

Covid-19 paused property price growth

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Introduction

The sentiments in the private and public real estate market were still positive in the first two months of this year. However, it turned cautious in March with the unexpectedly rapid spread of the Covid-19 virus worldwide. After the outbreak spread to every continent and caused alarming levels of infection and death, the World Health Organization declared this outbreak a pandemic on 11 March 2020.

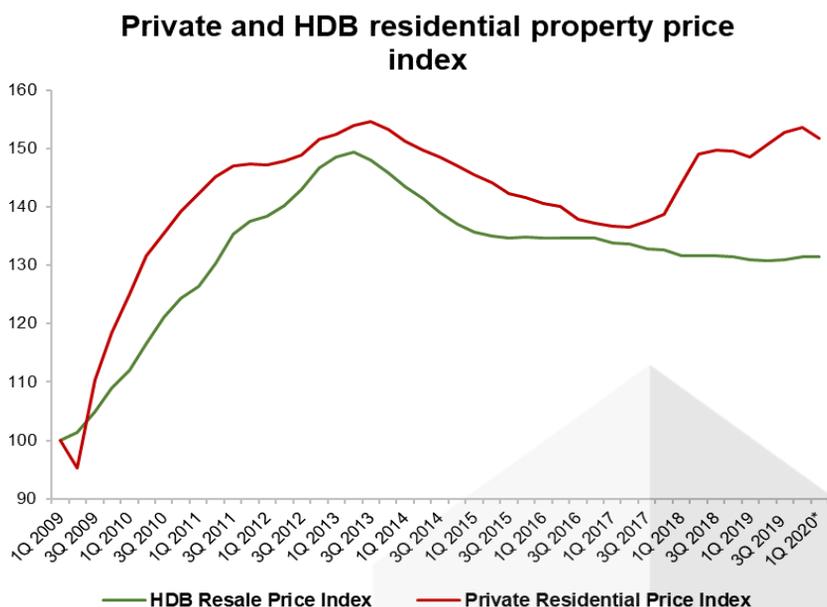
The flash estimate of the private residential and HDB resale price indices for 1Q 2020 were released by the government today. The flash estimates are based on the property transactions reported in the first 10 weeks of the January to March 2020 period. The statistics will be revised towards the end of April.

HDB resale price index flash estimate

After contracting for 6 years since mid-2013, the HDB resale price index started to recover in the second half of 2019 after the government revised certain policies that affect public housing. After a 0.5% quarter-on-quarter (qoq) expansion in the last quarter of 2019, the HDB resale price index flash estimate remained unchanged in 1Q 2020 compared to the previous quarter. On a year-on-year (yoy) basis, HDB resale prices still grew 0.4% in 1Q 2020.

The HDB resale price index was growing at an increasing pace in the second half of 2019. As market sentiments were still positive in January and February, whatever price appreciation in those two months were eroded away due to the cautious sentiment brought by the Covid-19 outbreak in March.

Figure 1: Private and HDB residential property price index



Source: HDB, URA, ERA Research & Consultancy

*note: 1Q 2020 number is flash estimate

Private residential price index flash estimate

The flash estimate of the private residential property price index declined 1.2% quarter-on-quarter (qoq) in 1Q 2020, which was sharper than 0.7% contraction in the 6-month period after the July 2018 cooling measures. The residential property price index started to increase in 2Q 2019 with a 1.5% qoq rise. Although the price growth was gradually slowing down, the price index could still increase in the first quarter of this year if not for the Covid-19 outbreak.

Figure 2: Property price index changes

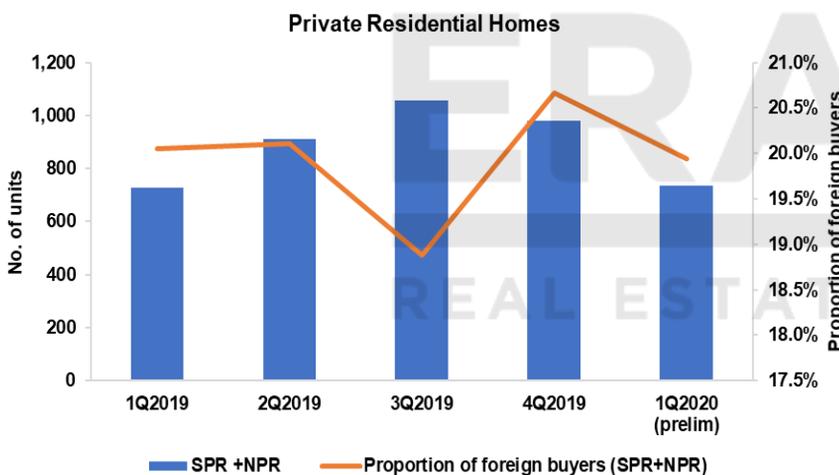
	% change over previous quarter	
	4Q 2019	1Q 2020
HDB resale price index	0.5%	0.0%
All private residential property	0.5%	-1.2%
Landed property	3.6%	-1.7%
Non-landed property	-0.3%	-1.0%
CCR (Core Central Region)	-2.8%	-1.5%
RCR (Rest of Central Region)	-1.3%	-0.5%
OCR (Outside Central Region)	2.8%	-1.0%

Source: HDB, URA, ERA Research & Consultancy

Among the three market segments, the CCR price index for private homes suffered the highest quarterly rate of decline at 1.5% qoq, as the buying demand in the prime residential property market was dependent on foreign buyers more than the rest of the property market. The Covid-19 pandemic coupled with the travel restrictions had reduced the number of foreign buyers in the Singapore residential market. The smallest contraction of the price index in the January to March period was for the city-fringe segment of Rest of Central Region (RCR) with a 0.5% qoq decline.

Based on preliminary numbers for 1Q 2020, the number of private residential units in Singapore purchased by foreign buyers (including permanent residents and foreigners without permanent residence status) in Singapore fell by 25% from 4Q 2019 to 1Q 2020.

Table 3: Number of private residential units nationwide purchased by Foreigners and Singapore Permanent Residents



Source: URA, ERA Research & Consultancy

Note: SPR represents Singapore Permanent Residents, NPR represents Foreigners without permanent residence status.

However, the proportion of housing units bought by foreign buyers in 1Q 2020 over the total transaction volume which was 19.9%, was still higher than that in 3Q 2019, which stood at 18.9%. This was because in 3Q 2019, there was jump in the number of units bought by Singaporeans leading to a lower proportion of transacted units bought by foreigners.

Outlook

The HDB resale volume could contract in the coming months, compared to the corresponding period in 2019. Some homebuyers could shift from the HDB resale market to the HDB Build-To-Order (BTO) queue. Firstly, some buyers who are concerned about their job security and financial positions may select to buy BTO HDB flats from the government instead of resale flats which are usually more expensive than BTO flats. Secondly, the pressure to rush to buy a resale flat may be eased as some couple who were forced to postpone their weddings due to Covid-19 would be left with more time on their hands. Hence, they may choose to buy BTO flats.

In the private housing market, property agencies are exploring ways to use technology to market real estate amidst the Covid-19 outbreak, such as online platforms to enable foreign buyers to view and purchase real estate despite the travel restrictions. If successful, this could help some of the foreigner outside Singapore who are keen to acquire real estate here.

Assuming that the pandemic could be contained by the end of this year, the expected economic recession this year could still cause a contraction in demand for both private and public housing. The Singapore government's latest forecast of GDP growth in 2020 is -1% to -4%.

As a result, private and public residential property prices could decline further in the coming months. However, once the pandemic is contained, there will likely be robust recovery in demand and prices due to the pent-up demand and fueled by loose monetary policies. Housing demand might be postponed but not destroyed by Covid-19.

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