ASEAN VALUERS ASSOCIATION

AVA VIETNAM

Price Control Department

Ministry of Finance

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SINGAPORE COUNTRY REPORT

By:

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COUNTRY REPORT

SINGAPORE

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General Overview

Singapore is a small country with a land area of approximately 710 sq km. We have a population of approximately 4.84 million people of which a million people are foreigners. The population density per sq km is 6,814.

The Gross Domestic Product (GDP) for 2008 is $257 Billion with a per capital GDP at $53,192/-.

External Outlook Remains Weak

According to The Ministry of Trade and Industry (MTI), it expects Singapore GDP to contract further. Advance estimate for the Singapore economy indicate that economic activity slowed down sharply in the first quarter of 2009. The decline in the first quarter of 2009 affected every sector, with the exception of the construction sector that showed signs of robust growth. It is estimated to have grown by 25.6 per cent in the first quarter of 2009, supported by the strong pipeline of committed projects in both housing and infrastructure. These are in additions to the two Integrated Resorts at Marina Bay and Sentosa.

The global economy is expected to remain weak in the coming quarters, while there are tentative signs of some stabilisation in housing, financial and manufacturing sectors in the US, they do not point to a clear turnaround in economic activity. In recent months, the International Monetary Fund, the World Bank and the Organisation for Economic Co-Operation and Development have successively slashed their 2009 growth forecasts for the world, the developed economies and regional economies.

Taking into account the sharp deterioration in the first quarter of 2009, and the weak global outlook for the rest of the year, the economic growth forecast for 2009 for Singapore is - 9 per cent to - 6 per cent.

Impact of the Global Financial Crisis on Singapore Real Estate Market

When the US sub prime mortgage crisis started in the late 2007 with the collapse of banks like Northern Rock, Fannie Mia and Freddy Mac, the Singapore real estate market was then relatively unaffected. The Singapore economy was at its bull run with property prices hitting the roof at $2,800 per sq ft in the city area and in Sentosa island.

The property financial sector ie. The Real Estate Investment Trust (REIT) was the growth stimulus of the Singapore real estate industry. Rental rate for prime office space was at its peak of $25 per sq ft.

The hard impact came in Aug/Sep of 2008 when Lehman Brothers collapsed followed by AIG. The effect was immediate. Residential sector buckled first with city centre areas and city-fringe areas non-landed homes showed the largest of price drop of 14 per cent for this first quarter of the year. This was followed by office premises. Retail and industrial properties weathered better. It shows that the market has now lost half of the gains it chalked up in the property boom just past. The 14 per cent plunge is more than double the 6.1 per cent decline in the fourth quarter of last year and nearly triple the 4.7 per cent fall for the whole of last year.

However, the residential mass market has been the most resilient. Many of the new private homes sold this year, some 2000 units or more were mid market units in suburban areas. Most of the purchasers are HDB upgraders, cashing in on the reasonable prices and offers by developers caught in the downturn.

Prices also fell in the HDB (public housing) resale market – for the first time since 2006 by just 0.6 per cent in the first quarter of 2009. It was not affected by the sub prime full blown in Aug/Sep 2008. In fact, prices in the fourth quarter of 2008 had increased by 1.4 per cent over the previous period and helped drive resale flat prices up by a hefty 31.2 per cent over the past two years. The gloomy outlook for the past few months coupled with more retrenchments have hit home. HDB resale prices will fall gradually and not drastically. Demand for smaller flat types looks set to remain high and the recession as people downgrading from private properties to HDB flat's and those downgrading from larger to smaller homes.

Main Issues / Problems

The gloomy economic outlook, couple with more retrenchment, banks are extremely cautious in lending. Mortgage valuations by banks are conservative with falling prices. In most instances banks are only willing to provide loan of up to 70 – 80 per cent on its valuation. This has placed a lot of hardship to borrowers. Many house owners are questioning the low valuation of their property without the understanding that banks are extremely cautious and conservative in their lending to minimise bad loan cases. Banks nowadays are not rushing out to grab customers.

Impact on Valuation Business

The recent strong home sales of mid range properties in the suburban areas and refinancing of private residential property of affordably price market has helped boost demand for valuation. Valuers attribute this in part to a pick-up in sales at private residential property launches, buyers who are getting loans for units bought earlier on Deferred Payment Scheme (DPS) and borrowers who are seeking better refinancing packages and switching banks. In additions, banks are requesting more frequent valuations of properties in their loans portfolio, given declining property values, not just housing loans but offices, factories and retail units. Banks have to monitor if the properties are in negative equity.

Valuation firms have reported an increase of 10 – 20 per cents in business. Despite higher business volumes, they have no plan to raise its valuation fees, which can be as little as \$300 to \$500 for valuing small apartments. Commercial buildings, cost several thousand to tens of thousands of dollars to value, depending on the size and complexity of the valuation required. Package fees for valuing an entire portfolio of buildings for a property group or Real Estate Investment Trust (REIT) can run into hundreds of thousands of dollars. For REIT, valuations are a lot more meticulous. Valuers have to go through individual tenancies and do more checks in general. Valuers don't just use the comparables method but also discounted cash flow to arrive at the property valuations. Presently, real estate funds have been asking for monthly valuations of their property portfolio to 'track' the market more closely instead of relying just on annual valuations. Hence, REIT seeking refinancing has also contributed to an increase in valuation requests.