HUTTONS RESEARCH | POSSIBLE LAND SUPPLY CRUNCH IN 2021

The residential land sales market saw a stirring of interest in the past two months. Listed property developer, Roxy-Pacific Holdings in November 2020 acquired 15 terraced houses in the Guillemard area for $93 million. This makes it the largest collective sale in 2020 and brings the total number of reported collective sales in 2020 to four which is almost similar to 2019.

Just a month earlier, the first Government Land Sales (GLS) tender at Tanah Merah Kechil Link after the lifting of the circuit breaker drew a whopping 15 bidders and a top bid of $930 psf ppr. It was awarded to MCC Land on 13 November.

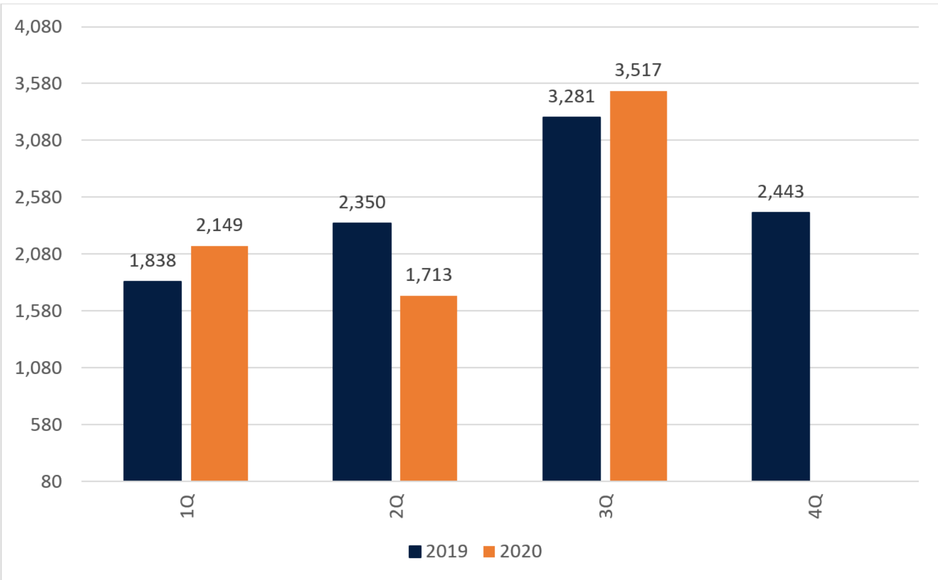
Putting aside the two-envelope system for the Holland Road GLS, the market has not seen such intense participation in a GLS tender since July 2017 where 15 bidders vied for a site at Woodleigh Lane. This is also the highest land bid ever for a GLS site in the Outside Central Region. It could be the palatable size and quantum but the sheer number of bidders showed the hunger for land.

REASONS BEHIND THE ACQUISITIONS

Bearing in mind that we are currently in the midst of a pandemic and one of the worst economic crises since independence, there seems to be a disconnect between the property market and the economy.

Developer sold an estimated 7,379 units in the first nine months of 2020 which is a mere 1.2% lower than the same period in 2019. This trend is similar to what was observed during the SARS crisis as well where sales rebounded strongly. Pent-up demand notwithstanding, the pandemic has brought interest rates down as Governments around the world inject funds to support the economy and investors flock to stable assets which offer more predictable returns.

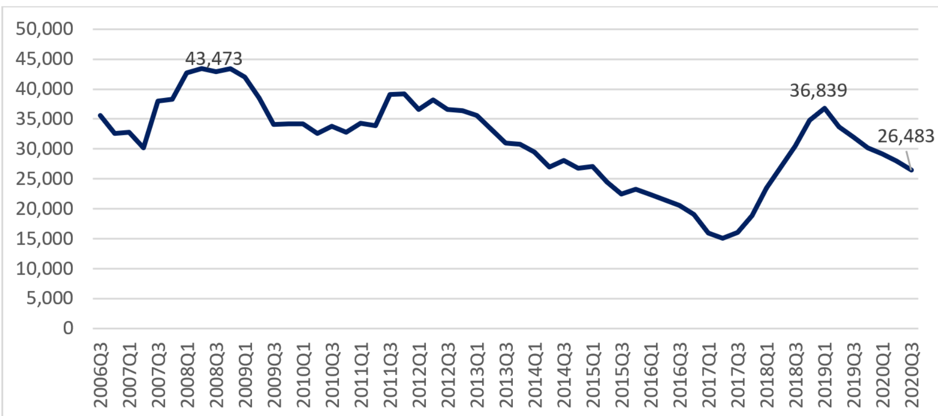
Figure 1: Comparison of Developer Sales



Source: URA, Huttons Research

The surge in demand led to dwindling unsold uncompleted units in the market. Current unsold uncompleted units stand at 26,483 and it has been trending downwards since 1Q 2019. The last en-bloc cycle started in 2016 when the unsold uncompleted units dropped to around 20,000 units. If the sales momentum continues in 1H 2021, the number of uncompleted unsold units will dip below 20,000 units by 1H 2021.

Figure 2: Unsold Uncompleted Units as of 3Q 2020



Source: URA, Huttons Research

When we analysed projects with at least 700 units launched in 2018, it showed that most of them are almost sold-out within two years. Even the larger projects launched in 2019 have moved more than 60% of their units. This clearly shows the strong underlying demand for properties as people aspire for a different lifestyle.

Table 1: Sample of Launched Projects and Their Sale Status as of 3Q 2020

LAUNCH YEAR 2018

PROJECT NAME	NUMBER OF UNITS	SOLD UNITS	UNSOLD UNITS	% UNSOLD
RIVERFRONT RESIDENCES	1,472	1,347	125	8.5%
PARC ESTA	1,399	1,379	20	1.4%
STIRLING RESIDENCES	1,259	1,146	113	9.0%
JADESCAPE	1,206	1,012	194	16.1%
AFFINITY AT SERANGOON	1,052	810	242	23.0%
THE TAPESTRY	861	855	6	0.7%
PARK COLONIAL	805	738	67	8.3%
THE TRE VER	729	721	8	1.1%
WHISTLER GRAND	716	620	96	13.4%

LAUNCH YEAR 2019

PROJECT NAME	NUMBER OF UNITS	SOLD UNITS	UNSOLD UNITS	% UNSOLD
TREASURE AT TAMPINES	2,203	1,561	642	29.1%
PARC CLEMATIS	1,468	947	521	35.5%
THE FLORENCE RESIDENCES	1,410	900	510	36.2%
AVENUE SOUTH RESIDENCE	1,074	571	503	46.8%
ONE PEARL BANK	774	333	441	57.0%

Source: URA, Huttons Research

There could be an increase in confidence among developers that the economy has seen its worst and will return to growth in 2021. The current Real Estate Sentiment Index compiled by the Institute of Real Estate & Urban Studies, National University of Singapore improved from 3.1 in 2Q 2020 to 5.3 in 3Q 2020 and there is more optimism among developers in the next six months.

The Singapore economy grew by 9.2% on a quarter-to-quarter (QoQ) basis and all segments of the economy grew QoQ in 3Q 2020. The Ministry of Trade and Industry expects the Singapore economy to grow between 4% and 6% in 2021. Another report by the Asean+3 Marcoeconomic Research Office highlighted that Singapore is set for a strong recovery in 2021 and expand by 7%.

POSSIBLE STUMBLING BLOCKS IN THE WAY

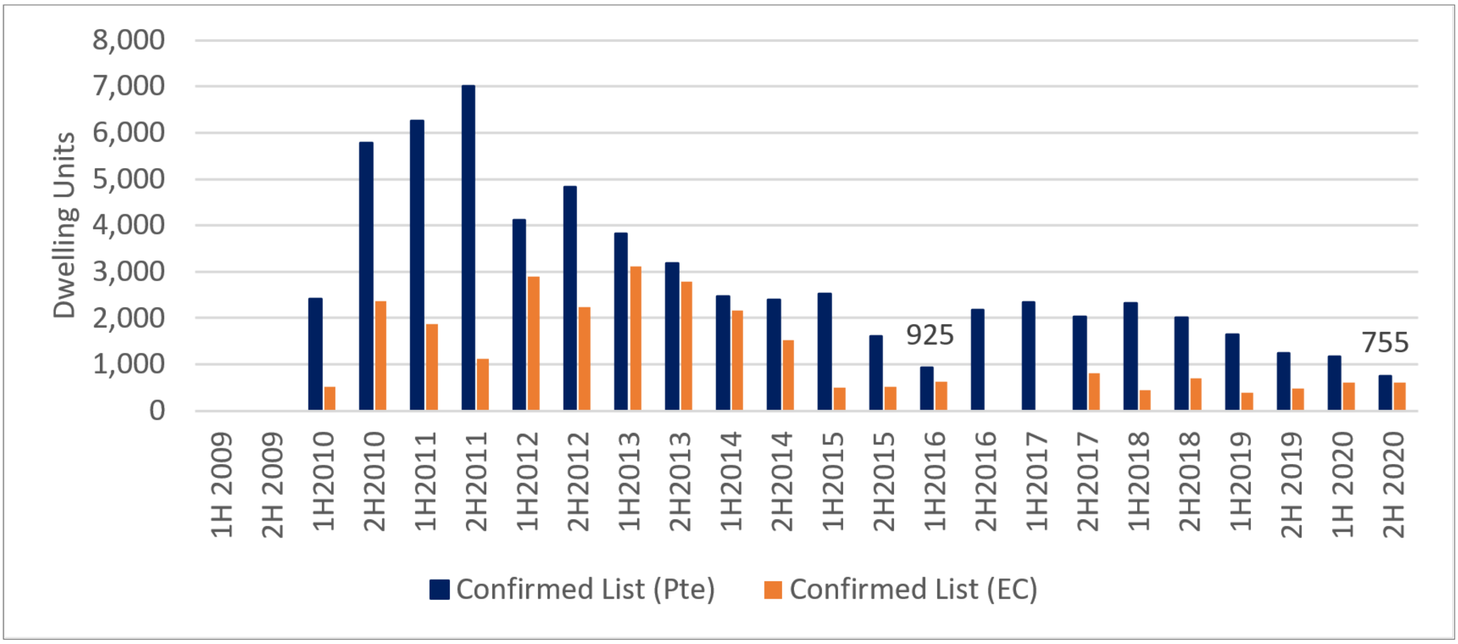
As developers run down their inventory of unsold units with a strong economic recovery in the pipeline, they are increasingly confident and on the lookout for suitable opportunities to replenish their landbank.

However, the path is not without obstacles.

For one, the Additional Buyer Stamp Duty (ABSD) increases the risks and costs to developers and buyers alike. As developers have to stump up a 5% non-remissible ABSD, this forces developers to reassess their options and cherry pick the choicest sites. The ABSD also impedes the redevelopment of larger sites such as Mandarin Gardens and may slow down the rejuvenation of our ageing stock. Allowing the subdivision of such mega sites into palatable sizes with different ABSD dates may be one option and the aim of revitalising the area is achieved.

Secondly the supply of land has been severely reduced in the wake of the cooling measures on 6 July 2018. Supply of land from the Government has been on the decline since 1H 2018. Based on the announced Confirmed List for 2H 2020, there are only 755 private residential dwelling units. This is the lowest level since 1H 2016. If the land supply from this source is not increased, developers may have to rely on the en-bloc market which has been anaemic since 6 July 2018.

Figure 3: Government Land Sales (GLS) Supply under the Confirmed List



Source: URA, Huttons Research

The last en-bloc cycle started in 2016. 2021 marks the fifth year from 2016 and most, if not all developers would have sold out their units. Examples of projects reaching the five-year ABSD timeline in 2021 include Grandeur Park Residences, Seaside Residences, Martin Modern, Le Quest, Parc Botannia, Harbouview Gardens, Margaret Ville, The Tre Ver, Jui Residences and 3 Cuscaden. Le Quest, Parc Botannia, Harbouview Gardens and Margaret Ville are already 100% sold, well ahead of the ABSD timeline.

MORE SUPPLY OF LAND REQUIRED

There could be up to 30 new launches (including executive condominiums) in 2021 and perhaps a handful of new launches in 2022.

If the supply of land from the GLS programme or the en-bloc market is not increased to meet the strong demand, simple economic theory points to rising land prices which is something that nobody desires.

With unsold uncompleted stock running low and stronger economic growth in 2021, it is timely to consider increasing the land supply under the GLS programme to ensure a steady supply of residential units to meet the demand.