Developers' pessimism deepens in Q2

Rising construction costs, inflation, interest rates seen roiling market

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DEVELOPERS are more pessimistic about the property market in the coming six months, citing rising cost of construction, inflation, and interest rates as factors that will likely have an adverse impact on market conditions.

The NUS-Redas Real Estate Sentiment Index Survey's Future Sentiment Index - which measures sentiments towards the market outlook over the next six months - fell to 3.4 in Q2 compared with 3.9 in Q1.

A score under five indicates deteriorating market conditions while scores above five indicate improving conditions.

Meanwhile, the Current Sentiment Index slipped marginally, from 3.7 in the last quarter to 3.6.

Taken on a year-on-year basis, the Composite Sentiment Index (which measures overall sentiment) was weaker at 3.5 in Q2 compared to 4.5 previously.

Looking ahead into the next six months, the key potential risks are rising inflation/interest rates as identified by 75.4 per cent of respondents and rising cost of construction (63.1 per cent).

Equally worrying is the excessive supply of new property launches and a slowdown in the global economy, which were identified by 53.8 per cent of respondents.

However, 31.7 per cent of developers surveyed said that they expect moderately more residential launches in the coming six months, while 29.3 per cent said that they expect residential launches to hold at the same level.

In terms of unit price change, 26.8 per cent of them anticipate that residential prices will hold in the next six months, up from 26.3 per cent in the previous quarter. Majority of developers still expect unit prices to be moderately less (63.4 per cent compared with 64.8 per cent previously).

Of the various property sectors, prime and suburban residential sectors were the worst performing segments according to the survey.

The prime residential sector showed a current net balance of -72 per cent and a future net balance of -69 per cent; while the suburban residential sector showed a current net balance of -63 per cent and a future net balance of -65 per cent in Q2.

The current and future net balance percentage is defined as the difference between the proportion of respondents who have selected positive options and the proportion who selected negative options.

On the flipside, office was the best performing sector, with a current net balance of +41 per cent and a future net balance of +32 per cent.

In light of the high transaction cost and high property prices, 77.8 per cent of respondents said there will likely be strong outflows of investments into overseas real state markets in the coming 12 months.

These markets include the United Kingdom, Australia, and Malaysia.

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