Briefing
Sales & investment

October 2014

Image: Marina Bay Financial Tower 3, Marina Boulevard.

SUMMARY

The private sector and less traditional segments such as hospitality and mixed developments boosted Q3's performance.

■ The investment sales market picked up in Q3 with about S$5.96 billion of investment sales recorded, up 25.9% from S$4.73 billion in Q2/2014.

■ The public sector contributed S$1.81 billion, reflecting a smaller share of 30.3% and a further decline of 11.1% quarter-on-quarter (QoQ). Private sector investment sales accounted for the remaining 69.7% or S$4.15 billion, growing a surprisingly strong by 53.7% QoQ.

■ Three major en-bloc office transactions were sealed this quarter, including a 33.3% stake in Marina Bay Financial Centre (MBFC) Tower 3 (S$1,248.0 million), Straits Trading Building (S$450.0 million) and Anson House (S$172.0 million).

■ The hospitality segment saw more than a tripling of last quarter's value of hospitality assets sold, amounting to S$1.10 billion, or 18.5% of total investment sales. Major hospitality deals were from InterContinental Singapore (S$497.0 million) and Frasers Suites Singapore (S$327.0 million). The mixed-use and industrial segments contributed the remaining 15.6% (S$929.6 million) and 7.8% of total investment sales (S$464.8 million) respectively.

■ Despite concerns over yield compression, cooling measures and rising interest rates, the outlook for the real estate investment market seems relatively positive for the last quarter of 2014.

"Yield compression and potential interest rate increases has not turned off investors who have the weight of money behind them."
Alan Cheong, Savills Research

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Market overview

The investment sales market picked up in Q3 with about S$5.96 billion of investment sales recorded, up 25.9% from S$4.73 billion in Q2/2014. Amid the sluggish primary residential sales market, which resulted in restrained bids for development sites, the private hospitality segment emerged as the key driver for the huge growth this quarter.

The public sector contributed S$1.81 billion, reflecting a smaller share of 30.3% and a further decline of 11.1% QoQ. Thirteen state land parcels were awarded, comprising five residential sites, seven industrial sites and one mixed (commercial and residential) site.

On the other hand, private sector investment sales accounted for the remaining 69.7% or S$4.15 billion. This represents a surprisingly strong QoQ growth of 53.7% from S$2.70 billion in Q2/2014, albeit a long way from Q3/2013's record of S$9.83 billion.

Residential

Investment sales in the residential segment totalled S$1.44 billion in Q3/2014, making up 24.1% of the total transaction value. Compared with the preceding quarter, it decreased by 14.5%. The decline in the residential segment is in line with our expectations. As long as the residential cooling measures remain in place, home sales will suffer from inertia, which will in turn restrain developers in their tender bids for sites under the Government Land Sales (GLS) programme. The Executive Condominium (EC) sites at Sembawang Road, Sembawang Avenue and Choa Chu Kang received merely two, four and eight bids with top bids of only S$353, S$320 and S$361 per sq ft ppr respectively. Over at Fernvale Road, the two adjacent non-landed residential plots, Parcels A and B received just four and three bids, with Chip Eng Seng Corporation winning both parcels at S$438 and S$448 per sq ft ppr respectively.

Transactions in the luxury non-landed market also continued to decline, with only three deals inked in the quarter. These include a related party transaction of five units from Skyline 360° at Saint Thomas Walk, a 3,380-sq ft unit at Reflections at Keppel Bay sold for S$3,107 per sq ft, and a bulk sale of 12 Grange Infinite units. The bulk purchase at Grange Infinite was made by Indonesian tycoon Tahir at S$2,050 per sq ft for 11 four-bedroom apartments ranging from 2,560 to 2,700 sq ft and S$1,950 per sq ft for a 6,039-sq ft penthouse.

TABLE 1

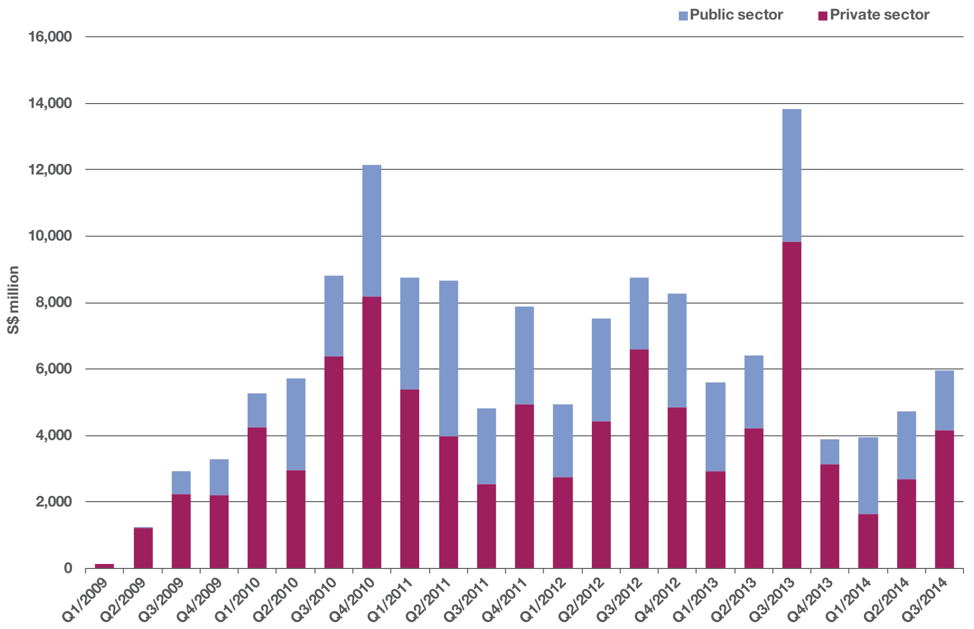
Top five land sales under the GLS programme, Q3/2014

Location	Type of development allowed	Date of award	Successful tender price		Name of successful tenderer
			S$ milion	S$ per sq ft per plot ratio	
Upper Serangoon Road/Meyappa Chettiar Road	Commercial & residential	Aug 2014	471.6	775	MCC Land (Singapore) Pte Ltd
Fernvale Road (Parcel B)	Residential	Aug 2014	252.1	448	CEL Development Pte Ltd and Unique Residence Pte Ltd
Fernvale Road (Parcel A)	Residential	Aug 2014	234.9	438	CEL Development Pte Ltd and Unique Residence Pte Ltd
Sembawang Road/Canberra Link (EC)	Residential	Oct 2014	229.4	353	Qingjian Realty (Residential) Pte Ltd
Sembawang Avenue (EC)	Residential	Jul 2014	214.0	320	FCL Tampines Court Pte Ltd and KH Capital Pte Ltd

Source: Urban Redevelopment Authority, Housing & Development Board, Savills Research & Consultancy

GRAPH 1

Investment sales transaction values, Q1/2009–Q3/2014



Source: Savills Research & Consultancy

These transactions showed a further softening of prices in that segment. According to REALIS, the rest of the transactions of residential properties sold for no less than S$10 million were nine landed houses, of which five were good class bungalows.

Commercial

The commercial segment, especially the office market, continued to be the star performer in Q3/2014, where it contributed 33.2% of total investment sales or S$1.98 billion. Despite a 14.1% fall QoQ due to the lacklustre performance in the private retail segment and no commercial sites being released under the GLS, the total tally of office investment sales in the private sector was the highest since Q4/2012 at S$1.94 billion. This compares with $1.25 billion for Q2 this year and $0.33 billion for Q3 last year.

Three major en-bloc office transactions were sealed in the reviewed quarter. In July, CBRE Global Investors sold Anson House for S$172.0 million or S$2,252 per sq ft of its strata area. Later in September, the Straits Trading Building was transacted for S$450.0 million or S$2,830 per sq ft NLA, while Keppel Land divested its 33.3% stake in Marina Bay Financial Centre (MBFC) Tower 3 for S$1,248.0 million or S$2,794 per sq ft based on NLA. The buyers include Singapore-based property firms as well as foreign investment firms.

Investors continue to turn their interests towards completed commercial properties to avoid development-related risks, such as Anson House, Straits Trading Building and MBFC Tower 3, which are income-generating properties that offer lower risks for property investors.

Meanwhile, investment sales for the retail segment amounted to only S$36.5 million, contributed solely by strata-titled sales. There were no big-ticket retail transactions for the quarter.

Hospitality

Most of the investment sales activities in this quarter stem from the private sector and from less traditional segments. The hospitality segment saw more than a tripling of last quarter's value of hospitality assets sold, amounting to S$1.10 billion, or 18.5% of total investment sales. In July, through the listing of Frasers Hospitality Trust, the real estate investment trust (REIT) acquired InterContinental Singapore, a 406-room five-star hotel in Bugis, and Frasers Suites Singapore, a 255-room service residence in River Valley, for S$497.0 million and S$327.0 million respectively.

Later in September, Far East Hospitality Trust bought a 30.0% stake in a joint venture with Far East Organization in developing Outpost Hotel Sentosa and Village Hotel Sentosa, at an estimated cost of S$9.6 million for the 60-year leasehold hotel site on Artillery Avenue in Sentosa. In the same month, China-based Nanshan Group signed an agreement to purchase the former Midlink Plaza at Middle Road at S$270.0 million, which is being developed into a 396-room boutique hotel.

Mixed use

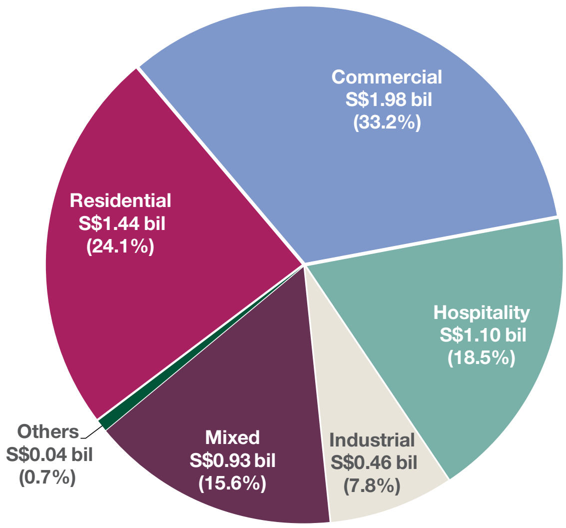
The mixed-use segment recorded S$929.6 million or 15.6% of total investment sales this quarter, compared to none in the previous two quarters. The substantial increase was mainly attributed to two large deals. One was A-REIT's acquisition of Aperia, a newly completed industrial and retail integrated development located at Kallang Avenue/Lavender Street for S$458.0 million in August. The other was a commercial and residential mixed-use site at Upper Serangoon Road/Meyappa Chettiar Road released under the GLS programme, which was awarded to MCC Land (Singapore) Pte Ltd for S$471.6 million.

Industrial

In the reviewed quarter, the industrial segment recorded S$464.8 million in investment sales, or 7.8% of total transaction value. This represents a contraction of 7.0% QoQ, with seven transactions in Q3 compared to 12 in Q2. Investment sales generated from the GLS programme increased 383.5% from Q2, making up 42.2% of industrial investment sales. Meanwhile, private sector contributions shrank 41.5% QoQ.

GRAPH 2

Investment sales transaction volumes by property type, Q3/2014



Source: Savills Research & Consultancy

TABLE 2

Top five private investment sales, Q3/2014

Property	Sector	Transacted date	Price (S$ million)	Buyer
Marina Bay Financial Centre Tower 3 (33.3% stake)	Commercial	Sep 2014	1,248.0	Keppel Real Estate Investment Trust (K-REIT)
InterContinental Singapore	Hospitality	Jul 2014	497.1	Frasers Hospitality Trust
Aperia	Industrial and retail	Aug 2014	458.0	Ascendas Real Estate Investment Trust (A-REIT)
Straits Trading Building	Commercial	Sep 2014	450.0	Sun Venture
Frasers Suites Singapore	Hospitality	Jul 2014	327.0	Frasers Hospitlaity Trust

Source: Savills Research & Consultancy

OUTLOOK

The prospects for the market

Despite concerns over yield compression, cooling measures and rising interest rates, the outlook for the real estate investment market seems relatively positive for the last quarter of 2014. With significantly sized GLS tenders closing in Q4 and new capital raised for deployment, the market is likely to see larger investment transactions in the next quarter. This would bring our full-year forecast for 2014's total investment sales value to S$17-19 billion.

A developing trend is the formation of club deals amongst high net worth local or Asian individuals who are beating institutions to the line in closing deals. These investors could be new players in the field and are likely to dominate the market in the foreseeable future, adding greater competition to the market. Therefore, moving forward, this new dimension may lift investment sales back up.

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