Corporate Real Estate

Higher Stamp Duty Rates and Tightened Loan-to-Value Limits on Residential Property Purchases

Introduction

Barely 4 months after the Budget announcement on increased buyer's stamp duty, and just over a year since Additional Conveyance Duties ("**ACD**") was imposed on residential property-holding entities, the government introduced yet another set of increased stamp duties for the purchase of residential properties, which takes effect from 6 July 2018.

The changes will affect all segments of the residential property market - property developers, investors, banks and even first-time home buyers, who, even though they may not be affected by the increase in additional buyer's stamp duty ("**ABSD**"), will have to fork out more cash and/or use more CPF savings to pay for the portion of the purchase price that will not be covered by their financing from banks and financial institutions (collectively referred to as "**Banks**" for simplicity).

Changes at a glance

The 2 broad measures that have come into effect are:

(i) an increase in ABSD for most purchasers except Singapore citizens ("**SC**") and Singapore Permanent Residents ("**SPR**") buying their first residential properties; and

(ii) a reduction in the loan-to-value **("LTV**") limits granted by Banks.

New ABSD rates

The new ABSD rates are set out below:

Profile of buyer	**Previous ABSD Rates** (between 12 Jan 2013 to 5 Jul 2018)	**New ABSD Rates** (options issued on or after 6 Jul 2018)
SC buying 1st residential property	Not applicable	Not applicable
SC buying 2nd residential property	7%	12%
SC buying 3rd and subsequent residential property	10%	15%

<table>
<tr><th>Profile of buyer</th><th>Previous ABSD Rates
(between 12 Jan 2013 to 5 Jul 2018)</th><th>New ABSD Rates
(options issued on or after 6 Jul 2018)</th></tr>
<tr><td>SPR buying 1st residential property</td><td>5%</td><td>5%</td></tr>
<tr><td>SPR buying 2nd and subsequent residential property</td><td>10%</td><td>15%</td></tr>
<tr><td>Foreigners (FR) buying any residential property</td><td>15%</td><td>20%</td></tr>
<tr><td rowspan="2">Entities buying any residential property</td><td rowspan="2">15%</td><td>25%
(may be remitted for housing developers (licensed and unlicensed), subject to conditions)</td></tr>
<tr><td>Additional 5% for housing developers (licensed and unlicensed)
(cannot be remitted)</td></tr>
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The existing remissions for married couples still apply.

For housing developers, to be able to obtain remission on 25% of the ABSD, it must be in the business of construction and sale of housing units and must sell all units in the new development built within 3 years (for unlicensed developments with 4 or less units) or 5 years (licensed developments with 5 or more units). It is to be noted that ACD for acquisition of shares in residential property-holding entities has also been correspondingly increased such that the same rate of duty as ABSD applies.

During this transitional period, the previous ABSD rates will still apply if:

(i) The option to purchase ("**Option**") is granted on or before 5 July 2018; and

(ii) The Option is exercised on or before 26 July 2018 or the date of expiry of the Option, whichever is earlier; and

(iii) The Option is not varied in any way (including any extension of the validity period) on or after 6 July 2018.

New Loan to Value Limits

The new LTV limits are set out below.

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For individual borrowers

		Previous LTV Limits	New LTV Limits (for options granted on or after 6 July 2018)
1st housing loan	loan tenure ≤ 30* years and does not extend beyond age 65 years	80%	75%
	loan tenure > 30* years or extends beyond age 65 years	60%	55%
2nd housing loan	loan tenure ≤ 30* years and does not extend beyond age 65 years	50%	45%
	loan tenure > 30* years or extends beyond age 65 years	30%	25%
3rd housing loan	loan tenure ≤ 30* years and does not extend beyond age 65 years	40%	35%
	loan tenure > 30* years or extends beyond age 65 years	20%	15%
1st equity loan**		80%	75%
2nd and subsequent equity loan**		60%	45%

** 25 years for HDB properties*
*** Equity loan refers to a loan which is secured by residential property, but which is not taken for the purchase of the property.*

For non-individual borrowers

	Previous LTV Limits	New LTV Limits (for options granted on or after 6 July 2018)
All housing loans	20%	15%
Equity loans (only applicable for borrowers which are special purpose vehicles set out primarily for the purchase of the property "**SPV**"))	80%	75%

The new limits are applicable for all loans granted by Banks, including loans which are secured by HDB properties. The limits do not, however, apply to loans granted by HDB.

There is no change to the minimum cash payment required for the purchase of residential properties.

Implications of the changes

How will the above changes affect the different stakeholders?

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Individual home buyers and home owners

As mentioned at the outset, even first-time home buyers who are SCs or SPRs and who are not affected by the increase in stamp duty will have to pay for their purchases with more cash and/or CPF as the loan to value limits have been reduced from 80% to 75% for such purchasers. First-time home buyers who are financially stronger and able to fork out the additional cash may very well welcome the changes, if they lead to sellers lowering their expectations on prices.

Collective sale owners who have sold their existing homes will now have to pay additional stamp duty if they intend to purchase a replacement home. For those who are affected by the increase in ABSD rates **and** the reduction in LTV limits, the increase in cash outlay is even more substantial and a property worth S$1 million will set them back by an additional S$100,000 in cash and/or CPF funds.

After the buying frenzy that occurred on Thursday night, people are likely to take a wait-and-see approach, with possible expectation of housing developers reducing prices or absorbing (at least partially) the additional amounts which a purchaser would have to pay.

Housing Developers

Housing developers, who previously did not have to pay ABSD at all if they met the remission conditions, will now have to pay 5% ABSD upfront. This invariably adds to the land cost and will definitely be factored in the purchase price when housing developers bid for land or development sites. Coupled with the increasing regulatory requirements for new developments, housing developers will be more cautious in their purchase and will have to choose their sites well.

Additionally, if they are not able to comply with the remission conditions, they will also have to pay 25% of the land acquisition cost.

Housing developers will have to decide carefully at the time of purchase whether it intends to purchase the property for re-development or not. If a housing developer has paid the 25% ABSD at the time of purchase and subsequently decides to re-develop the site, it will not be able obtain any remission as a housing developer, even if it is able to comply with the conditions for remission. Similarly, if a housing developer has applied for remission as a housing developer and subsequently decides not to proceed with the re-development and/or the conditions for remission are not met, ABSD plus interest will be payable.

Banks

Other than the reduction in the LTV, there were also other amendments to Notice 632 (governing LTV for residential properties) and Notice 645 (governing the total debt servicing ratio ("**TDSR**") regime, which is applicable to all property types) issued by the Monetary Authority of Singapore ("**MAS**") which Banks will need to take note of.

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Notice 632

One pertinent change is that Banks can no longer exclude the application of the LTV limits for new facilities even if the borrower provides sufficient collateral to the Bank. Previously, where the market valuation of the collateral which is not residential property (less the value of encumbrance) comprises at least 50% of the credit limit of the credit facility, Banks need not comply with the LTV limits set out in Notice 632. However, this is no longer the case and the exclusion only applies (a) if the application date of the credit facility is prior to 6 July 2018 or (b) the facility is a refinancing facility for a credit facility and the application date of the original facility is prior to 6 July 2018.[1]

Another change is that previously, where a Bank grants a credit facility to an individual (including an individual who directly or indirectly holds an SPV), the Bank need not conduct comprehensive checks with one or more credit bureaus and the HDB on the information held by such parties:

(i) to verify whether that individual at the time of applying for the credit facility, had any other outstanding credit facility for the purchase of any other residential property;

(ii) to comply with the LTV limits; and

(iii) to ensure that the cash difference has been paid,

if the LTV to be applied by the Bank is 40% or less. This percentage is now reduced to **15%** for credit facilities taken for the purchase of residential property. For credit facilities otherwise secured by residential property and refinancing facilities for a credit facility otherwise secured by residential property, the percentage is reduced from 60% to 45%. Hence, where the LTV exceeds the limit of 15% or 45% as the case may be, the checks with the credit bureau and HDB are required.

Notice 645

Unlike for Notice 632, the facilities that can be excluded from Notice 645 was not amended substantially. Banks can therefore continue to exempt borrowers from TDSR calculation for credit facilities which are secured by a pool of collateral where the market value of the collateral which is not property (less the value of any encumbrance) comprises at least 50% of the credit limit of the credit facility at all times. Slight amendments were made to make clear that this exemption applies to refinancing facilities as well and that the pool of collateral need not include property.

Some clarifications were made with regard to what information or documents that Banks can or need to obtain from borrowers, for example:

[1] Notice 632, paragraph 20

(i) where the borrower's source of income in not in Singapore, Banks can rely on statements from the equivalent tax authority in a foreign country or territory to verify the source of income of the borrower[2]; and

(ii) in determining the gross monthly income of a borrower, where the borrower is applying for a credit facility for the purchase of property and the purchase is subject to an existing tenancy, the Bank needs to see evidence that the assignment of the existing tenancy agreement to the borrower is a condition for the purchase of the property[3].

Conclusion

How will the residential property market pan out in the coming months? As with all the previous rounds of cooling measures, only time will tell. It just might defy all our expectations.

[2] Notice 645, paragraph 27(b)
[3] Notice 645, paragraph 18(b)(ii)(A)

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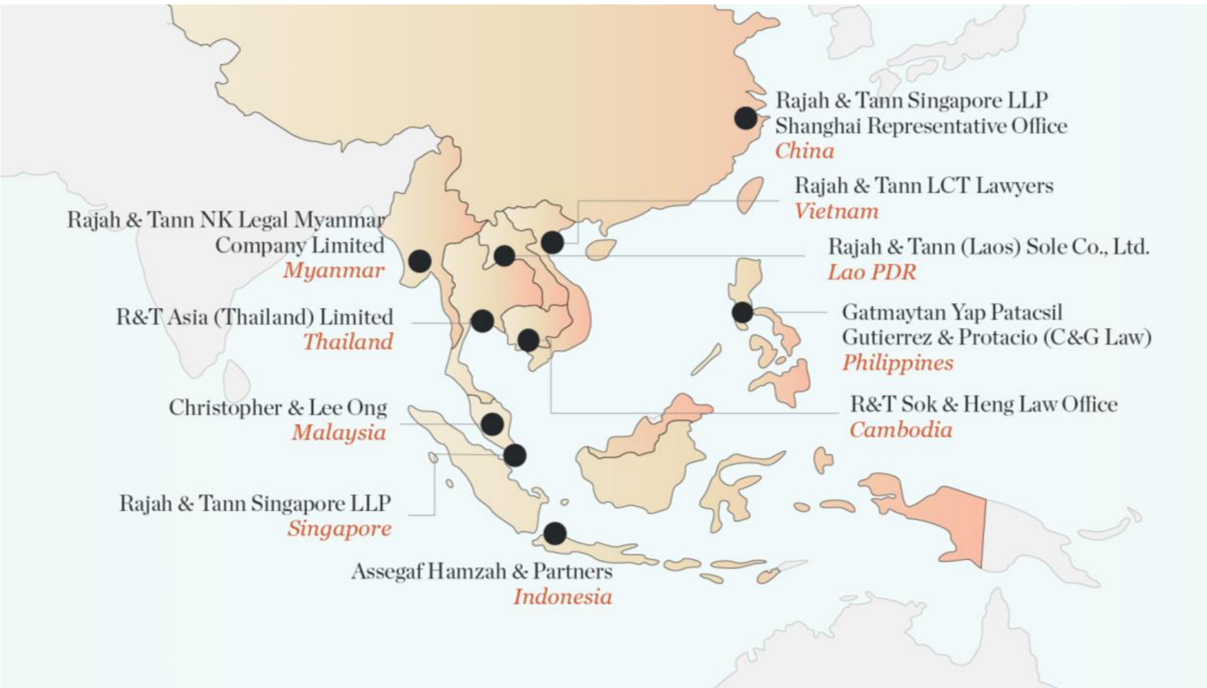

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