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Savills World Research
Singapore

Briefing
Sales & investment

May 2013

Image: AIA Changi

SUMMARY

Investment sales slid 32.7% in the first quarter, to one of the lowest levels since Q1/2010.

- Active participation and aggressive bids in most of the state land tenders reflected strong demand from developers for residential development sites.
- The latest round of property cooling measures has crimped market sentiment, particularly in the resale private residential property sector.
- There is growing interest in older commercial buildings with redevelopment potential on the city fringe.
- Compared with the sluggish residential and commercial sectors, investment activity in the private industrial property sector was resilient with a 26.7% quarterly growth in transaction value.
- The effects of the cooling measures should continue to pan out in the private residential market. In contrast, the sale of sites under the Government Land Sales (GLS) programme will remain positive.
- The investment sales market is expected to revive in the following quarters, bringing the whole-year investment sales value to S$25 billion to S$27 billion.

"Although we have seen some capital outflow to other markets, the Singapore real estate investment market is still attractive to overseas investors, on the back of healthy economic growth in Asia Pacific." Alan Cheong, Savills Research

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Market overview

Real estate investment sales of S$5.6 billion were recorded in Q1/2013, 32.7% lower than the S$8.3 billion in the previous quarter. Although this is 12.2% higher than a year ago, it is still one of the lowest levels since Q1/2010.

In the public sector, 15 state land parcels were sold for a total of almost S$2.7 billion, accounting for 48.4% of the quarter's total investment sales. Although it declined 21.6% quarter-on-quarter (QoQ) because fewer land parcels were sold, the demand for residential sites remained strong. Active participation was seen in most of the tenders, with bids either within or exceeding market expectations.

The private sector accounted for 51.6% of all investment transactions in Q1/2013, chalking up S$2.9 billion, a plummet of 40.6% QoQ from S$4.8 billion in Q4/2012. Notwithstanding the festive season, the latest round of property cooling measures implemented in January 2013 has crimped market sentiment, particularly in the resale residential property sector.

Residential

The residential sector recorded a total of S$2.3 billion in investment sales in Q1/2013 or 41.4% of the total transaction value. This is a 29.5% decline from the S$3.3 billion in the previous quarter, with the private and public sectors decreasing 28.7% and 29.9% QoQ respectively.

Buying activity in the private residential market was tepid in the reviewed quarter. Demand, especially for high-end condominiums, has been cool as overseas and permanent resident buyers held back to assess the impact of the increased Additional Buyer's Stamp Duty. In the landed housing segment, we believe that the limited supply of good-quality houses and well-configured good class bungalow land plots, together with the high asking prices, could have affected transaction volumes. Therefore, transactions of housing units of at least S$10 million declined 40.0% from S$835.0 million in Q4/2012 to S$500.7 million in Q1/2013.

The collective sales market was also quiet with only three deals worth a total of S$247.8 million. The biggest deal so far this year was the sale of Ultra Mansion, a freehold residential development on Derbyshire Road near Novena MRT Station. The buyer, a subsidiary of Hong Kong-based Fantasia Holdings Group, paid S$149.1 million.

In the public sector, the reviewed quarter saw three residential plots sold under the GLS programme. In contrast to the tenders for two sites at Lakeside and Ang Mo Kio which drew more than ten bids each, the plot located at Commonwealth Avenue attracted only three bids. This could be a knee-jerk reaction to the latest cooling measures as the tender closed after the announcement in early January. Nevertheless, the bids were within market expectations with no signs of land prices softening.

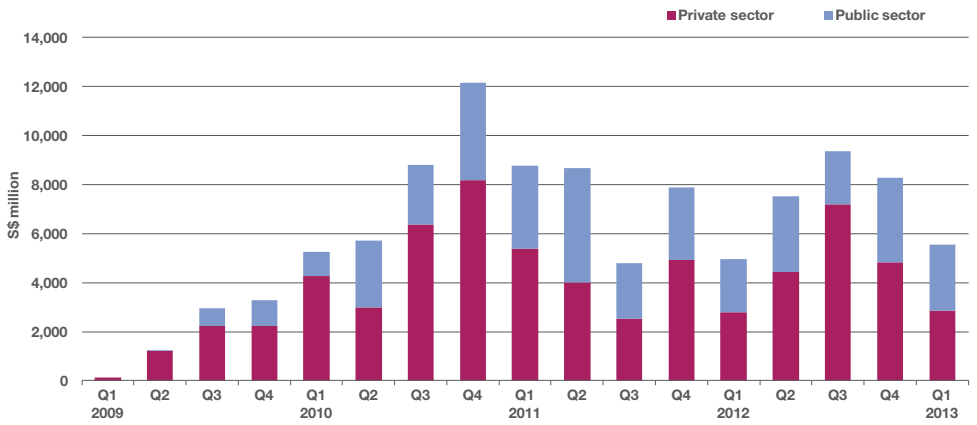
Commercial

Investment sales in the commercial sector reached S$1.8 billion in Q1/2013, falling 38.0% QoQ. Of the total investment sales, the commercial sector contributed 32.0%.

In the private sector, the biggest deal was the 51% stake of 16 Collyer Quay in Raffles Place, which was sold to NTUC Income for S$336.6 million or S$2,400 per sq ft of NLA. Compared with the S$2,250 per sq ft that NTUC Income paid for the other 49% stake in the same property two years ago, the price increase was 6.7%. In March, Guthrie purchased 2HR, a commercial development on Havelock Road for S$282.9 million or S$1,626 per sq ft of NLA. The vendors in these two transactions were overseas funds, Goldman Sachs and AEW, respectively, who had been active buyers in the local market during the 2007/2008 period and have started divesting their properties in the last two years.

GRAPH 1

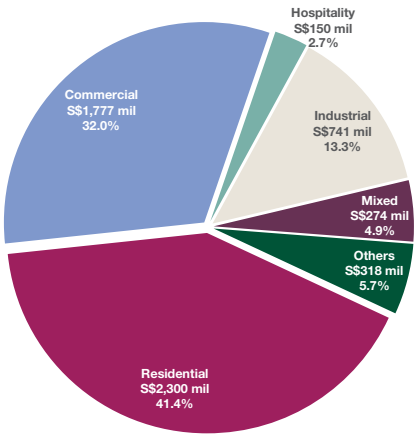
Transaction value of investment sales, Q1/2009–Q1/2013



Source: Savills Research & Consultancy

GRAPH 2

Transaction volume of investment sales by property type, Q1/2013



Source: Savills Research & Consultancy

Similarly, funds such as Commerz Real, LaSalle Investment, Union Investment, AEW and SEB divested in 2012, including Twenty Anson, Tung Centre (Levels 22 and 23), 78 Shenton Way (50% stake), House of Tan Yeok Nee, Robinson Point, Murray Terrace and 79 Anson Road (56% of share value).

Investment interest in older commercial buildings with redevelopment potential on the city fringe is growing as the buying options in the CBD have become limited. In the Paya Lebar area, insurer AIA sold its four-storey freehold office building on Changi Road to Lian Beng Group for S$68.0 million. The 17,974-sq ft site with a gross plot ratio of 3.0 can be redeveloped into a new retail-cum-office project. In the same month, property and construction firm Chip Eng Seng bought San Centre located along Chin Swee Road for S$113.0 million through a collective sale. It was reported that the 28,719-sq ft plot can be redeveloped into a commercial or mixed commercial and hotel complex.

Under the GLS programme, two commercial sites at Venture Avenue and Punggol Point were sold for S$701.1 million and S$11.4 million respectively. Sim Lian's top bid of S$1,009 per sq ft per plot ratio for the Venture Avenue site is viewed as aggressive, possibly fuelled by the buoyant sales in the strata office market. Another state land parcel zoned "Commercial & Residential" on Yishun Ring Road was awarded to a unit of Chip Eng Seng Corporation for S$212.1 million or S$794 per sq ft per plot ratio. Besides an estimated 160 residential units, up to 40% of the maximum allowable GFA on this site can be developed for commercial use. This could have boosted developers' interest in this tender which attracted a total of 13 bids.

Industrial

Investment sales in the industrial sector amounted to S$741.5 million in Q1/2013, making up 13.3% of the total transaction value. This is an increase of 29.8% from S$571.2 million in the last quarter of 2012.

A total of nine industrial sites worth around S$212.7 million under the Industrial GLS programme were awarded. Compared with the previous quarter, the public sector's transaction value grew by 38.2%. Keen interest from end users was seen in the small plots with short tenures in the Tuas area.

In the private sector, industrial investment activity remained resilient compared with other property sectors, as transaction values rose by 26.7% QoQ. Industrial REITs acquired two properties in the reviewed quarter. One is the S$126.0 million The Galen in Science Park II by A-Reit, and the other is the S$55.2 million Precise Two located at 15 Gul Way by Cache Logistics Trust.

Others

There were some significant transactions in other property sectors. In the hospitality sector, the 241-room Ibis Novena on Irrawaddy Road changed hands again. Alpha Investment Partners bought the hotel from the Kum family for S$150.0 million, pricing the hotel at slightly over S$622,400 per room, some 27.1% higher than the S$118.0 million paid by the vendor two years ago.

Oxley Holdings bagged The Pines Club on Stevens Road for $318.0 million. This is the second biggest deal in the reviewed quarter and accounts for 6.4% of Q1's total investment sales. The property is held on a 103-year lease and has a total land area of about 198,885 sq ft zoned "Sports & Recreation" under the 2008 Master Plan. Oxley has obtained provisional permission for a hotel and commercial development on the site.

TABLE 1

Major land sales under the GLS programme, Q1/2013

Location	Type of development allowed	Date of award	Successful tender price		Name of successful tenderer
			S$ milion	S$ per sq ft per plot ratio	
Venture Avenue	Commercial	Mar 2013	701.1	1,009	Sim Lian JV (Vision) Pte Ltd
Commomwealth Avenue	Non-landed residential	Feb 2013	562.8	883	Intrepid Investments Pte Ltd, Verwood Holdings Pte Ltd and Hong Realty (Private) Ltd
Ang Mo Kio Avenue 2/ Ang Mo Kio Street 13	Non-landed residential	Jan 2013	550.0	790	Pinehill Investments Pte Ltd
Jurong West Street 41/ Boon Lay Way (Parcel A)	Non-landed residential	Jan 2013	438.9	651	MCL Land (Prestige) Pte Ltd
Yishun Ring Road/ Yishun Avenue 9	Commercial & Residential	Jan 2013	212.1	794	CEL Property Pte Ltd

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

TABLE 2

Major private investment sales, Q1/2013

Property	Sector	Transacted date	Price (S$ million)	Buyer
16 Collyer Quay (51% stake)	Commercial	Jan 2013	336.6	NTUC Income
The Pines	Others	Mar 2013	318.0	Oxley Holdings Ltd
2HR	Commercial	Mar 2013	282.9	Guthrie
Ibis Novena	Hospitality	Mar 2013	150.0	Alpha Investment Partners
Ultra Mansion	Residential	Mar 2013	149.1	Fantasia Holdings Group

Source: Savills Research & Consultancy

OUTLOOK

The prospects for the market

The cooling measures, particularly those announced in January 2013, should continue to weigh on investment activity in the residential market, especially in the private sector. The collective sales market is therefore likely to be in limbo for a while, and the pace of luxury home sales is expected to moderate. In contrast, we still remain positive on demand for sites under the GLS programme. On the back of recent sizzling new homes sales, most developers are running low on their land banks and would need to replenish their inventory in the coming months. Residential sites in the coming GLS tenders are likely to continue to be well received. Notwithstanding this, bids are expected to be less aggressive as developers factor in the potential risk of further market cooling measures.

The Seller's Stamp Duty for industrial properties will rein in speculation in the strata industrial market, which in turn will slow the acquisition of redevelopment sites. In addition, with JTC changing the payment scheme for new assignment contracts involving third party facility providers to upfront land premiums, the acquisition strategies of industrial REITs would be affected.

Although we see some capital outflow to other markets, the Singapore real estate investment market remains attractive to overseas investors, on the back of healthy economic growth in Asia Pacific. Therefore, we expect a revival in the investment sales market in the following quarters, bringing the whole-year investment sales value to S$25 billion to S$27 billion.

Please contact us for further information

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