Singapore Industry Focus

Singapore Property

Refer to important disclosures at the end of this report

DBS Group Research . Equity

5 Jan 2022

Steep valuation discount too good to ignore

- Cooling measures a timely response to strong property prices and transaction surge in 2021
- Slowing market to have minimal impact on selected listed developers given strong pre-sales trends, leaving only c.27% of stock unsold
- Developers trading below trough levels seen in past cooling measures, accumulate on further weakness
- Picks are CLI, CDL and Ho Bee

A brake on upward trajectory in property prices. The recent introduction of property cooling measures is expected to have a far-reaching impact on the Singapore property market. Investment demand from locals (Singapore Citizens, Permanent Residents) and foreigners will be clipped by higher acquisition costs (through higher ABSD and lower TDSR) while developers turn cautious on landbanking, especially in the collective sales (or enbloc) market as government ramps up supply in both the public ("HDB") and primary supply space. As such, after a stellar year in 2021, we expect to see a moderation in transaction velocity of primary sales by c.40% y-o-y to c.8,000-8,500 units in 2022. The property price index ("PPI") is also expected to slow to 0-3% in 2022 after a robust 8% rise in 2021, with a downside bias if the market weakens further.

Strong pre-sales shields selected listed developers from potential risks; tweak in landbanking strategies. Most listed developers we cover have pre-sold c.73% of their inventory (as of end 2021) with the likes of CDL, UOL and Wing Tai achieving pre-sales of 80%-95% of their inventories. Guocoland's mainly core central region (CCR)-focused projects hitting close to c.67% pre-sales within c.2 years of launch is an incredible feat given its higher average investment quantum. We note that Bukit Sembawang's two non-landed projects (The Atelier & Liv@MB) have low sell-through rates at c.2% only, and the developer is taking steps to reassess its launch strategy. Thus, there is minimal exposure for most listed developers in a property market that's expected to slow. Instead, listed developers are looking to pivot towards building a recurring income base of commercial and hospitality assets to ride the rebound and drive stronger cashflows and NAVs in 2022.

Sector offers deep value; accumulate on further weakness. Acknowledging the presence of sector headwinds, we see value given that the FSTREH Index currently trades at 0.55x P/NAV, which is -1 SD of its 5-year mean, and which has been lower only during the recessions of 2009 and 2020. With most developers' P/NAV multiples even below the trough levels seen in past cooling measures, we believe that most negatives are priced in and do not see further downside. As such, we advocate investors to buy on any price weakness. Our preferred picks are CLI, CDL, Ho Bee.

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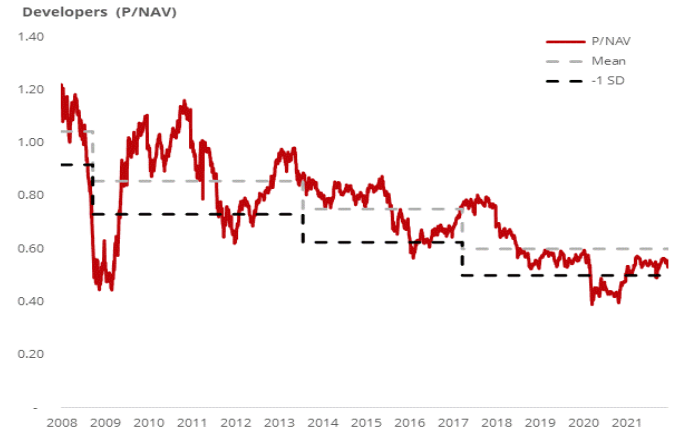
STOCKS

	Price S$	Mkt Cap US$m	12-mth Target Price S$	Performance (%) 3 mth	12 mth	Rating
City Developments	6.89	4,615	10.50	(0.6)	(13.7)	BUY
Capitaland Investment Ltd	3.66	13,905	4.00	1.8	N.A	BUY
UOL Group	7.21	4,496	8.40	3.0	(7.7)	BUY
Ho Bee Land Ltd	2.80	1,373	3.80	(1.1)	16.7	BUY
Frasers Property Ltd	1.15	3,326	1.70	0.9	(8.9)	BUY
Tuan Sing Holdings	0.46	404	0.66	(6.2)	44.4	BUY

Source: DBS Bank, Bloomberg Finance L.P.
Closing price as of 4 Jan 2022

Developers P/NAV are close to -1 SD levels



Source: DBS Bank

ed: JS/ sa: PY, PY, CS

Navigating a slowing property market in 2022

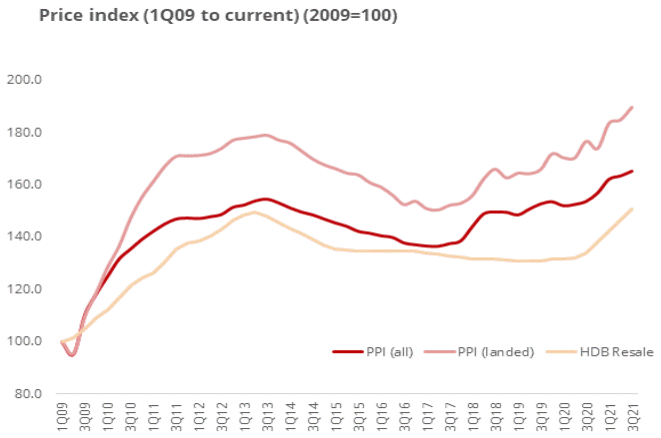
After more than one-and-a-half years of rising property prices, where the private property price index ("PPI") and HDB resale index ("HDB Resale") rose by c.8% and c.14% over the past 5 quarters, we believe that the strong growth trajectory of Singapore's property market will start to moderate. This comes on the back of recent property cooling measures announced by the Ministry of National Development ("MND").

Overall transaction volumes have also been robust, with transactions in the primary market hitting a new multi-year high of close to c.14,700 in 2021, while secondary market transactions doubled to 21,000 in 2021 vs 2020. Overall, the property market saw close to 35,000 units transacted, a level not seen since 2013.

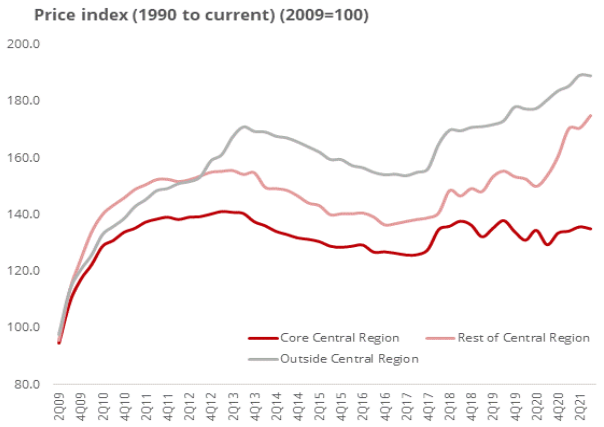
In a most recent press release introducing a series of property measures, the MND views that the robust growth in property prices for both the private and HDB markets in recent quarters, if left unchecked, may run ahead of fundamentals, raising the risk of a destabilising correction in the future, especially when the effect of COVID-19 is yet to wear off.

The fresh cooling measures introduced by the government, effective on 16 Dec 2021, will likely put the brakes on the current buoyant property market and potentially result in a downtrend in the property market in the coming years.

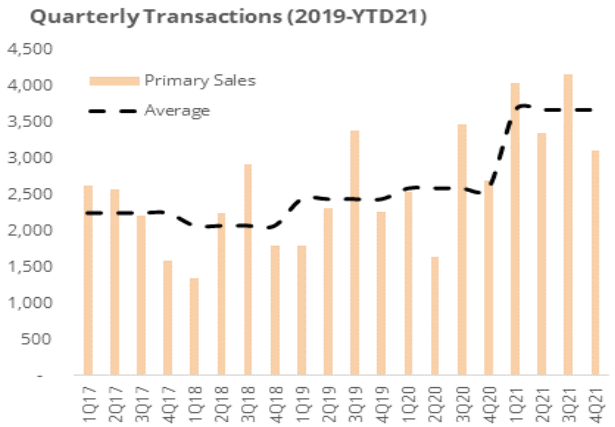
How property price indices and volumes performed in 2021



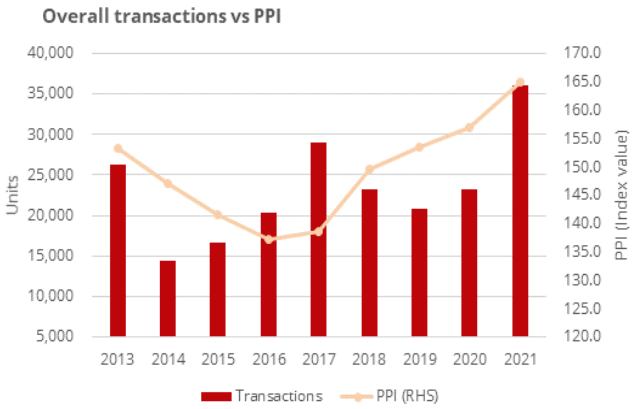
Source: URA, DBS Bank



Source: URA, DBS Bank



Source: URA, DBS Bank



Source: URA, DBS Bank

Cooling measures introduced in Dec 2021

Measures	Summary of measures:	Possible Impact on property market:
Raising ABSD rates by 5%-points to 15%	**Singapore Citizens ("SC")** First Property: 0% (no change) 2nd Property: 17% (from 12%) 3rd property and above: 25% (from 15%) **Permanent Residents ("PR")** First Property: 5% (no change) 2nd Property: 25% (from 25%) 3rd property and above: 30% (from 15%) **Foreigners**: 30% (from 20%) **Entities**: 35% (from 25%) Includes additional +5% non-remittable for developers	**(Neutral):** A differentiated approach in ABSD hikes, with more taxes on investors rather than homeowners (SC and PR) will mean that upgrader demand will likely remain stable for now. **(Negative):** For investors and foreigners looking to purchase a home or invest in SG property. **(Negative):** For developers, most will likely have to pare back expectations on land bids and enbloc.
Tweak in Total Debt Servicing Ratio ("TDSR") from 60% to 55%	The TDSR has been tightened by 5%-points to 55% from 60%. The revised TDSR will apply to loans for the purchase of properties where OTP is granted on or after 16 Dec 2021 and for mortgage equity withdrawal loan applications on or after 16 Dec 2021.	**(Negative):** Impacts all buyers as overall debt servicing ability is capped. We estimate a S$10,000 salaried worker will have to fork out S$111,000 in additional downpayment due to lower maximum loan quantum on revised TDSR limits.
Reduced Loan-to-value ("LTV") limit for public homes	The LTV for HDB housing loans will be tightened by 5%-points from 90% to 85%. This revised limit does not apply to loans granted by financial institutions - LTV limit remains at 75%.	**(Negative):** For homebuyers taking HDB loans, the lower LTV could mean additional S$40,000 in cash/CPF outlay for a S$800,000 home purchase. This may have an impact on cash-over-valuations for resale homes.
Supply to be ramped up to meet demand	HDB announced ramp up in new supply to 26,000 units per year in 2022 and 2023. URA also announced the increase in units in the confirmed list in the 1H2022 GLS to 2,785 units (from 2,000 units in 2H2021 GLS) and will ramp up more supply if demand is good.	**(Neutral)** We believe supply is an effective tool in capping the rise in prices but we note that the supply rise in 1H22 while high, maybe well absorbed. For HDB homes, while the supply increase will be well received, the long waiting times of up to 5 – 7 years may mean that homeowners will likely choose the HDB resale market.

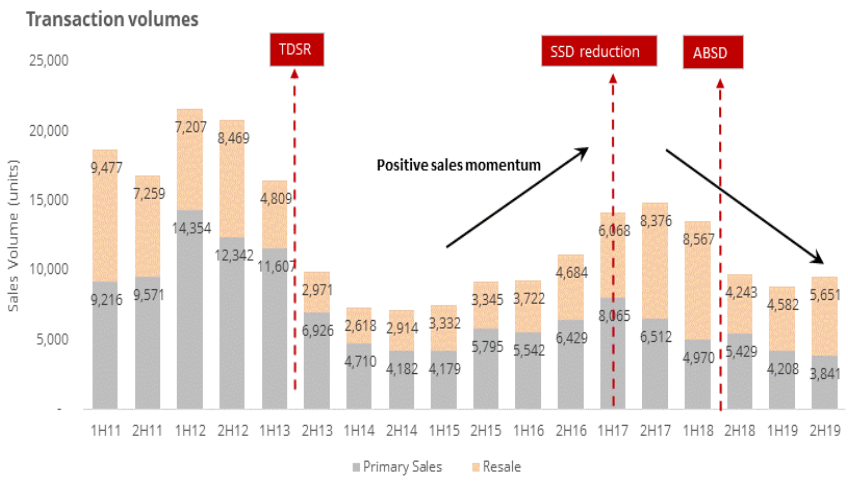
Source: MND, DBS Bank

Impact of measures to be felt in the coming years

Impact of measures to be felt in the coming years. We believe that the impact of the measures will take time to be fully reflected in the property market and see a multi-year moderation in property prices and volumes in 2022-2023. We note that the Total Debt Servicing Ratio ("TDSR") was first introduced back in 2013, after a series of cooling measures starting 2010 that failed to rein in the rise in property prices from 20210 before peaking in 1H13. In addition, the latest round of cooling measures was in July 2018, prior to the one in Dec'21.

In the above periods, after both set of cooling measures were introduced, we saw a drop in transaction volumes in the subsequent quarter that measures were announced to an average of c.2,000 primary sales per quarter. The PPI (private and HDB) fell gradually by -12% and -13% respectively over a period of 3-and-a-half years from the time that TDSR was introduced. When ABSD was last hiked in the middle of 2018, the PPI (all) and HDB resale index only fell by c.1% and 0.8% respectively.

Property market performance post cooling measures in 2013/2018

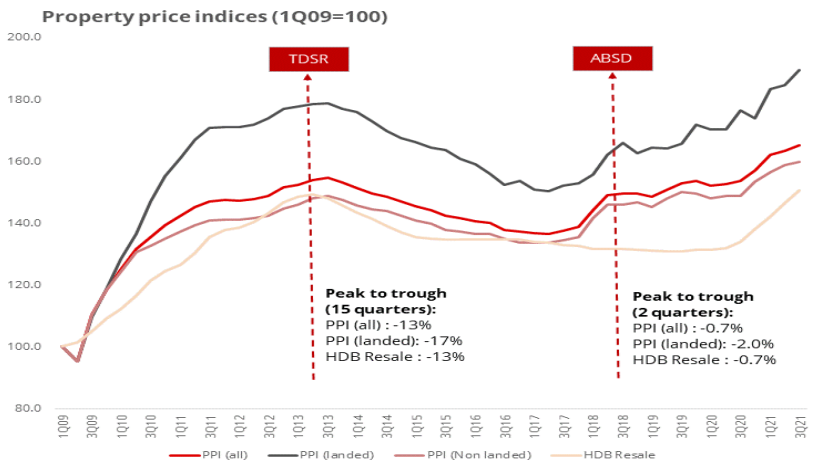


Source: URA, DBS Bank

Remarks

2H13:
Volumes declined by almost half in the subsequent half-year after TDSR was introduced back at the end of June 2013 and bottomed out only in 1H15 before picking up.

2H2018:
Decline in transaction volumes was not as stark as the ABSD was aimed at investors., rather than occupiers.



Source: URA, DBS Bank

2H13:
The PPI declined gradually over 2.5 years before bottoming in in 2017, impacted by the (i) drop in available supply, (ii) relaxation of seller stamp duty (SSD) from 4 years to 3 years.

2H2018:
PPI didn't decline significantly, over less than 2 quarters, before rebounding strongly as past en-bloc projects at higher land prices hit the market, pulling overall prices higher.

Transaction volumes in 2022 to potentially decline back to 7,500 – 8,000 units per annum. The cooling measures are generally targeted at investors (and foreigners) rather than owner-occupiers, given the differentiated approach in the tweaks in the additional buyer stamp duties ("ABSD") rates. While buyers still have the option to "de-couple" their ownership in their primary homes of residence, we expect most homeowners to trade up rather than hold on to two homes given the hefty taxes one would incur.

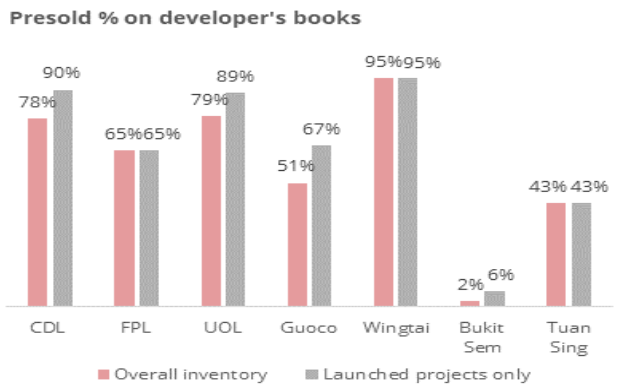
We anticipate prospective buyers, especially investors, now faced with higher ABSD rates, will most likely hold back their purchase decisions, likely to result in a drop in transaction volumes in coming launches. The anticipated wave of foreigner purchases coming in upon the recent launch of the vaccinated travel lanes ("VTLs") will also likely cool off, given that most prospective buyers now face a 10%-point hike in stamp duties and will have to reconsider their purchases decisions, especially when they will have to cough up almost 30% (vs 20% before) of the property price in the form of taxes. For example, a S$2 million property will incur S$100,000 more in taxes.

With transaction volumes in the primary market hitting a high of c.14,000 units in 2021, above the average of 9,000-10,000 units per annum seen in recent years, we see volumes taking a hit and may fall back to the average 8,000 units – 8,500 units, supported by household formation.

Finance prudence in reducing TDSR and lowering LTVs for HDB to reduce cash-over-valuations. The reduction in TDSR from 60% to 55% should be positive in the longer term for households as it further encourages financial prudence. The lower rate will prevent households from over-leveraging themselves amid possible rise in interest rates which will have an impact on their mortgage servicing burden. In addition, the cut in LTVs from 90% to 85% will mean higher cash outlays from buyers of new or resale HDB homes implying that sellers will likely need to cut asking prices while cash-over-valuations ("COV") will likely drop, implying that upgraders will have less upfront cash to roll into their next property purchase.

Are developers impacted significantly? After a strong year for sales, most of the listed developers under our coverage and those we are monitoring have done well. We estimate they have sold c.73% of inventory on their books (ranging 2% to 95%), as of 28 Dec 2021. As such, even if we see weakness in the market, the actual impact on developers will likely be marginal for most.

Pre-sold inventories are high for most developers



Source: URA, DBS Bank

Listed property developers' inventory and sales performance (as of 29 Dec 2021)

	Total Units	Units in CCR	Units in RCR	Units in OCR	% Sold	% sold (CCR)	% sold (RCR)	% sold (OCR)
City Developments Limited	7,746	2,909	3,838	999	78%	85%	80%	52%
Frasers Property Limited	951	455	-	496	65%	43%	-	85%
UOL Group	3,458	-	1,998	1,460	79%	-	90%	65%
Guocoland Limited	2,584	1,784	200	600	51%	70%	41%	0%
Wing Tai	1,138	522	-	616	95%	89%	-	100%
Bukit Sembawang	418	120	298	-	2%	6%	0%	-
Tuan Sing	198	90		108	45%	11%	-	95%
Total / Average	16,295	5,790	6,334	4,171	73%	76%	78%	60%

CCR: core central region, RCR: rest of central region, OCR: outside of central region
Source: URA, DBS Bank

Listed property developers' sales performance and pipeline (as of 29 Dec 2021)

	Units	% Sold (overall)	% Sold (launched)	Unsold (units)	Not Launched (units)	Existing Projects (Units)	Remarks
City Developments Limited	7,746	78%	90%	1,683	1,035	648	Existing projects: Sell through rate strong at c.90%. Upcoming launches: EC at Tengah (600 units) and site in Northumberland Road, which should see healthy demand.
Frasers Property Limited	951	65%	65%	332	-	332	Existing projects: Weaker sell-through rate at Riviere but should pick up given surrounding projects are substantially sold. Upcoming launches: none
UOL Group	3,458	79%	89%	716	372	344	Existing projects: Strong sell-through rate of c.89%, projects with lower sell-through rates are recent launches with longer runway to TOP. Most other projects are >85% sold. Upcoming launches: Ang Mo Kio site should be keenly watched given high break-even cost.
Guocoland Limited	2,584	51%	67%	1,258	600	658	Existing projects: Projects are 67% sold but given that most were launched close to 1 year ago, there is ample time to TOP to complete sales. Most projects are in the CCR, could mean that performance is likely to be slow. Upcoming launches: Lentor Central site to be keenly watched.
Wing Tai	1,138	95%	95%	56	-	56	Existing projects: Projects substantially sold. Upcoming launches: None.
Bukit Sembawang	418	2%	2%	411	-	411	Existing projects: Performance is weak for now; may need to relook pricing. Upcoming launches: None.

Source: URA, DBS Bank

More supply in the pipeline; en-bloc market could stall

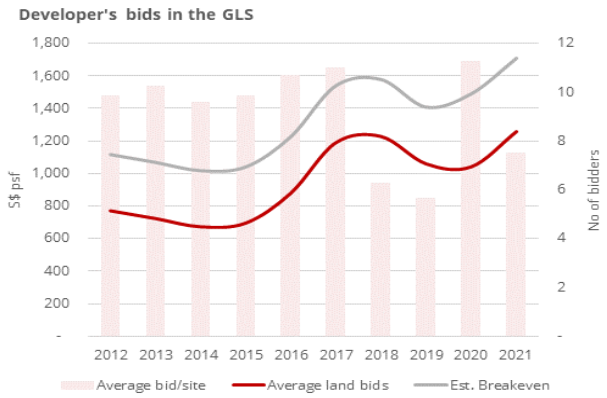
More supply in the pipeline to cool red hot land prices. The government recently announced that to meet the rising demand for homes, they will increase supply for both private and HDB in the coming 2 years. There will be 23,000 new HDB flats to be launched per year in 2022-23, a significant increase compared to close to 17,000 units in 2019 and an average of 14,000 units in 2020-2021. The new built-to-order ("BTO") units will be launched across mature and non-mature towns.

In the private property market, the government will also increase the number of units in the confirmed list in the upcoming 1H 2022 government land sales ("GLS") by close to 30% to 2,785 units (including 495 executive condominium units) across five sites. The government has also made available five residential sites in the reserve list in the GLS and 2 white sites that in total may yield another c.3,715 units for bidding by developers.

Cautious increase in supply. While an increase in supply will be welcomed by developers, we believe this increase is a cautious move by the government. They may have to move to infuse more sites in the 2H22 GLS programme if bidding for the sites remain robust.

With new sites and higher penalties, we see land prices moderating after hitting a new high of S$1,200 psf and breakeven level closer to S$1,700 psf, while new launch prices may see average pricing of S$1,850psf – S$2,000 psf assuming 10% margin for developers.

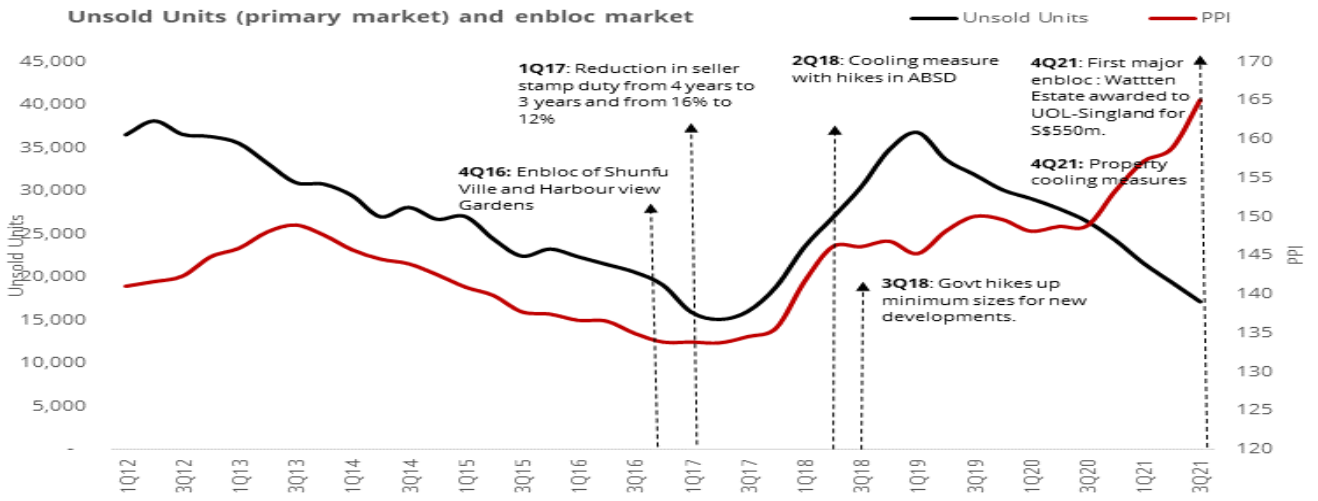
Average land prices and estimated breakeven level



Source: URA, DBS Bank

Enbloc market likely to take a back seat. While the enbloc market had recently stirred to life, we believe that interest going forward may be limited given the more lengthy process to closure coupled with higher ABSD that developers may incur if units are unsold upon TOP. The government land sales ("GLS") sites are typically faster to market as the process from bidding to award is more straightforward and less time consuming when compared to enbloc.

Unsold units and enbloc market



Source: URA, DBS Bank

Developers' share prices have likely bottomed out, supported by attractive valuations

Developers' share prices have bottomed.
Property developers saw negative knee jerk price reaction but overall performance to the cooling measures was fairly muted this time round, with drops ranging -1% to -5%, much lower than previous episodes. We believe that most of the negative news was already been priced in given that valuations were close to multi-year lows.

The Singapore Developer Index (FSTREH Index) had been trading at a multi-year low in terms of P/NAV, at close to 0.6x, with only the recessions in 2009 and 2020 seeing lower P/NAVs. In fact, we found that developers are generally trading close to (or below) previous trough P/NAV levels of the cooling measures from 2011 to 2018. Thus, we believe downside from current levels is limited.

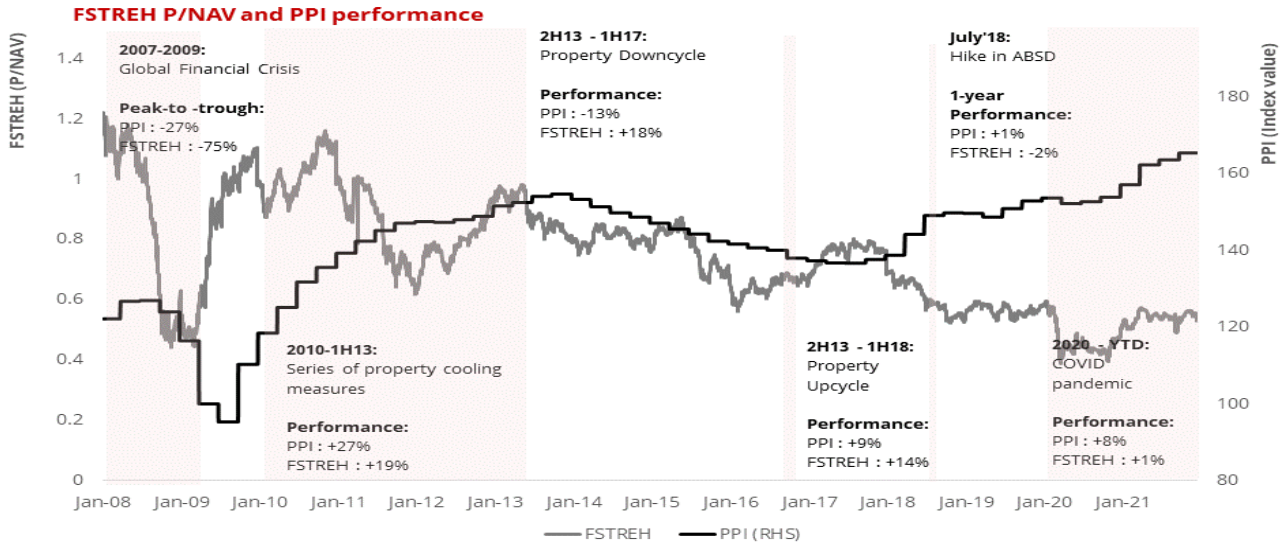
While valuations are attractive, the slowing property market (volumes and prices) may cap the overall sector performance ahead and the sector is likely trade in line with the STI in the meantime.

Current Developer P/NAV compared to previous trough P/NAV post cooling measures

Cooling measures	FSTREH	City Dev	UOL	FPL	BS	WingT	HoBee	Guoco
Govt series of cooling measures (17/12)	0.55x	0.73x	0.61x	0.47x	0.97x	0.40x	0.52x	0.42x
Govt increased average minimum size (18Oct'18)	0.52x	0.71x	0.52x	0.62x	1.08x	0.40x	0.47x	0.47x
Govt implemented ABSD (6'Jul'18)	0.52x	0.74x	0.53x	0.62x	1.08x	0.40x	0.46x	0.48x
Govt imposed TDSR (9th Dec'13)	0.75x	1.02x	0.70x	-	1.18x	0.47x	0.55x	0.96x
Govt imposed TDSR (29th Jun'13)	0.80x	1.15x	0.77x	-	1.34x	0.56x	0.56x	0.88x
Govt raised ABSD/lowered LTV (12th Jan'13)	0.89x	1.26x	0.75x	-	1.46x	0.50x	0.52x	0.91x
Govt first implemented ABSD (8th Dec'11)	0.62x	1.19x	0.56x	-	1.02x	0.39x	0.42x	0.84x

Source: URA, Bloomberg Finance LLP, DBS Bank

FSTREH Index P/NAVs closer to bottom



Source: URA, Bloomberg Finance L.P., DBS Bank

Developers P/NAVs are close to bottom when compared to previous cooling measures

Event	Scenarios	FSTREH	City Dev	UOL	FPL	BS	WingT	HoBee	Guoco	Average
Dec 2021 Cooling measures (ABSD, TDSR)	1 - 2 days after annc	-3%	-3%	-1%	0%	-2%	-3%	-2%	-3%	**-2%**
	Annc to end Dec'21	-1%	-1%	1%	0%	1%	-3%	-1%	-1%	**-1%**
Jul'18 Cooling Measure: Raised ABSD	1 - 2 days after annc	-5.9%	-14.2%	-13.4%	-3.0%	-9.3%	-3.9%	-3.0%	-8.0%	**-8%**
	1 month after annc	-3.3%	-14.4%	-10.5%	-1.2%	-5.7%	-2.5%	6.8%	-3.5%	**-4%**
	3 mths after annc	-14.4%	-27.4%	-20.4%	-4.8%	-9.1%	-4.9%	1.3%	-15.1%	**-11%**
	Peak to trough*	-14.4%	-27.4%	-22.6%	-6.0%	-10.2%	-6.9%	-3.8%	-15.1%	**-13%**
Govt imposed TDSR (29th Jun'13)	1 - 2 days after annc	-1.3%	-0.7%	-0.8%		-0.2%	0.5%	0.0%	-0.4%	**0%**
	1 month after annc	-1.0%	-3.7%	0.2%		0.3%	-1.8%	3.4%	-2.2%	**-1%**
	3 mths after annc	-2.6%	-5.0%	-2.1%		-12.7%	-11.3%	3.9%	-4.8%	**-5%**
	Peak to trough*	-6.9%	-12.9%	-9.2%		-13.5%	-14.3%	-6.3%	-6.9%	**-11%**
Govt raised ABSD/lowered LTV (12th Jan'13)	1 - 2 days after annc	-3.1%	-10.1%	-3.0%		-2.8%	-10.6%	-8.9%	-3.4%	**-6%**
	1 month after annc	-2.0%	-11.5%	2.9%		0.1%	-4.0%	-3.3%	-2.1%	**-3%**
	3 mths after annc	-4.0%	-11.5%	13.3%		5.5%	1.0%	0.5%	-5.0%	**1%**
	Peak to trough*	-7.7%	-15.2%	-4.5%		-3.0%	-10.6%	-8.9%	-14.7%	**-9%**
Govt first implemented ABSD (8th Dec'11)	1 - 2 days after annc	-1.3%	-2.8%	-0.9%		1.2%	-0.5%	0.0%	6.9%	**1%**
	1 month after annc	-6.4%	-12.1%	-3.1%		-4.6%	-7.9%	-16.1%	9.9%	**-6%**
	3 mths after annc	15.0%	8.1%	10.4%		9.6%	18.6%	10.7%	14.6%	**12%**
	Peak to trough*	-9.6%	-13.6%	-8.9%		-6.3%	-14.4%	-19.4%	0.0%	**-10%**

Source: URA, Bloomberg Finance L.P., DBS Bank

Developers' share prices and catalysts

Company	Mkt Cap (S$bn)	Price 29-Dec-21 (S$)	P/NAV (x)	RNAV (S$)	Assumed Discount (%)	TP (S$)	Rating	Catalyst
REIM								
CapitaLand Investment Ltd	17.7	3.40	1.13	4.00	0%	4.00	BUY	• Launch of new funds, REIT acquisitions, M&A
Developers								
City Dev	6.2	6.83	0.73	14.00	-30%	10.50	BUY	• Asset recycling • Strong residential sales • Rebound in hospitality performance
Frasers Property Ltd	4.5	1.14	0.47	3.38	-50%	1.70	BUY	• Asset recycling • Strong NOI
UOL	6.0	7.08	0.61	12.00	-30%	8.40	BUY	• Strong residential sales • Rebound in hospitality performance
Ho Bee Land	1.9	2.79	0.51	5.64	-40%	3.38	BUY	• Asset recycling • Strong sales for Sentosa projects
Bukit Sembawang	1.3	5.01	0.98	10.76	-45%	5.92	BUY	• Launches in landed space • Strong sales of launched projects
Tuan Sing	0.5	0.46	0.47	1.22	-54%	0.66	BUY	• Listing of Gultech • Strong sales in residential projects
Guocoland	1.7	1.50	0.42	N.A	N.A	N.A	N.R	
Wing Tai	1.4	1.77	0.39	N.A	N.A	N.A	N.R	
Average			0.57		-42%			

Source: Bloomberg Finance L.P., DBS Bank

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:
STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)
BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

**Share price appreciation + dividends*

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