

# Briefing Sales & investment

January 2013



Image: 79 Anson Road

## SUMMARY

The weak global economy and a still wide bid-ask gap remained as key reasons behind the tepid investment activity in the private sector.

- The investment sales market declined by about 19% compared with Q3, to S\$7.6 billion.
- The private sector's transaction values for all segments other than offices, recorded quarterly drops ranging from 69% to 90%.
- In the public sector, 22 state land parcels sold for a total of about S\$3.4 billion in Q4, recording a sharp increase of 59% quarter-on-quarter (QoQ).

- The en-bloc sales market was anaemic in Q4, with only two transactions at slightly over S\$60 million in total.
- DBS Bank's S\$1.035 billion purchase of a 30% stake in Marina Bay Financial Centre Tower 3 is by far the largest transaction recorded this year.
- Investment sales in 2013 are expected to remain healthy.

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“The investment sales market moderated in Q4/2012. Nevertheless, 2012 is set to be another buoyant year as the total transaction value hits S\$29.4 billion, slightly shy of the S\$30.1 billion recorded last year and the S\$32.0 billion in 2010.” Alan Cheong, Savills Research

## → Market overview

In Q4/2012, investment sales across all property types totalled about S\$7.6 billion, bringing the whole year's number to S\$29.4 billion, a shade below the S\$30.1 billion recorded last year and the S\$32.0 billion in 2010.

On a quarterly basis, Q4's investment sales contracted by about 19% from the S\$9.3 billion recorded in the previous quarter. The decline was mostly attributed to the private sector, where transaction values declined 43% from a quarter ago. Except for offices, the other segments recorded quarterly drops in transaction value ranging from 69% to 90%. The weak global economy and a still wide bid-ask gap remained the key reasons behind the tepid investment activity in the private sector. The year-end festive season has also lengthened the negotiation and decision-making processes.

On the other hand, local and even foreign developers, in an effort to replenish their land banks, continued to contest aggressively in the tenders of state land launched under the Government Land Sales (GLS) programme. Furthermore, riding on the current buoyant sales market of executive condominiums (EC), strata offices, shops and medical suites, some sites slated for such uses received record-high prices. In the reviewed quarter, the public sector saw 22 state land parcels<sup>1</sup> sold for a total of about S\$3.4 billion, accounting for 45% of Q4's total investment sales. This was a sharp increase of 59% from the S\$2.2 billion recorded in the previous quarter.

For the whole of 2012, private sector transaction values have increased 10%

<sup>1</sup> Including sites whose tenders have closed but have not yet been awarded.

from S\$16.9 billion in 2011, to S\$18.5 billion, while the public sector achieved S\$10.9 billion, falling 18% from S\$13.3 billion a year ago.

## Residential

In Q4/2012, investment sales in the residential sector amounted to S\$2.8 billion or 37.5% of the total transaction value. Total residential investment sales fell 28% from the S\$3.9 billion recorded in Q3/2012, mainly due to a slowdown in private-sector sales which plummeted 69% QoQ.

After a pick-up in Q3, which saw ten deals completed, the collective sales market saw only two transactions this quarter. They were Wedgewood Mansions located along Lorong L Telok Kurau and eight terrace houses located on Marne Road, which were sold for S\$18.4 million and S\$41.8 million respectively. The anaemic sales in this market were not unexpected as developers shifted their interest to GLS sites, which provide assured land-parcel delivery, and a longer development and sales timeline. In addition, government measures aimed at tightening the number of shoebox units in projects located outside the Central Area have made collective sales in these areas more challenging. Consequently, the collective sales market witnessed 25 deals totalling nearly S\$2.0 billion in 2012, down significantly from 51 deals at S\$3.1 billion last year.

In contrast, the GLS tenders continued to receive exuberant responses, particularly for the EC sites. To offer affordable housing units for middle-income households, the government put five EC sites up for sale by public tender in the reviewed quarter. The good participation and higher-than-expected top bids bore out developers' confidence in the EC market which has experienced healthy take-up in recent launches.

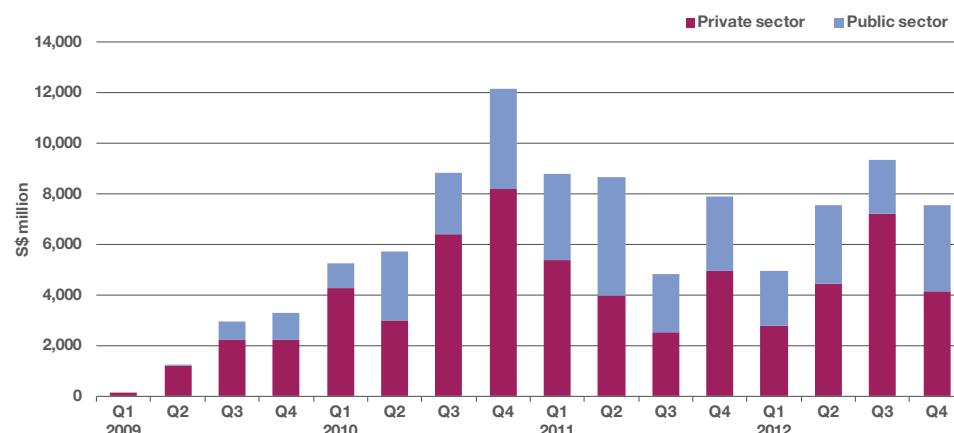
Of the S\$29.4 billion worth of total investment deals completed in 2012, the residential sector continued to take pole position at about 46% or S\$13.4 billion, only 0.7% less than last year's S\$13.5 billion.

## Commercial

In Q4/2012, the commercial sector made up 37.2% of total investment sales, amounting to S\$2.8 billion. On a QoQ basis, the transaction value increased 62% from the S\$1.7 billion in Q3.

GRAPH 1

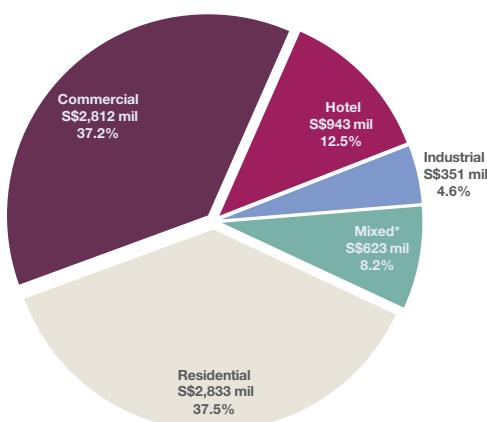
### Transaction value of investment sales, Q1/2009–Q4/2012



Source: Savills Research & Consultancy

GRAPH 2

### Transaction volume of investment sales by property type, Q4/2012



Source: Savills Research & Consultancy

\*Including sites zoned for "white" or "commercial and residential" use.

TABLE 1

**Major land sales under the GLS programme, Q4/2012**

Location	Type of development allowed	Date of award	Successful tender price		Name of successful tenderer
			S\$ mil	S\$ per sq ft ppr	
Bishan Street 14	Non-landed residential	Dec 2012	505.1	853	Allamanda Residential Development Pte Ltd
Thomson Road/Irrawaddy Road	White	Dec 2012	492.5	1,632	Hoi Hup Realty Pte Ltd, Sunway Developments Pte Ltd, Hoi Hup J.V. Development Pte Ltd
New Upper Changi Road/Bedok Road (Parcel A)	Non-landed residential	Oct 2012	434.6	791	Sherwood Development Pte Ltd
Alexandra View (Parcel B)	Non-landed residential	Dec 2012	332.7	970	Singland Homes Pte Ltd
Victoria Street/Jalan Sultan	Hotel	Oct 2012	331.3	994	Forward Land Pte Ltd

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

→ December alone saw three office-block transactions. On 3 December, Mapletree Commercial Trust announced its acquisition of Mapletree Anson, a Grade A office development in Tanjong Pagar for S\$680 million or S\$2,049 per sq ft NLA. A week later, DBS Bank paid S\$1.035 billion or S\$2,556 per sq ft NLA to buy a 30% stake in the newly completed Marina Bay Financial Centre Tower 3, where the bank has leased about 600,000 sq ft over 18 floors. The following week saw United Engineers Limited acquiring the freehold 79 Anson Road property for S\$410 million or S\$2,029 per sq ft NLA. Year-to-date, the first two deals are the top two office investment transactions in terms of price quantum.

Office investment was very active in the Tanjong Pagar area, with six deals worth a total of S\$2.3 billion recorded in 2012. The government's master plan for the progressive development of a new waterfront city at Tanjong Pagar could be the driver for this latest activity.

However, for the whole of 2012, private-sector office investment sales declined 14% from S\$6.2 billion in 2011, to S\$5.3 billion. The market is subdued compared with a year ago mainly because of the uncertain global economy and a moderation in the office leasing market, as well as the different price expectations of buyers and sellers.

Investment activity for retail properties slowed in Q4 with only three deals. Sixteen ground-floor shops at The Quayside were sold for S\$69 million

to RB Capital, while two street blocks of shophouses located along Tanjong Pagar Road and Tras Street changed hands for S\$15 million and S\$26.5 million respectively.

Private-sector retail transactions doubled from S\$1.1 billion in 2011 to S\$2.3 billion in 2012, mainly due to the transactions of several suburban shopping malls. Among these, three malls are located in the North-East Region – nex@Serangoon (50% stake), Compass Point and Hougang Plaza – reflecting investors' and developers' confidence in this area as the population growth trends upward. In addition, interest in shophouses was still strong as they are considered good investment alternatives.

Overall, the transaction value of commercial properties from both the private and public sectors totalled S\$7.9 billion in 2012, slipping 4% from S\$8.2 billion in 2011.

### Hospitality

On the back of a strong tourism outlook, investment sales in the hospitality segment remained active with S\$943 million worth of deals recorded in Q4/2012, accounting for 12.5% of this quarter's total investment value. However, it decreased 65% QoQ mainly because of the high base in Q3.

In the reviewed quarter, the 240-room Hotel Grand Pacific on Victoria Street was sold to a consortium of Asian investors for S\$210 million, while Ho Bee divested its 225-room Hotel Windsor located along MacPherson Road for S\$163 million. In the public sector, two hotel sites and one white

site<sup>2</sup> under the GLS programme were awarded. Genting's subsidiary Tamerton Pte Ltd submitted the top bid of S\$1,167 per sq ft per plot ratio for the Jurong Town Hall Road site, setting a record-high price for hotel sites.

For 2012, hospitality investment sales amounted to S\$3.8 billion, up 137% year-on-year from S\$1.6 billion in 2011, thanks to the listing of Far East Hospitality Trust whose initial portfolio was valued at S\$2.1 billion.

### Industrial

The industrial sector closed the year with a total of S\$351 million or 4.6% of total investment sales in Q4, the lowest of all quarters in 2012. It declined 64% QoQ from S\$974 million in Q3.

In the private sector, the most notable deal in the reviewed quarter is Cambridge Industrial Trust's S\$43 million purchase of 15 Jurong Port Road. Under the GLS programme, many smallish land parcels on 22-year leases continued to attract keen interest from industrialists. This is evidenced by the number of bids received in each tender, which mostly exceeded ten.

Year-to-date, industrial investment sales amounted to S\$3.4 billion, falling 14% from S\$4.0 billion in 2011. The public sector's contribution contracted 63% to S\$679 million in 2012 because of a high base in 2011 due to JTC's second-phase divestment programme. In addition, acquisitions by industrial REITs have slowed due to the limited availability of good-quality industrial properties, strong credit-worthy tenants and high asking prices. ■

<sup>2</sup> At least 30% of GFA allocated for hotel use.

TABLE 2

**Major private investment sales, Q4/2012**

Property	Sector	Transacted date	Price (\$\$ mil)	Buyer
Marina Bay Financial Centre (30% stake)	Office	Dec 2012	1,035.0	DBS Group Holdings Ltd
Mapletree Anson	Office	Dec 2012	680.0	Mapletree Commercial Trust
79 Anson Road	Office	Dec 2012	410.0	United Engineers Ltd
NOL Building	Office	Oct 2012	380.0	Fragrance Group Ltd
Hotel Grand Pacific	Hospitality	Oct 2012	210.0	A consortium of Asian investors

Source: Savills Research &amp; Consultancy

## OUTLOOK

### The prospects for the market

The world economy is far from being out of the woods. This in turn has affected investment sentiment. However, ample liquidity and rock-bottom interest rates may still be able to offset the negativities. Meanwhile, the government has again launched several sites under the 1H/2013 GLS programme.

Active participation is anticipated from developers on the back of their strong balance sheets and positive outlooks as they expect demand to be sustained owing to extremely low interest rates. In addition, the collective sales market should see an improvement in developers' appetites following the recent fine-tuning of rules

to give developers who buy en-bloc residential sites more time to complete the developments and sell all the units in the new projects. We expect next year's investment sales to remain healthy but the total transaction value may be slightly lower than that seen in 2012.

## Please contact us for further information

### Savills Singapore



**Christopher J Marriott**  
CEO  
Southeast Asia  
+65 6415 3888  
cjmarriott@savills.asia



**Steven Ming**  
Deputy Managing Director  
Head, Investment & Sales  
+65 6415 3624  
sming@savills.com.sg

### Savills Research



**Alan Cheong**  
Senior Director  
Singapore  
+65 6415 3641  
alan.cheong@savills.com.sg



**Simon Smith**  
Senior Director  
Asia Pacific  
+852 2842 4573  
ssmith@savills.com.hk

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