savills

Savills World Research
Singapore

Briefing
Sales & investment

May 2017

Image: PWC Building on Cross Street

SUMMARY

The investment sales market remained healthy, although Q1's transaction value fell.

- Singapore real estate investment sales totalled S$5.32 billion from January to March 2017.
- Owing to a limited number of sites on the Government Land Sales (GLS) Programme list, investment sales in the public sector were relatively quiet.
- Tenders of GLS private residential sites continued to be hotly contested. Owing to the decline in private sector construction activities, construction companies have joined in the battle with developers in order to keep their business activity going.
- Investment sales in the private sector showed a moderate decline of 4.6% QoQ in Q1/2017, to S$4.85 billion from 54 transactions, with the commercial property segment recording a high note.
- The most notable deals included the sale of a 70% stake in TripleOne Somerset to Hong Kong's Shun Tak Holdings; Manulife's acquisition of PWC Building; and the GSH-led consortium's divestment of Plaza Ventures Pte Ltd that holds GSH Plaza.
- The sudden implementation of the additional conveyance duty (ACD) on 11 March 2017 has catalysed the signing of some bulk purchases of private non-landed residential units.

"The abrupt implementation of the ACD took the wind out of the sails of bulk purchases, but in its place, the weight of money from institutions, corporates and high net worth individuals will continue to drive the market."
Alan Cheong, Savills Research

MCI (P) No. 139 / 08 / 2016
Company Reg No. 198703410D

Market overview

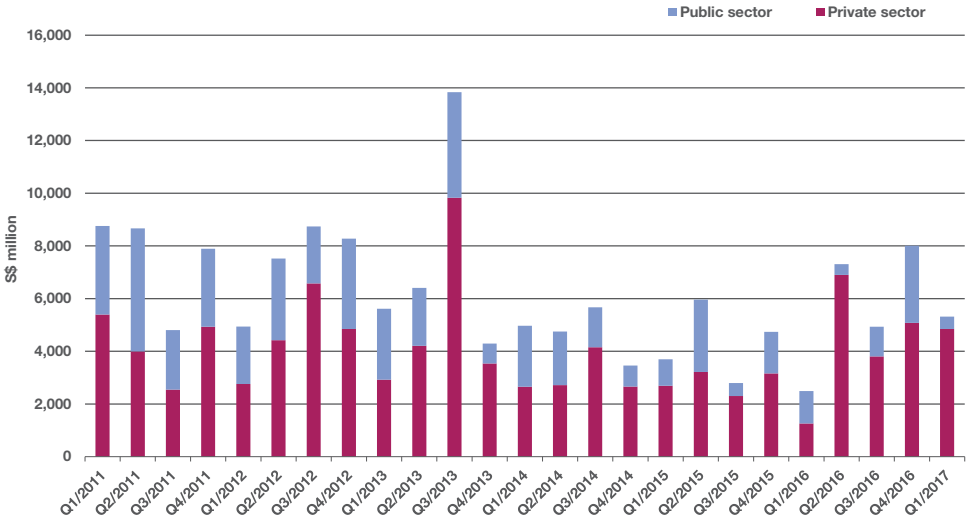
According to Savills estimates, because of the high base of S$8.01 billion recorded in the previous quarter, Singapore real estate investment sales fell 33.6% quarter-on-quarter (QoQ) to S$5.32 billion in Q1/2017. Despite the fall, the investment sales market remained healthy in the reviewed quarter.

Investment sales in the private sector showed a moderate decline of 4.6% QoQ in Q1/2017, to S$4.85 billion from 54 transactions. The commercial property segment recorded a high note in the reviewed quarter. The most notable deals included the sale of a 70% stake in TripleOne Somerset to Hong Kong's Shun Tak Holdings for S$880.6 million; Manulife's S$746.8 million acquisition of PWC Building; and the GSH-led consortium's divestment of Plaza Ventures Pte Ltd that holds GSH Plaza at S$663.5 million. On the other hand, owing to a limited number of sites on the GLS Programme list, investment sales in the public sector were relatively quiet. Only four land parcels were awarded in Q1, totalling S$472.4 million in value.

The investment sales market has faced some headwinds in recent months. One of the factors is that since the beginning of 2017, there have been stricter controls on the outflow of Forex from China. This, to some extent, impacted Chinese companies' and individuals' investments into overseas property. The other is the introduction of additional conveyance duty (ACD), a new stamp duty to be levied on the purchase and sale of residential real estate in property-holding entities from 11 March. Therefore, in order to avoid the new stamp duty, some deals for bulk residential units through transferring share of property-holding entities were sealed at the eleventh hour on 10 March and contributed a substantial amount to Q1's investment sales. However, in the future, such transactions are likely to dry up, leaving asset sales to be the main option left for developers with unsold inventory.

GRAPH 1

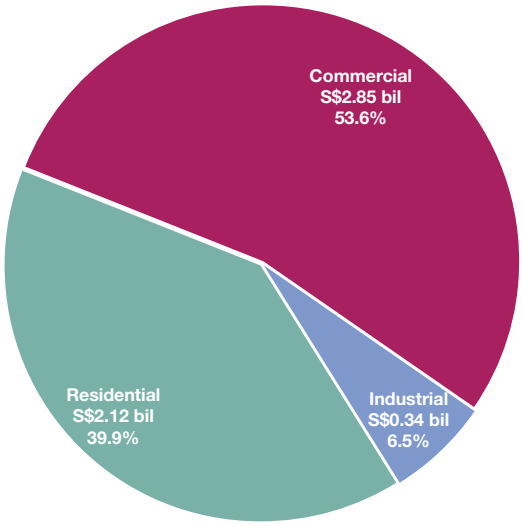
Investment sales transaction values, Q1/2011–Q1/2017



Source: Savills Research & Consultancy

GRAPH 2

Investment sales transaction volumes by property type, Q1/2017



Source: Savills Research & Consultancy

Residential

In Q1/2017, the investment sales of residential properties contributed S$2.12 billion, or 39.9% of the total investment sales. This is a decline of 11.2% from the S$2.39 billion registered in Q4 last year.

Tenders of GLS sites continued to be hotly contested. The Perumal Road residential site attracted 11 bids with Low Keng Huat (Singapore) Limited putting in the highest bid of S$174.1 million (S$1,001 per sq ft per plot ratio (psf ppr)). China Construction (South Pacific) was awarded the land parcel at West Coast Vale for S$292.0 million (S$592 psf ppr), beating eight rivals in the tender. Both successful tenderers are construction companies. The increasing prevalence of construction companies in government land sales tenders is because of the decline in private sector construction activities. Consequently, construction companies have joined in the battle with developers in order to keep their business activity going. This behaviour is likely to be repeated in the upcoming GLS tenders and intensify competition.

Developers are also continuing to replenish their land banks from non GLS sites. For example, the UOL Group acquired a freehold residential site at 45 Amber Road for S$156.0 million. The developer plans to build 190 apartments in a 22-storey block on this 69,858-sq ft site that has a plot ratio of 2.1. Another developer, Far East Organization, paid S$43.8 million for 16 King Albert Park in order to amalgamate this 39,224-sq ft freehold site with four already-owned adjoining plots for redevelopment.

In the reviewed quarter, six bulk purchases of private non-landed residential units were recorded. The total transaction value is estimated to be approximately S$1.12 billion, accounting for more than half of the residential segment's total investment sales. These include The Nassim (45 units), Robin Residences (29 units), Cityvista Residences (22 units), TwentyOne Angullia Park (41 units), The Lumos (35 units) and The Line @ Tanjong Rhu (84 units). The sudden implementation of the ACD on 11 March 2017 has motivated the eleventh-hour signing of some above-mentioned deals.

Commercial

At S$2.85 billion, or 53.6% of the total investment sales value in Q1, the commercial segment took the lion's share of the pie. On a quarterly basis, it surged by 46.0% from S$1.95 billion in the previous quarter. Similar to what transpired in the second half of 2016, the transactions in Q1/2017 were all from the private sector. The commercial properties, especially offices, continued to be the top pick for overseas companies and investors. For example, buyers in three out of the five big deals mentioned below are from overseas, including Hong Kong and Canada.

In January, a Lian Beng-led consortium divested 17 strata office units at Prudential Tower on Cecil Street for S$206.59 million, or S$2,600 psf of strata area. The buyer is a fund managed by One Tree Partners. In the same month, Perennial Real Estate Holdings and another seven shareholders of Perennial Somerset Investments, the holding company for TripleOne Somerset (a commercial property located in Orchard), sold a combined 70% stake to Hong Kong's Shun Tak Holdings. Based on the agreed property value, the 70% stake works out to S$880.6 million, or S$2,200 psf of net lettable area (NLA), making it the biggest deal in Q1.

In February, Canadian insurer, Manulife, bought PWC Building from DBS Group Holdings. This is the insurance company's first real estate acquisition in Singapore. The transaction valued the 28-storey, 355,000-sq ft CBD office tower at Cross Street for US$526.0 million, or around S$746.8 million. It is expected that Manulife will occupy part of the building as its headquarters, after the current anchor tenant PricewaterhouseCoopers (PwC) moves to Marina One at Marina Bay.

Later in March, the consortium of GSH Properties Pte Ltd, TYJ Group Pte Ltd

TABLE 1

Top land sales in the public sector, Q1/2017

Location	Type of development allowed	Date of award	Successful tender price (S$ million)	Name of successful tenderer
West Coast Vale	Residential	Feb 2017	292.0	China Construction (South Pacific) Development Co Pte Ltd
Perumal Road	Residential	Jan 2017	174.1	Low Keng Huat (Singapore) Ltd
Plot 1, Tampines Industrial Drive	Industrial	Mar 2017	3.3	Power Partners Private Ltd
Plot 22, Tuas South Link 3	Industrial	Feb 2017	3.0	Hexacon Construction Pte Ltd

Source: URA, JTC, Savills Research & Consultancy

TABLE 2

Top five private investment sales, Q1/2017

Property	Sector	Transacted date	Price (S$ million)	Buyer
TripleOne Somerset	Commercial	Jan 2017	880.6	Shun Tak Holdings
PWC Building	Commercial	Feb 2017	746.8	Manulife Financial Corp
GSH Plaza (about 229,000 sq ft office space)	Commercial	Mar 2017	663.5	Fullshare Holdings Ltd
The Nassim (45 units)	Residential	Jan 2017	407.2	Kheng Leong Company
Prudential Tower (17 strata units)	Commercial	Jan 2017	206.6	A fund managed by One Tree Partners

Source: Savills Research & Consultancy

and Vibrant DB2 Pte Ltd, sold Plaza Ventures Pte Ltd to Hong Kong-listed Fullshare Holdings. Plaza Ventures is the consortium's investment vehicle that holds GSH Plaza, a 28-storey tower at Cecil Street with 259 strata office units and 21 strata shops, after a newly-completed major retrofit. In the deal, the available unsold office units (about 229,000 sq ft of the development) are valued at S$2,900 psf. During the same timeframe, Vibrant DB2 will acquire the 21 retail units for S$75.59 million, representing about S$6,166 psf based on the 12,260-sq ft strata area.

Separately, the sales of shophouses have also been active in the last few quarters. There were eight transactions recorded in both Q4/2016 and Q1/2017. Notwithstanding the fact that yields have been incessantly compressing, but due to the restricted supply of conservation shophouses, they continue to remain attractive to high-net-worth investors and private equity funds.

Industrial

The industrial segment saw a total of S$344.2 million investment sales in Q1/2017, down 67.8% QoQ. This segment accounted for only 6.5% of the total investment sales value in the reviewed quarter.

Under the industrial GLS Programme, two B2-zoning industrial sites, namely Plot 22 at Tuas South Link 3 and Plot 1 at Tampines Industrial Drive were awarded for a total of S$6.3 million. Amidst waning demand from manufacturing industries and over-supply of industrial space, the number of bids continued to be thin and the low land prices were under expectations.

In the private sector, seven industrial properties changed hands for a total of S$337.9 million. The biggest deal was the S$193.8 million sale of a factory located at 1 Buroh Lane. Meanwhile, industrial S-REITs have continued to recycle capital by divesting some of their non-core assets. For example, Cambridge Industrial Trust sold the Mintwell Building at 55 Ubi Avenue 3 for S$22.14 million in January, while Mapletree Logistics Trust divested its warehouse property at 20 Old Toh Tuck Road for a consideration of S$14.25 million.

OUTLOOK

The prospects for the market

The abrupt implementation of the ACD has front-loaded bulk private residential sales in 2017. Unless annual prices are expected to rise significantly in the coming years, it is unlikely that institutions will return to the bulk residential sales market, as the hefty 18% stamp duty cuts deep into their required rates of return. The effect of this would be the shift of interest by institutional investors to other sectors of the real estate market here.

With greater focus and weight of money now being channelled to the commercial, retail and hospitality sectors here, investment sales are expected to continue, despite yield compression. As both private equity funds and ultra-high net worth individuals have either raised new money or have a need to diversify to reduce concentration risk, yields have the potential to remain low and go lower as prices will either hold firm or even edge up.

Please contact us for further information

Savills Singapore

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

Steven Ming
Managing Director
Head, Investment & Residential Services
+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