Commentary: What happens when the en bloc musical chairs stop?

Two National University of Singapore experts discuss the impact of collective sales on the private housing market, including whether prices will continue to edge up.

SINGAPORE: 2017 has been a year of renewal for the Singapore property market.

A surge in transaction volume in the private housing market after the third quarter may have seemed like the first sign of optimism. But the pick-up came much earlier as prudent developers snapped up lands put up for en bloc sale at the second quarter.

With 57 en bloc sales worth more than SGD 7.1 billion being awarded last year and even more properties put up for collective sale since, the en bloc frenzy seems unstoppable — not least because of property owners who have been waiting all this while and are more than happy to cash in on the hype.

2018 is therefore the year to watch for signs of the market cooling off.

In recent months, experts have warned against getting swept up in the en bloc frenzy and urged for investors and authorities to look out for telltale signs of a property market bubble.

They advise caution, having borne witness to the two previous waves of en bloc frenzies in 1987 and 2007.

In the three years preceding the Asian Financial Crisis in 1997, almost 100 en bloc sales were completed.

Just before the Global Financial Crisis hit in 2007, almost 130 properties changed hands in collective sale deals, with the fever reaching a total transaction price of SGD 2.51 billion in one simple year.

Although the 2017 en bloc sound so much smaller compared to the last two waves, the words of experts urging for clear heads have relevance.

The deals closed this fall over the past year involved much larger sales, exposing developers to significant financial risk.

Aggressive land banking by developers have not let up, even as their costs have reached record-breaking collective sale prices.

Will the en bloc fever cause future housing prices to edge up especially when aggressive developers continue to place sky-high bids? Will these cause rising prices to spill over to neighbouring projects?

Alternatively, will the frenzied rush for en bloc sales stall developers from acquiring large tracts of property, forced to sell at significant discounts?
UPSTICK IN PRIVATE HOUSING PRICES LIKELY

In the near term, we think there is room for optimism as this round of icy sales looks set to boost prices in the private housing market.

We can expect this uptick to fuel even more collective sale activities. More of such deals are already being put together by on-bloc sale committees and real estate consultants in 2018.

Past data supports this optimistic projection: A bumper crop of on-bloc sales in 2007 seemed to have underpinned a strong upward price trend in the private housing market that subsequently peaked in 2008.

Meanwhile, it is premature to argue that the ex-bloc frenzy in 2017 will lead to overheating in the private housing market, given the strong skew of anti-speculation measures that are still in place since 1 February 2018.

As Minister for National Development Lawrence Wong may have subtly hinted, the high bids put in by developers might not translate into higher sale prices down the road when developers are incentivised to maintain realistic expectations or risk getting penalised.

‘Slower in mind that developers are also subject to the Additional Buyers’ Stamp Duty’ he added in a reply to a parliament question on the ex-bloc frenzy in November 2017.

Developers are only eligible for the Additional Buyers’ Stamp Duty remission rule if they complete and sell all units of their developments within three years from the land purchase.

Let’s also not forget that authorities can make adjustments to the amount of land released via the Government Land Sales to correct supply imbalances in the private housing market and anti-mixing prices in a hot market.

All these should temper the chances of a scenario where developers are stuck with properties they cannot sell for a price that recovers their cost or a situation where prices soar beyond what is affordable for a Singapore household in the middle to high-income bracket.

There is also reason to believe that new developments at old on-bloc sites are likely to continue to command a premium, where many provide a rare source of high-quality land in usually well-developed estates with dense transport links.

URBAN REDEVELOPMENT A LIKELY WINNER

In fact, we’ll argue there is also good reason to keep the ex-bloc frenzy on a slow boil — and to keep the music going.

News coverage and commentary on on-bloc sales usually spotlight on property owners, an obvious group of winners who benefit from the site proceeds, save the few reluctant to move out of a long-held home.

But what most news coverage ignores is that an ex-bloc, rate is a cure for mounting maintenance costs for an ageing property reaching a critical half-life milestone in their leases.

Ex-bloc deals also add in the Government’s goal of urban redevelopment and renewal, particularly in older estates.

These provide useful injections to old, low-density neighbourhoods, attracting younger families with higher incomes and stimulating commercial interests in those areas. They also go some way in reinvigorating local communities while getting rid of older, more dilapidated buildings.
Through en bloc sales, the gentrification of mature estates may not only be an economic phenomenon but an encouraged phenomenon.

En bloc sales may be an effective tool for urban redevelopment, if coupled with infrastructural and transport planning that keeps up with changing demographics in a neighborhood.

The local community also stands to benefit. Land development taxes collected by the Government from granting higher density developments and extending the lease period of land plots can be indirectly redistributed back to the neighborhood through investments in better local amenities and public transport networks.

The Government also has a say in redevelopments of older en bloc sales, as new developments incur significant negative externalities in terms of traffic congestion and overcrowding.

In November 2017, the URA introduced a new role requiring a pre-application traffic impact study before an en bloc redevelopment application can be processed.

So it seems not only will this trend of en bloc sales continue for a while, boosting prices in the private housing market, but it’s also a Singapore’s urban redevelopment interest to keep the exes going.

Associate Professor Sing Tim Fook is the Dean, Chair and Director of the Institute of Real Estate Studies at the National University of Singapore. Chia Lim Ee is a researcher at the same institute.

Source: CGA/IL