Real Estate Sentiment Index (RESI)

Press Release

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Sharp fall of Real Estate Sentiment Index in 3Q18

Sentiment Index

The NUS-REDAS Real Estate Sentiment Index (RESI) fell sharply in 3Q18. The Composite Sentiment Index, which is a derived indicator for the overall real estate market sentiment, went down to 4.0 in 3Q18 from 6.6 in 2Q18. The Current Sentiment Index decreased to 4.0 in 3Q18 from 6.7 in 2Q18; and the Future Sentiment Index decreased to 4.2 in 3Q18 from 6.4 in 2Q18. The sharp falls in market sentiments were likely to be triggered by the new round of cooling measures released in July.

Note: A follow-up survey was conducted after the introduction of the new ABSD policy on 6 July 2018. The composite sentiment index was reported at 3.9; whereas the current and the future sentiment indices were 3.9 and 4.0, respectively.

A score under five indicates deteriorating market conditions, while a score above five indicates improving conditions.

Market Performance by Sectors

The residential sector performance was adversely affected by the July's round of cooling measures. For the prime residential sector, the current and the future net balances slumped from 63% and 58% in 2Q18 to -58% and -45% in 3Q18, respectively. While the current and the future net balances for the suburban residential sector declined from 53% and 37% in 2Q18 to -60% and -45% in 3Q18. The abrupt changes in respondents' sentiments reflect pessimism of outlooks in the residential sectors.

The office sector is the strongest performing sector in 3Q18; whereas the retail sectors, especially prime retail sector, deteriorated slightly in 3Q18. The hotel and serviced apartment sectors show improvements in the current and future net balances, which are reported at 33% and 31%, compared to 19% and 16% in 2Q18, respectively.

A "current and future net balance percentage" indicates difference between the proportion of respondents who have selected the positive options ("better") and the proportion of respondents who have selected the negative options ("worse").

Potential Risks May Impact on Market Sentiment

In 3Q18, the respondents identify rising inflation and interest rates, slow-down (decline) in the global economy and tightening of financing / liquidity in debt market as the top three potential risks that may adversely impact market sentiment in next 6 months.

In a declining global economic condition, financing risks are the major risk factor for real estate businesses. 77.4% of the respondents were concerned about rising inflation and interest rates. 61.3% are concerned about tightening of liquidity in debt market in the next 6 months, up from 46.8% in 2Q18.

Developers' Expectation on Future Launches and Sales

In 3Q18, 20.0% and 48.6% of the developers expected substantially and moderately more new launches, respectively. Unlike in 2Q18 where none of the developer anticipated new launches to decrease, 2.9% and 14.3% of the developers expect substantially and moderately fewer units to be launched in their 3Q18 responses..

In terms of unit price change, only 20.0% of the developers anticipated residential property prices to increase in the next 6 months. In 3Q18, 37.1% and 5.7% of them expected the unit price to drop moderately or substantially in the next 6 months, respectively; whereas only 3% expected a price drop in 2Q18.

Hot Topics

The top three risks that are deemed to potentially further dampen the current local property markets are: external economic shocks, slowdown in local economic growth and the latest cooling measures. About half of the developers also felt that higher development costs could further dampen the local property markets.

Based on the respondents' assessments of the impact of the July's ABSD measures on various sub-sectors of local residential markets in the next 6 months, 90.2% of all respondent felt that the en bloc market would be seriously affected by the latest ABSD in the next 6 months.

63.9% of respondents indicated the new ABSD measures would significantly affect the new sales residential property market. Residential properties in core central region (CCR) are relatively more sensitive to the policies than those located in outside central region (OCR). New launches of non-landed residential properties in CCR are likely to face greater resistance with the new ABSD.

Associate Professor Sing Tien Foo of NUS Institute of Real Estate and Urban Studies comments that *"The uncertainties in the external economic conditions coupled with the high transaction costs imposed by the new ABSD policies may have double whammy impact on the local residential markets. The sharp declines in the 3Q18 sentiments reflect bleak outlooks of the property players, especially on the residential markets in the next 6 to 12 months."*

For Full Report: http://www.redas.com/resi.html

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