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Monthly Property Market Update for JUNE 2008

Introduction

June 2008 was overshadowed by the media hype of a number of public launches of mid-market new home projects such as Dakota Residences, Clover by the Park, Parc Sophia and the high-end Nassim Residences.

The URA's announcement of the 55% jump in the sale of private new homes in the preceding months added some dressings to the shop-window, but to the initiated, the underlying truth is not as 'Ra Ra' as that on the surface. This is because the huge percentage increase was a result of a very pathetic showing in the preceding months (See **Table [1]** below).

There is definitely some media hype being built up in the past weeks to dilute the fact that seller's price have been shaved off some 10% to 15% and more new projects to be launched soon will come with more humble price tags. While the market forces are being played out, it won't hurt to bring in some drum beats.

Table [1] – monthly primary sale figure from January 2008

Month	Primary sale
Jan	320
Feb	174
March	174
April	274
May	441

Source of info: URA website

Private property prices may have reached its plateau



In terms of prices, the price growth in Q2 2008 was much slower than Q1 of this year.

Table [2] – Prices of condos/apartments went up by the following percentages

Areas	% increases (1Q)	% increases (2Q)
Core Central Region (CCR)	3.8%	0.2%
Rest of Central Region (RCR)	3.3%	0.7%
Outside Central Region (OCR)	3.8%	1.3%

For the first time since the second quarter of 2007, private residential property price growth has almost halted for CCR and RCR. Even though prices in OCR have appreciated, they are actually crawling out of the valley as this particular region had missed most part of the bull-run last year, for example, some new private condo projects in Bukit Panjang, Sengkeng, Yishun areas did not do very well since the middle of 2007.

In short, June 2008 may mark the beginning of a slower growth phase with a probable gradual decline in price trend. This may trigger off the '**competition to sell**' among housing developers in Singapore as more completed new homes are available for occupancy.

(A) Uncertainties reign in the larger market

The global situation, especially the decline of the US economy and the soaring food and oil prices, remains the vital factor affecting the property market performance in Singapore. June ushered in some mixed indicators which, taken together, provides a blurry, wobbly and 'out-of-focus' image. In short, the market prospect is still uncertain in many ways.

The ongoing energy crisis and massive inflation have definitely plunged the world into a greater depth of chaos in June this year. Most legitimate governments in the world, from the US to England, PRC China to South Korea, and from Thailand to Indonesia are facing mounting pressure every each day from their own people stricken by soaring food and energy prices. Singapore is perhaps the only exception - this is a place where calm and reasons prevail. TV images of fare cheats being caught at MRT stations presented a sharp contrast to all the video footage of unrest and chaos in the rest of the world.

In June, Singapore witnessed the record-breaking CPI inflation figure standing tall at 7.5% while the mass transport companies are stretching out the long arm of the law rounding up all fee dodgers (also called fare cheats) with a strong sense of mission. The ironic picture tells not a thousand but just three words, that is, 'times are bad' – even for the big boys.

Here are some market highlights in June that may provide the cues for the property market direction in the near term.

- **(A.1) Worries of poor corporate earnings due to inflation sidelined fund managers**

A Merrill Lynch global survey released in June showed that the vast majority^M of fund managers believed that inflation is the greatest single threat to financial market stability.

As the fear of stagflation – defined as massive inflation during a period of economic stagnation – gains currency, fund managers are moving away from the stock markets and preferring to hold more cash in hand. This is because a majority of the fund managers believe that corporate earnings would be hard hit if the current situation persists.

In the survey, 27% of fund managers said that stocks are overvalued compared to only 5% in March 2008. Compared to 25% in March, only 1% said that stocks were undervalued.

The Asian stock markets have been particularly hit by such apprehension as US\$4.66 billion (\$\$6.4 billion) of Asian stocks have been dumped by the foreign fund managers.

Shanghai has been the worst hit with 46% of its capitalization wiped out. Only less than 8% of the stock punters there had made money this year. Singapore is the second hardest hit with 13% of shares value wiped off.

- **(A.2) Top of US government's worries are oil prices and inflation**

The US Federal Reserve Chairman, Ben Bernanke is a worried man. While it is very clear that there will not be any further rate cut or hike, Bernanke warned that economic activity will still be weak in the second quarter of 2008.

The unemployment rate hit 5.5% in May and rising oil prices are putting pressure on growth and causing the very severe inflation to spread. While the US\$168 billion stimulus package is said to have eased the credit crunch and housing woes, the Fed Chairman said that the government will continue to

monitor and take remedial actions when necessary.

▪ (A.3) Job layoffs amidst uncertain global outlook

Domestically, a cause for worries is the number of layoff from the high-value manufacturing sector. Though more new jobs are created, they are in the low-value-adding construction sector which employs mostly foreign construction workers.

The latest job figures released by the Ministry of Manpower (MOM) confirmed the state of flux in the Singapore job market.

In March the unemployment rate was 2%, up from 1.7% in December 2007 whilst job vacancies jumped from 37,400 to 38,200 in the same period.

At the same time, a still tight labour market pushed nominal earnings in the first quarter of 2008 (Q1) up 11% over the year - much higher than the 4.3% in the preceding quarter (Q4 2007) and 5% in Q1 2007.

MOM also added that employment continued to expand strongly in a healthy economy, but were cautious about the future due to an uncertain outlook.

▪ (A.4) Capital inflow to Asian real estate to continue

However, there is some good news. Spooked by the grim prospect of the housing crisis in the US and UK, many overseas real estate funds are heading towards Asia. A recent report by KPMG noted that the inflow of capital into Asia's real estate market is accelerating and the momentum will continue due to higher returns in Asia.

Total investment in the region has continued to increase, growing by over 27% in 2007 to reach US\$121 billion with Japan grabbing half of the pie and China following close behind.

Japan accounts for half of 2007's real estate transactions and China continued to produce attractive returns for investors.

▪ (A.5) Singapore ranked world 6th in fastest growing millionaires

A report by Merrill Lynch and Capgemini showed countries in Asia and the emerging markets have been ranked in the top ten as having the fastest growing wealthy population in 2007 with Singapore coming in sixth. The report tracked the wealth of the world's high net worth individuals - defined as those with investible assets of US\$1 million.

For Singapore, the report finds that the number of Singaporean wealthy individuals rose 15.3 per cent to about 77,000. The average wealth per individual is estimated to have risen from US\$4 million previously to US\$4.9 million. This is higher than the global average wealth per high net worth individual (HNWI) of about US\$4.04 million.

As for the type of investment, the report pointed out that more and more of the wealth are being placed in cash and fixed income assets. The expected economic slowdown has caused the wealthy to move away from parking their money in real estate and towards currencies.

Though not entirely good news, it at least provided clues that the HNWI may return to real estate investment in near term when the financial crisis has been resolved.

(B) Private property sales in Singapore

As pointed in the opening statement, Singapore is a picture of calm amidst the turmoil and unrest in other countries. The buying sentiment is likewise calm in the second quarter with the total sale figure standing at 3,027 residential units transacted. Given the time lag of around two to three weeks for caveat information to be available, the second quarter residential sale performance would very likely mirror the 3,200 transactions in the first quarter of 2008. In other words, despite the media hype surrounding the supposed successes achieved by the recent launches of a few mid-market home projects, the volume of private property transactions was actually very subdued in the second quarter.

Below describes the market performance of the various different property segments.

▪ (B.1) Performance of big-ticket properties

(a) Investment sales

Total investment sales of Singapore real estate had dipped to \$3.7 billion in Q2 2008. In Q1 2008, the volume of investment sales stood tall at \$8.9 billion. The hefty 58% slide reflects the gloomy confidence in the property sector.

Investment sales are defined as deals with a value of at least \$5 million, comprising government and private sales, buildings and land, strata and en bloc. It also includes change of ownership of real estate via share sales.

(b) Good Class Bungalows (GCBs) sales

A total of 23 GCBs have changed hands so far this year for a total of \$380 million. It is generally expected that there will be around 50 to 60 GCBs transactions for the whole of this year as the economy continues to stay on course for another year of moderate growth [See **Annex A** for an article on High Net Worth Individuals].

The estimated number of GCB transactions is lower than the 87 GCB deals totalling \$1.15 billion transacted in 2007. In 2006, a total of 119 GCBs worth \$1.23 billion were transacted.

(c) High end luxury apartment sales

At least 50 luxury apartments costing above \$10 million each have been sold so far this year. So far, the highest-priced transaction is a \$19.7 million ground-floor unit sold at Nassim Park Residences in June 2008.

The 50 transactions of high end apartments include units sold at Nassim Park Residences, Cliveden at Grange, The Tomlinson, The Grange and The Orange Grove condos.

From the look of it, this year's transactions of luxury apartment is unlikely to follow last year's act of 139 transactions.

▪ (B.2) Private new home prices easing

The ominous sign of a fierce '**competition to sell**' has emerged. Major developers have started slashing

prices to off-load the high inventories of unsold new homes.

(a) High end projects

The more noticeable price reduction is seen at the Nassim Residences – one of the most prestigious addresses in Singapore. In June, 39 of 70 units launched were sold at a median price of \$2,929 per square foot (psf). This is a far cry from the average \$4,000 to \$4,500 psf achieved by the Orchard Residences a year ago when the property market was red-hot.

(b) Mid-market projects

At the mid-range market, other examples include District 14 Dakota Residences in Dakota Crescent and District 10 Shelford Suites.

Units at Dakota Residences, a 348-unit 99-year leasehold project by Ho Bee Investment and NTUC Choice Homes are being offered at \$950 psf compared to the targeted \$1,000 to \$1,100 psf.

Shelford Suites in Shelford Road by City Development Limited (CDL) has also started previews for its 77 units at about \$1,600 psf on average lower than the previous target of \$1,869 psf and \$1,905 psf.

(c) More mass-market projects to be launched with reduced prices

With the help of the media hype, more developers are bringing out their armours from their closet before releasing more reduced-price mass to mid-market condo projects.

In the pipeline is Livia by CDL, a 740-unit condo in Pasir Ris which analysts are expecting to be offered at below \$700 psf.

Also in the pipeline is The Dakota in Geylang. The 348 unit condo is expected to be priced at below \$1,000 psf.

▪ **(B.3) Developers turn landlords as rents and construction costs stay high**

A new trend has emerged as a result of the property market slowdown. Some developers who had bought en bloc sites but are now postponing any redevelopment until the market has picked up again, are leasing out the properties in the interim.

This situation has been prompted by three separate market developments coalescing together, i.e.

- the market is still in demand for rental property with good qualities, such as convenient location, proximity to international schools, proximity to the Central Business District (CBD) and Orchard Road area etc.
- rental income is still very strong [See **Annex B** for current rent figures]
- the construction costs have soared to an unbearable point

For example, Koh Brothers who bought Lincoln Lodge for \$243 million in June last year, decided to lease out the units for 6 months and thereafter on a monthly extension basis for about \$2,700 to \$4,500 per month.

Likewise, other major developers are also offering the rental option to their en bloc site sellers. GuocoLand offered residents short-term leases at Sophia Court in Adis Road last year, followed by Leedon Heights off Holland Road earlier this year. Frasers Centrepoint said it may offer short-term

leases to the former owners of the 185-unit Flamingo Valley, a freehold site in Siglap Road that it bought for \$194 million in February last year. And City Developments (CDL) has said it is still exploring the renting option.

▪ **(B.4) Foreign buyers still buying into Singapore success story**

A recent study has noted that foreigners (including permanent residents) accounted for 28% of overall private home purchases in Q1 2008, up slightly from a 27% share in the preceding quarter. This shows that interests coming from overseas are still strong and this finding gives a shot in the arm that is badly needed. The foreign buyers never give up Singapore.

Indonesians and Malaysians continued to be the biggest buyers, accounting for 18% and 15% respectively of private homes bought by foreigners in Q1 2008.

More buyers from India are buying Singapore real estate, accounting for 14% in Q1 2008. Their share of the purchase was 11% in Q4 2007. Koreans' share slipped from 8% to 5% over the same period.

[See **A4** for inflow of overseas real estate funds into Asia]

(C) HDB resale transactions in June

While the private property prices appeared to have peaked, the HDB resale prices are boarding a north-bound train – going up. In the flash estimate of Q2 2008, which HDB recently released, it showed that the resale prices had increased 4.4% over Q1 2008. This is slightly higher than the 3.7% increase in Q1 2008.

▪ **(C.1) Both HDB resale volume and prices inched up**

The HDB resale market had a better showing this June with 79 more resale transactions over last month. The bigger flat types did slightly better than last month, especially E-flats which have been on a steady climb since February this year. However, prices of E-flat have moderated somewhat probably due to the weakness in the private property sector and more realistic demands from the sellers.

This means that the increase in HDB resale prices have come from other flat types. This may mean that demand for resale flats remains strong while supply remains constant. The table below shows the monthly total transactions since January 2008.

When transactions remain stable over a period of time such as from April to June, resale prices have edged up. It means that, on the average, the demand over the existing supply has increased.

Table [3] – HDB resale flat transactions in June 2008

	3-room	4-room	5-room	E-Flats	Total for June 2008
Ang Mo Kio	75	30	15	2	122
Bedok	52	38	22	4	116
Bishan	4	23	16	4	47
Bt Batok	37	42	10	7	96
Bt Merah	41	44	21	0	106
Bt Panjang	12	36	26	9	83
Bt Timah	1	4	1	1	7
Central Area	6	7	0	0	13
Choa Chu Kang	5	45	31	11	92
Clementi	27	22	7	1	57
Geylang/Aljunied	34	16	9	4	63
Hougang	24	59	19	16	118
Jurong East	18	13	17	4	52
Jurong West	44	88	54	13	199
Kallang Whampoa	36	12	13	3	64
Marine Parade	6	3	6	0	15
Pasir Ris	0	27	22	22	71
Punggol	0	16	48	4	68
Queenstown	37	7	8	1	53
Sembawang	0	20	30	10	60
Sengkang	0	33	61	12	106
Serangoon	13	26	7	9	55
Tampines	41	61	39	21	162
Toa Payoh	34	19	12	4	69
Woodlands	25	92	66	26	209
Yishun	56	71	24	4	155
Total	628	854	584	192	2,258

Source of info – HDB inforweb

Table [4] –Comparison of monthly total HDB resale transactions from January to June 2008

	3-room	4-room	5-room	E-Flats	Total
June 2008	628	854	584	192	2,258
May 2008	638	816	544	181	2,179
April 2008	664	909	602	164	2,339
March 2008	613	806	569	162	2,150
February 2008	635	768	495	146	2,044
January 2008	680	837	597	192	2,306

Source of info – HDB inforweb

Annex A

Singapore is world 6th fastest in having High Net Worth Individuals (HNWI)

A June 2008 report by Merrill Lynch and Capgemini showed that Singapore is ranked within the Top 10 countries in the world as having the fastest growing population of High Net Worth Individuals (HNWI) in 2007. HNWI is defined as individuals with investible assets of US\$1 million, excluding the property they are living in.

The number of Singaporean wealthy individuals rose 15.3% to about 77,000. The average wealth per individual is estimated to have risen from US\$4 million previously to US\$4.9 million. This is higher than the global average wealth per high net worth individual (HNWI) of about US\$4.04 million.

Globally, the combined wealth of the world's HNWI rose 9.4% to US\$40.7 trillion in 2007 which is lower than the 2006 growth of 11.4%, due partly to a slower pace of world economic growth.

The report ascertained that more and more of the wealth are being invested in cash and fixed income assets. The expected economic slowdown has caused the wealthy to move away from parking their money in real estate and towards currencies.

	Growth (%)	HNWI Population, 2007
India	22.7%	123,000
China	20.3%	415,000
Brazil	19.1%	143,000
South Korea	18.9%	118,000
Indonesia	16.8%	23,000
Slovakia	16%	4,000
Singapore	15.3%	77,000
United Arab Emirates	15.3%	78,000
Czech Republic	15.1%	17,000
Russia	14.4%	136,000

Annex B

Current apartment rents

A quick check with recent transacted rented properties reveals that as of July 2008, rental prices still hold firm and given the shortage of quality rental projects, residential rents look set to sustain their strong position for at least another six months. The table below layouts the rental prices of **2-bedroom apartments** at various popular locations in Singapore.

Location	District	Rents	Psf Rent	Commence
Visioncrest	D9	\$6,000	\$6.64	July 2008
Visioncrest	D9	\$7,000	\$7.39	May 2008
Visioncrest	D9	\$6,500	\$6.86	Mar 2008
Pebble Bay	D15	\$3,000	\$3.75	May 2008
Costa Rhu	D15	\$4,100	\$3.05	May 2008
Cote D'azur	D15	\$4,500	\$4.06	May 2008
Makena	D15	\$3,600	\$3.89	Jan 2008
Sanctuary Green	D15	\$3,900	\$3.55	May 2008
Parc Oasis	D22	\$3,000	\$3.80	May 2008

Annex C

Case study on Agent's Cost Effectiveness in Advertising

I have recently conducted a simple case study using all the 3-room flat listings and closing in Ang Mo Kio as a basis to ascertain agent's cost effectiveness in their marketing effort.

(a) Objective of the case study

The objective is to impress upon new agents the importance of cost savings and effectiveness in pricing the listings right. The failure to do the above will quickly lead to 'cash flow dislocation' even in a bull-run market, what more during a period of massive inflation.

(b) Critical success factor – Cash Flow

In time of great difficulties such as now, agent's Cost Efficiency becomes a critical success factor. With the raging inflation, any agent can suddenly experience a 'cash flow dislocation', when the next commission cheque does not arrive on time. Having no cash to roll is as bad as bankruptcy because in the meantime the agent is unable to campaign using flyers, advertisements, tele-marketers etc – and business leads will stop.

One of the common causes of 'cash flow dislocation' is when advertisement bills pile up against the agents but their commission cheques are nowhere in sight because of fewer closing (which results from insufficient listings). A good way to avoid being in such a dire straits is to have 'high capital reserves' set aside for rainy days (which can only be done if the agents save during sunny days). Those who do not have the 'reserve' would suffer from stoppages in their marketing campaign when cash flow suddenly stops.

This is the reasons why I have been emphasising 'doing it yourself' right from 2002 through to even during the 2007 bull-run (of course, in 2007 nobody would listen to me) My 'doing it yourself' marketing methods can be learned from one of my older books titled "Double Your Listings Double Your Income" where I share many 'poor man's' methods in Prospecting.

(c) Findings of the case study

My research on the HDB resale flat listings in Ang Mo Kio in June 2008 has surfaced the following findings.

- **Low advertising hit rate** (too many unsold listings with high asking prices)

The advertisement hit rate for all the current listings in Ang Mo Kio estate was 15.84%.

This does not mean that every agent has a 15.84% chance of closing something in Ang Mo Kio. Unfortunately, it means that only 15.84% of the agents who have at least one active listing in Ang Mo Kio had sold something there in June 2008.

That also means the vast majority, i.e. 84.16%, of the agents plying their trade in the Ang Mo Kio did not have a closing in (and therefore did not earn any income from) that estate in June 2008.

- **Agents' Pricing techniques need polishing** (so as not to end up with cash flow dislocation themselves)

When supply far exceeds demand – in Ang Mo Kio's case, 122 transactions out of 770 advertisements of active listings – the listings with the correct pricing will be sold first. While it is incorrect to equate correct pricing with the 'lowest price', the listing that is priced at the lowest range will be sold first – everything being equal. In other words, if there are 5 listings within the same block and all the listings are on the high floor, the cheapest unit will be sold first and the most expensive last – everything being

equal.

(d) Methods of the case study

Facts established

Flat type	No. of adverts	No. of closings	Asking price	Transacted price
3-room	394	75	\$200k - \$300k	4 units sold at or above \$300K 41 units sold below \$230K (of which 7 sold at or below \$200k) The rest sold at in-between price
4-room	164	30	\$300k - \$370k	6 units sold above \$400k 19 units sold at or below \$350k (of which two sold below \$290k) The rest sold at in-between price
5-room	164	15	\$410k - \$515k	1 unit sold above \$500k 4 units sold below \$400k The rest sold at in-between price
Executive	18	2	\$580k - \$700k	1 unit sold at \$571k 1 unit sold at \$620k

Verdict on agent's cost effectiveness

For the two E-flats transacted, they were sold at \$571,000 and \$620,000 respectively. However, the majority of the advertisements had much higher asking prices than the eventual sale prices.

It appears many agents are still struggling with the pricing process, which is never going to be easy – because we are dealing with the property sellers' aspirations, egos and imagination.

It has become very obvious from this case study that the agents who are able to convince the property sellers, who have the need to be the pricing champion, to sell at the market equilibrium would be able to help the property sellers fulfil their housing plans without wasting too much time.

In time of high inflation, a longer waiting time may cost the property sellers who intend to move on to a better property dearly due to the speedy loss of purchasing power (when the prices of his target property goes up faster than his old property).

However, how to educate the sellers is a separate matter altogether. [Read my new book on **“Pricing it Right – Selling it Fast (2008)**]