Do developers have a case against the property-cooling measures?

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There is no doubt that the private property prices would continue to rise if the government took no action, say the authors.

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Property developers in Singapore are not surprisingly upset with the government's unexpected announcement in July of new property cooling measures, with the Real Estate Developers' Association of Singapore (Redas) president Augustine Tan saying that the move has halted the "long awaited" recovery of the property market and could worsen a supply glut.

This followed an earlier statement by Redas that it saw "no rationale" for the fresh round of cooling measures as the property market is "in the early stages of a recovery and the recovery is in line with economic fundamentals".

Are the criticisms of developers justified or does the government have a stronger case?

Let us look at some telling figures on sales and prices.

First, private home prices increased 9.1 per cent over a span of just 12 months.
To put this number in context, a slew of earlier cooling measures had led to prices declining just 10.14 per cent over 14 consecutive quarters from their high in 2013.

Data released by the Urban Redevelopment Authority (URA) on July 27 also indicated a 3.4 per cent increase in private housing prices in the second quarter of 2018, following a 3.9 per cent increase in the previous quarter.
The median price in the first two quarters of 2018 reached S$1,319 psf, close to the peak in 2013.

Moreover, the quarterly average non-landed housing transactions in the past year rose to 6,317 units, above the average quarterly transaction volume in both 2009 and 2011 when the government introduced a slew of cooling measures.

The frenzy in the property market is most evident in en bloc activities in the past year. Developers snapped up some 4,725,658 sq ft in gross internal area in such collective sales, about 2.5 times the area in 2011 and the third largest area since 1995.

These en bloc deals bring future housing demand forward and postpone the current housing supply to the future, effectively distorting the market.

Interestingly, in the second quarter of 2018, the private housing market saw fewer HDB upgraders entering the market, compared to investors and those who already own private property.

This phenomenon is noticeable in both the lower-end and higher-end of the private housing market.

Besides, compared to 2015, the number of uncompleted condos and apartments purchased by the Singapore citizens, permanent residents and foreigners in 2017 increased by 25 per cent, 7.2 per cent and 27.9 per cent respectively, indicating that more foreign individual investors have jumped into the market.

There is no doubt that the prices would continue to rise if the government took no action.

In the Singapore private housing market, there are typically three factors behind an escalation in private housing demand: an expansion of economic activities; a surge in the HDB resale housing prices and a relaxation on the use of Central Provident Fund for housing.

To a large degree, all three did not materialise over the past year. Thus, the sudden housing price increase is not underpinned by economic fundamentals.

On the other hand, the vacancy rate of the non-landed private residential housing market had dropped from the peak of 10.4 per cent in the second quarter of 2016 to 8 per cent in the first quarter of 2018, which was the average quarterly vacancy rate between 1995 and the mid of 2018.

The rental rates in both the private rental housing market and the HDB open rental housing market only picked up very slightly since this year and the HDB resale housing market was evidently flat rather than booming.

The new cooling measures are therefore necessary.

We believe the new measures – with Additional Buyer's Stamp Duty (ABSD) rates raised by 5 percentage points for all individuals, and 10 percentage points for entities and the Loan-to-Value limits tightened – will more effectively slash housing prices than the previous ones.

The new measures will directly curb housing demand, while the lifting of the Sellers Stamp Duty in March 2017 allows home sellers to be more responsive to the anticipated housing demand reduction.

But we should not expect major housing price sliding.

Home sellers are loss averse and would be reluctant to slash price to sell at a loss unless they are in urgent need of money.

In all likelihood, the housing market may turn cold, with the government expected to monitor the market closely and make further adjustments if necessary.

En bloc deals will also slow down.

Since collective sales is a major avenue for old leasehold properties to be redeveloped, the new cooling measures may intensify the concerns of residents over the depreciating value of their homes.

Developers, especially those who have acquired the land over the recent en bloc fever, may face a dilemma either to accept a return below their expectation by selling off all the newly built housing units to avoid a transaction tax or to pay the tax by becoming landlords or continuing to hold up the price in an attempt to sell.

The cooling measure may eventually spill over to the HDB resale housing market.

We will also see less HDB upgraders. Although homebuyers benefit from the private housing price moderation, higher Loan to Value Limit and transaction taxes will affect their ability to make down payment.

In summary, developers are wont to complain when policies are implemented to moderate prices and exuberant demand.

Some may even lament that the government seems to be overly interventionist.

But the health of the property sector has wider social and economic implications and it is incumbent on the government to ensure it does not overheat or crash.

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