2017 residential collective sales market - poised for recovery?
Introduction

After two years of drought, the residential collective sales market came to life in 2016 with three deals worth over SGD 1 billion sealed.

The 358-unit Shunfu Ville in Bishan was sold collectively to a unit of Qingjian Realty (South Pacific) Group Pte Ltd for SGD 638 million in May. However, the sale is pending a court decision arising from an appeal by two owners in the development against the High Court approval. If successfully concluded, it would be the first successful collective sale in 2016 and the largest collective sale in nine years.

This was followed by the collective sale of the 14-unit Harbour View Gardens in Pasir Panjang to Roxy-Pacific Holdings in August for SGD 33.25 million.

Finally, the 175-unit Raintree Gardens in Potong Pasir was sold collectively to an associate company of UOL Group for SGD 334.2 million in October.

Could this wave of deals signal the revival of the collective sales market? This paper seeks to analyse the demand and supply fundamentals of the collective sales market for an answer.

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1 Farrer Court which was sold collectively in June 2007 for $1.3388 billion holds the record as the largest collective sale.
Collective sales activity moves in tandem with residential market cycle

Historically, the residential collective sales market has been observed to move in tandem with the broader residential market cycle, registering stronger activity during the upturns while moderating during downturns.

As depicted in Chart 1, responding to a rising market between 2005 and 2007, the collective sales market boomed, establishing a record sales volume of SGD 10.9 billion in 2007.

In 2008/09, the global financial crisis saw home sales tumbling and this resulted in collective sales plummeting to insignificant levels before staging a mild recovery between 2010 and 2013.

However, the imposition of various cooling measures culminating in the implementation of the Total Debt Servicing Ratio (TDSR) caused private home sales to plunge, leading to developer sales of private homes registering a low of 7,316 units in 2014. Consequently, residential collective sales flattened again in 2014 and 2015 as developers faced with oversupply and an increasing unsold stock in their inventories became cautious and shied away from collective sales.

As the market gradually came to terms with the TDSR, new private home sales stabilised in 2015, with 7,440 units sold. In 2016, new private home sales grew 7.2% y-o-y to 7,972 units against a backdrop of improved sentiment and a perception that the market is close to the bottom. This coincided with the rebound in collective sales in 2016 wherein three deals totalling over SGD 1 billion were sealed.

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Raintree Gardens
sold for SGD 334.2 million in October 2016

Figure 1: Annual residential collective sales value vs. URA private property price index

Source: URA, JLL Research 4Q16
Appetite for land improves as the oversupply of homes eases

As the residential market eased under the weight of the cooling measures, falling home prices and sales volume and rising oversupply prompted policymakers to cut back supply in the Government Land Sales (GLS) programme. The planned quantum of private homes on the confirmed list in the GLS programme was trimmed by more than 75% in the last five years, from 13,255 units in 2011 to 3,095 units in 2016.

The stock of unsold private residential units also nearly halved during the same period, from 40,430 units in 4Q11 to 21,102 units in 2016, bringing the oversupply to a more manageable level.

Under these circumstances, developers have been bidding competitively for the limited number of GLS residential sites on the market, driven by the need to replenish land banks and for business continuity.

An apt example of heightened competition for private residential sites is the tender for the High Park Residences parcel at Fernvale Road in August 2014 against that of the adjacent site in September 2016. Parcels A and B of High Park Residences found four and three bidders, respectively, while the adjacent site was contested by 14 parties.”
Limited state land supply will drive demand towards the collective sales market

Amid the limited supply of state land via the GLS programme, developers turned to the collective sales market to satiate their appetite for land. This led to the uptick in the collective sales market in 2016, with three sites finding buyers – Shunfu Ville (SGD 638 million), Raintree Gardens (SGD 334.2 million) and Harbour View Gardens (SGD 33.25 million).

Judging by the strong participation in GLS residential land tenders, especially since the second half of 2016 when the number of bidders averaged 12 per site, demand for sites in 2017 is likely to remain robust. With only five sites on the confirmed list in the first half of 2017, many interested parties will still not be able to secure sites and will be compelled to continue bidding for other sites competitively.

Although we may expect increased supply in the confirmed list of the GLS programme for the second half of 2017, it is likely to be modest, which will not ease demand pressure for residential land. While the reserve list provides additional sites to augment the confirmed list, only a few have been triggered in the recent past and these are typically the more attractive ones.

Under these circumstances, private or collective sale sites would be viable alternatives to GLS offerings.

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Figure 3: Planned supply of private residential properties in GLS programme

<table>
<thead>
<tr>
<th>Number of Units</th>
<th>14,000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>12,000</td>
</tr>
<tr>
<td></td>
<td>10,000</td>
</tr>
<tr>
<td></td>
<td>8,000</td>
</tr>
<tr>
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<td>6,000</td>
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<tr>
<td></td>
<td>4,000</td>
</tr>
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<td></td>
<td>2,000</td>
</tr>
</tbody>
</table>

Source: URA, JLL Research
Collective sales market recovery foreseen to be uneven

While there are signs of improvement in the residential market generally, there are differences among the sub-markets. The Outside Central Region (OCR) or suburban sub-market has a more comfortable level of unsold stock amounting to 8,358 units as at 4Q16 relative to the annual developer sales of 4,807 units in 2016 or a ratio of 1.7.

A ratio of 2.8 is seen in the Rest of Central Region (RCR) or the city fringe sub-market, which has 6,950 unsold units against new sales take-up of 2,483 units last year.

The Core Central Region (CCR), which includes the prime districts and Sentosa, has been the hardest hit by the cooling measures. It is saddled with 5,794 unsold units and with only 682 new homes sold in 2016, has the highest ratio of 8.5, which reflects the extent of oversupply in the number of units for sale.

Based on this data, developers would be more forthcoming towards the OCR and RCR sub-markets, where selling prices are more affordable and unsold stock is of less concern than in the CCR. Collective sales in the CCR are likely to be more challenging and would require a rational perspective on pricing among interested parties in order to be successful.

“Developers would be more forthcoming towards the OCR and RCR sub-markets, where selling prices are more affordable and unsold stock is of less concern than in the CCR. Collective sales in the CCR are likely to be more challenging and would require a rational perspective on pricing among interested parties in order to be successful.”
While sales of new private homes rose in the last two years, the increase has been gradual, due mainly to the dampening effects of the cooling measures. Prices, in general, have not yet turned around, although their declines have been moderating.

While these signs are encouraging for the market, the medium-term outlook remains uncertain. With the cooling measures still in force, a V-shaped recovery can almost certainly be ruled out, leaving the more likely possibility of prices trending mildly upwards after they have bottomed.

The parties involved in collective sales need to understand this and also the fact that home prices are currently 10-20% lower than the peak in 2013 (depending on the sub-market), so land prices would have to be at realistic levels.

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Figure 5: Developer sales vs. URA Private Property Price Index

<table>
<thead>
<tr>
<th>Number of Units</th>
<th>Price Index</th>
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<tbody>
<tr>
<td>25,000</td>
<td>180</td>
</tr>
<tr>
<td>20,000</td>
<td>160</td>
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<tr>
<td>15,000</td>
<td>140</td>
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<td>10,000</td>
<td>120</td>
</tr>
<tr>
<td>5,000</td>
<td>100</td>
</tr>
<tr>
<td>0</td>
<td>80</td>
</tr>
</tbody>
</table>

Source: URA, JLL Research 4Q16
Figure 6: Recent changes in government cooling measures and financial regulation

**Seller’s Stamp Duty (SSD)**

<table>
<thead>
<tr>
<th>Resale within</th>
<th>SSD rate (14 Jan 2011 to 10 Mar 2017)</th>
<th>SSD rate (11 Mar 2017 onwards)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st year</td>
<td>16%</td>
<td>12%</td>
</tr>
<tr>
<td>2nd year</td>
<td>12%</td>
<td>8%</td>
</tr>
<tr>
<td>3rd year</td>
<td>8%</td>
<td>4%</td>
</tr>
<tr>
<td>4th year</td>
<td>4%</td>
<td>No SSD payable</td>
</tr>
<tr>
<td>After 4th year</td>
<td>No SSD payable</td>
<td></td>
</tr>
</tbody>
</table>

Source: Inland Revenue Authority of Singapore, 1Q17

**Total Debt Servicing Ratio (TDSR)**

- All loan repayments not to exceed 60% of borrower’s gross monthly income
- From 11th Mar 2017 onwards, TDSR is not applied to mortgage equity withdrawal loans with LTV ratios of 50% and below

![TDSR Diagram]

**Additional Conveyance Duties (ACD)**

ACD that will apply on qualifying transfer of equity interests in Property-Holding Entities (PHEs) are:

1. **Additional Conveyance Duties for Buyers (ACDB)**
   - Existing Buyer’s Stamp Duty at 1% to 3%
   - Additional Buyer’s Stamp Duty at 15% (flat rate)

2. **Additional Conveyance Duties for sellers (ACDs)**
   - Seller’s Stamp Duty at 12% (flat rate)

Source: Inland Revenue Authority of Singapore, 1Q17

The recent easing of the Seller’s Stamp Duty (SSD) and the TDSR is a positive signal that could lead more buyers back into the market. However, the punitive stamp duties that are applicable to the transaction of physical assets are now applicable to transactions involving transfer of shares in entities that primarily hold residential properties.

This makes it more difficult for developers to dispose of unsold inventory in order to avoid Qualifying Certificate extension charges and Additional Buyer’s Stamp Duties (ABSD) if they do not meet the 5-year remission conditions.
Conclusion

There are prospects for the collective sales market to follow on the momentum of 2016, but it is unlikely to be exuberant.

Many developers will be interested in collective sales opportunities but at measured price levels.

Owners, on the other hand, would be equally enthusiastic but over-optimism in pricing could prove a challenge for the gap to be bridged.
Contributors

Tan Hong Boon
Regional Director
Capital Markets, JLL
hongboon.tan@ap.jll.com

Ong Teck Hui
National Director
Research & Consultancy, JLL
tekhui.ong@ap.jll.com