in project launches.

In addition, there is a gradual decrease in the inventory of new residential units for sale, with a consistent fall in the number of residential units available from the land parcels sold under the Government Land Sales (GLS) programmes over the last one year. The cutback effect is notable, with a gradual decline in the number of units from about 6,900 in 1H 2013 GLS programme to approximately 6,000 units in the 2H 2013 GLS programme. As prospective homebuyers continued to adopt a "wait-and-see" approach in their property investment decisions, developers are holding back launches to monitor for medium-term improvements in the market situation. Such delay in launches is likely to prevail until at least 1Q 2015, especially for residential land parcels bought in 2H 2013 GLS programme.

The island-wide steep decline in new units launched is largely due to the trend seen in the Outside Central Region (OCR), where the number of units launched has fallen by 69.3 per cent q-o-q to 503 units in 3Q 2014. With only one new project launch in the mass market segment (i.e. Seventy Saint Patrick's), new sales volume in the OCR has also declined significantly by an approximate 55.6 per cent q-o-q to 738 units in 3Q 2014.

In the high-end private homes segment in the CCR, the number of newly launched units fell by about 49.5 per cent q-o-q to 106 units in 3Q 2014. However, new sales volume rose by about 17.1 per cent q-o-q to 137 units in 3Q 2014.

The number of new units launched in the Rest of Central Region (RCR) also fell significantly by about 31.0 per cent q-o-q to 685 units in 3Q 2014. Despite the number of new project launches in the RCR rising from 4 projects in 2Q 2014 to 6 in 3Q 2014, new sales volume in the RCR slipped by about 26.0 per cent q-o-q to 656 units.

The top performing new launches in the third quarter were Highline Residences (launched September 2014), City Gate (July 2014), and Seventy Saint Patrick's (September 2014), selling 142, 113, and 110 units in the quarter respectively. The Panorama and Lakeville were the next-best performing projects in the quarter, selling 82 units and 76 units respectively. Together, the new sales of the top five projects formed 32.7 per cent of the primary market transaction volume in 3Q 2014.

Weakening Market with Overall Fall in Transaction Volume

Overall new sale, subsale and resale transaction volume has fallen by about 29.8 per cent q-o-q to 2,955 units in 3Q 2014. This represents a sharp decline from 2Q 2014 when overall transaction volume had risen significantly by about 49.6 per cent q-o-q to 4,212 units.

While the resale volume in the mid-tier market segment in the RCR has risen by about 7.0 per cent to 415 units in 3Q 2014, the performances of new sale and subsale transactions have faded in the same quarter. While transaction volume in the new sale market has dropped by approximately 26.0 per cent q-o-q to 656 units in 3Q 2014, the number of units transacted in the subsale market has fallen by a slightly steeper decline of 26.3 per cent q-o-q to 28 units over the same period.

In the high-end market segment in the CCR, a total of 137 new sale units were transacted in 3Q 2014, representing a 17.1 per cent q-o-q improvement. However, unlike the RCR, the number of resale transactions has fallen by approximately 12.3 per cent q-o-q to 257 units in 3Q 2014. Similarly, the number of subsale unit transactions has declined by a more pronounced 41.9 per cent q-o-q to 18 units over the same period.

Looking at the mass-market segment in the OCR, subsale transactions have increased by about 1.1 per cent q-o-q to 90 units in 3Q 2014. On the other hand, the number of units transacted under the new sale and resale segments have decreased by about 55.6 per cent q-o-q to 738 units and 13.0 per cent q-o-q to 616 units, respectively.

Continued Fall in Private Home Prices across All Market Segments

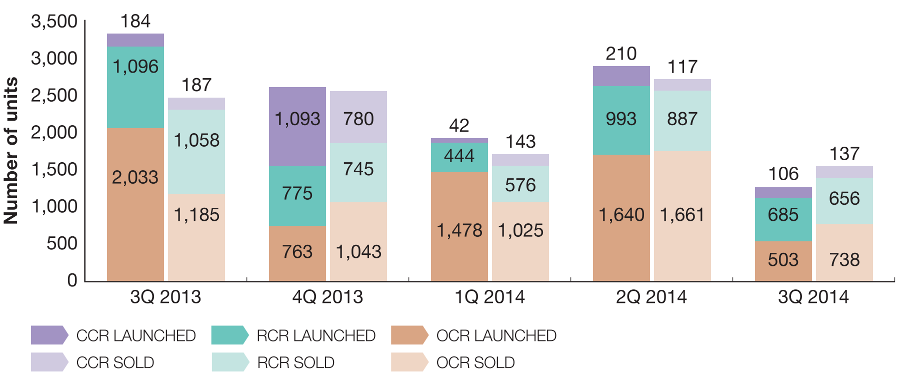
3Q 2014 marks the fifth quarter after the Total Debt Servicing Ratio (TDSR) framework was introduced on 29 June 2013. Overall, private home prices slipped by 0.7 per cent quarter-on-quarter (q-o-q) in 3Q 2014. This marks the fourth consecutive quarter of price fall, albeit at a slower pace. On a yearly basis, this also represents a moderation of 3.9 per cent y-o-y.

The non-landed segment in the Core Central Region (CCR) remains highly subdued. Prices fell by 0.8 per cent q-o-q in 3Q 2014, marking a sixth consecutive quarter of decline. Based on caveats lodged data as at 23 October 2014, average resale prices on a per square foot (psf) basis fell by about 8.3 per cent q-o-q to $1,877 psf in 3Q 2014, while average subsale prices dropped by a larger 12.1 per cent q-o-q to $2,106 psf over the same period. However, on a positive note, average new sale prices rose by about 8.0 per cent q-o-q to $2,374 psf over the same period.

The mid-tier market in the Rest of Central Region (RCR) also saw a decline in prices of 0.4 per cent q-o-q. Based on caveats lodged data as at 23 October 2014 and excluding transactions of The Hillford which is on a 60-year lease, average new sale prices increased by 3.8 per cent q-o-q to $1,614 psf in 3Q 2014. Average prices in the subsale market rose by 2.3 per cent q-o-q to $1,556 psf over the same period.

EXHIBIT 1

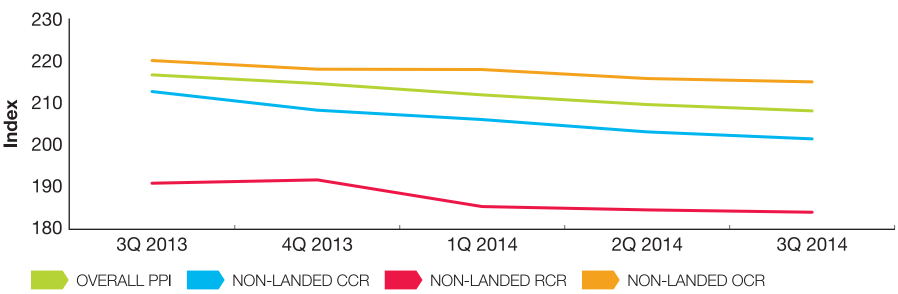
Developers' Launches and New Sales by Market Segment



Source: REALIS, Knight Frank Research

EXHIBIT 2

URA Private Residential Property Price Index by Market Segment



Source: REALIS, Knight Frank Research

However, resale prices averaged $1,283 psf, representing a 1.1 per cent q-o-q decline from 2Q 2014.

The mass market segment in the Outside Central Region (OCR) continued its fourth consecutive quarter of price decline of 0.3 per cent q-o-q in the third quarter. Based on caveats lodged data as at 23 October 2014, although average resale prices remain unchanged at $930 psf, there was a mixed price performance in the other two market segments. While average new sale prices increased by 2.7 per cent q-o-q to $1,185 psf, subsale prices fell by approximately 0.3 per cent q-o-q to $1,189 psf in 3Q 2014.

Prices of private landed properties also declined for a fourth consecutive quarter, falling 1.8 per cent q-o-q, or 5.1 per cent y-o-y.

Contrasting price performances as mass market property fails to keep pace with high-end and mid-tier market segments

Analysing market trends from Knight Frank in-house basket of private residential properties, prices of high-end properties rebounded marginally by 0.7 per cent q-o-q to $2,139 per sq ft, after a 9.9 per cent decline in the previous quarter. On a y-o-y basis, prices have fallen 7.5 per cent.

Average prices of mid-tier properties also rebounded slightly by 1.0 per cent to $1,547 per sq ft, after three consecutive quarters of decline. On a y-o-y basis, prices of mid-tier properties have fallen by a similar magnitude to luxury prices at 7.5 per cent.

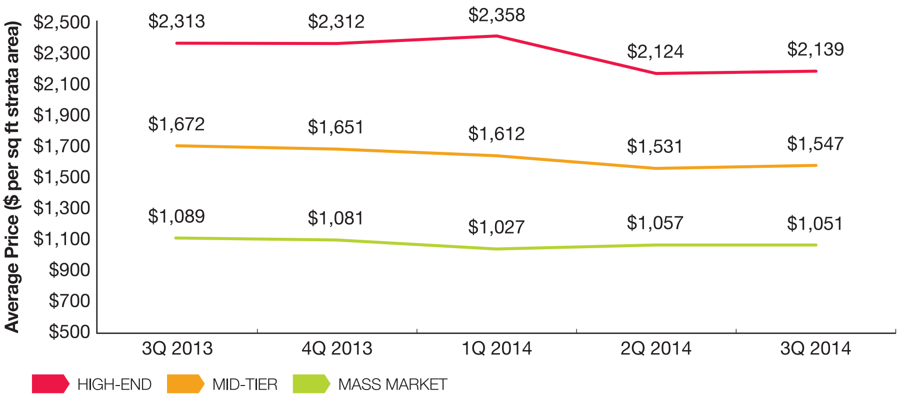
On the contrary, prices of mass market private homes declined by 0.5 per cent q-o-q and 3.4 per cent y-o-y to $1,051 per sq ft.

Lacklustre rental performance persists from 2Q 2014

Knight Frank's in-house property basket reflected declines in average rents across all market segments (Exhibit 4). Average rents for mid-tier homes saw the largest decline of 1.6 per cent on a q-o-q basis to $4.73 per sq ft per month, while luxury and mass market homes fell by 1.3 per cent and 0.6 per cent q-o-q respectively in 3Q 2014.

EXHIBIT 3

Average Prices* of Private Residential Properties by Market Segment

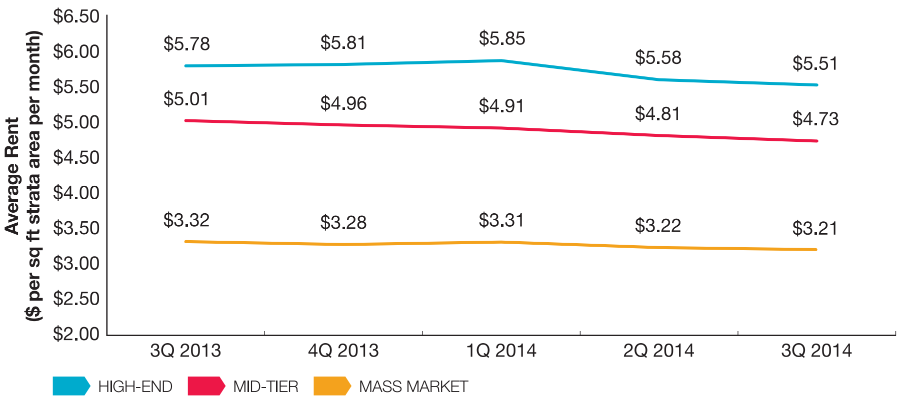


Source: REALIS (based on caveats lodged as at 9 October 2014), Knight Frank Research

*Average prices are estimated based on Knight Frank's property basket.

EXHIBIT 4

Average Rents* of Private Residential Property by Market Segment

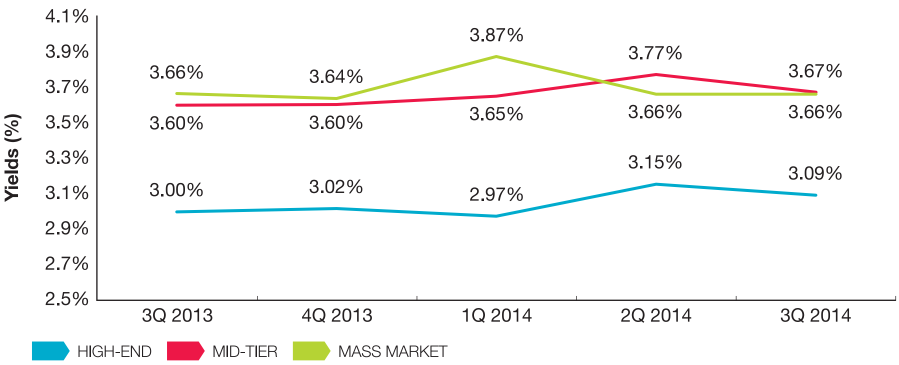


Source: REALIS (based on caveats lodged data as at 9 October 2014), Knight Frank Research

*Average rents are estimated based on Knight Frank's property basket.

EXHIBIT 5

Gross Yields* of Private Residential Property by Market Segment



Source: Knight Frank Research (based on caveats lodged data as at 9 October 2014)

*Gross yields are estimated based on Knight Frank's property basket.

With the general moderation in rentals across all three market segments, gross rental yields for the high-end and mid-tier homes have fallen accordingly. Gross rental yields in these two segments have dropped to 3.09 per cent and 3.67 per cent in 3Q 2014, respectively. However, the average yield of mass market homes has maintained at an average of 3.66 per cent (Exhibit 5).

Rising Foreign Buyer Interest with Increased Proportion of Overseas Homebuyers

Based on caveats lodged data as at 21 October 2014, the proportion of foreign homebuyers, comprising Permanent Residents (PRs) and non-PRs (NPRs), rose from 22.9 per cent in 2Q 2014 to 27.7 per cent in 3Q 2014. (Exhibit 6). This rise in home-buying interest could signal that foreigners are beginning to adapt and adjust to the higher cost of foreign ownership of homes in Singapore. Such increased cost is a result of several property cooling measures implemented over the last few years to dampen foreign demand and curb speculation in the private residential market.

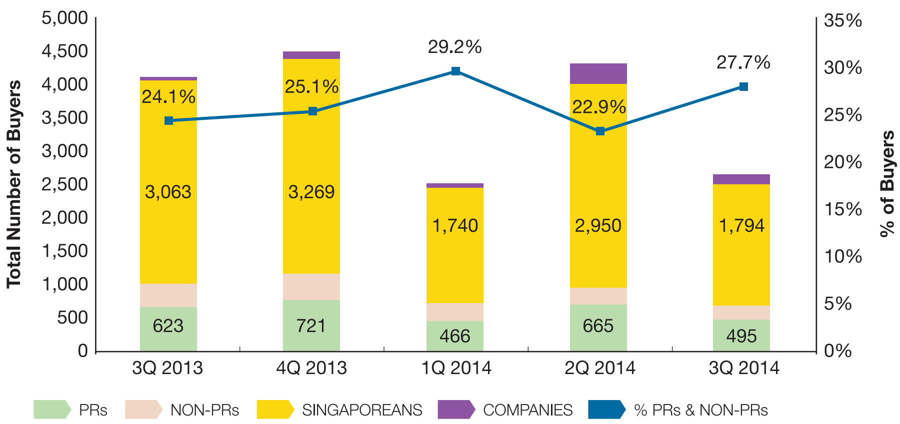
District 23 (Hillview, Dairy Farm, Bukit Panjang, Choa Chu Kang) has emerged as the residential hotspot among foreign homebuyers in 3Q 2014, with the largest number of home purchases by foreign buyers. The quarterly increase in the proportion of PR and NPR homebuyers for this district was also the largest, rising from 5.5 per cent in 2Q 2014 to 8.8 per cent in 3Q 2014.

Focusing on the prime residential Districts 9, 10 and 11, about 17.3 per cent of a total of 717 foreign homebuyer transactions island-wide were concluded in these three districts in the third quarter. Although this marks an improvement from the 14.0 per cent recorded in 2Q 2014, this proportion still falls slightly short of the 18.8 per cent recorded in the same quarter last year (i.e. 3Q 2013).

Within Districts 9, 10 and 11, foreign homebuyer transactions also comprised a significant proportion of total transactions. They formed 36.3 per cent, 34.5 per cent, and 20.2 per cent of total transactions in Districts 9, 10, and 11 respectively in 3Q 2014.

EXHIBIT 6

Profile of Private Homebuyers* as at 3Q 2014



Source: REALIS (based on caveats lodged as at 21 October 2014), Knight Frank Research

*Excluding Executive Condominiums (ECs)

The notable rise in the proportion of foreign buyers in 3Q 2014 is a reflection of foreigners' interest to invest and reside in Singapore with its strengthening position as a global financial hub, especially in light of the recent global and regional economic uncertainties. Such foreign home-buying interest is expected to rise further as Singapore continues to establish itself as a global city with stable economic fundamentals and a conducive living environment.

New Sales Volume of 7,500 to 8,000 units expected for the whole of 2014

4Q 2014 is likely to be a quiet period for project launches in view of the upcoming year-end holiday season. The number of new unit launches could breach lower for next year given a marked fall in the total number of residential units being made available under the 1H 2014 GLS programme, of just 4,600 units.

Moving forward into the last quarter of the year, new sales volume is expected to remain modest, with the Total Debt Servicing Ratio (TDSR) ruling and property cooling measures continue to bite on buying sentiment. It is anticipated that the total developers' new sales for the full year of 2014 could range between 7,500 and 8,000 units.

Prices of private residential property could exhibit slowing declines in 4Q 2014, especially for the mass market segment. In the OCR, developers are less likely to further moderate prices, with a focus on profit margin preservation and development cost management.

For OCR, prices of mass market homes are slated to fall by another 0.5 to 0.8 per cent q-o-q in 4Q 2014. Further price pressure is expected particularly on the mass market segment as HDB resale prices continued to fall and HDB upgraders are further constrained to move into private property.

For high-end residential properties in the CCR, prices are expected to fall by another 1 to 2 per cent q-o-q in 4Q 2014.

For RCR, prices could potentially drop by approximately 0.4 to 0.5 per cent q-o-q in 4Q 2014.

Assuming that current policies on the property market remain in place till the end of this year, overall private home prices is expected to decline by approximately 4 to 6 per cent in 4Q 2014 y-o-y.

FOR RESIDENTIAL SALES AND LEASING ENQUIRIES, PLEASE CONTACT:

Dr. Tan Tee Khoon
Executive Director
Residential Services
6228 6828
teekhoon.tan@sg.knightfrank.com

FOR FURTHER INFORMATION ON THE REPORT, PLEASE CONTACT:

Alice Tan
Director and Head
Consultancy & Research
6228 6833
alice.tan@sg.knightfrank.com

Debbie Lam
Assistant Manager
Consultancy & Research
6228 6821
debbie.lam@sg.knightfrank.com

Derek Lor
Analyst
Consultancy & Research
6228 7317
derek.lor@sg.knightfrank.com

RECENT MARKET-LEADING RESEARCH PUBLICATIONS

Singapore Real Estate Highlights September 2014

Knight Frank 2Q 2014 Residential Quarterly Research Bulletin

The Wealth Report 2014

Asia-Pacific Residential Review June 2014

For further information about the Company, please visit **www.knightfrank.com.**

About Knight Frank

Knight Frank LLP is the leading independent global property consultancy. Headquartered in London, Knight Frank and its New York-based global partner, Newmark Grubb Knight Frank, operate from 370 offices, in 48 countries, across six continents. More than 13,700 professionals handle in excess of US$1 trillion (£643 billion) worth of commercial, agricultural and residential real estate annually, advising clients ranging from individual owners and buyers to major developers, investors and corporate tenants.