

# Secrets of Property Investment in Singapore





# Property Hotspots in Singapore

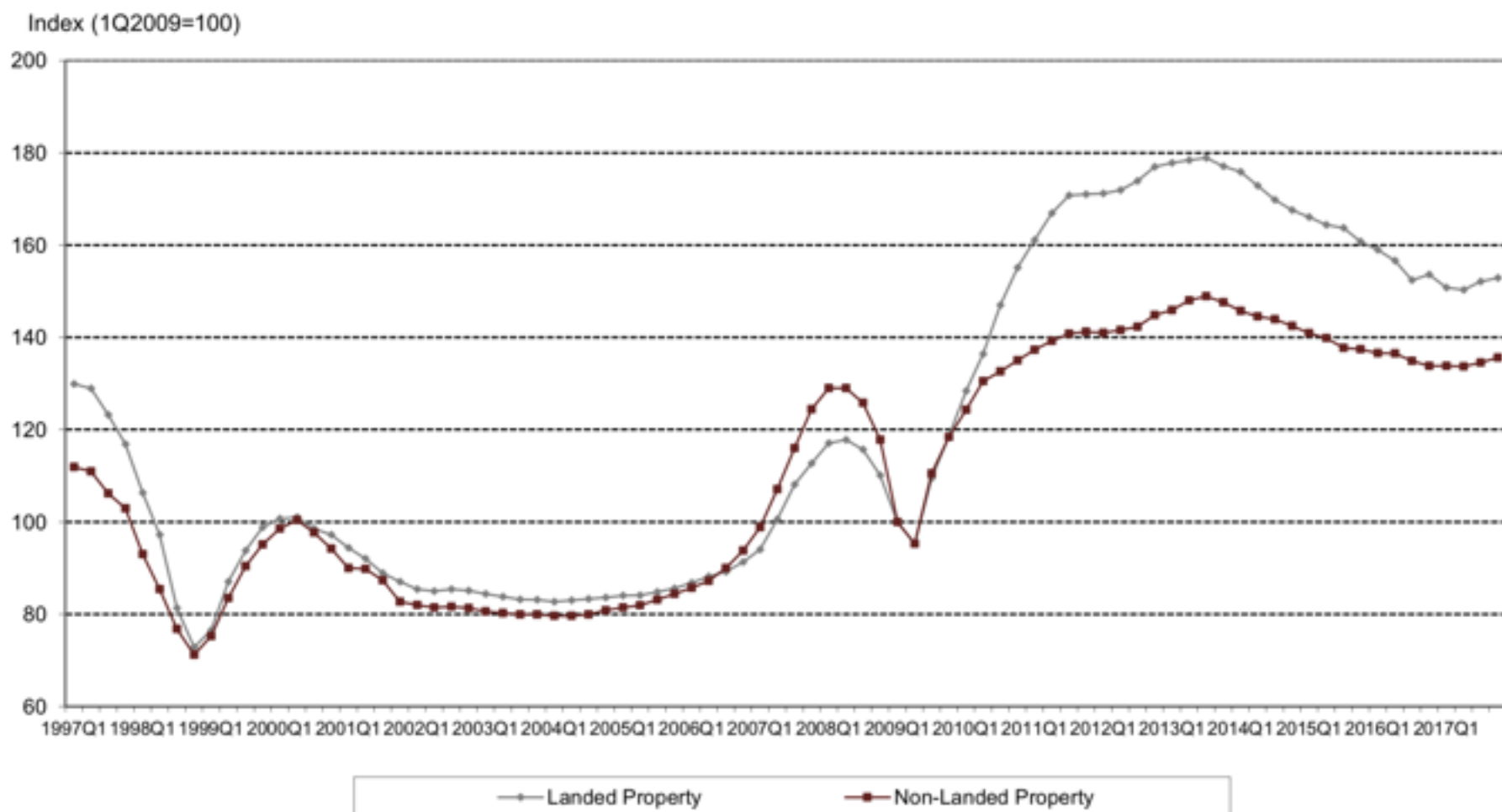
“Don’t wait to buy real estate, buy real estate and wait.”

– Robert G. Allen



# Singapore Property Price Index

## Residential Property Price Index by Type



Everyone wants to know how to make money from buying and selling properties or making a rental yield. But should you read news about property sell-out launches of 300 units, 500 units to determine whether this is the right time to buy? Is this the right price to buy?

News Headlines that will make you poorer  
What if you hear that there are “10 projects each consisting of 300 units – Fully Sold out?”

Do you determine that the market has recovered?

Then you jump in and buy, and perhaps overpay for the properties. You will be in for a long hard wait and potentially lose a lot of capital.

What about the other unreported cases of slow sales? Do you hear about it? Remember that the market has a habit of celebrating success, we talk about good things, this tends to skew opinions. Those who got burnt don't brag about it.

Selling out of 3,000 units (10 x 300 units), is this a good result?

Let us review another headline “2017 Annual take up rate of 5,000 compared to annual average of 10,000 units”.



How do you feel more negative about this headline?

They are both the same thing, they are not lying, but the frequency of reporting every little success gives the impression of a very successful and rising market. In order to correctly understand the market, we need to properly model the market to capture all the inputs and outputs.

### Singapore Property Market – Model

Looking at the Residential Property Price Index may give the best opinion on when is the best time to buy a property in Singapore.

From the graph, you can see the troughs are in 1998 (Asia Financial Crisis), 2004 (SARS Outbreak), 2008 (Lehman Brothers collapse), 2017 (Effect of DSR and Government ABSD). These are definitely the best time to invest in property. In fact, investors have been making over 200% return of investment from 2003-2016!

Definitely 2017 is the best time to invest in a property as it is currently the lowest point and we can see that market is recovering in 2017. Investors have been coming back into the market in 2017, hence the low inventory of properties by developer. In turn, this leads to the sudden

influx of Enbloc sales in 2017 (A total of 16!).

2017 has witnessed another wave of en bloc fever. Till date, a total of 16 collective sales worth more than S\$6.2 million were transacted, according to SRX Property compilation. In some collective sales, the sheer project size means that a sizable number of displaced homeowners will be looking for a new home, creating housing demand.

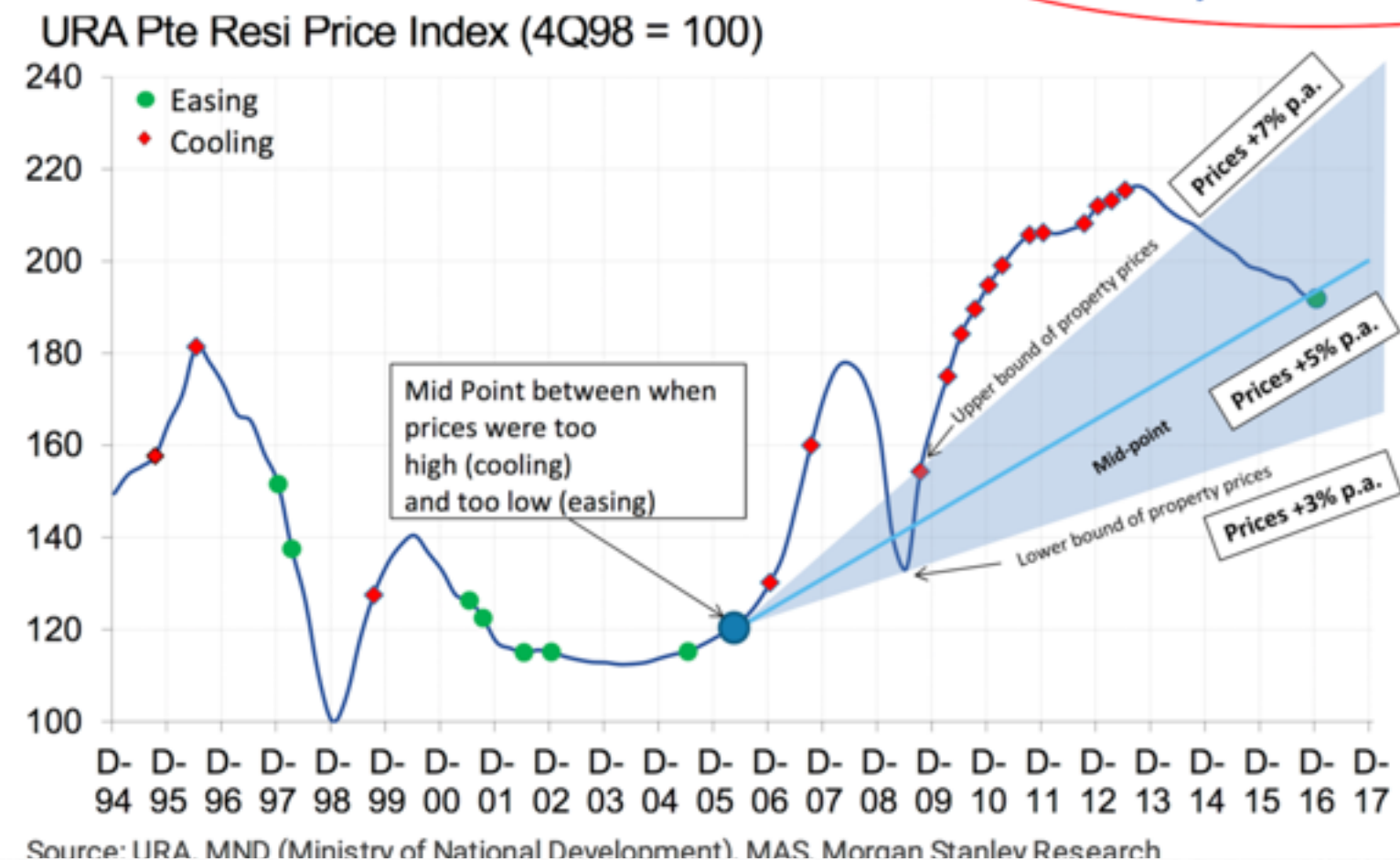
En Bloc Transactions in 2017			
Contract Date	Project Name	No. of Units in the Project	Transacted Price (S\$ in million)
May-17	One Tree Hill Gardens	13	65.0
May-17	Rio Casa	286	575.0
May-17	Goh & Goh Building	7	101.5
Jun-17	Eunosville	330	765.8
Jul-17	The Albracca	11	69.1
Jul-17	Serangoon Ville	244	499.0
Aug-17	Tampines Court	560	970.0
Aug-17	Toho Green	6	8.4
Sep-17	Sun Rosier	78	271.0
Sep-17	Jervois Gardens	17	72.0
Sep-17	Nanak Mansions	36	201.1
Oct-17	Amber Park	200	906.7
Oct-17	Normanton Park	488	830.1
Oct-17	Changi Garden	60	248.8
Oct-17	Florence Regency	336	629.0
Oct-17	Duneran Court	12	36.3
<b>Total</b>	-	<b>2,684</b>	<b>6,248.8</b>

Source: SRX Property

# How Far has the Property Market Fallen?

Price growth potentially being managed at ~ 5% p.a levels

Morgan Stanley Research 12 April 2017  
"Property Prices Inflecting and On Track to Double by 2030"



Property prices have fallen over nine percent since their last peak, in Q3 2013. Developers have started to feel the pinch, with Urban Redevelopment Authority (URA) records showing sales volumes that have fallen by almost a third since April 2015.

There are expectations of further discounts still, as the Additional Buyers Stamp Duty (ABSD) for developers and the Qualifying Certificate (QC) charges close in. It's expected that developers will drop prices or use more appealing payment methods, to clear out the remaining units before the deadline – an example is OUE Twin Peaks,

which has seen both price declines, and a Deferred Payment Scheme (DPS). DPS allows for 80 percent of the payment to be deferred for up to three years.

Barring condos in the Core Central Region (CCR), most private, non-landed homes seem to be in free fall. Prospective buyers think it's a race to the bottom, as the government refuses to lift cooling measures that drive down property values – many are content to sit on the sidelines, and wait for an even better discount.

However, home-owners should consider taking a different mindset from investors. For this group of buyers, the current

market represents an unprecedented opportunity. Property prices, which were overheated in 2013, are now approaching levels of affordability. This is especially true for those who have been eyeing – and saving – for higher end properties in District 9, 10, or other CCR areas.

### **Why home-owners need to think differently from investors**

The primary interest of a home-owner should not be profit. Rather, the emphasis should be on affordability and lifestyle. For example, consider the much talked about million dollar HDB flats. From an investor's perspective, the amounts forked over by the buyers are not rational – transaction prices of surrounding properties are much lower, and there is little room for capital gain when the selling price is already so high.

However, it makes sense from the perspective of a home-owner.

Consider that a home-owner (or owner-occupier if you like) is concerned with having an ideal living space, not with eventual resale gains. Unlike an investor, they will have to stay in the property and raise their families there. There is no rental income to be gained (with the exception of the few who rent out rooms in their

homes), and they intend to live there for 20 or 30 years; perhaps for the entirety of their lives.

Furthermore, as non-investors, they cannot stake their retirement on their house. They cannot sell the property, as they would have nowhere to live.

These factors mean home-owners need to adopt a different mindset. Attempting to time the property market, and buy at the lowest price, may backfire in various ways:

- ♣ For those aspiring to live in the CCR, opportunities like the current one are rare
- ♣ Cooling measures are pinning prices down
- ♣ QC and ABSD are already working to lower developers' asking prices
- ♣ Interest rates will likely be higher in the coming years
- ♣ For those aspiring to live in the CCR, opportunities like the current one are rare

At present, property prices in the CCR seem to be stabilising. In April this year, prices of non-landed private homes in non-central regions fell by 1.3 percent,



whereas prices in the CCR have managed to rise by 0.3 percent.

It is likely that prices in the CCR cannot go any lower. There is a minimum support level for prices here, due to the central nature of the properties. Home-owners who aspire to live near Orchard Road, or in places like River Valley, are not likely to see better opportunities in the coming years.

Upon recovery of the property market (lifting of the cooling measures), these properties will quickly return to their previous price levels; more so than mass market condos in non-central regions. Aspiring home-owners may be miscalculating if they assume otherwise.

### **Cooling measures are pinning prices down**

Cooling measures have hit investors, but not so much home-owners. Singaporean home-owners pay no ABSD on their first property, whereas Permanent Residents (PRs) pay five percent.

This has cleared the way for first time home-owners, with many prospective landlords being shut down as competition; it means fewer investors competing with home-owners for existing properties, and more affordable housing.

However, cooling measures are temporary. The government has given no sign that it will budge on them for now, but it will happen at some point. And once again, we stress that a surge to original prices can happen rapidly – underlying demand for Singapore property remains strong, and is held in check only by these measures.

### **QC and ABSD are already working to lower developer's prices**

For those eyeing new properties, the imposition of ABSD and QC on developers is providing significant opportunities. ABSD and QC provide a time limit for developers to complete and sell available units. Failure to do so will impose large taxes, based on a percentage of the land purchase price.

As the time limit nears, developers will provide innovative sale methods and potentially large discounts. This can draw investors in droves, cooling measures or no. Home-owners who want to take advantage of it should be prepared to act fast, and not quibble over whether prices have truly hit bottom or can still “drop a little more.”

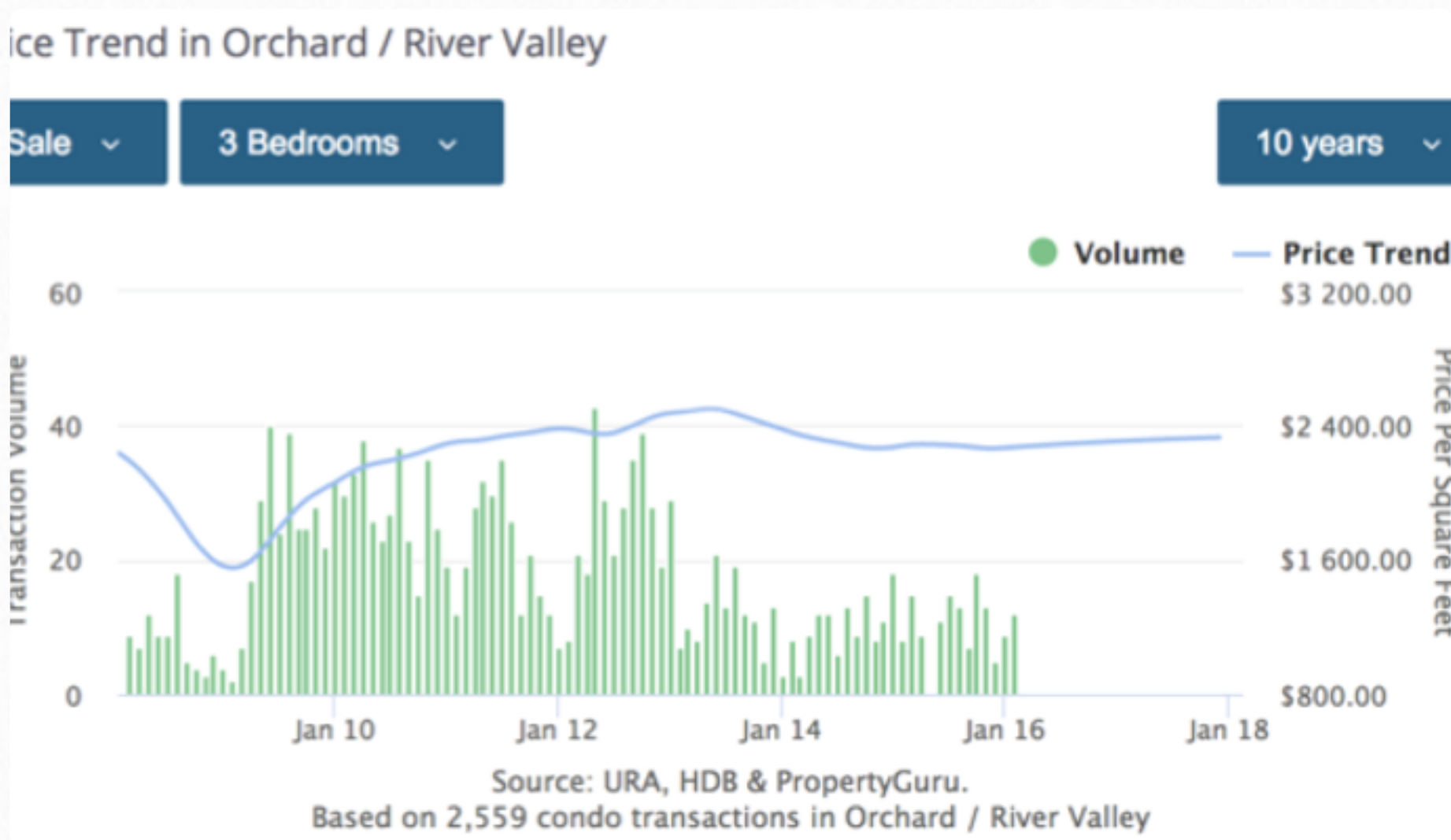
### **Interest rates will likely be higher in the coming years**

Most residential properties in Singapore are pegged to the Singapore Interbank Offered Rate (SIBOR). This rate has almost doubled since 2014, due to the American Federal Reserve normalising interest rates. As such, it is crucial for home-owners to lock in a good interest rate while they still can.

In addition, higher interest rates mean higher monthly repayments. This can make it harder for buyers to qualify for a loan, under the new Total Debt Servicing Ratio (TDSR) framework, which limits loan repayments to 60 per cent of monthly income.



# District 9 - A proof of Concept



District 9 has always been one of the most sought-after addresses in Singapore.

The convenience of being near the Orchard precinct and renowned schools are some of the main reasons behind the area's higher value.

However, the implementation of the Additional Buyer's Stamp Duty (ABSD) and the Total Debt Servicing Ratio (TDSR) in January and June 2013 has cooled the market in terms of both prices and transaction volume.

This said, there are some investment potentials in this private non-landed

market that should be evaluated, such as the tenure and size of the property.

Freehold properties are logically expected to command a premium over leasehold homes, *ceteris paribus*. But for District 9, this expectation was somehow turned on its head from 2H/2011 when the 99-year leasehold properties commanded a significant premium over freehold and went as high as \$827 per square feet (Q1/2013).

Although a recent project launch caused a spike in leasehold prices, the gap has been reducing since the implementation of the ABSD and TDSR despite the spike in

Q1/2016. Excluding this project, the premium paid for the 99-year leasehold over freehold properties was only a meager \$30 per square foot.

much due to the two measures relative to the 99-year leasehold properties.

Between Q1/2016 and Q1/2013, freehold prices have fallen by only 11.5%, while the 99-year leasehold units fell by a staggering 35%. Sales volumes for freehold units are also consistently healthier, averaging about 8.5 times more than 99-year leasehold units with about 125 homes sold per quarter.

Smaller units in District 9 have garnered stronger demand before and after the ABSD and TDSR.

Analysis on the private non-landed caveats from Q1/2012 to Q1/2016 showed that the majority of units sold are homes with a strata area of less than 80 square metre, which for this district comprises mainly one-bedroom units (with some overlap with 1+1 or two-bedroom units).

Demand for one-bedroom units in District 9 is supported by the new trends in the leasing market, for instance, slower economy growth. Smaller rental allowances for accommodation for overseas nationals make one-bedroom units a preferred choice, as well as the growing presence of Airbnb, where landlords can convert their homes for such

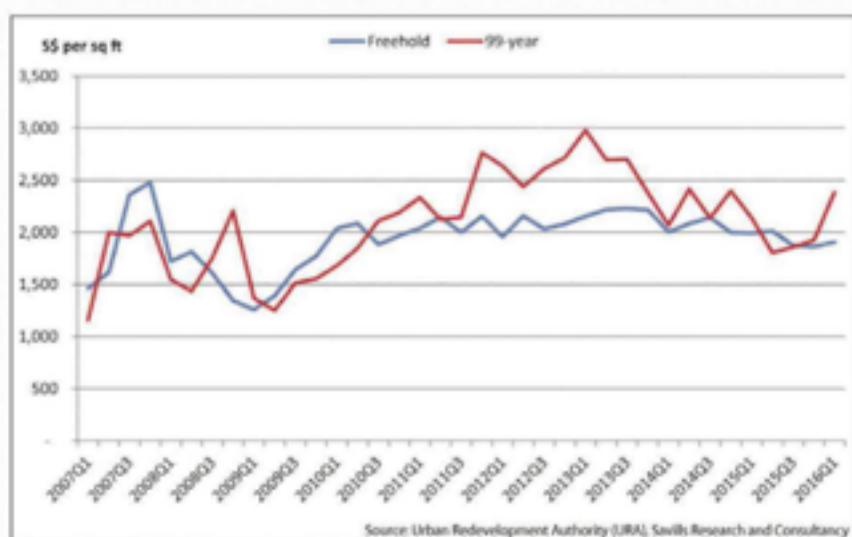
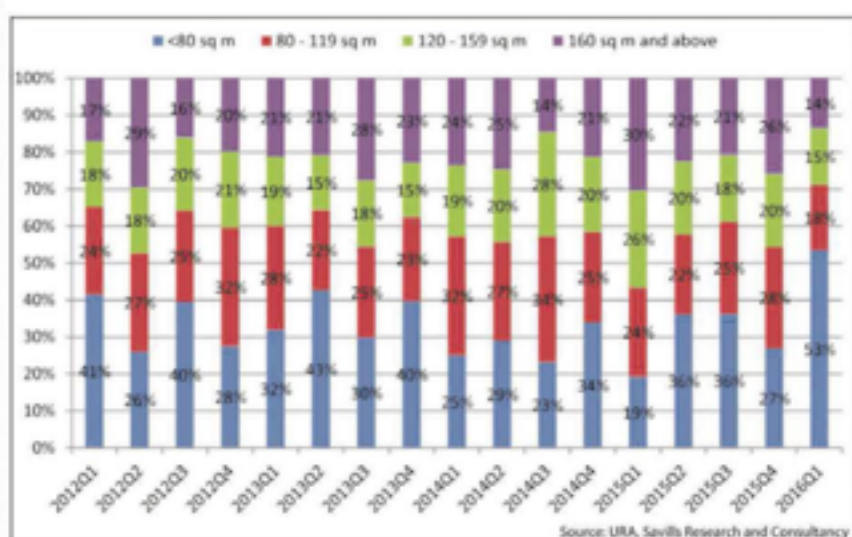


Figure 1: Prices of freehold versus leasehold non-landed properties in District 9



This pricing anomaly means that in the long run, given that freehold units should command a premium over leasehold ones, the former is expected to outperform the latter as it claws back the premium. For buyers of freehold properties in District 9 today, it could mean lesser downside risks and greater upside potential.

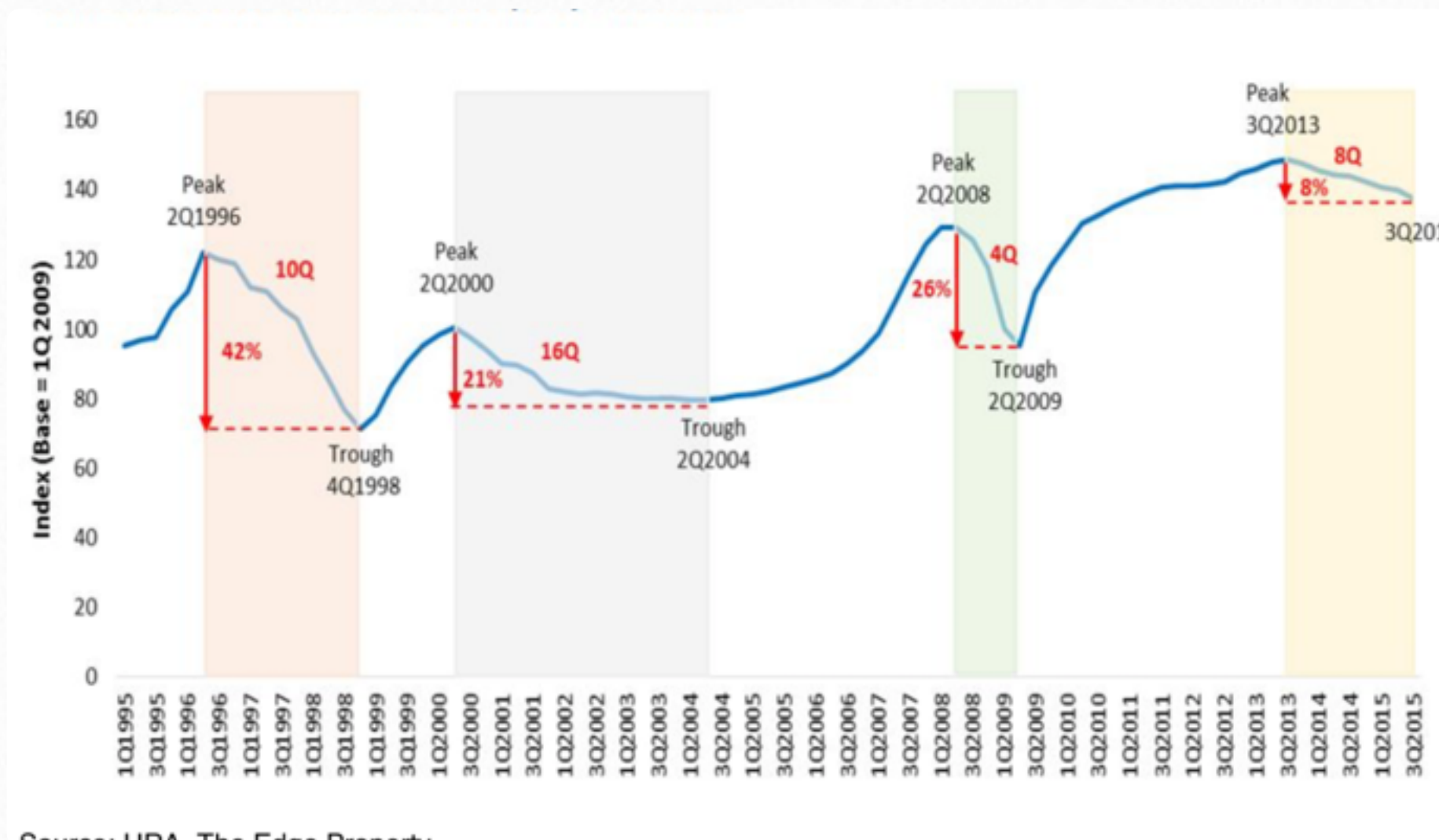
Looking at value appreciation for the two tenures, freehold prices have not reduced



uses and earn significantly higher than the traditional leasing methods.

District 9 is also one of the fastest district to recover in terms of pricing, leading the trend-line of Singapore in both leasehold and freehold prices.

# Looking at Resilience in Pricing



Source: IURA, The Edge Property

The latest indicators of Singapore's private residential property market do not make happy reading for owners of existing properties. The non-landed Private Residential Property Price Index (PRPPI) has registered a decline for eight consecutive quarters since 3Q2013 (see Chart 1). Since 1995, the Singapore private residential property market has undergone three down cycles: from the 2Q1996 to 4Q1998, from 2Q2000 to 2Q2004, and from 2Q2008 to 2Q2009 (see Chart 1). Our view is that the market is some distance away from reaching a bottom, with weak market sentiment and rising unsold inventory

being a drag on property transactions being realised.

## Identifying resilient planning areas

As evidenced in the past few months, however, there is still enough interest and liquidity in the market to suggest that potential buyers are still on the hunt for "investible" properties for medium- to long-term hold. In the current cycle, we believe purchasers might want to focus on identifying properties that are more resilient to protect their capital investment. In this article, we share a concise version of our analysis of the resale prices of



non-landed private residential properties for each of the down-cycles to identify planning areas in which prices were more resilient.

## Top 10 most resilient planning areas in Singapore

Extracting data from the REALIS database provided by URA, we analysed the magnitude of the decline in median resale prices of the non-landed private residential properties for each planning areas from the peak to the trough for each of the past down-cycles. Next, we ranked the planning area with the least price decline to the most; the planning area with the least decline can be deemed to be the most resilient. This way of analysing the market trend can provide investors with a reference point from which to start to look for properties in the current climate.

Chart 2

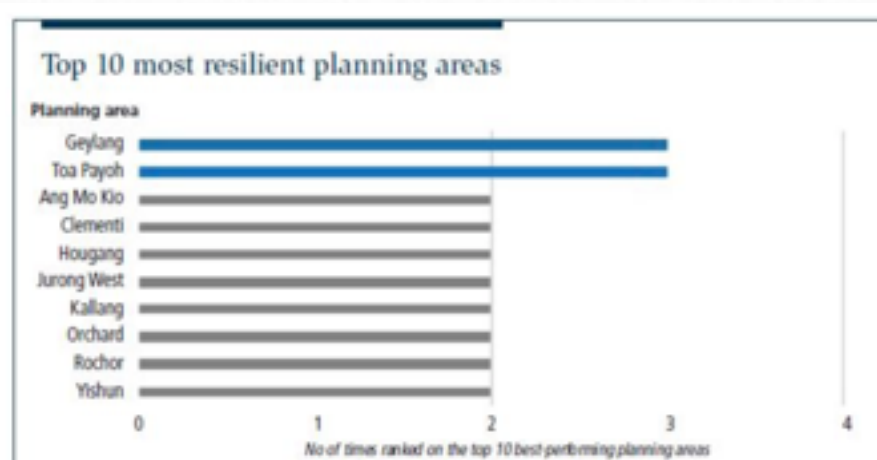
Ranking of the top 10 best-performing planning areas in each property cycle

Ranking	Cycle 1	Cycle 2	Cycle 3	Current Cycle	Degree of Resilience
	2Q96-4Q98	2Q00-2Q04	2Q08-2Q09	3Q13-3Q15	
1	Bukit Batok	Rochor	Jurong West	Woodlands	Most ↓ Least
2	Singapore River	Novena	Sembawang	Geylang	
3	Kallang	Newton	Geylang	Ang Mo Kio	
4	Ang Mo Kio	Toa Payoh	Choa Chu Kang	Marine Parade	
5	Pasir Ris	Downtown Core	Clementi	Clementi	
6	Rochor	Orchard	Hougang	Orchard	
7	Toa Payoh	Outram	Toa Payoh	Yishun	
8	Geylang	Bukit Panjang	Bukit Timah	Museum	
9	Bishan	Serangoon	Yishun	Jurong West	
10	Hougang	Bedok	Jurong East	Kallang	

Source: URA, The Edge Property

Based on this analysis, we identified the 10 best-performing planning areas in each

property cycle in the past 20 years. Out of 55 planning areas in Singapore, several planning areas have clearly and consistently performed better than others. They are Geylang, Toa Payoh, Ang Mo Kio, Clementi, Hougang, Jurong West, Kallang, Orchard, Rochor and Yishun, which appeared at least twice in the top 10 lists in each property down-cycle.



Source: URA, The Edge Property

## Sustainable rental yield of properties within the city fringe area

Among these 10 planning areas, property prices in Geylang and Toa Payoh have shown the most resilience, appearing three times in the top 10 lists for the past four cycles (including the current one). The value resilience in these two planning areas could be partly due to their relatively well established residential enclaves, with excellent connectivity to the city centre and an abundance of amenities, while the growth of rental and prices largely remained in sync with fundamentals.

In fact, if we analysed the gross rental yield of non-landed private residential properties within Rest of Central Region (RCR), or the city fringe area, Geylang Planning Area has demonstrated sustainable rental yield throughout the last three peak-to-trough cycles (see Chart 4). The resilience in rental yield of Geylang residential properties was most apparent since 2008, where it consistently ranks second. Other RCR areas that exhibited similar resilience was the Queenstown Planning Area and Bukit Merah Planning Area.

While there are numerous other factors that should be taken into account in your property investment, what we propose here is a high-level method of filtering investment opportunities. You can and should consider other attributes of the planning area and determine whether you agree with what the data shows.

Ranking of planning areas in Rest of Central Region in terms of gross rental yield

Ranking	Peak 2000Q2	Trough 2004Q2	Peak 2008Q2	Trough 2009Q2	Peak 2013Q3	2015Q3	Gross rental yield
1	Toa Payoh	Queenstown	Toa Payoh	Queenstown	Queenstown	Bukit Merah	High ↓ Low
2	Bukit Merah	Bukit Merah	Geylang	Geylang	Geylang	Geylang	
3	Queenstown	Tanglin	Queenstown	Toa Payoh	Bukit Merah	Bishan	
4	Tanglin	Bishan	Bishan	Bukit Merah	Kallang	Queenstown	
5	Kallang	Kallang	Southern Islands	Kallang	Bishan	Southern Islands	
6	Bishan	Geylang	Bukit Merah	Bishan	Novena	Kallang	
7	Bukit Timah	Toa Payoh	Kallang	Southern Islands	Toa Payoh	Toa Payoh	
8	Novena	Bukit Timah	Bukit Timah	Novena	Marine Parade	Novena	
9	Geylang	Novena	Marine Parade	Bukit Timah	Bukit Timah	Bukit Timah	
10	Marine Parade	Marine Parade	Novena	Marine Parade	Tanglin	Tanglin	
11	Southern Islands	Southern Islands	Tanglin	Tanglin	Southern Islands	Marine Parade	

Note: Based on data extracted from REALIS on Nov 11, 2015  
Source: URA, The Edge Property

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### Catalysts for change in values

In addition to looking for resilience in prices, potential buyers of non-landed private residential properties might want to consider the catalysts in locations that could spur the growth of prices of properties beyond the market norm. A good way to gauge this is to study the government's development plans. Over the past years, successive efforts by the government to decentralise has resulted in a boost in property prices in Tampines Regional Centre, Jurong Lake District and Novena Fringe Centre. The government is looking to boost the development of the **Woodlands Regional Centre, Jurong Lake District, North Coast Innovation Corridor, Paya Lebar Central**, among others, in coming years. Typically, such localities will see the government's efforts to improve the connectivity of public transports and expressways, and the injection of commercial spaces to create employment and retail spaces, which tend to lift up private residential property prices in these areas once it matures.



Look for value resilience and catalysts for change

In conclusion, our hypothesis is that investors looking for property purchases at this point of the cycle should look for localities in which property prices have demonstrated more resilience over the past cycles and with bigger upside potential from government initiatives to enhance the live-work-play element of the location.

# Things to Consider When Purchasing a Condo



## 1. Finding something that is suitable for you.

This may be obvious but nonetheless an important starting point. We often hear of friends who are buying a place because it's a good deal, selling below valuation, it is a good location, etc.

Buying a house is an important personal decision and there are many factors to consider. Unless it is purely an investment, do take time to think through the following and decide what's right for you.

## 2. Location matters.....somewhat

As the saying goes, it's all about location, location, location. This is partially true to a certain extent. But exactly what is meant by location? If location is all that matters, wouldn't every investor just buy the prime district or the Central Business District area?

To be more specific, decide what is the purpose of purchasing a property, is it for own stay or investment. For own stay, besides which district you would prefer to stay in, think about the amenities around the condo. If you have a child, what school would you prefer your child to go to? How often do you eat out? Do you need



multiple eateries around the condo? Are there groceries or convenience stalls that are within walking distance? How long will it take to walk to the nearest train station? (Don't be fooled by straight line distance). Where is the nearest petrol station? Where is the nearest clinic? Clinic may be a small issue but when you are sick, it will become a very important factor that many overlook.

However, if you are looking more of an investment property, are you looking more at rental as a form of monthly income or capital appreciation as a form of wealth building. Definitely a property that is used mainly to generate high rental income requires high tenancy occupancy rate where location that is nearer to commercial developments like offices or industrial high-tech factories. Besides the distance to offices, distance to train station also matters a lot. Majority of tenants do not drive and they prefer staying close to the train station. Lastly, consider the amenities like eateries and grocery shopping.

For wealth building where you would like to strive for maximum capital appreciation, you would be looking for a property with not much amenities and a location that is still growing. Pricing is relatively low

compare to other districts due to the lack of amenities and transport infrastructure. However, after 10 years, when the area becomes more developed, people will start to prefer the location and valuation will start to sky-rocket. How do you know what is going to happen for the next 10-20 years? Always check out the URA Masterplan. This is why everytime you walk into a showflat, the very first question the person showing you around will ask you is, "is this for own stay or investment". Straight away they can determine whether this property is right for you or not.

These are factors that cannot be quantified but nonetheless important considerations whether you plan to occupy the unit or to rent it out.

### **3. Be informed about prices**

No one likes over-paying, particularly for a big ticket item like a house. In Singapore, information about property prices are widely available but it can be quite challenging to go through scores of past transaction caveats.

What is the price range for the area you are looking at? How much are similar units going for? How does tenure and unit sizes affect prices? Where are prices headed?

These are important questions when evaluating whether you are getting a good-deal, or whether there's room for negotiation. Access DREA.sg on mobile with location services turned on to instantly see prices of residential property around you. Or visit [drea.sg](http://drea.sg) on your desktop and table to evaluate prices around a specific property like Sophia Hills

#### **4. Take note of supply risk**

You already know this. 2016 is the year of peak completion. More than 21,800 units are due for completion this year and there are another 45,000 scheduled for completion in the next 3 years.

In which areas are “new supply” concentrated? How much of these are unsold units? If you are already looking at a particular location or property, how much supply risk are there in the area? It is prudent to consider potential downside risk given how prices have already come under pressure over the past 11 quarters.

#### **5. consider alternatives**

The silver lining in the current market environment is that buyers have options – a lot of options indeed. In a buyer's market, time is on your side. Take time to consider alternatives i.e. different tenure

properties in the same area, other areas which are equivalent in prices or travel time.

#### **6. Planning your finances**

This cannot be over-emphasized. Regulators have put in place the Total Debt Servicing Ratio (“TDSR”) restrictions to limit incidences of over-leveraging. It may be dismaying when such regulations restricts our ability to take on a home loan to finance a dream house. But it may also be a prudent reminder for good financial planning. So take time to work out your monthly expenses and cash flow. This would help set expectations on what would be a comfortable price range hunting for a property.

You may want to consider engaging an agent. Work with them to identify your budget, cash flow and preferences. Being involved in the market on a day-to-day basis, agents have a good sense of what's available and you might even gain access to opportunities which are not publicly listed on portals.

#### **7. Get the right home loan**

It is important to know your facts before deciding on a type of loan. For starters, there's no fixed rate mortgages in



Singapore. Those are just marketing terms and the rates are only “fixed” for 2-3 years.

Broadly, there are three main types of home loan rates in Singapore

Home loan rates that are pegged to SIBOR (Singapore Interbank Offer Rate) or SOR (Swap Offer Rate) Board Rate  
Fixed Deposit Home Rate

How are these different? Which one should you go for? It's really a function of your cash flows and view on interest rates. So do take time to compare different options. Ask your agent or banker for their recommendation and ask what most people take.

# Like Our E-book?



James has been in the property business for over 10 years, mostly as a consultant. If you like the e-book and find it useful, please feel free to make a non-obligation appointment with him to discuss more in depth about Singapore Property Market and how you can choose the right property for you!

Through the discussion, you will learn

1. Future Market outlook of Singapore
2. Where are the best district to invest in Singapore
3. Pitfalls to avoid in investing in Singapore Property
4. Future government initiatives that may affect Singapore Property
5. Importance of Asset Progression and how this understanding can increase Asset Capital Growth in the quickest possible time.
6. Financial Calculation - reevaluate budget set aside for property purchase and risk management.
7. 6 key factors when choosing the right property.



8. FAQs - Freehold vs 99 Leasehold, Brand New vs Older Condos, demand for Singapore Properties, is near MRT always good and many more!

Do contact James via sms or Whatsapp @ +65 91385008

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