CUSHMAN & WAKEFIELD

IMPACT OF RISING INTEREST RATES ON PRIVATE HOUSING MARKET

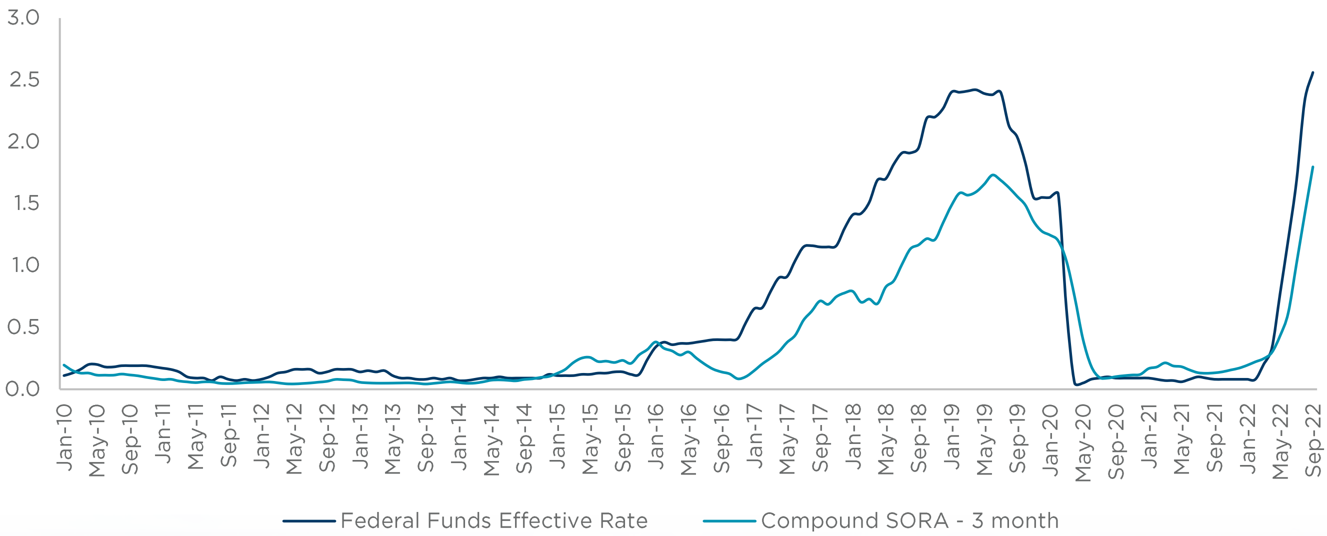
Increasing Overhang For The Private Home Market As Interest Rates Rise

The low interest rate environment in recent years which has been supporting residential buying demand has come to an end. Rising home loan rates create friction for the private homes market as buyers' eroding purchasing power should dampen property demand.

Given Singapore's open economy and exchange-rate based monetary policy, our interest rates are tied to global economic conditions and closely correlated with United States (US) interest rates. As such, Singapore interest rates are poised to rise further, in tandem with future US interest rate hikes. The US Federal Reserve (Fed) chairman has signaled persistently high interest rates till price stability is restored. Indeed, the US Fed raised its target interest rate by 75 basis points for a third straight meeting.

In Singapore, the 3-month (3M) compounded Singapore Overnight Rate Average (SORA), the new benchmark interest rate for home loans, has risen to about 2.1% as of 4 October, from about 0.19% at the start of the year. Currently, for floating rate packages, banks are charging about 0.7%-1% spread over the 3M SORA, which translates to floating mortgage rates of around 3%. In early October, the three local banks raised their fixed rate loan packages to as high as 3.85% per annum.

Figure 1: US and Singapore Interest Rates



Source: MAS, FRED, Cushman & Wakefield Research

IMPACT OF RISING INTEREST RATES ON PRIVATE HOUSING MARKET

On 30th September this year, the Singapore authorities introduced another round of cooling measures which mainly consist of loan curbs, aiming to pre-emptively mitigate potential overleverage risks in certain segments of the market given rising interest rates and a cloudy economic outlook. For the private property market, the medium-term interest rate used in Total Debt Servicing Ratio Framework (TDSR), was raised by 0.5% point to 4.0%. This would impact the maximum loan that a household can take, and thus affect buyers' affordability.

We try to determine the rate which could be deemed as potential demand inflection points for the private housing market via a simple scenario analysis with the following assumptions.

Figure 2: Table of Assumptions

Median prices[1] during Q1 – Q3 2022 (units with size ranging between 1,000 sf and 2,000 sf)	Suburban condominiums: $1.6 million City-fringe condominiums: $2.3 million High-end condominiums: $3.1 million
No. of properties purchased	First property
Car loan and other debt obligations	$1,000 per month
Down payment	Sufficient savings for a down payment
Loan tenure	30 years
Loan-to-Value (LTV) ratio	75%
Loan rates	3.5% to 5.5%
Monthly mortgage payments	Calculated from loan amount taken and loan rates in the range
TDSR	55%
Minimum required gross monthly incomes	Derived from total debt obligations (mortgage and car loan) and TDSR of 55%
Proportions of resident households with required income	Calculated from data on Resident Households by Monthly Household Income from Work (Excluding Employer Central Provident Fund Contributions) in 2021

Source: MAS, FRED, Cushman & Wakefield Research

We calculate the pool of buyers available to each submarket based on the resident household incomes and the median prices of private non-landed properties in each sub-market.

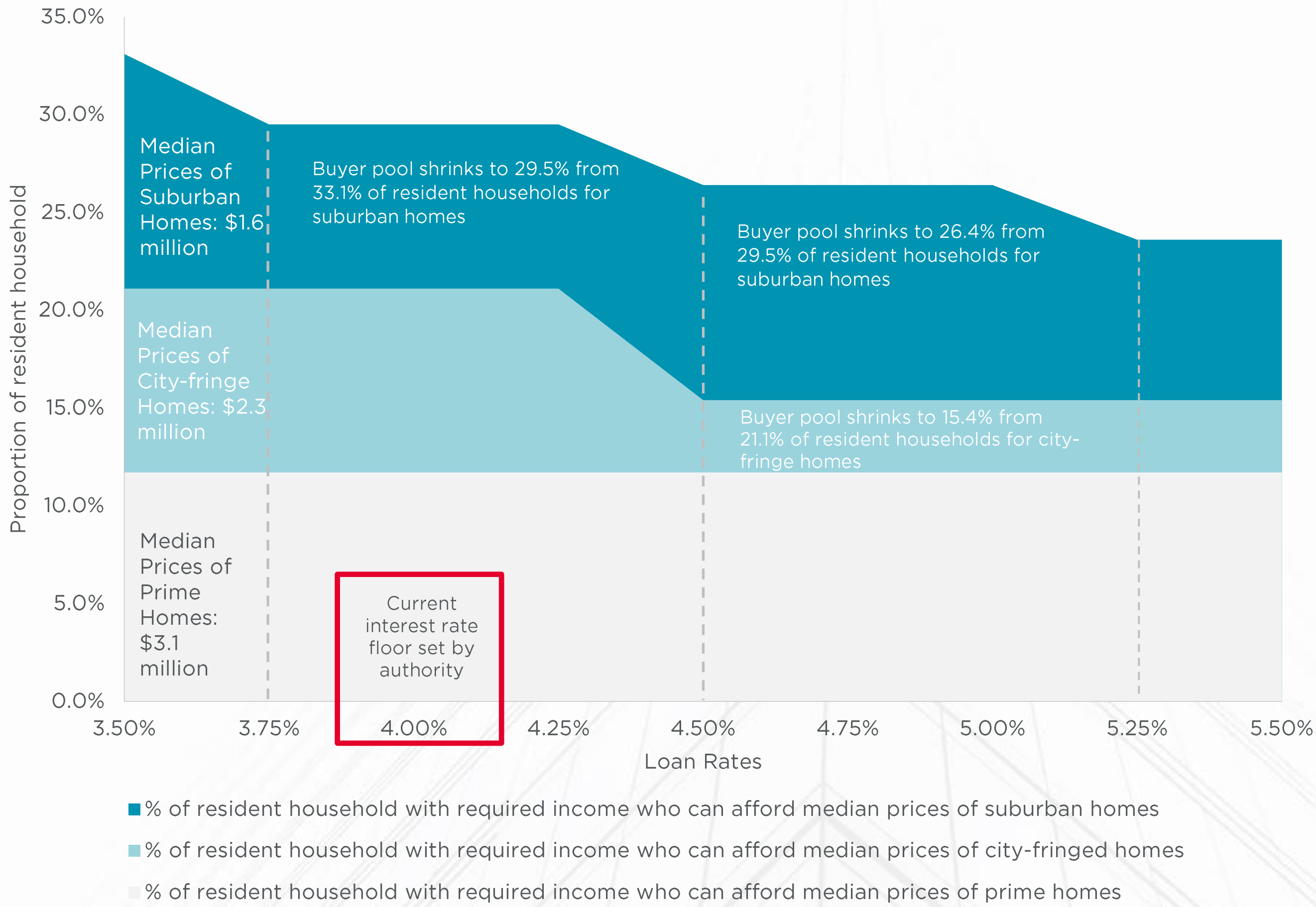
Notably, with the latest tweaks to TDSR medium-term interest rate floor (on 30th September), the pool of available buyers has fallen for certain market segments. For example, suburban condominiums with median price of $1.6m remain the most affordable, with 29.5% of Singapore resident households being able to afford it, assuming medium-term interest rate floor of 4.0%. This compares to a potential buyer pool of 33.1% of resident households, when the interest rate floor was 3.5%. For the suburban market, the next potential inflection point would be at 4.5%, when the buyer pool would shrink again to 26.4%.

[1] According to caveats downloaded on 4 October 2022

Figure 3 elaborates the respective impact of rising interest rates to each market segment. Based on our assumptions and various loan rates scenarios as well as the recent property measures, broad buying demand for suburban condo would be hit again once interest rates further rise to 4.5% and beyond while demand for city-fringe condo could start to be impacted at that interest rate level as the pool of buyers get smaller.

For high-end condominiums with median price of $3.1m, the proportion of resident households is around 11.7%[2], at the same range of interest rates despite the tweak in TDSR benchmark rate. The high-end submarket may be more resilient to rising interest rates as high-end home buyers tend to have higher affordability thresholds due to their higher incomes.

Figure 3: Proportion of Resident Household Can Afford Median Prices of Suburban, City-Fringe and Prime condos (with Size between 1,000 sf and 2,000 sf)



Source: Department of Statistics Singapore, Cushman & Wakefield Research

As such, sales volumes in Q4 2022 and early 2023 are likely to slow given rising interest rates and the latest loan curbs in place. The resale market could be more adversely affected compared to the new sale market, given the progressive payment scheme. Nonetheless, developers have grown cautious, as seen from a relatively tepid response to the recent Government Land Sales tenders that closed on 13th of September. The three state tenders which consisted of two private residential sites and an executive condominium (EC) site drew only 2-4 bids each. This compares with the 2021 - H1 2022 average of about eight bids for both private residential and EC sites.

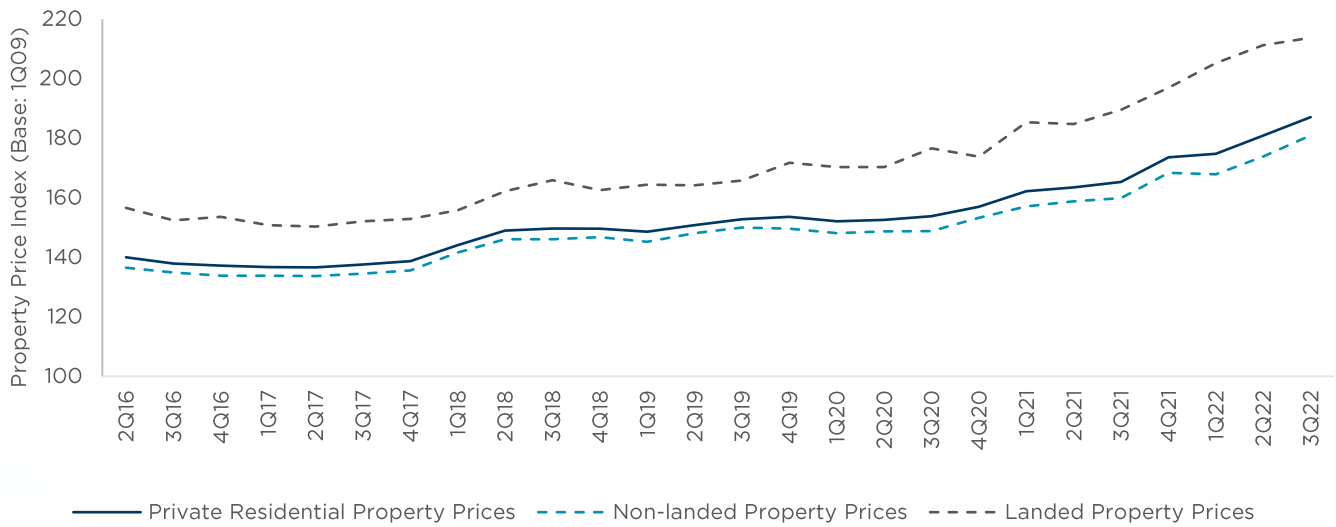
The private residential market is expected to remain resilient as households' leverage profile remains healthy. The MAS disclosed that the median TDSR stood at 43% for new loans issued over the past year, way below the regulatory limit of 55% while the average LTV ratio of outstanding housing loans eased further to 44.0% in Q2 2022.

[2] 11.7% of total resident households are top income earners with household income (excluding employer CPF contributions) of $20,000 and above. There is no further breakdown to this bracket

Consequently, the risks of a severe market downturn due to rising interest rate remain relatively limited, barring any unforeseen deterioration in economic conditions. So far, Singapore's economy continues to grow and is expected to lock in 3-4% of growth in 2022. The job market remains healthy with unemployment rates at 2.1% as of Q2 2022. However, a slew of fresh property cooling measures unveiled recently could further weigh down buying demand amid rising uncertainties.

Overall private residential prices which rose by 7.8% in Q1 – Q3 2022, are expected to continue inching up, albeit at a much slower pace given uncertain macro-conditions and newly announced cooling measures. Private residential prices are projected to register a full year growth of 8% - 9% for 2022, on the back of rising rents and higher inflation. Price growth could be moderated further to 3% - 4% in the following year. That said, as interest rates continue to trend higher, downward pressure on the market would accumulate and prospective buyers should exercise financial prudence.

Figure 4: Singapore Property Price Index



Source: URA, Cushman & Wakefield Research

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