

# BUY LOW, SELL HIGH

## PROFITABILITY OF NEW LAUNCHES

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New projects made up two-thirds of overall sales in 1H2013. One reason is that the median price of a new unit in the primary market is now as much as 19% lower than the secondary market, a stark reversal compared to pre-2011. Apart from market conditions, picking the right location is key to a new project's profitability upon completion.

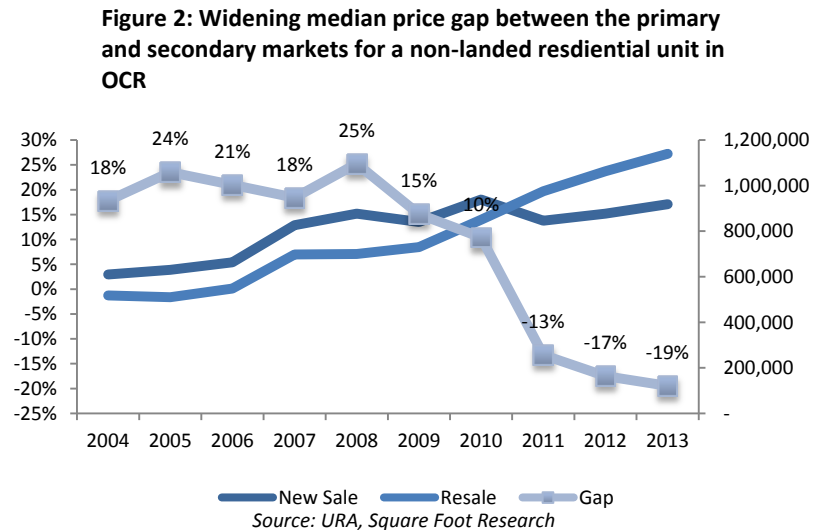
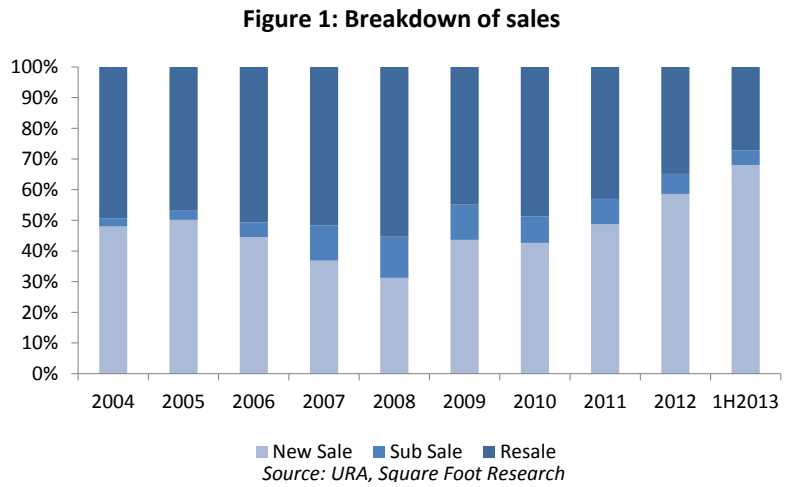
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### Penchant for New Projects

New projects have been increasingly popular (Figure 1) and in 1H2013, primary market sales make up two-thirds of overall sales. It may be worthwhile to point out that the more affordable quantum has been the key driver. Since 2011, the median price of a Outside of Central (OCR) non-landed residential unit in the primary market is as much as 19% lower than that in the secondary market (Figure 2), this is a reversal from pre-2011, where the median price in the primary market is 10-25% higher.

Apart from affordability, other advantages of buying new launches include progressive payment (saving on interest) and the avoidance of Seller's Stamp Duty (SSD), which expires in 4 years, or just about the time it takes for the new project to finish construction. New projects are also upgrader-friendly, in that upgraders can apply for refund of any Additional Buyer's Stamp Duty (ABSD) paid if the married couple's (with at least a Singaporean spouse) current property is disposed within 6 months after the new project completes.



Discounts given by developers also help increase the appeal of new projects as buyers are swayed to believe that they are getting the best deal. Nevertheless, new launches are usually priced much higher in terms of per square foot due to today's increasing land and construction costs. This report looks at new launches since year 2000 to investigate the profitability of new launches upon completion.

**Table 1: Median price of a non-landed residential unit in Outside of Central Region (OCR)**

| Year | New Sale | Resale    | Gap  |
|------|----------|-----------|------|
| 2004 | 610,210  | 518,000   | 18%  |
| 2005 | 630,000  | 510,000   | 24%  |
| 2006 | 663,000  | 548,000   | 21%  |
| 2007 | 826,580  | 698,000   | 18%  |
| 2008 | 876,580  | 700,000   | 25%  |
| 2009 | 840,290  | 730,000   | 15%  |
| 2010 | 938,400  | 850,000   | 10%  |
| 2011 | 846,000  | 975,000   | -13% |
| 2012 | 877,000  | 1,063,000 | -17% |
| 2013 | 918,000  | 1,140,000 | -19% |

Source: URA, Square Foot Research

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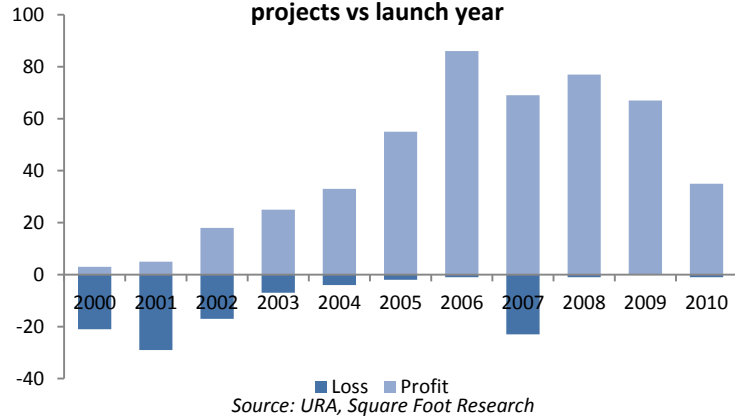
## PROFITABILITY OF NEW LAUNCHES

### Profitability of New Launches

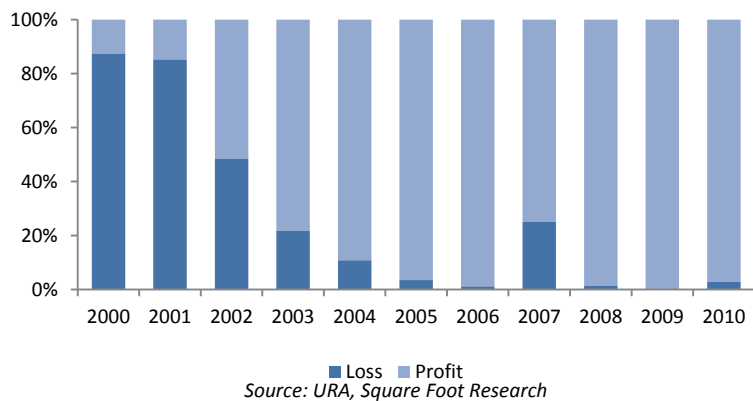
Our findings suggest that new launches are historically largely profitable at the point of completion. Looking at the average capital gain of new projects launched after the year 2000 with resale transactions occurring within a 365-day window before and after completion, out of a total of 581 projects with sufficient data, about 1 in 5 (22.3%) reflected a loss whereas 77.7% reflected a profit. Most of the unprofitable projects (63.2%) were launched in the years 2000 to 2002 and bulk of the remaining (21.7%) came from 2007 (Figure 3). The percentage of unprofitable projects by launch year declined over the years (Figure 4), dipping to below 5% from 2005 onwards (with the exception of 2007).

The profitability of new projects over time (Figure 5) exhibits a strong correlation with overall market conditions. Unprofitable projects were mainly launched 1 to 3 years before the occurrence of major crises (2001 - the dot-com bubble and terrorist attack, 2003 - SARS crisis and 2008 – the global financial crisis). As new projects usually take up to 4 years to complete from its launch date, these unprofitable

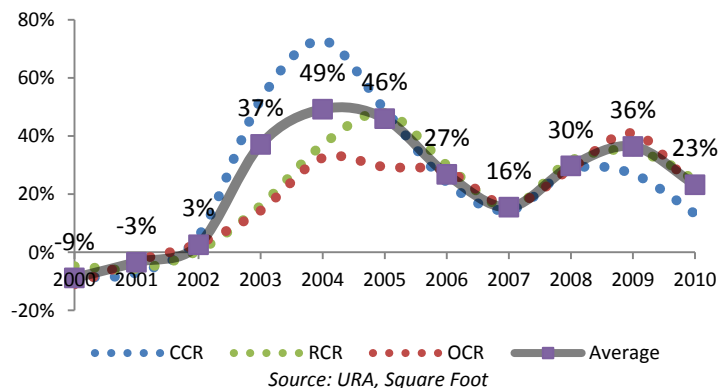
**Figure 3: Number of profitable and unprofitable new projects vs launch year**



**Figure 4: Percentage of profitable and unprofitable new projects vs launch year**



**Figure 5: Average capital gain of new projects upon TOP vs launch year**



projects were completed and sold during periods of unfavourable conditions.

The most unprofitable new projects were launched from the year 2000 to 2001 where buyers were hit with an

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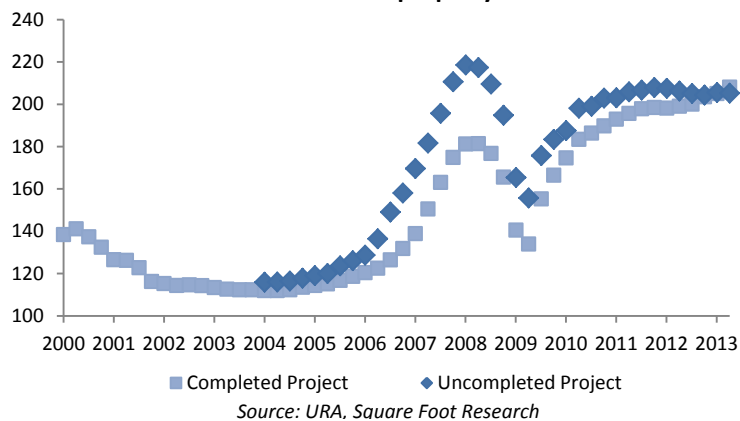
average overall loss (Figure 5). This is evident from the Property Price Index (PPI) (Figure 6) as the period corresponds to the downswing in overall prices.

New projects launched after 2002 caught the upswing in property prices from 2002 to 2008. The average capital gain peaked between 2003 to 2005 and 2008 to 2010 (Figure 5). These correspond to the two cycles in the PPI (Figure 6). Projects launched during the former peak enjoyed a higher capital yield due to the steeper rate of price appreciation in PPI from 2005 to 2008 as compared to 2009 to 2013 (Figure 6).

### Planning Region Analysis

Projects launched in the Central Core Region (CCR) during 2003 to 2005 profited the most in terms of capital gain, peaking at 74% in 2004. Nearly half (46%) of the top 50 most profitable projects (see Table 3) came from CCR, with The Sail @ Marina Bay topping the chart at an average capital gain of 96.75%. Southbank in Rest of Central Region (RCR), came in second with an average capital gain of 87.20%. Caspian tops the chart for projects in the Outside of Central Region (OCR), and

**Figure 6: Property Price Index (PPI) of non-landed private residential property**



ranks 9 overall with an average capital gain of 65.30%. Interestingly, in the second cycle (2008 - 2010), projects in RCR overtook the other two regions although the average capital gain peaked at about half of what CCR achieved in the first cycle.

### Conclusion

The profitability of new launches is largely dependent on market conditions at the point of completion. The capital gain however, can differ significantly based on the project's location, or planning region as in this case. Betting on the right location can pay off handsomely. In Figure 5, CCR outperformed OCR by a staggering 41% in the first cycle. In the second cycle, OCR outperformed CCR by 14%.

### Additional Comments: Recent Performance of New Launches

Developer Sales for 3Q2013 plunged to the lowest since Q42009 to a 2,432 units sold for non-landed private residential property, which is a drop of 46.4% q-o-q and 58.9% y-o-y. The Total Debt Servicing Ratio (TDSR) framework introduced in early July is presumably the reason for the drop as it affects significantly one's buying power and hence restricting the pool of potential buyers.

50.1% of the new sales in 3Q2013 came from September alone, with 1,219 new sales reported, an increase of 50% over the month of August, which had 739 new sales. 68.2% of the new sales in September came from new developments launched in the month.

Out of 17 projects launched in the 3Q2013, 5 projects sold more than 50% (Table 2). Excluding projects launched in

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last month, The Tembusu tops the chart at 64% followed by Kensington Square and Cassia Edge, both at 63%. The bottom performer, which is also the most expensive at \$2,498 psf, is a project in CCR, selling only 1 out of 30 units.

Projects launched in RCR performed better than those in OCR in September. Sky Vue, Thomson Three and Onze @ Tanjong Pagar, located in RCR, sold 62%, 59% and 16% of the total units respectively whereas The Skywoods and The Glades, located in OCR, sold 9% and 12% respectively.

Comparing Onze @ Tanjong Pagar and Devonshire 8, although both command a relatively high selling price of \$2,374psf and \$2,498psf respectively, the better response for the former may be attributed to the fact that Onze @ Tanjong Pagar is a mixed development.

Sky Vue, which contributed 52% of the 832 new units sold in September, shone in comparison to Sky Habitat, which is located just next door. Comparing Sky Vue, where 74% of its 694 units are 1 to 2 small bedroom units ranging from 484 sqft to 915 sqft, with Sky Habitat, where 69% of its 505 units are above 1,000 sqft,

the former sold 62% of the total units during the initial stage of launch whereas only 34% of the total units in the latter were sold since its launch in early 2012. Despite its luxurious interior design, the lacklustre performance of Sky Habitat seems to imply that buyers are more concerned about practicality than quality. In addition, most of the units sold for Sky Vue are smaller units, which are more affordable in terms of gross quantum.

Interestingly, contrary to the positive response for Urban Vista, which sold 66.9% of the total units at a median price of \$1,503 when it was launched in March this year, The Glades, located nearby and launched at a median price of \$1,518 last month, just half a year later, did not get to enjoy the same response.

The huge discrepancy in performance especially in recent months is evident of the stiff competition in today's market, where only the most attractive product, determined by a combination of factors such as location, project mix and price, are able to sell well.

### **Land Prices to Moderate**

As demand starts to falter, we expect to see land prices

moderate as developers take on increasingly higher risk in today's market. As can be seen in a few examples mentioned earlier, an unattractive pricing can lead to very poor take-up due to stiff competition. This will be made even tougher as the authority is rolling out "twin" sites for tender, essentially two adjacent sites with very similar attributes up for sale at the same time. As the sites are sold at the same time, they are expected to launch around the same time so developers have to take into account future competition when it comes to pricing their bids.

# NEW LAUNCHES

## PROJECTS LAUNCHED IN 3Q2013

Table 2: Sales of new projects launched in 3Q2013

| Month | Project Name         | Region | Total Units | Total Launched | Total Sold | % Sold | Average Price (\$PSF) |
|-------|----------------------|--------|-------------|----------------|------------|--------|-----------------------|
| July  | CASSIA EDGE          | RCR    | 27          | 27             | 17         | 63%    | \$1,390               |
|       | DEVONSHIRE 8         | CCR    | 30          | 30             | 1          | 3%     | \$2,498               |
|       | RIVERSIDE MELODIES   | RCR    | 41          | 41             | 4          | 10%    | \$1,358               |
|       | THE QUINN            | OCR    | 139         | 139            | 17         | 12%    | \$1,615               |
|       | THE SERENNO          | RCR    | 33          | 33             | 3          | 9%     | \$1,477               |
|       | VUE 8 RESIDENCE      | OCR    | 463         | 150            | 109        | 24%    | \$1,021               |
| Aug   | 28 RC SUITES         | RCR    | 45          | 45             | 8          | 18%    | \$1,698               |
|       | 8 FARRER SUITES      | RCR    | 34          | 34             | 10         | 29%    | \$1,730               |
|       | FLORAVILLE           | OCR    | 50          | 50             | 19         | 38%    | \$1,418               |
|       | KENSINGTON SQUARE    | OCR    | 141         | 141            | 89         | 63%    | \$1,490               |
|       | RV RESIDENCES        | CCR    | 248         | 83             | 58         | 23%    | \$2,041               |
|       | THE TEMBUSU          | OCR    | 337         | 337            | 217        | 64%    | \$1,573               |
| Sep   | ONZE @ TANJONG PAGAR | RCR    | 56          | 56             | 9          | 16%    | \$2,374               |
|       | SKY VUE              | RCR    | 694         | 505            | 433        | 62%    | \$1,401               |
|       | THE GLADES           | OCR    | 726         | 200            | 89         | 12%    | \$1,518               |
|       | THE SKYWOODS         | OCR    | 420         | 420            | 37         | 9%     | \$1,290               |
|       | THOMSON THREE        | RCR    | 445         | 320            | 264        | 59%    | \$1,362               |

Source: URA, Square Foot Research

# NEW LAUNCHES

## TOP 30 PROJECTS RANKED BY CAPITAL GAIN

Table 3: Top 30 projects ranked by capital gain upon TOP

| Project Name             | Planning Region | Launch Year | TOP Year | Average Purchase Price (\$PSF) | Average Sale Price (\$PSF) | Average Capital Gain <sup>1</sup> |
|--------------------------|-----------------|-------------|----------|--------------------------------|----------------------------|-----------------------------------|
| THE SAIL @ MARINA BAY    | CCR             | 2004        | 2008     | 965                            | 1,873                      | 96.75%                            |
| SOUTHBANK                | RCR             | 2006        | 2010     | 723                            | 1,332                      | 87.20%                            |
| URBANA                   | CCR             | 2004        | 2007     | 950                            | 1,653                      | 74.19%                            |
| ICON                     | CCR             | 2003        | 2007     | 694                            | 1,179                      | 70.15%                            |
| THE BELVEDERE            | RCR             | 2005        | 2007     | 785                            | 1,321                      | 67.90%                            |
| THE METZ                 | CCR             | 2004        | 2007     | 1,262                          | 2,108                      | 67.42%                            |
| WATERMARK ROBERTSON QUAY | CCR             | 2005        | 2008     | 829                            | 1,366                      | 65.80%                            |
| ONE AMBER                | RCR             | 2005        | 2010     | 712                            | 1,176                      | 65.35%                            |
| CASPIAN                  | OCR             | 2009        | 2012     | 619                            | 1,022                      | 65.30%                            |
| CITYLIGHTS               | RCR             | 2004        | 2007     | 636                            | 1,037                      | 64.38%                            |
| THE SEA VIEW             | RCR             | 2005        | 2008     | 779                            | 1,273                      | 63.97%                            |
| NOMU                     | CCR             | 2006        | 2009     | 1,038                          | 1,642                      | 62.35%                            |
| MONTVIEW                 | CCR             | 2005        | 2008     | 752                            | 1,211                      | 61.11%                            |
| THOMSON V TWO            | RCR             | 2007        | 2012     | 891                            | 1,424                      | 60.10%                            |
| THE BERTH BY THE COVE    | CCR             | 2004        | 2006     | 836                            | 1,326                      | 59.26%                            |
| 8 @ MOUNT SOPHIA         | CCR             | 2005        | 2007     | 756                            | 1,189                      | 58.35%                            |
| 8@WOODLEIGH              | RCR             | 2009        | 2012     | 803                            | 1,265                      | 57.80%                            |
| PARC EMILY               | CCR             | 2005        | 2008     | 791                            | 1,229                      | 56.97%                            |
| ORION                    | CCR             | 2005        | 2008     | 1,473                          | 2,305                      | 56.80%                            |
| VISIONCREST              | CCR             | 2003        | 2007     | 1,188                          | 1,858                      | 56.65%                            |
| NEWTON SUITES            | CCR             | 2004        | 2007     | 893                            | 1,396                      | 56.17%                            |
| ONE ROSYTH               | OCR             | 2008        | 2011     | 704                            | 1,078                      | 53.76%                            |
| THE GRANGE               | CCR             | 2005        | 2008     | 1,554                          | 2,380                      | 53.67%                            |
| VARSITY PARK CONDOMINIUM | OCR             | 2004        | 2008     | 453                            | 690                        | 53.56%                            |
| PARK INFANIA AT WEE NAM  | CCR             | 2005        | 2008     | 906                            | 1,385                      | 53.12%                            |
| ALEXIS                   | RCR             | 2009        | 2012     | 1,075                          | 1,642                      | 53.02%                            |
| DOUBLE BAY RESIDENCES    | OCR             | 2009        | 2012     | 678                            | 1,033                      | 52.93%                            |
| RIVEREDGE                | RCR             | 2005        | 2008     | 625                            | 953                        | 52.67%                            |
| THE LUCENT               | OCR             | 2008        | 2011     | 763                            | 1,160                      | 52.36%                            |
| CITY EDGE                | CCR             | 2006        | 2007     | 810                            | 1,230                      | 52.20%                            |

Source: URA, Square Foot Research

Note: (1) Projects launched from 2000 onwards with more than 1 transaction at the point of completion. (2) Average capital gain is calculated based on actual realised gain by first-hand purchasers.

# NEW LAUNCHES

## BOTTOM 30 PROJECTS RANKED BY CAPITAL GAIN

Table 4: Bottom 30 projects ranked by capital gain upon TOP

| Project Name             | Planning Region | Launch Year | TOP Year | Average Purchase Price (\$PSF) | Average Sale Price (\$PSF) | Average Capital Gain <sup>1</sup> |
|--------------------------|-----------------|-------------|----------|--------------------------------|----------------------------|-----------------------------------|
| SANCTUARY GREEN          | RCR             | 2000        | 2004     | 698                            | 533                        | -22.53%                           |
| QUEENS                   | RCR             | 2000        | 2002     | 797                            | 619                        | -21.91%                           |
| HILLINGTON GREEN         | OCR             | 2000        | 2002     | 658                            | 539                        | -18.05%                           |
| BALMORAL 8               | CCR             | 2001        | 2003     | 1,233                          | 1,026                      | -16.83%                           |
| THE TRUMPS               | OCR             | 2001        | 2005     | 654                            | 548                        | -16.25%                           |
| THE FERNHILL             | CCR             | 2007        | 2009     | 1,410                          | 1,194                      | -15.35%                           |
| THOMSON EURO-ASIA        | CCR             | 2000        | 2002     | 959                            | 811                        | -15.32%                           |
| THE SOLITAIRE            | CCR             | 2007        | 2009     | 2,146                          | 1,827                      | -14.76%                           |
| THE PETALS               | OCR             | 2000        | 2002     | 671                            | 575                        | -14.33%                           |
| THE WATERINA             | RCR             | 2002        | 2005     | 585                            | 501                        | -14.28%                           |
| SUNHAVEN                 | OCR             | 2000        | 2002     | 639                            | 554                        | -12.71%                           |
| THE TESSARINA            | CCR             | 2000        | 2003     | 911                            | 795                        | -12.70%                           |
| RIVERVALE CREST          | OCR             | 2000        | 2002     | 502                            | 441                        | -12.01%                           |
| MANDALE HEIGHTS          | CCR             | 2001        | 2004     | 699                            | 613                        | -11.57%                           |
| BUTTERWORTH 8            | RCR             | 2001        | 2004     | 723                            | 643                        | -11.13%                           |
| THE GARDENS AT BISHAN    | RCR             | 2000        | 2004     | 554                            | 497                        | -10.72%                           |
| NEWTON EURO-ASIA         | CCR             | 2000        | 2004     | 903                            | 807                        | -10.58%                           |
| FOREST HILLS CONDOMINIUM | OCR             | 2000        | 2003     | 471                            | 421                        | -10.53%                           |
| COSTA DEL SOL            | OCR             | 2000        | 2004     | 738                            | 660                        | -10.51%                           |
| BEAUFORT ON NASSIM       | CCR             | 2007        | 2008     | 2,493                          | 2,225                      | -10.37%                           |
| HILLVIEW REGENCY         | OCR             | 2000        | 2006     | 529                            | 476                        | -9.84%                            |
| PALM GROVE CONDOMINIUM   | OCR             | 2000        | 2002     | 619                            | 562                        | -9.52%                            |
| 8 NAPIER                 | CCR             | 2007        | 2010     | 3,530                          | 3,200                      | -9.34%                            |
| GROSVENOR VIEW           | OCR             | 2002        | 2006     | 639                            | 581                        | -9.21%                            |
| GRANGE INFINITE          | CCR             | 2007        | 2011     | 3,113                          | 2,829                      | -9.07%                            |
| YISHUN EMERALD           | OCR             | 2000        | 2002     | 466                            | 425                        | -8.58%                            |
| WATER PLACE              | RCR             | 2001        | 2004     | 721                            | 663                        | -8.00%                            |
| SUNVILLE                 | RCR             | 2001        | 2005     | 562                            | 519                        | -7.44%                            |
| TANAMERA CREST           | OCR             | 2001        | 2004     | 481                            | 447                        | -6.93%                            |
| ORANGE GROVE RESIDENCES  | CCR             | 2007        | 2009     | 2,031                          | 1,884                      | -6.78%                            |

Source: URA, Square Foot Research

Note: (1) Projects launched from 2000 onwards with more than 1 transaction at the point of completion. (2) Average capital gain is calculated based on actual realised gain by first-hand purchasers.



# APPENDIX

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