The Ministry of National Development (MND) on Monday announced the latest in a series of measures to curb the buoyant property market. Who’s affected and who’s not?

Summary of measures

For buyers who already have one or more outstanding housing loans,

- the cash component of upfront payments on new home purchases has been raised from 5% to 10%
- the Loan-To-Value (LTV) limit for new housing loans has been reduced to 70% from 80% previously

Further to the measures in Feb 2010 to impose a sellers’ stamp duty (SSD), the holding period has been increased from 1 year to 3 years. Specifically, the SSD is now pro-rated, such that for example, a residentially sold between 1 and 2 years after purchase would attract 2/3 of the full SSD payable if a property is sold within the first year of purchase. The full SSD is at 1% of the first $180,000 of the selling price, 2% on the next $180,000 and 3% of the balance.{loadposition advert1}

All the above measures are effective 30 August 2010.

Impact on speculators

On the face of it, the more stringent restriction on new loans appears specifically designed to discourage speculative activity.

For example, for a condominium which costs S$1 million, a buyer (or a couple) who is already servicing a home loan will be required to have at least S$100,000 in cash in hand for the purchase. Even with this minimum amount of cash, $200,000 in CPF Ordinary Account savings would be required to make the down payment, which is a tall order. In reality, this effectively puts the million dollar property out of reach of those who have less $200,000 in cash for the purchase.

Impact on investors

The curb on loans would have little adverse impact on cash-rich purchasers who do not require loans, or those who have paid up the loans on their existing properties. Given that the underlying demand for housing is still strong with a positive net immigration in the foreseeable future, the measures may even be positive news for would-be investors who already have an investment horizon of more than 3 years.

With reduced competition for prime property from cash-poor investors and therefore depressed prices, the increased rental yield on properties could attract investors who would otherwise not have considered investing in property in view of the low rental yield previously.

It is also good news for investors, in that property tax on non-owner occupied homes remained unchanged.

Impact on first-time buyers and existing home-owners

Since first time buyers are neither impacted directly by the LTV or cash requirement, they are unlikely to face increased difficulty in funding a new home.

Buyers of HDB property could well benefit from a significantly reduced cash-over-valuation

(COV) asked for by sellers, now that cash-poor buyers looking to buy a second property are effectively shut out of the market.

The measures will not be applied in retrospect, so besides a short term correction in home values, current home-owners would be little affected either.

Impact on upgraders

The tightened rules appear to be most unfavourable to some groups of genuine upgraders. In particular, homeowners who are still servicing a home loan would find it much harder to finance a property that is under construction, even if they have the intention of selling the first property and moving into the second one upon completion.

Impact on property stocks

The property market curbs could hardly come at a worse time for major developers such as City Developments and Keppel Land, which have significant upcoming launches of mass-market homes. In particular, City Developments (CDL) only just started selling the 157-units at its 368 Thomson development. It is also planning to launch the new development at the Copthorn Orchird Hotel site which would accommodate 150 units. More importantly, CDL has yet to release a massive 642-unit condominium project located in Pasir Ris.

On the other hand, several other smaller developers (such as UOL and Hiap Hoe) have been wary of holding a large land bank. Having sold most of their stock of new homes at peak prices, these companies are actually well-positioned to participate in bids for land at more reasonable prices, in anticipation of the continued long-term demand for housing.

Conclusion

The property cooling measures are aimed at short-term investors and property speculators.

They appear to have little adverse impact on first time buyers. They may even be beneficial to new investors whose main criteria for investment is rental yield. On the other hand, upgraders could be disadvantaged.

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