



THE **PERSPECTIVE**

EFFECTS OF
UNEXPECTED SHOCKS ON THE
GOOD CLASS BUNGALOW
MARKET

Executive Summary

This study examines the impact of an unexpected market shock on the Good Class Bungalow (GCB) market segment. The most recent market shock before the Covid-19 pandemic was the cooling measures introduced by the Singapore government in early July 2018.

The study found that transaction volume and prices of GCBs were not severely affected by the 2018 government intervention.

The sales volume of GCBs remained largely stable and even increased by some measures. The total transacted value of all types of bungalows in the GCB areas increased 6.5% to \$1.39 billion, while the average transacted land rate of GCB increased 2.2% in the 18 months after the mid-2018 market curbs.

However, the cooling measures could have caused some buyers to be more budget conscious, leading some of them to turn to the relatively cheaper bungalows, such as the non-GCB detached houses.

The results of the profitability analysis of transacted GCBs generally point to a reduction in profitability after the 2018 cooling measures were implemented. Although the gross profit margin increased, the gross profit amount and the compound annual growth rate decreased in the 18 months after mid-2018.

The owners also held on to their GCBs longer before selling them in the 18 months after the cooling measures. This could be due to the longer time needed to find buyers after the 2018 market curbs.

The GCB market is not immune to market shocks, but the study has shown that it is able to weather such shocks fairly well. This could be due to strong financial positions of the owners.

1 Introduction

Good Class Bungalows are like large diamonds. They are rare, exclusive and come with huge price tags. As these properties are in a special class of their own, how insulated are they from an unexpected market shock? This study will examine the effects of an unexpected event on this real estate market segment.

1.1 What Are Good Class Bungalows?

Good Class Bungalows (GCBs) are the most expensive and prestigious type of landed housing in Singapore. GCBs are only found in the 39 Good Class Bungalow Areas (GCBA) designated by the Urban Redevelopment Authority (URA). The more renowned GCBA's are located at Nassim Road, Chatsworth Park and Dalvey Estate.

GCBs are subjected to stringent planning constraints. In order to be qualified as a GCB, the detached house that is located within the GCBA's is required to have a minimum land area of 1,400 sqm (15,070 sqft). The house cannot exceed 2 storeys in height. The GCB should not occupy more than 40% of the land area, while sufficient green buffer is necessary between the GCB and its neighbours. This is to ensure that the exclusivity and low-rise character of such neighbourhoods are preserved.

In addition to the generous land area, most GCBs are adorned with architectural designs ranging from the British colonial era with delicate ornamentations to modernist concepts that utilise heavily on lightly-tinted glass facades.

Landed residential properties are restricted to Singaporeans. Permanent residents may be allowed to own such real estate in Singapore if they are able to obtain permissions from the Singapore Land Authority. However, the land area of such houses that permanent residents are allowed to buy are typically smaller than 1,400 sqm.

Therefore, generally only Singaporeans are allowed to own Good Class Bungalows. Permanent residents who wishes to purchase a landed residential property within the GCBA's would have to meet specific qualifying criteria set by the government, including that of having made exceptional economic contributions in Singapore.

As GCBs are only located in the 39 designated areas and coupled with the minimum required land area for each GCB, the stock of GCBs is limited. There are an estimated 2,800 GCBs, amounting to only 3.8% of the total number of completed landed houses in Singapore as at mid-2020.

1.2 Objective Of The Study

The objective of this study is to examine the impact of an unexpected shock to the GCB sub-market. The current unexpected shock to the real estate market is the COVID-19 pandemic, which has adverse effects on the global economy and the lives of billions of people. However, in order to observe the impact of the unexpected event on a specific market, sufficient time must have passed after the occurrence of the event. The COVID-19 outbreak is still ongoing and new developments are occurring daily around the world. Hence, the more suitable unexpected shock to be examined for this study is the latest market cooling measures announced by the government on 5 July 2018, as it is the biggest unexpected shock to the Singapore real estate market before the COVID-19 outbreak.

1.3 Background: Cooling Measures Implemented In July 2018

On 5 July 2018, the Singapore government introduced the latest round of measures to cool the local real estate market. The cooling measures included raising the Additional Buyer's Stamp Duty (ABSD) by 5 percentage points for all buyers of private residential properties, except for Singaporeans buying their only private housing. Therefore, for Singaporeans buying their second or subsequent homes, and for all foreigners, the transaction cost of buying private residential real estate increased after 5 July 2018.

Table 1: Adjustments to ABSD rates for Residential Property

	Rates on or before 5 July 2018	Rates on or after 6 July 2018
SCs buying first residential property	0%	0% (No change)
SCs buying second residential property	7%	12% (Revised)
SCs buying third and subsequent residential property	10%	15% (Revised)
SPRs buying first residential property	5%	5% (No change)
SPRs buying second and subsequent residential property	10%	15% (Revised)
Foreigners buying any residential property	15%	20% (Revised)
Entities buying any residential property	15%	25% (Revised) Plus additional 5% for developers (New, non-remittable)

Source: Inland Revenue Authority of Singapore

2 Methodology

The study will aim to examine the changes in market trends due to the sudden and unexpected occurrence of the shock to the property segment. It would examine market indicators over two time periods of similar duration before and after the introduction of the latest cooling measures in mid-2018.

The government announced the cooling measures on the evening of 5 July 2018 and the new market curbs would take effect the next day. The measures included the increase of the Additional Buyer's Stamp Duty (ABSD) and tightening credit available to finance residential property purchases.

2.1 Time Period

The time periods to be studied are the 18 months before the July 2018, from 1 January 2017 to 5 July 2018, and the 18 months after the announcement, namely from 6 July 2018 to 31 December 2019.

The period of this study ended on 31 December 2019 because the COVID-19 outbreak began to raise concerns globally from January 2020 onwards. Since the objective of this study is to examine the impact of an unexpected shock to the property market, namely the July 2018 cooling measures, the period of study should not be affected by another different unexpected shock, namely the coronavirus pandemic.

2.2 Market Indicators

The market indicators include the following.

- Total transaction value
- Transaction volume in terms of number of GCBs
- Average transacted value of GCB
- Price of GCB based on the land rate or dollar per square foot (\$psf) of land
- Profitability analysis will cover average gross profit, profit margin, holding period and compound annual growth rate (CAGR)

2.3 Non-GCB Detached Houses

Within the GCB areas, there are detached houses on land parcels that measure less than 1,400 sqm each. Based on the stipulated criteria, these detached houses are technically not GCB.

However, some of these detached houses come with architectural designs and finishes that are comparable to those of GCBs. Furthermore, they can command prices that are similar or even higher than GCB on the basis of dollar per square foot of land. Therefore, the transactions of such bungalows shall also be analysed in this study. They shall be referred to as non-GCB detached houses.

2.4 Source Of Data

The real estate transaction data is obtained from URA Realis. Information obtained from public sources, such as from newspapers and magazines are also used in this study.

2.5 Limitation Of Available Data

The profitability of the transacted GCBs was calculated based on the information in the sales caveats from URA Realis. The sales caveats did not provide any information about the condition of the house, or whether the property was a piece of vacant land or not. Therefore, it is possible that in certain GCB transactions, a buyer could have previously bought a piece of vacant GCB land, build a new house on it and subsequently sold the property at a profit. As such information was not available for this study, the higher profit margin due to property development could not be stripped away from such transactions for the profitability analysis.

However, as such development of new GCBs could occur in both of the 18-month periods before and

after the 2018 cooling measures, the effects of higher profit margin due to property development in each of the 18-month periods before and after mid-2018 would have generally balanced each other off because it is reasonable to assume that such transactions were present in each of the 18-month period.

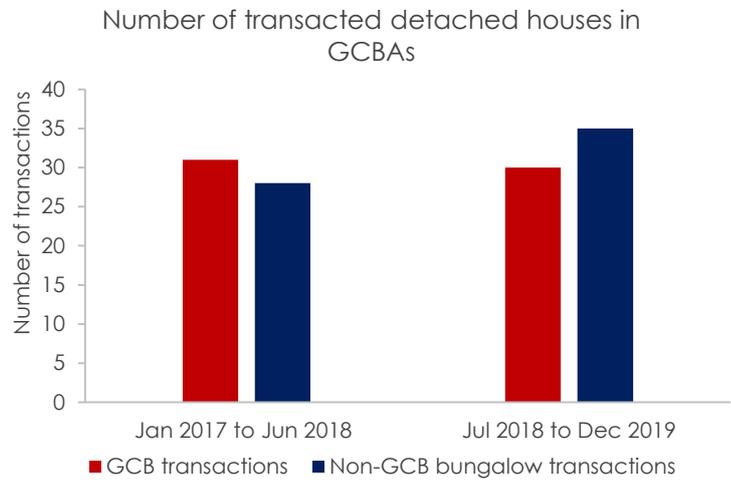
In other words, the additional profit margin gained from developing new luxury bungalows on vacant land could reasonably occur in some of the transactions before and after the 2018 property curbs. Therefore, as the sample size is sufficient in each of the time period, the results of the profitability analysis should not be significantly skewed.

3 Number Of GCB And Other Bungalows Transacted

As bungalows, especially GCBs are arguably the most expensive homes in Singapore, it is reasonable to expect that the number of transactions of such real estate to decrease with the tighter property market curbs. However, the study shows a mixed result.

In the 18 months before the announcement of the cooling measures in July 2018, 59 detached houses were transacted within the GCBAs. The transactions increased 10% to 65 detached houses in the following 18 months. The increase was mainly contributed by the rise in the number of non-GCB bungalows from 28 transactions before the cooling measures to 35 after the measures were implemented. The numbers of GCB transacted before and after mid-2018 were little changed at about 30 units transacted in each time period.

Figure 1: Number of transacted detached houses in GCBAs



Source: URA, ERA Research and Consultancy

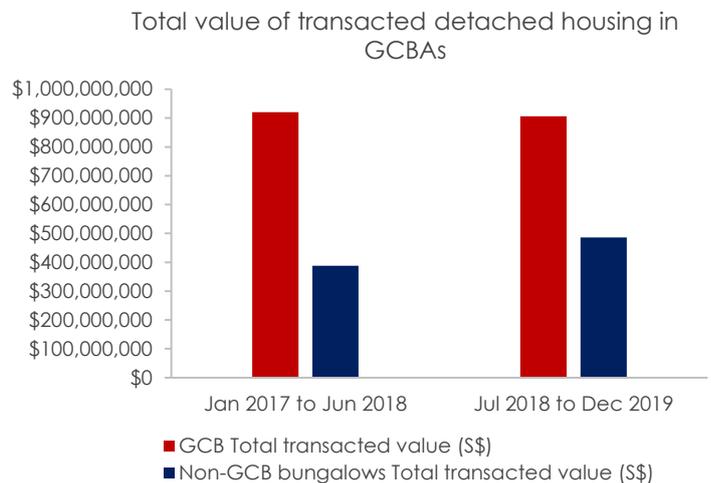
4 Total Transaction Value

The total transacted values of the two types of bungalows in the GCB areas in the 18 months before and after the July-2018 market curbs mirrored the number of transacted bungalows in the two time periods.

The total transacted value of GCBs in the 18 months after mid-2018 was \$905.88 million, 1.6% lower than the preceding 18 months. This was because the number of GCBs transacted in the period after June 2018 was one fewer than the 31 GCBs transacted in the 18 months before the recent cooling measures.

The total transacted value of non-GCB bungalows increased by almost \$100 million or 25.5% to \$486.32 million in the 18 months after the implementation of the cooling measures. The increase in percentage mirrored the 25.0% increase in the number of transacted non-GCB bungalows 35 houses after mid-2018.

Figure 2: Total value of transacted detached housing inside GCBAs



Source: URA, ERA Research and Consultancy

Overall, the introduction of the cooling measures did not cool the housing market in the GCB areas as the total transacted value of all types of bungalows in the GCB areas increased 6.5% to \$1.39 billion.

5 Average Value Per Transaction

Another illustration that the recent cooling measures did not have a negative impact on the values of bungalows in the GCBA was that the average transacted value of each type of bungalows increased after the market curbs were imposed.

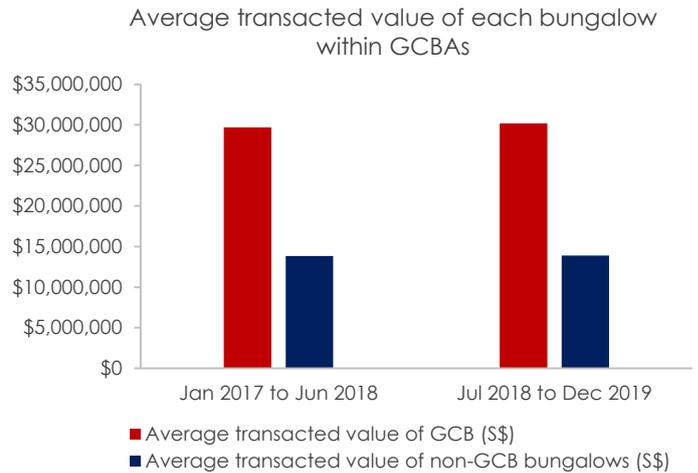
Some GCBs were sold at higher value after the market curbs were introduced. For example, 43.3%, or 13 of the total number of GCBs were transacted at above S\$30 million each, with one of the GCBs costing as much as S\$93.9 million after the cooling measures. As a result, these higher-valued GCBs contributed to the growth of the average transacted value of GCB to S\$30.2 million in the 18 months after mid-2018, 1.7% higher than the 18-month period before.

For non-GCB bungalows, the average value per transaction rose by a marginal 0.4% to S\$13.9 million in the July 2018 to December 2019 period.

Fourteen non-GCB detached houses or 40% of such transacted bungalows exchanged hands at S\$14 million and above, with one unit transacted at as much as S\$39.8 million.

Although the average transacted value of each type of bungalows increased after the market curbs were imposed in mid-2018, the overall average transacted value of bungalows in the GCBA slipped by 3.4% to \$21.4 million. This was because the 10.2% increase in the number of transacted bungalows to 65 houses was higher than the 6.5% rise in the total transacted value to \$1.39 billion. As the denominator increased faster than the numerator after mid-2018, the average value of each transacted bungalow fell.

Figure 3: Average value of each transacted detached house within GCBA



Source: URA, ERA Research and Consultancy

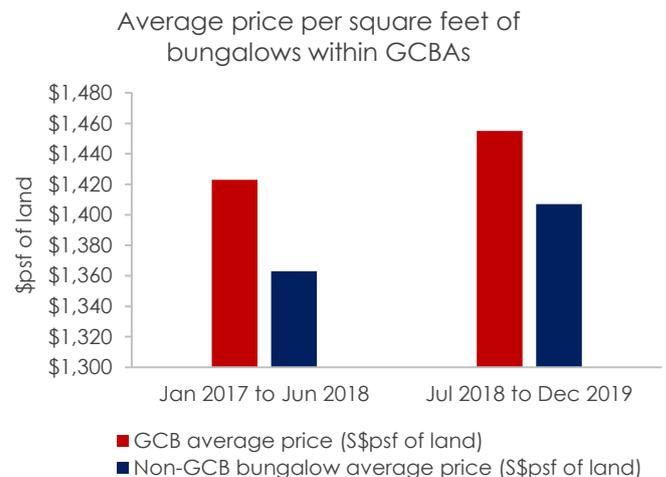
6 Prices Of GCB

The analysis of the transacted prices of the bungalows in the GCBA based on the land rate or dollar per square foot (\$psf) of land also revealed that the recent cooling did not negatively affect the average prices of this asset class.

Investors and homebuyers were willing to pay more for bungalows in GCBA in terms of land rate, during the 18-month period after the cooling measures. This was evidenced by an increase in average land rate across all types of transacted detached housing in GCBA by 2.4%, from S\$1,395 psf to S\$1,429 psf.

The transacted land rate of non-GCB detached houses increased faster than GCB prices due to a higher demand for the smaller bungalows in the GCB areas. In the 18 months after mid-2018, the average transacted land rate of GCBs rose by 2.2%, while the average transacted land rate of non-GCB bungalows increased by 3.2% to S\$1,407 psf of land.

Figure 4: Average land rate of bungalows within GCBA



Source: URA, ERA Research and Consultancy

7 Most And Least Expensive GCBs

Although GCBs were the most expensive housing in Singapore, a few bungalows were transacted at surprising high prices in recent years, even by the standard of luxury real estate. At the same time, a few other GCB were also sold at relatively attractive prices. Some of these examples will be discussed in this section.

7.1 Most Expensive GCB

According to available information, the most expensive bungalow transacted in the 3 years from 2017 to 2019 was a freehold GCB at 81 Dalvey Road. With a land area of 4,836 sqm, it was purchased for S\$93.9 million in September 2018, after the cooling measures were implemented.

The most expensive GCB transacted in terms of dollar per square foot (\$psf) of land in the 3-year period of this study was located at 3 Jervois Hill. This bungalow in the Chatsworth Park GCB area sat on a 1,402 sqm plot. It was transacted in June 2018 at \$2,729 psf of land.

According to a 13 June 2018 report by EdgeProp, the seller of 3 Jervois Hill was George Lim, who bought the vacant land in 2012 for \$25.8 million. He

collaborated with the architect Pau Loh, managing partner of Tellus Design to develop the 2-storey bungalow with basement. The house features with sustainable fixtures, such as 300 solar panels on the roof and outdoor decks made of renewable wood. George Lim's initial asking price was \$45 million.

The house that was transacted with the heftiest price tag in the 3-year period from 2017 to 2019 was arguably the GCB located at 81 Dalvey Road. Sitting on a 4,836 sqm freehold site, the property was sold in September 2018 for a whopping \$93.9 million or \$1,804 psf of land.

7.2 Least Expensive GCB

The least expensive GCB that changed hands between January 2017 and June 2018 was located at 27 Ewart Park in the Ewart Park GCBA. Occupying a land area of 1,437 sqm, it was purchased for S\$15.9 million in April 2017. However, in terms of lowest land rate paid for a GCB, 1 Garlick Avenue was only bought for S\$858 psf of land, which occupies a land area of 2,585 sqm.

The cheapest GCB reportedly transacted in the 18 months after the 2018 cooling measures were implemented was also the cheapest GCB in the 3-year period of this study. Furthermore, it was transacted at both the lowest absolute price and the lowest land rate. This property is located at 15 Binjai Rise.

Between July 2018 and December 2019 after the market curbs, the lowest transacted price for a freehold GCB changed hands for S\$14.2 million on 11 August 2018. It could be translated into just \$834 psf of land area. Located at 15 Binjai Rise within the Binjai Park GCB area, it was the least expensive GCB for both price quantum and \$psf of land during the period.

8 Profitability Analysis

The profitability of the transacted GCB will be analysed in this section.

8.1 Gross Profit And Gross Profit Margin

The effects of the 2018 cooling measures reduced the average gross profit of transacted GCB. However, it had the opposite effect on the average gross profit margin.

Generally, the average gross profit earned by the owners of GCB sold in the 18-month period after the 2018 cooling measures was \$7.28 million, which was 23.0% lower than the average gross profit gained in the corresponding period before mid-2018.

However, the average gross profit margin of 94.8% post-cooling measures was higher than the 81.4% gross profit margin gained in the 1.5-year period before mid-2018.

The contributing factor was that a higher number of smaller non-GCB detached houses in the GCB areas were sold in the 1.5-year period after the 2018 cooling measures. As a result, the average gross profit per transaction was smaller. However, the GCB sellers were compensated by higher average gross profit margin.

The highest gross profit reportedly gained in the 18-month period before mid-2018 was \$39.8 million by the seller of the GCB at 35 Leedon Road, which was sold at \$57.5 million in January 2018. The seller made a 225% gross profit margin. This transaction was also the most expensive GCB sold during the pre-2018 cooling measures period.

In the 18 months following the 2018 cooling measures, the highest gross profit for a transacted GCB was \$23.3 million when the owner of 80 Belmont Road sold it in October 2019 for \$34.5 million. The sale generated a 207% gross profit margin.

8.2 Holding Periods

GCB owners are patient people. They are also aware that fewer than 0.1% of the local population has the financial means to buy a GCB. Therefore, it would take some time to sell such real estate.

The 2018 cooling measures appeared to have increased the holding periods for GCB owners before they parted with their properties. The increased in the ABSD and tighter financing could have increased the time needed to search for buyers.

Table 2.1: Gross profit comparison

	Gross profit (SGD)	
	Before 2018 cooling measures	After 2018 cooling measures
Maximum	\$39,797,000	\$23,250,000
Minimum	-\$3,200,000	-\$4,000,000
Average	\$9,448,000	\$7,279,000

Source: ERA Research and Consultancy

Table 2.2: Gross profit margin comparison

	Gross profit margin	
	Before 2018 cooling measures	After 2018 cooling measures
Maximum	300.0%	303.6%
Minimum	-16.0%	-13.8%
Average	81.4%	94.8%

Source: ERA Research and Consultancy

Table 3: Holding period comparison

	Holding period (years)	
	Before 2018 cooling measures	After 2018 cooling measures
Maximum	21.4	24.5
Minimum	2.2	3.7
Average	9.0	11.5

Source: ERA Research and Consultancy

On average, a property owner would hold on to a GCB for 9.0 years before selling it in the 18-month period prior to the 2018 cooling measures. The average holding period increased to 11.5 years in the subsequent 18 months after the property curbs were implemented.

The cooling measures also increased the maximum and minimum holding periods of transacted GCBs. The longest period that an owner held on to a GCB before selling it was 21.4 years before the 2018 cooling measures. The maximum holding period expanded to 24.5 years post-cooling measures.

In addition, the minimum holding period for a transacted GCB also increased from 2.2 years in the 18 months before the 2018 property curbs, to 3.7 years in the corresponding period after cooling measures.

8.3 Compound Annual Growth Rate

Although the average gross profit margin of transacted GCBs increased after mid-2018, the longer average holding period reduced the compound annual growth rate (CAGR). The average CAGR of transacted GCBs fell from 6.1% in the 18 months before the 2018 market curbs to 4.5% in the subsequent corresponding period.

The maximum achieved CAGR was also reduced after the cooling measures were implemented. The highest CAGR achieved from a GCB sold in the 18 months before the 2018 cooling measures was 28.2%. This figure was reduced to 10.7% in the 18 months following the introduction of the 2018 property curbs.

Even the annualized losses from selling GCBs were reduced after the cooling measures were imposed. The biggest annualised losses in the study period from the sale of a GCB before the 2018 cooling measures was -2.5%. This figure was reduced to -1.8% in the 18 months after mid-2018.

Overall, the annualised financial gains and losses from GCBs sold in the 18-month period after the 2018 cooling measures were lower than that from those GCBs that were sold 18 months earlier, when the time value of money was computed.

A large majority of the GCB transactions are profitable for the sellers. After all, most of them would simply choose not to sell if the prices offered are not profitable enough for their liking.

Table 4: Compound annual growth rate comparison

	Compound annual growth rate	
	Before 2018 cooling measures	After 2018 cooling measures
Maximum	28.2%	10.7%
Minimum	-2.5%	-1.8%
Average	6.1%	4.5%

Source: ERA Research and Consultancy

9 Results

The property market cooling measures rolled out in July 2018 was one of the most severe government interventions to control the robust housing demand. However, the results of this study show that impact on the GCB market was mixed.

Overall, the introduction of the 2018 cooling measures did not severely affect the GCB market as the total transacted value of all types of bungalows in the GCB areas increased 6.5% to \$1.39 billion. At the same time, the average transacted land rate of GCB increased 2.2% in the 18 months after mid-2018.

One possible reason was that the large amount of ABSD that was potentially payable for each GCB transaction would motivate the buyers to avoid incurring the tax. Since the buyers of GCB were mostly Singapore citizens and any Singaporean buying his sole residential property would be exempted from the ABSD, this rule would provide a way for the Singaporean GCB buyer to avoid the ABSD. To do so, the Singaporean GCB buyer would

simply ensure that he did not own any residential property when he bought the GCB.

In addition, after recovering from the initial shock of the unexpected cooling measures in July 2018, many market participants came to terms with new curbs. As a result, the property market sentiments were largely sanguine in 2019. This was aided by positive economic environment in 2018 and 2019.

However, the cooling measures could have caused some buyers to be more budget conscious, causing some of them to turn to the relatively cheaper bungalows, such as the non-GCB detached houses.

The results of the profitability analysis of transacted GCBs generally point to a reduction in profitability after the 2018 cooling measures. Although the gross profit margin increased, the gross profit amount and the CAGR decreased in the 18 months after the property market curbs were imposed.

10 Conclusion

The GCB market is not immune to market shocks, but the study has shown that it is able to weather such shocks fairly well. This could be due to strong financial positions of the owners as illustrated by the long durations that these high net worth individuals were able to hold on to such real estate.

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