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Savills World Research
Singapore

Briefing
Sales & investment

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Image: 112 Katong

SUMMARY

Investment sales fell to their lowest level post the Global Financial Crisis.

- In the first quarter of 2016, S$1.23 billion went into real estate investments that originated from the public domain. This accounted for 51.6% of the market share.

- Developers' participation in the three Government Land Sales (GLS) sites has been high, with successful bids (measured in terms of per sq ft per plot ratio) coming in on the high end or above market expectations.

- Investment sales of private properties raked in a total of S$1.15 billion, down 66.5% from a quarter ago. The main reason for the sharp contraction was a lack of big ticket transactions in the commercial property segment.

- Ten, high-end, non-landed units were transacted in Q1/2016, more than the five in Q3/2015 and three in Q4/2015. The transacted prices per sq ft in most of these deals showed significant discounts from the historical peaks achieved.

- The most notable deal in the private sector was the acquisition by Alpha Investment Partners of a 50% stake in 78 Shenton Way for S$301.5 million.

"With many developed economies reporting negative interest rates, inbound funds from these countries may perk up investment sales."
Alan Cheong, Savills Research

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Market overview

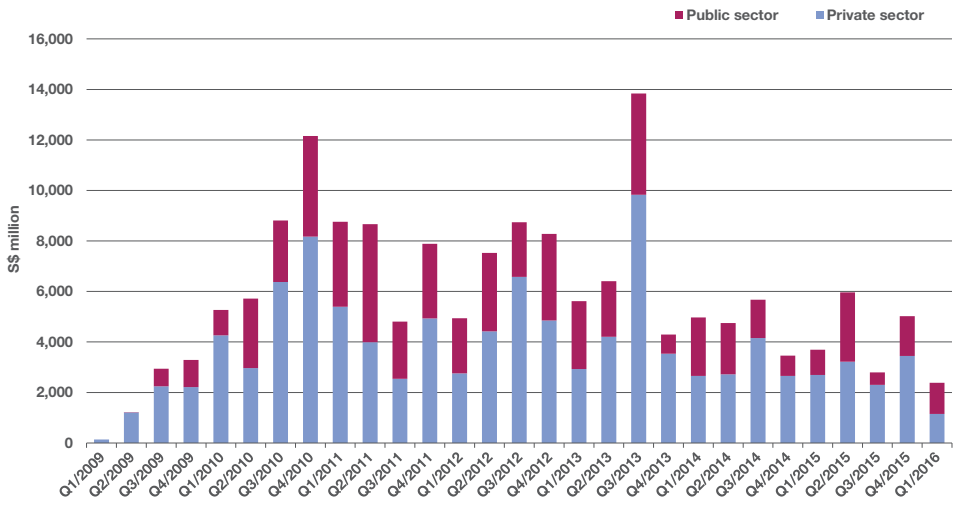
In the first quarter of 2016, S$1.23 billion went into real estate investments that originated from the public domain. This accounted for 51.6% of the market share. The bulk of investment sales came from three residential sites under the GLS programme: Siglap Road; New Upper Changi Road/Bedok South Avenue 3 (Parcel B); and Yio Chu Kang Road (executive condominium).

Investment sales of private properties raked in a total of S$1.15 billion in Q1/2016, 66.5% lower than the S$3.44 billion recorded in Q4 last year. The main reason for the sharp quarter-on-quarter (QoQ) contraction was a lack of big ticket transactions in the commercial property segment. Except for the S$301.5 million acquisition by Alpha Investment Partners of a 50% stake in 78 Shenton Way, the investment values of all the other transactions do not cross the S$100 million mark.

In all, Q1/2016 recorded S$2.38 billion worth of investment transactions, representing a decline of 52.6% QoQ and 35.5% year-on-year (YoY). This is also the lowest level that we have seen since the last trough during the global financial crisis in 2008/2009. Although investors have amassed enough funds, growth headwinds for the global economy, turmoil in financial markets and volatility in stock markets have kept them sitting on the sidelines.

GRAPH 1

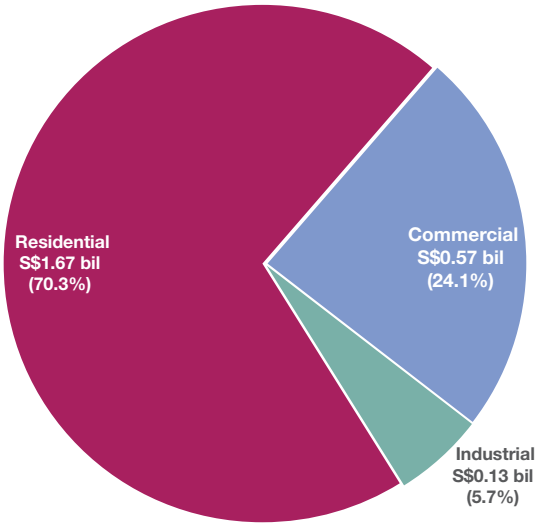
Investment sales transaction values, Q1/2009–Q1/2016



Source: Savills Research & Consultancy

GRAPH 2

Investment sales transaction volumes by property type, Q1/2016



Source: Savills Research & Consultancy

Residential

Though the investment sentiment is now at a low ebb, the investment turnover in the residential segment rose 25.9% QoQ to S$1.67 billion in Q1/2016.

In January, a consortium consisting of Frasers Centrepoint, Sekisui House and Keong Hong Holdings lodged the top offer of S$624.2 million for a 207,847-sq ft GLS private residential site at Siglap Road. The price works out to S$858 per sq ft per plot ratio. Later in February, another two land parcels were also awarded under the GLS programme: a 262,575-sq ft private residential site at New Upper Changi Road/Bedok South Avenue 3 (Parcel B); and a 198,302-sq ft executive condominium site at Yio Chu Kang Road. The former went to CEL Residential Development, a unit of Chip Eng Seng, for S$419.4 million or S$761 per sq ft per plot ratio, while the successful tenderer for the latter was Hoi Hup, who submitted a top bid of S$183.8 million, or S$331 per sq ft per plot ratio.

Developers' participation in these three sites has been high, with successful bids (measured in terms of per sq ft per plot ratio) coming in on the high end or above market expectations. Aside from the merits of the locations and the need for developers to replenish land banks, the high prices may also reflect developers' optimism for 2017, when the projects are expected to be marketed. By that time, they expect the global economy to have taken a turn for the better, and some property cooling measures to have been relaxed by the government.

➔ Twenty-six luxury residential homes worth at least S$10 million each changed hands in the first quarter of 2016. Among these, ten were high-end, non-landed units, more than the five in Q3/2015 and three in Q4/2015. These units included three at Boulevard Vue, two at The Ritz-Carlton Residences Singapore, and one each at Bishopsgate Residences, Twentyone Angullia Park, Urban Resort Condominium, St Regis Residences and Seven Palms Sentosa Cove. Based on caveats recorded in the Urban Redevelopment Authority's (URA) REALIS, the transacted prices per sq ft in most of these deals showed significant discounts from the historical peaks achieved in these projects; this could have lured potential buyers back to the high-end residential segment. It could become one of the positive trends in 2016.

Commercial

For the quarter in review, a dearth of big ticket transactions of commercial properties has dragged down investment sales in the commercial segment 73.4% QoQ to S$574.0 million.

The biggest deal which completed in Q1 was Alpha Investment Partners' acquisition of a 50% stake in 78 Shenton Way for S$301.5 million, or S$1,665 per sq ft net lettable area (NLA). The transaction was done through the sale of shares in the special purpose vehicle that held the office development, which has two towers with a balance lease term of 66 years.

There were also some strata office transactions in the quarter. A unit of the Asia-Pacific arm of Scor Reinsurance purchased 27,351 sq ft of office space in the SBF Center for S$85.5 million, or S$3,125 per sq ft of strata area. In addition, the 30th floor of Suntec Tower 2 and the 20th floor of Prudential Tower were sold for S$29.0 million (S$2,469 per sq ft) and S$33.1 million (S$2,800 per sq ft) respectively.

DC Reit Holdings, a wholly-owned subsidiary of Keppel Land, bought a 22.4% stake in 112 Katong mall for S$51.4 million (S$1,114 per sq ft of NLA) from BHG Holdings, BreadTalk Group and Perennial Real Estate Holdings. Post-acquisition, Keppel Land have full ownership of this shopping mall located along East Coast Road.

Industrial

The sales volume in the industrial segment amounted to S$122.6 million, or 6.7% of Q1's total

TABLE 1

Top land sales under the GLS programme, Q1/2016

Location	Type of development allowed	Date of award	Successful tender price		Name of successful tenderer
			S$ mil	S$ psf ppr	
Siglap Road	Residential	Jan 2016	624.2	858.0	FCL Topaz Pte Ltd, Sekisui House, Ltd and KH Capital Pte Ltd
New Upper Changi Road/Bedok South Avenue 3 (Parcel B)	Residential	Feb 2016	419.4	760.6	CEL Residential Development Pte Ltd
Yio Chu Kang Road (EC)	Residential	Feb 2016	183.8	331.0	Hoi Hup Realty Pte Ltd

Source: URA, HDB, Savills Research & Consultancy

TABLE 2

Top five private investment sales, Q1/2016

Property	Sector	Transacted date	Price (S$ million)	Buyer
78 Shenton Way (50% stake)	Office	Mar 2016	301.5	A property fund managed by Alpha Investment Partners
SBF Center (levels 29 and 30 and eight units on levels 27 and 28)	Office	Jan 2016	85.5	A unit of the Asia-Pacific arm of Scor Reinsurance
112 Katong (22.4% stake)	Retail	Jan 2016	51.4	DC REIT Holdings Pte Ltd, a wholly-owned subsidiary of Keppel Land Ltd
Harper Kitchen	Industrial	Feb 2016	51.1	A consortium led by Nanshan Group Singapore
Prudential Tower (level 20)	Office	Mar 2016	33.1	TBC

Source: Savills Research & Consultancy

investment sales. This is an 84.4% quarterly decline from the S$784.2 million recorded in Q4 last year. The public sector only saw the award of Plot 5 at Tuas South Link 2 to Hiap Shing Construction for S$3.0 million, while private sector investments contributed the remaining 97.8%, or S$131.7 million, over six transactions.

The most notable deal was the purchase of Harper Kitchen, a freehold industrial building in Tai Seng, for about S$51.1 million. The price paid, inclusive of an estimated development charge, translated to S$834.0 per sq ft of potential gross floor area (GFA) of 83,624 sq ft. The buyer, a consortium led by the China-based Nanshan Group, intends to redevelop this Business 1-White site to maximise the allowable GFA.

Outlook

In the near term, the norm is one where transaction volumes in the real estate investment sales market continue to remain lacklustre. Market anxieties over the global economy and oil & commodity prices are expected to rein in investors' risk taking appetite. On a brighter note, however, given that interest rates in the developed world are falling, with some entering negative territory, the mood from one of expectations of rising interest rates to one of falling may entice investors to reconsider local commercial assets that were hitherto perceived to be low-yielding. Funds could flow in from countries where low or negative interest rates prevail as positive yielding assets, notwithstanding low, are now becoming a rarity globally. ■

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