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Housing deficit to stay even when supply comes on board in 2015

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Optimistic: *Mr Cheong (second from left, with other panel members) said there will not be a crash 'unless you scare the hell out of the supply side and then the supply side (is) forced to dump'.*

[SINGAPORE] Amid a sea of talk of a pending residential property market crash, one prominent consultant here has backed its resilience barring unforeseen systemic shocks.

Alan Cheong, head of research and consultancy at Savills Singapore, made his case last Friday at Carlton Hotel marking Singapore Management University's (SMU) homecoming celebrations for its Master of Science in Applied Finance programme.

"I think barring external shocks, property prices, residential prices will stay elevated," he said.

Mr Cheong argued that a fundamental concern that there will be an oversupply of homes come 2015 is not the case at all.

"The reason is in Singapore; it is a situation of undersupply."

There has been a housing shortage since 2006, he said, presenting calculations done by him and several SMU professors and researchers. The number of units in deficit in the market has risen from around 5,174 units in 2006 to some 142,175 units in 2011.

Even when the full expected supply pipeline comes on board in 2015, Mr Cheong still forecasts a deficit of around 3,765 units, which will support prices.

He added that even as population growth in Singapore between last June and this June was its lowest in nine years at 1.6 per cent, this will still compound to about 7.1 million people over the next 17 years.

This compares with planning parameters laid out in the Population White Paper for up to 2030 earlier this year of up to 6.9 million.

Also, rental demand remains strong. Assuming about 20,000 new employment pass approvals each year, this works out to roughly 6,600 rental units of demand, Mr Cheong said, assuming an average household size of about three.

From a technical viewpoint, he believes the market is not overbought.

Using a benchmark of 80 for the Relative Strength Index of the Urban Redevelopment Authority (URA) Property Price Index, he said current property prices are not at levels before the collapse of Lehman Brothers in September 2008, nor are they at the extreme peaks seen here in 1980 and 1996.

There is also plenty of financial firepower still in the market. The cumulative profit for property traders who sold their properties in 2011 after buying them in the years leading up to that from 2005 was about $709 million, according to Savills research.

"So there is a lot of hidden wealth still in Singapore," Mr Cheong said.

On the supply side, the top five local developers controlled nearly 48 per cent of new property sales in 2011, he noted.

"The developers have (a) very strong balance sheet, very strong holding power. (The) market is controlled in some sense."

With a new total debt servicing ratio (TDSR) framework in place and land getting more expensive, "it's not easy for a new entrant to come into the real estate market anymore".

But Mr Cheong acknowledged that the increasing entry of foreign developers last year has had an impact. That said, he doubts developers will sit idle if these foreign players continue to be aggressive in land bidding.

Overall, Mr Cheong believes that even if there was excess supply, developers would still wield some controlling power, and that there would not be a crash – "unless you scare the hell out of the supply side and then the supply side (is) forced to dump".

"It will only happen through an exogenous event or when banks pull the line," he said, adding that excess supply may cause prices to "stabilise or come off a little bit".

However, Mr Cheong says the pace of sales will not be as torrid as it has been, and that releases will be more spread out over time. In areas that have seen three or four launches, sales may be slower due to saturation.

In terms of opportunity, he favours shoebox apartments, which he said can generate a yield spread of about one per cent over condominium units. More and more expatriates are coming in with no housing allowance, he said, and may prefer these smaller units.

Mr Cheong also urged investors not to short-sell their homes. The upside for going long on one's home is about 156 per cent, versus about 24.8 per cent from going short.

"The numbers are stacking up against you trying to short your own home."