Real Estate Sentiment Index (RESI)

Press Release

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Real Estate Sentiment Indices remain Pessimistic

Sentiment Index

NUS-REDAS Real Estate Sentiment Index (RESI) remains weak despite showing a marginal uptick in 4Q 2018. The Composite Sentiment Index, a derived indicator for the overall real estate market sentiment stood at 4.3 in 4Q18, up from 4.0 in 3Q18. Developers' sentiments have shown a slight rebound from the aftershocks of the new cooling measures in July 2018.

The Current Sentiment Index went up to 4.2 in 4Q18 from 3.9 in 3Q18; and the Future Sentiment Index slightly increased to 4.3 in 4Q18 from 4.2 in 3Q18. A score above five indicates improving market conditions, while a score below five indicate deteriorating conditions.

Market Performance by Sectors

The current and future net balances show no significant change for most of the sectors in 4Q18 compared to the previous quarter.

The 4Q18 results show that office sector is the strongest sector with the current and the future net balances of 46% and 48%, respectively. Hotel / Serviced Apartment sector shows the second highest current and future net balances of 28% and 20%; but, they are still moderately lower than 33% and 31% recorded in 3Q18, respectively.

Both the prime and the suburban residential sectors are the worst performing sectors with the current net balances of -48% and -49%, and the future net balances of -25% and -31% in 4Q18, respectively. The net balances of the prime and suburban retail sectors are the second worst performing sectors after the residential sectors. Particularly for suburban retail sector, it declined from -11% and -8% in 3Q18 to -21% and -25% in 4Q18, respectively.

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

Potential Risks May Impact on Market Sentiment

In 4Q18, the respondents identified decline in the global economy, rising inflation / interest rates, and excessive supply of new property launches as the top three potential risk factors that may adversely impact the market sentiment in the next six months.

In view of a potentially widening trade war, 90.0% of the respondents were concerned about slow-down in the global economy; and 80% of the respondents were worried about rising inflation / interest rates in 4Q18, which increased from 75.8% and 77.4% in the previous quarter, respectively. Excessive supply of new properties was identified by 68.3% of the respondents in 4Q18, compared to 51.6% in 3Q18, which ranks the third highest potential risk factor in the next six months.

Developers' Expectation on Future Launches and Sales

In 4Q18, 45.2% and 38.7% of the developers indicated that they would substantially increase and moderately increase their new launches, respectively. Only 6.5% of them would launch moderately less number of units in the next 6 months.

In terms of unit price change, 29.0% of the developers anticipated a moderate increase in residential property prices in the next six months. 45.2% of them expected residential property prices to remain at the same level, and 25.8% of them expected a moderate drop in the prices in the next six months.

Hot Topics

Based on the responses, local and foreign investors are most likely to be affected by higher ABSD that will significantly increase transaction costs of investors when purchasing the second and subsequent houses. The tighter loan limit will affect price-sensitive HDB upgraders and private homeowners, more than foreign investors. Lower loan quantum increases financial burden of local buyers, who will be required to fork out more cash when buying the second house.

95.1% of the respondents agreed or strongly agreed that the cooling measures in July 2018 dampen the outlook of the property market in 2019. 82.0% of them expected the en bloc market to be hit hard in 2019. 41.0% of the respondents disagreed that property price in 2019 would surpass the peak in 2013. However, 50.8% did not expect the government to introduce further cooling measures in 2019.

Accounting for both the global and local economic uncertainties, the respondents' expectations for 2019 were aptly described by few key words: 'weakening', 'uncertain', 'challenging' and 'cautious'. Compared to the first half of 2018, the market players were relatively more conservative bearing in mind potential obstacles and difficulties ahead that included tight competition, limited pool of good contractors, and excess supply from en bloc sales, as well as persistent headwinds in both the domestic and global economies.

"The strong year-end sale activities in private residential markets in 2018 helped cushioned the adverse impact of the hike in ABSD and the tightening of LTV announced in July 2018. However, there are no clear signals on the emergence of new positive economic drivers that could further uplift the market sentiment in the next few months," says Associate Professor Sing Tien Foo of NUS' Department of Real Estate/Institute of Real Estate and Urban Studies.

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

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