16 January 2025

Property | Real Estate

Real Estate

Market Recovery Afoot; U/G To OVERWEIGHT

Overweight (from Neutral)

Stocks Covered	2
Rating (Buy/Neutral/Sell):	2 / 0 / 0
Last 12m Earnings Revision Trend:	Negative

Top Picks	Target Price
City Developments (CIT SP) – BUY	SGD7.30
APAC Realty (APAC SP) – BUY	SGD0.42

- **U/G to OVERWEIGHT from Neutral; Top Picks: City Developments, APAC Realty.** The residential market is making a comeback with a sharp pick-up in buying interest seen at new launches (4Q24), indicating a change in buyer sentiment on the back of easing mortgage costs, a healthy labour market/wage growth, and pent-up demand from the lack of new launches. We expect momentum to continue into 2025, supported by a slew of attractive launches and strong GDP growth. Real estate agencies will be direct beneficiaries while developer stocks should see the narrowing of steep trading discounts.
- **The key risk** to our call remains another round of stringent cooling measure targeting the private property market, such as across-the-board increases in Additional Buyer's Stamp Duty (ABSD) and the lowering of loan-to-value (LTV) ratios. However, we do not rule out the possibility of targeted measures to tackle rising Housing & Development Board (HDB) resale market prices and a potential increase in sellers' stamp duty and holding period (from three years currently) to curb speculative purchases and overheating if prices continue to rise at a faster clip (ie >3% per quarter).
- **New home sales momentum to continue into 2025.** We expect primary volumes of 9,000-10,000 units this year (up 30-50% YoY), driven by lower mortgage rates, resilient household balance sheets, and an increase in new launch supply of >13,000 units (double that of 2024). Demand, however, is expected to remain selective, price-sensitive, and skewed towards the mass market and mid-tier segments. This follows a marked turn in buying interest in 4Q24, which saw c.3,500 new homes being sold (more than the entire 9M24). Developers sold a total of 6,560 units in 2024 (+2% YoY). The healthy interest in new launches is likely to spill over into the secondary market segment, as there remains a significant (30-50%) price differential, with a 10-15% YoY increase in private resale transaction volumes expected.
- **Residential prices to continue moderating 1-4% in 2025** as higher supply and choices in the market, coupled with price-sensitive demand and ABSD deadlines will likely limit developers' pricing power. This is especially noticeable in the high-end segment, where the developer of One Bernam recently dangled discounts of 15-27%, resulting in a near sell-out of remaining units. Based on Urban Redevelopment Authority (URA) flash estimates, the private residential index rose 3.9% in 2024 (2023: 6.8% and 2022: 8.6%).
- **Developers to maintain cautious bidding stance** amid ramp-up in land supply over the last three years via government land sales (GLS) programmes. For 1H25, GLS has been raised to 8,505 units (2H24: 8,140 units), comprising 5,030 units (2H24: 5,050) in the confirmed list. Notably, there will be three executive condominium (EC) sites in the confirmed list, yielding 980 units (75% higher than the previous half) to cater to rising EC demand. We expect developers to remain selective and measured in their bids as development margins remain thin (5-15%) amid increasing cost pressures. This, in our view, could lead to a more stable and sustained property market recovery in 2025.

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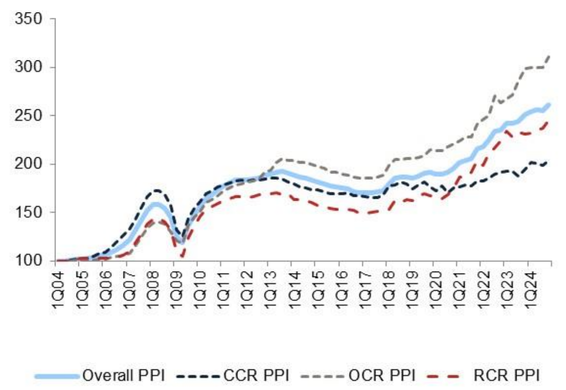
Private price indices by region (1Q04: 100)



Source: URA, RHB

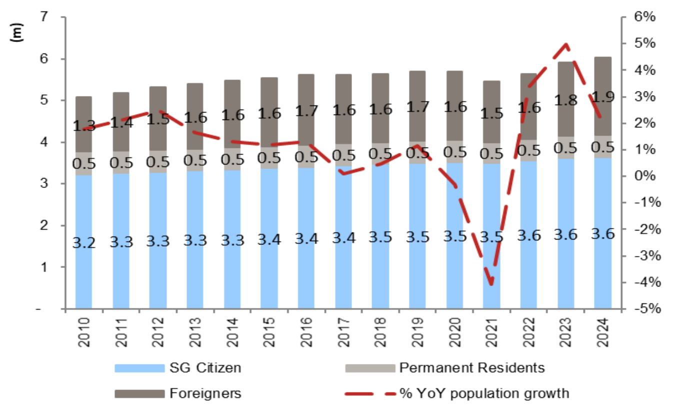
Company Name	Rating	Target (SGD)	% Upside (Downside)	P/E (x) Dec-25F	P/B (x) Dec-25F	ROAE (%) Dec-25F	Yield (%) Dec-25F
APAC Realty	Buy	0.42	1.9	11.4	0.9	7.8	6.6
City Developments	Buy	7.30	44.3	12.4	0.5	3.9	2.4

Source: Company data, RHB

Population, demand and supply

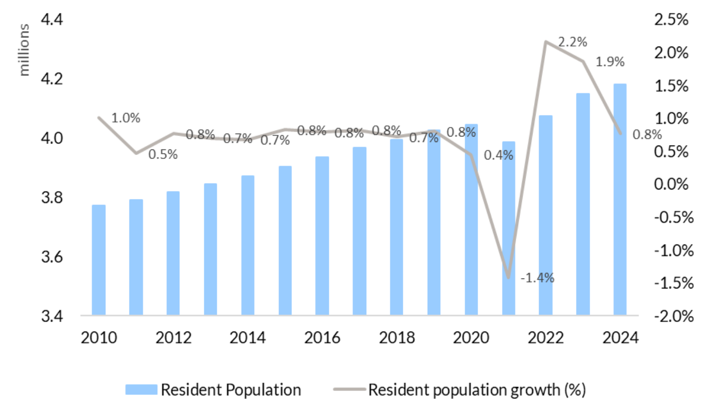
Singaporean population back in growth trajectory... Singapore's population grew 2% YoY in 2024 to 6.04m, following a 5% growth in the previous year. Both resident (Singaporeans and permanent residents) and foreigner populations saw growth of 1% and 5% YoY respectively. The resident population growth came despite a declining total fertility rate (TFR), which stood at a historic low of 0.97 in 2023, as over the last five years, the average number of permanent residencies and citizenships granted (Figure 3) have, on average, increased by 4.8% and 3.7% – more than offsetting the impact of the declining local birth rate. The rising resident population growth is one of the key catalysts for long-term residential buying demand.

Figure 1: Singapore population trend



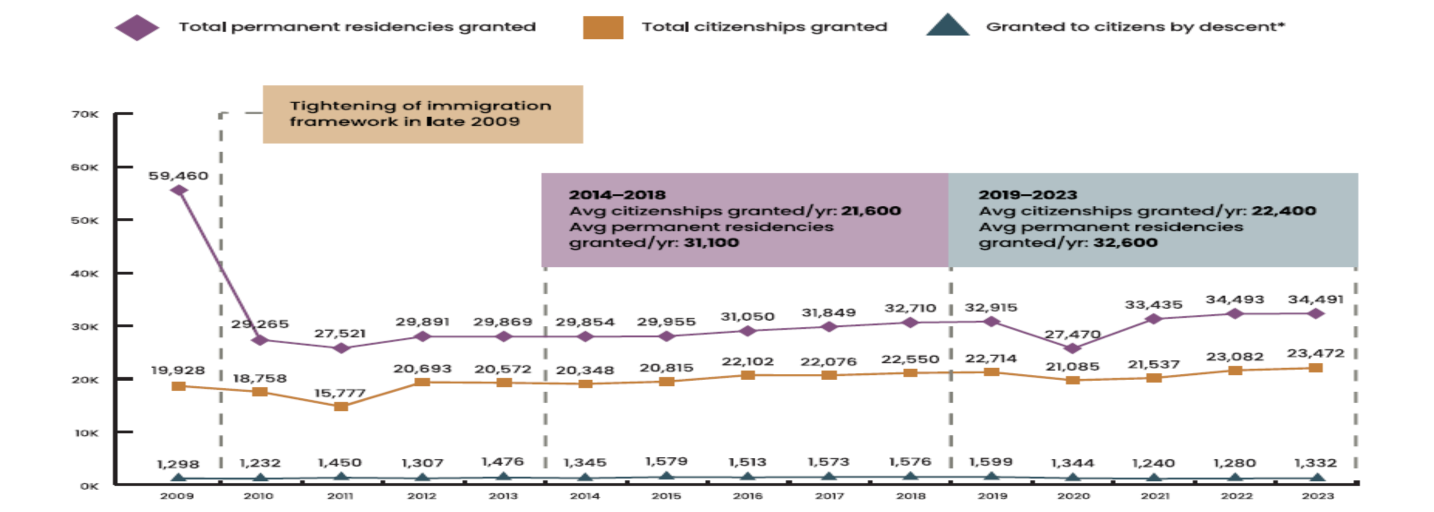
Source: Singstat, RHB

Figure 2: Singapore's resident population and growth trend



Source: Singstat, RHB

Figure 3: Number of citizenships and PRs granted since 2009

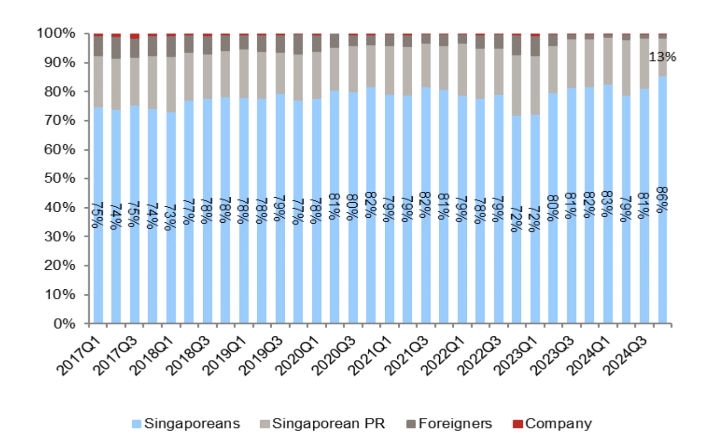


Source: Immigration & Checkpoints Authority (ICA)

... and buying demand is purely driven by locals, with Singaporeans and permanent residents accounting for c.99% of the overall non-landed residential transactions (excluding EC) in the market (Figure 4). Purchases made by foreign buyers have trickled down to below 100 units per quarter, since the doubling of the ABSD rates to 60% for foreigners in Apr 2023. Most of the foreign buyers are mainly from countries such as the US, Switzerland, Iceland, Norway, and Liechtenstein, who are eligible for ABSD remission under their respective nations' free trade agreements.

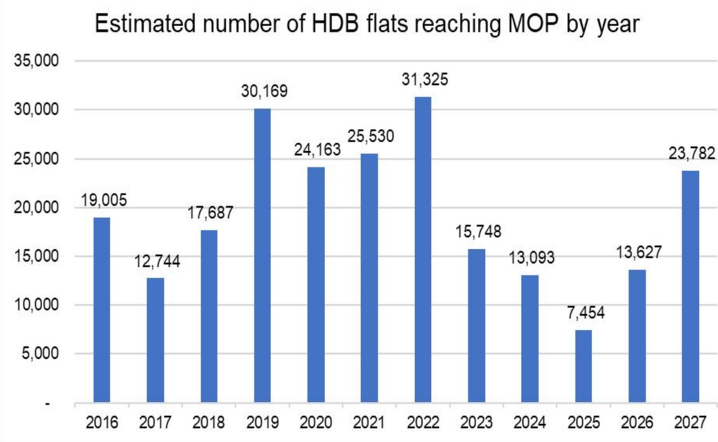
Another source of demand has been the HDB upgrader demand, driven by the steadily rising HDB resale flat prices (+9.6% in 2024), with a record-breaking 1,000 HDB flats crossing SGD1m in 2024, which was more than double the estimated 469 flats above SGD1m in 2023. According to PropNex Research, the estimated 44,863 flats reaching their minimum occupation period (MOP) from 2025-2027, coupled with the HDB resale market momentum remaining fairly strong, should continue to support private property demand and prices.

Figure 4: Non-landed residential purchases by residential status



Source: Singstat, RHB

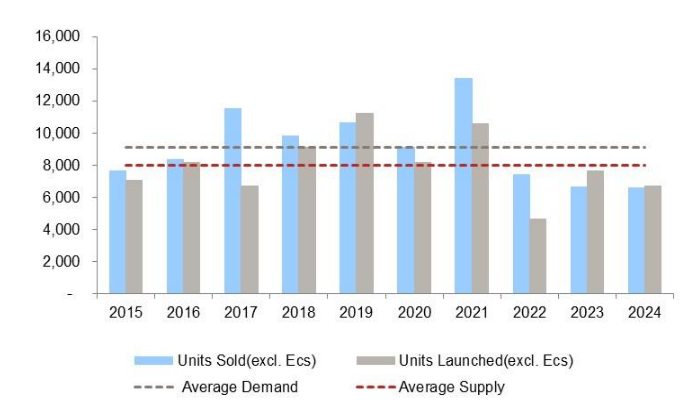
Figure 5: HDB flats reaching MOP (since 2016)



Source: PropNex Research, data.gov.sg

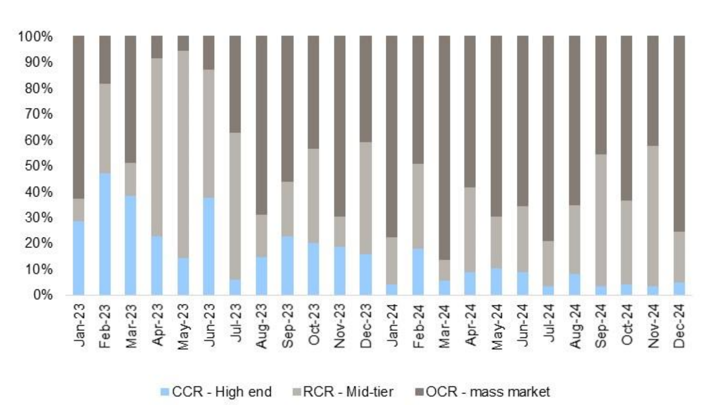
Average annual demand and supply. Based on our compilation of URA data, developers have sold 6,888 units on average over the last three years (2021-2024), which is c.25% below the 10-year average demand of 9,111 units (Figure 6). This, we believe, is due to a combination of weak buying demand from higher interest rates, and lower market supply, as only an average of 6,348 units were launched during the last three years, compared to the 10-year average supply of 8,004 units. This, coupled with rising local population, in our view, has resulted in a slight build-up of pent-up demand. With the moderation of interest rates, we believe market conditions are ripe for a resurgence in market demand in 2025. Demand though has been mainly on the mass market and mid-tier segments (Figure 7), while high-end segment demand has been muted post the implementation of stringent ABSD measures.

Figure 6: Units sold vs units launched since 2015



Source: Urban Redevelopment Authority (URA), RHB

Figure 7: Monthly sales by segments



Source: URA, RHB

New launch units expected to nearly double in 2025. Based on PropNex Research's estimates as of Nov 2024, a total of 14,694 units from 34 projects are set to be launched this year, while Edgeprop estimates c.13,500 units from 32 new launches. In comparison, the average number of new launches over the last three years was c.7,500 units. 2025 will also see a large number of new launches in the core central region (high-end), where buying demand has been slightly weak. Although recent data points indicate that buyers are keen on high-end projects where developers have offered attractive discounts and prices, we believe market demand for new launches will likely remain dual paced and highly price sensitive, with projects with attractive locations and amenities seeing much stronger take-up rates of >50% during the launch weekend.

Strong primary market sales are also likely to have a pull effect on secondary market transactions, resulting in increased activity on the comparable resale projects in the vicinity of new launches, as the secondary market still offers an attractive pricing discount of 40-50% compared to new launch prices. Therefore, we expect resale market transactions to rise 10-15% YoY in 2025 after a similar rise this year.

Figure 8: 1H25 upcoming new launches

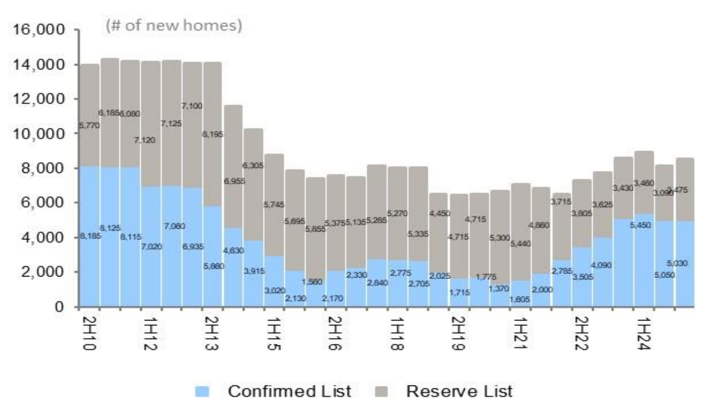
No	Upcoming projects	Location	Region	Tenure	No. of units
1	The Orie	Lorong 1 Toa Payoh	RCR	99	777
2	Bagnall Haus (former Bagnall Court)	Upper East Coast Road	OCR	FH	113
3	Lentor Central Residences	Lentor Central	OCR	99	477
4	ELTA	Clementi Avenue 1	OCR	99	501
5	Aurelle of Tampines (EC)	Tampines Street 62	OCR	99	760
6	Marina Gardens Lane GLS	Marina Gardens Lane	RCR	99	937
8	W Residences Singapore- Marina View	Marina View	CCR	99	683
9	Aurea	Beach Road	CCR	99	188
10	Parktown Residence	Tampines Avenue 11	OCR	99	1,193
11	Arina East Residences	Tanjong Rhu Road	RCR	FH	107
12	Former Robertson Walk	Unity Street	CCR	99	348
13	Bloomsbury Residences	Media Circle	RCR	99	358
14	Orchard Boulevard GLS	Orchard Boulevard	CCR	99	280
15	Plantation Close (EC) (2)	Plantation Close	OCR	99	560
16	Former Sin Ming Centre	Sing Ming Road	RCR	99	34
Total					**7316**

Note: RCR – Rest of Central Region, OCR – Outside Central Region, and CCR – Core Central Region
Source: PropNex Research Dec 2024

Developers likely to continue bidding cautiously amid increased GLS supply. The Government has been steadily increasing private housing supply since 2022 to cater to growing demand and moderate price growth. For 1H25, the number of confirmed-list residential properties of 5,030 units is similar to that of 5,050 units for 2H24, but c.60% higher than the average confirmed list supply in GLS programmes from 2021 to 2023. Note: Sites on the confirmed list are automatically launched for tendering as per the planned schedule, while sites on the reserve list need to be triggered by a developer with a committed acceptable minimum price set by the URA.

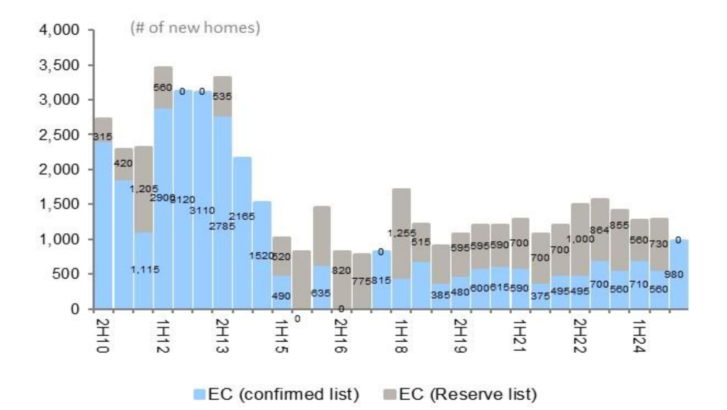
The steady increase in land supply is starting to have the desired effect, with moderation in land bids observed in recent land sales. Developers have also accumulated more landbank in the last two years, and have turned more selective on sites and prices. This trend is expected to continue in upcoming land bids, and should soften overall land prices, thereby having a corresponding moderating effect on prices in the upcoming launches.

Figure 9: Non-landed residential sites under GLS (including EC)



Source: URA, RHB

Figure 10: EC residential sites under GLS



Source: URA, RHB

Unsold inventory and vacancy rates

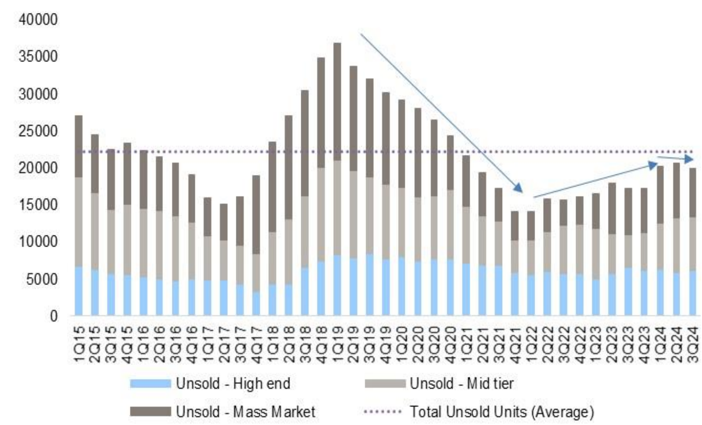
Unsold inventory below long-term average; starting to ease. Inventory levels eased marginally to 19,940 units as at end 3Q24, down 3% QoQ after being on a rising trend over the last few quarters. This is as new launch supply was very low in 9M24 and buying demand slowly started to show improvements from 3Q24 with the commencement of rate cuts. Current inventory levels are still 10% below the 10-year average, and based on annual demand of 7,000-8,000 units, this will take less than three years to clear, which we believe is not high enough to cause pricing pressures in the market.

The unsold units are well spread across market segments, with mid-tier accounting for the bulk of it (37%), followed by mass market (33%), and the high-end segment (30%). The higher unsold units in the mid-tier inventory is mainly due to the slew of new launches in this segment. However, with demand in this segment remaining fairly resilient, we expect this to come off. We think the only segment where unsold units have been facing a bit of a challenge, is the high-end segment, where demand remains slightly weak due to the absence of foreign purchases and investment demand.

Moving into 2025, we expect inventory levels to fluctuate at c.20,000 units. While we may see a slight increase in inventory this year, it will likely be due to a sharp increase in the number of new launches with an estimated 13,000-15,000 units expected to be launched. This is unlikely to be a major concern, as demand indicators remain positive.

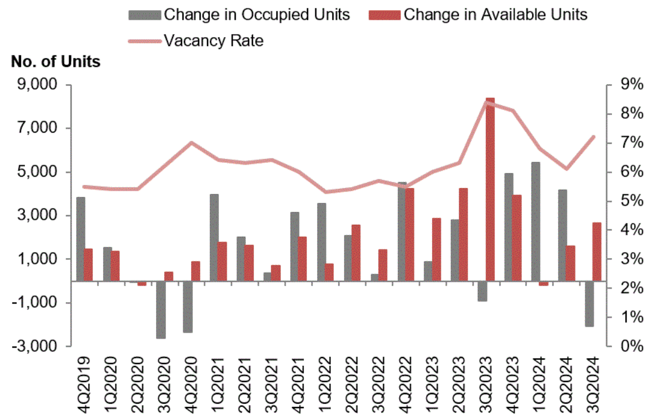
On the vacancy front, overall vacancy rates slightly increased to 7.2% as at 3Q24, from 6.1% in the previous quarter, and higher than the 5-year average of 6.3%. Unsurprisingly, high-end properties have the highest vacancies at 11.2%, followed by 8.1% in the mid-tier segment and 4.9% for mass market properties. The higher vacancy rates, in our view, will likely keep a lid on rent growth to a more modest 2-4% level in 2025.

Figure 11: Unsold units stabilising and below average



Source: URA, RHB

Figure 12: Vacancy rates to normalise in 2025



Source: URA, RHB

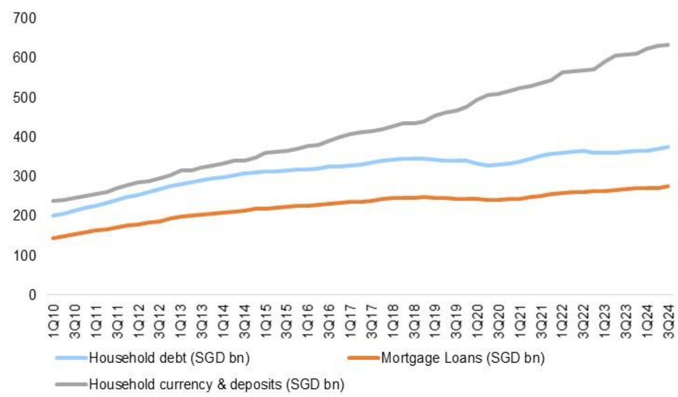
Household debt and interest rates

Household balance sheet remains robust. Based on the Monetary Authority of Singapore's (MAS) data, overall household debt (3Q) grew by 3.6% YoY and 1.6% QoQ to SGD374bn, driven by a 3% YoY increase in overall mortgage loans which stood at SGD275bn as at end 3Q24. Household assets, on the other hand, rose at a much faster clip of 8.3% YoY to SGD3.35trn, driven by a rise in financial assets, shares, and securities. About 20% of household assets are in the form of currency and deposits at SGD633bn, which in itself is >2x that of household mortgage loans, indicating fairly high loan coverage.

Aggregate household debt as a share of personal disposable income has been on a downward trend since 4Q21 and is at a decade-low of 1.1. This is driven by healthy income growth outpacing debt accumulation. In 2025, household debt is likely to grow at a slightly faster clip than last year, on the back of an expected pick-up in transaction volumes in both primary and secondary markets, as well as a gradual price increase resulting in a higher loan quantum. However, this should be mostly offset by income growth, with the economy expected to remain healthy.

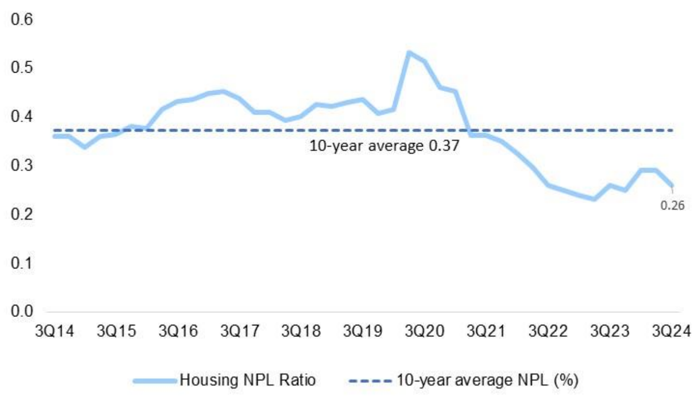
Overall housing NPL ratio ticked slightly lower in 3Q24 at 0.26%, which is well below the 10-year average of 0.37%, mirroring the improved resilience of household balance sheet.

Figure 13: Household debt, mortgage loans, and currency & deposits



Source: MAS, RHB

Figure 14: Housing NPL ratio (%)



Source: MAS, RHB

Mortgage rates have moderated from its peak. MAS, in its Nov 2024 financial review, noted that fixed mortgage rate packages offered by banks peaked at 4.5% at end-2022 and fell to below 3% in 1H24. This has since fallen closer to c.2.5% as at end 4Q24, based on our checks on bank websites, although we believe it will inch higher in the coming quarters due to the recent revision in market inflation expectations, albeit unlikely to revert closer to 2022 levels.

At the same time, the risk of a delayed upward adjustment in average mortgage rates on debt servicing has diminished. As many as 90% of borrowers now bear the post-pandemic upswing in interest rates, including borrowers who have refinanced or taken up new loans since major central banks began hiking rates in 2H22.

Results of MAS' stress test on households, which assumes an immediate increase in mortgage rates to 5.5%, together with a simultaneous income loss of 10%, affirm that debt servicing capacity is sufficient to survive adverse shocks. More than 90% of households would be able to continue servicing their mortgages in this scenario. However, a small segment of highly leveraged borrowers, accounting for less than 5% of total mortgage loans, could be more vulnerable to repayment risk.

Stock impact: Agencies are the best proxy while positive news flow likely to support developers

APAC Realty (APAC SP, BUY, TP: SGD0.42). We expect a strong earnings recovery for APAC in 2025, with a c.50% increase in net profits driven by a surge in residential transaction volumes. Valuation is reasonably cheap at 11x FY25F P/E with a healthy 7% forward dividend yield and net cash position presenting limited downside risks.

City Developments (CIT SP, BUY, TP: SGD7.30). CIT currently has among the largest residential landbanks in Singapore and has seen strong take-up rates for its new launches. Based on our estimates, CIT currently has unbilled residential sales in excess of SGD4bn. However, a key concern is its growing debt and financing cost pressures, which are weighing on its bottomline. A potential significant divestment of assets as guided by management (>SGD 1bn) in the near term could alleviate debt concerns and act as a share price catalyst. CIT is trading near historic lows and below the -2SD levels of P/BV and P/RNAV.

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