Savills World Research
Singapore

Asian Cities Report
Singapore Investment Sales

2H 2018

TABLE 1

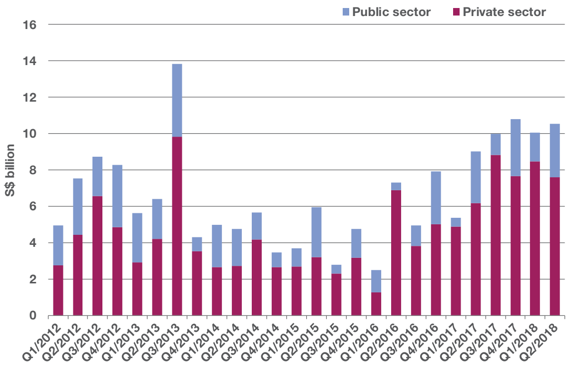
Top government land and private sales, Q2/2018

Location	Type of development allowed	Date of award	Successful tender price (S$ mil)	Transaction type	Name of successful tenderer
Holland Road	Commercial & Residential	May	1,213.3	GLS	Stirling Land Holdings Pte Ltd, Stirling View Pte Ltd (as Trustee of Commons SR Trust) and Stirling Property Pte Ltd (as Trustee of Commons Commercial Trust)
Silat Avenue	Residential	May	1,035.3	GLS	UOL Venture Investments Pte Ltd, UIC Homes Pte Ltd and Kheng Leong Company (Private) Limited
Tulip Garden	Residential	Apr	906.9	Collective sales	MCL Land and Yanlord Land Group
Twenty Anson	Commercial	Jun	516.0	Private	AWE
Dunearn Gardens	Residential	Apr	468.0	Collective sales	EL Development

Source: URA, Savills Research & Consultancy

GRAPH 1

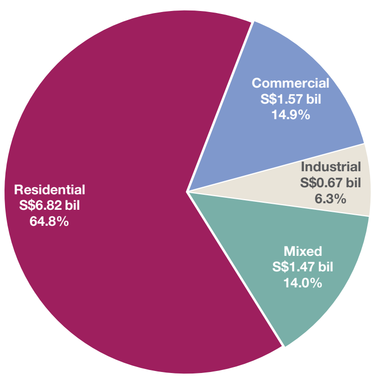
Investment sales transaction values, Q1/2012 – Q2/2018



Source: Savills Research & Consultancy

GRAPH 2

Investment sales transaction volumes by property type, Q2/2018



Source: Savills Research & Consultancy

Investment sales market overview

In Singapore, real estate investment in Q2/2018 continued to grow strongly, recording S$10.53 billion in sales. This was 4.7% higher than the S$10.06 billion recorded in Q1/2018.

Investment sales from the public sector amounted to S$2.92 billion in Q2, up 81.6% quarter-on-quarter (QoQ) from the S$1.61 billion transacted in Q1. Under the Government Land Sales (GLS) programme, a total of seven sites (including three residential sites, three industrial sites and one commercial & residential site) were awarded for development in Q2.

By contrast, the volume of transactions in the private sector fell by 10.0% QoQ to S$7.61 billion in Q2/2018. Investment sales of commercial, industrial and mixed-use properties showed substantial increases from the prior quarter, although this was offset by the decline in the residential segment as more smaller-sized collective sale deals were completed in Q2.

Market intervention on 6 July 2018

For the first half of 2018, the feverish collective sales market for residential development alone accounted for 48% of the bulk of investment sales volume. However, the revised Additional Buyer's Stamp Duty (ABSD) implemented on 6 July 2018 is expected to put a dampener on the number of collective sales transactions in the coming six months. As developers now face a 5% non-remittable ABSD charge for the land they purchase, they are unlikely to take that loss, instead transferring the charge to vendors through a haircut on their reserve price. This could result in a drying up of collective sales transactions.

With buyers of second properties now being hit by a punitive extra 5% ABSD, developers believe it will be more difficult for them to sell out large projects within five years of the award of the land. The revised 25% ABSD levied on developers who fail to complete sales of new units within five years is thus likely to present an obstacle to large collective sales sites that could yield well over a thousand new launch units. A replay of the 2014-15 situation is likely and, for 2H/2018, we expect transactions in the residential collective sales market to shrink significantly. The S$9.84 billion achieved in the collective sales market for 1H/2018 is unlikely to be repeated. While some smaller sites may still be sold, the total achieved for 2H/2018 may well be just a fraction of the 1H number, perhaps even below S$1 billion.

The next hot sector

Given the volume of money in the global system in search of investible assets, investor attention may turn towards the industrial and commercial sectors, where regulations on the purchase and sale of properties are not as onerous as those applied to the residential sector. We shall look at one of the two major real estate sectors (industrial and office) that may stand to benefit from the policy measures that stymie transactions in the residential sector, namely strata-titled industrial units.

Industrial – For individual investors, strata-titled industrial space is increasingly looking attractive again. Although there are measures like the Seller's Stamp Duty (SSD), which has been in place since 12 January 2013, compared to the residential sector's ABSD, industrial is not a deadweight monetary loss from the start. Therefore, in relative terms, investing in strata-titled industrial properties now looks unfettered for potential buyers.

However, from the grouses of small and medium-sized enterprises here, some may ask whether industrial properties are good for investment. Their concerns may arise out of the fact that, despite the improvement in manufacturing performance in recent quarters, rents for factory and warehouse space have been languishing. Also, some may wonder how can strata-titled industrial properties benefit from the government's emphasis on new value-added and productive-growth markets? How does the shift in focus towards the Precision Engineering, Electronics and Energy & Chemicals ITM sector, which fuels demand for high-tech and business park spaces, positively affect the demand for traditional B1 and B2 strata space?

Well, if one were to focus purely on the up and downstream linkages to the newfangled 4.0 industries, then there isn't that much benefit. However, there is one sub-segment of the industrial space market that is thriving and is still related to the government's productivity push. That is space related to the food industries, particularly Central Kitchens.

What is a Central Kitchen?

A Central Kitchen (CK) is a focal point where food is prepared and semi or fully cooked before delivery to outlets of a dedicated Food & Beverage (F&B) entity or a multitude of F&B customers. The CK is located either in an outlet of an F&B establishment or in an industrial property. The focus here is on CKs located in industrial properties, which we believe is the next hot industrial sub-sector.

Have CKs been widely adopted? In a survey conducted by the Singapore Productivity Centre of 50 large food services companies here, the majority (68%) responded that their CKs are already standalone facilities (please refer to Graph 3). In other words, the market for CKs is already an established feature.

With retail rents stuck in high gear and a crunch on foreign labour hires still in force, F&B establishments have been and will continue to optimize their space requirements in malls. This translates to greater demand for CKs.

Also, with the growth of F&B setups in recent years, retail mall landlords, realizing the challenging times faced by traditional retailers, are undergoing further Asset Enhancement Initiatives (AEI) for their existing malls to improve mechanical systems and floor layouts to accommodate higher F&B content.

The statistics on the cumulative net business formation numbers for F&B outlets show strong growth since 2013. On a year-on-year (YoY) basis, in June 2018, the number of F&B businesses formed since (stressed) 2013 had increased 25%. Graph 4 shows very clearly that since January 2013, the F&B sector witnessed much stronger growth in net new business formation than the manufacturing sector.

Although many F&B outlets lack the scale to set up a CK, the increasing formation of F&B businesses and the corresponding allocation of increased space, both from existing and new malls, will have a positive correlative effect on the demand for CKs.

Rents and prices

These depend on location and the tenure of the property. Rents in established food zones, like those in the MacPherson and Pandan Loop areas, range from S$2.70 to S$3.50 per sq ft while those in the North (Woodlands, Senoko) are in the S$2.50 plus range. Price wise, freehold CKs located in the central part of Singapore e.g. MacPherson area can see prices above S$1,250 per sq ft while those in Mandai, being on 30-year leases, range from S$370 per sq ft to close to S$500 per sq ft. For new food factories sited on 60-year leases, we expect prices to be around S$950 per sq ft if located in the established food zones in Jurong e.g. Pandan Loop. Graph 5 shows the major food-zone clusters in Singapore.

Conclusion

In summary, quite a few factors are driving the demand for CKs. These are:

1. The overall labour crunch that F&B establishments face.

2. Tightly-controlled food zones with proliferation constrained by planning controls.

3. High rents at malls forcing F&B operators to minimize food preparation areas.

4. Parallel increase of space dedicated to F&B outlets in retail malls.

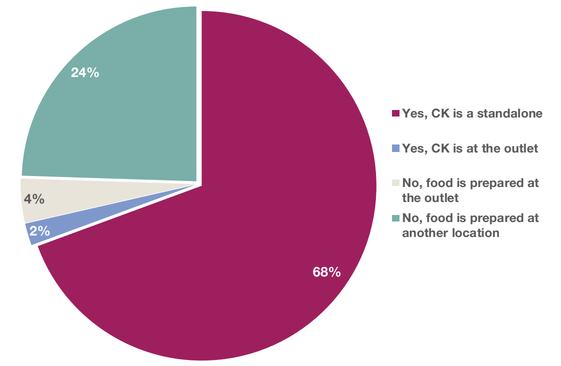
5. Economies of scale for small F&B establishments who can farm out certain food preparation functions to a general CK.

6. Sharp rise in F&B net new business formations.

7. Government push for greater productivity in the F&B trade.

GRAPH 3

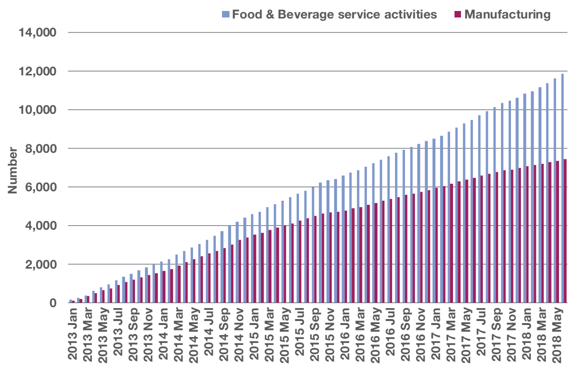
Large food companies and their adoption of CKs



Source: Singapore Productivity Centre

GRAPH 4

Cumulative net F&B and manufacturing business formed since Jan 2013



Source: Singapore Department of Statistics, Savills Research & Consultancy

GRAPH 5

Major industrial use type clusters and food zones in Singapore

Source: Savills Research & Consultancy

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