

Briefing Sales & investment

May 2014



Image: Westgate, Gateway Drive

SUMMARY

Q1/2014 was another quiet quarter for the real estate investment market.

- From January to March 2014, investment sales reached S\$3.94 billion.

- In contrast to the last two years, the public sector contributed a larger share of 58.7% with a total of S\$2.31 billion, while the private sector accounted for the remaining 41.3% or S\$1.63 billion.

- Developers have become cautious about the slowing residential property market and this is reflected in the moderation of bid prices in the recent Government Land Sales (GLS) tenders.

- Three en-bloc office transactions were sealed in January, including Westgate Tower (S\$579.4 million), 700 Beach (S\$120.0 million) and a 50% stake in Finexis Building (S\$61.9 million).

- The hotel segment recorded S\$477.8 million in investment sales in Q1/2014, making up 12.1% of the total transaction value, while the industrial segment contributed the remaining 9.3% or S\$364.8 million.

- Looking ahead, the investment market is expected to be challenging given the slowdown across all sectors

arising from the property cooling measures and the current historically high capital values.

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 “Investor caution is pervasive and a series of mega-deal transactions is needed to turn the mood around.”

Alan Cheong, Savills Research

➔ **Market overview**

From January to March 2014, investment sales reached S\$3.94 billion. This was S\$52.8 million or 1.4% higher than the S\$3.89 billion in Q4/2013, but still one of the slowest quarters since Q4/2009. The weak sales activity seen in the investment market was partly caused by the festive holidays, but more likely, property cooling measures and high asking prices had a big role to play.

In contrast to the last two years, the public sector contributed a larger share of 58.7% with a total of S\$2.31 billion recorded. This is more than double the S\$757.2 million reached in Q4/2013. Sixteen state land parcels were awarded under the GLS programme, including eight residential sites, seven industrial sites and one hotel site.

Of all the transactions in Q1/2014, the private sector accounted for 41.3% of total investment sales or S\$1.63 billion. This represented a 48.0% quarter-on-quarter (QoQ) decline from S\$3.13 billion in Q4/2013 and a 44.4% drop from the same period of last year.

TABLE 1 **Top five land sales under the GLS programme, Q1/2014**

Location	Type of development allowed	Date of award	Successful tender price		Name of successful tenderer
			S\$ million	S\$ per sq ft per plot ratio	
Upper Paya Lebar Road	Residential	Jan 2014	392.3	648	UOL Overseas Investments Pte Ltd
East Coast Road	Hospitality	Jan 2014	352.8	1,326	Master Contract Services Pte Ltd and Keong Hong Construction Pte Ltd
Yishun Avenue 9	Residential	Mar 2014	278.8	450	EL Development Pte Ltd
Choa Chu Kang Grove (Parcel A) (EC)	Residential	Mar 2014	232.5	375	MCL Land (Brighton) Pte Ltd
Canberra Drive (EC)	Residential	Jan 2014	226.0	350	Verwood Holdings Pte Ltd and TID Residential Pte Ltd

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

Residential

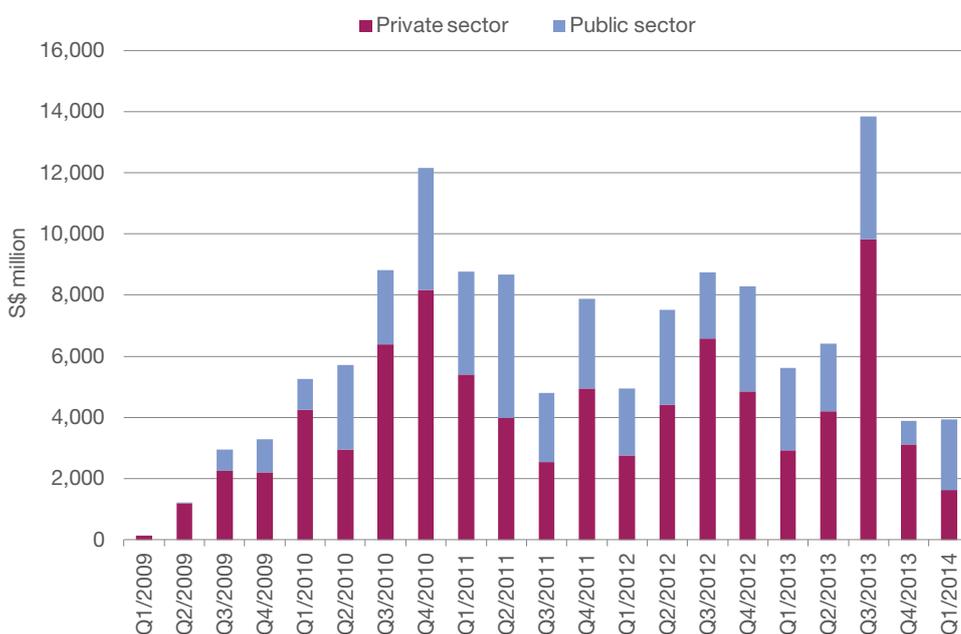
Investment sales in the residential segment totalled S\$2.31 billion in Q1/2014, representing 58.6% of the total transaction value. Compared with the preceding quarter, it increased by 167.8%. The growth was mainly attributed to more

government land parcels being sold in the reviewed quarter. Private sector investment sales also grew by 7.5% QoQ.

Despite the latest measures announced in December last year that made it more difficult for people to buy executive condominium (EC) units, developers continued to exude confidence in this market segment, as witnessed at the five tenders of EC sites in the reviewed quarter. For example, the tenders of EC sites at Westwood Avenue and Anchorvale Crescent attracted 12 bids each.

Nevertheless, developers have in general become more cautious as the market shows signs of slowing and this is reflected in the moderation of bid prices in the recent GLS tenders. The gaps between the top two bids have also narrowed significantly this quarter to 2.7% for private housing sites, compared with 14.4% in Q4 last year, 3.8% in Q3/2013 and 6.3% in Q2/2013. For EC sites, the average winning margin narrowed to 1.6% in Q1/2014, from 1.9% in Q3 last year and 6.1% in Q2 last year. We believe that developers will continue to replenish their land banks in the future, but will become more selective and moderate in their bids.

GRAPH 1 **Investment sales transaction values, Q1/2009–Q1/2014**



Source: Savills Research & Consultancy

Unless there is a marked pick-up in sales activity in the primary market, the anticipated rise in construction and holding costs will result in further moderation of GLS bid prices.

According to the REALIS system, a total of 23 residential properties were sold for no less than S\$10 million each. Among these, 18 were landed houses, up significantly from the 11 recorded in Q4/2013. Reasonable prices and limited supply helped steady the sales of prime landed residential properties, especially good class bungalows.

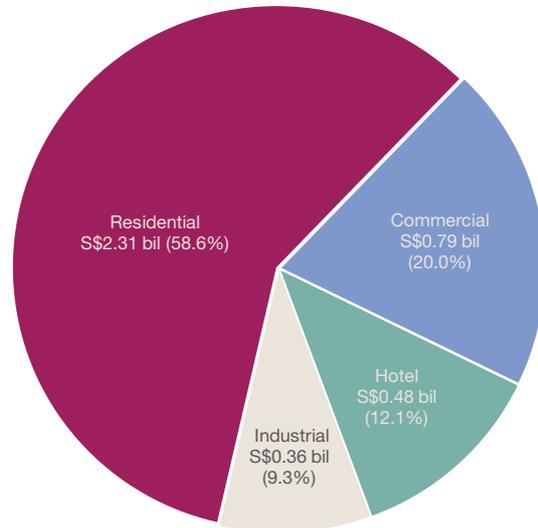
Commercial

Commercial investment sales amounted to S\$789.4 million in Q1/2014, representing a 55.8% drop from a quarter ago.

Three en-bloc office transactions were sealed this January. A 50% stake in Finexis Building on Robinson Road was sold for S\$61.9 million or S\$2,300 per sq ft on its strata area. Outside the CBD, Sun Venture and Low Keng Huat acquired Westgate Tower in Jurong Gateway for S\$579.4 million or S\$1,900 per sq ft of its net saleable area, while a joint venture between Master Contract Services and Fine Grain bought 700 Beach on Beach Road for S\$120.0 million or S\$1,780 per sq ft of its strata area.

Although sentiment in the commercial strata-titled sales market remained healthy, the big-ticket transactions tapered off in Q1/2014. The total debt servicing ratio framework may have shifted investors' interests to relatively smaller strata units. Nevertheless, the availability of large

GRAPH 2 Investment sales transaction volumes by property type, Q1/2014



Source: Savills Research & Consultancy

units is limited in the current market. Only one transaction was recorded in the reviewed quarter – several units on level 20 of Peninsula Plaza on North Bridge Road were transacted for about S\$18.0 million or S\$2,118 per sq ft of strata area in March.

Others

The hotel segment recorded S\$477.8 million in investment sales in Q1/2014, making up 12.1% of the total transaction value, while the industrial segment contributed the remaining 9.3% or S\$364.8 million.

In January, a hotel site on East Coast Road was sold under the GLS programme. The top bid submitted by a joint venture between Master Contract Services and Keong Hong Holdings was S\$352.8 million or

S\$1,326 per sq ft per plot ratio, another record price for a hotel site under the GLS programme and much higher than market expectations.

Later in March, Far East Organization won the tender of a 60-year leasehold hotel site on Artillery Avenue in Sentosa. The tendered amount comprises an upfront land premium of S\$32 million, plus a guaranteed annual payment of S\$3.7 million, or a 10% of the annual gross revenue, whichever is higher. We estimate that the total consideration could be around S\$125 million.

Pipeline supply from 2014 to 2016 will be about 7,500 hotel rooms, giving rise to oversupply concerns which may put downward pressure on future prices of both hotels and hotel sites. ■

TABLE 2
Top five private investment sales, Q1/2014

Property	Sector	Transacted date	Price (\$ million)	Buyer
Westgate Tower	Commercial	Jan 2014	579.4	A consortium comprising Sun Venture Homes and Low Keng Huat (Singapore)
Hotel site on Artillery Avenue	Hotel	Mar 2014	125.0*	Far East Organization Centre, a member of Far East Organization
700 Beach	Commercial	Jan 2014	120.0	International interior design firm Hirsch Bedner Associates and Fine Grain Property Consortium (Singapore) Pte Ltd
Finexis Building (50% stake)	Commercial	Jan 2014	61.9	An offshore fund managed by Singapore-based Sin Capital Partners
620 Lorong 1 Toa Payoh	Industrial	Mar 2014	32.4	-

Source: Savills Research & Consultancy
 *Estimated.

OUTLOOK

The prospects for the market

Looking ahead, the investment market is expected to be challenging given the slowdown across all sectors arising from the property cooling measures and the current historically high capital values. Anticipated interest rate increases also weigh on the feasibility of buying into assets which are priced at compressed yields. In addition, developers and investors have increasingly set their sights on acquiring overseas assets.

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