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Briefing
Sales & investment

July 2017

Image: Jurong Point

SUMMARY

A few big-ticket deals fuelled Q2's real estate investment sales market.

- In Q2/2017, Singapore real estate investment sales surged 68.9% on a quarter-on-quarter (QoQ) and 23.1% on a year-on-year (YoY) basis to S$8.99 billion.

- The tenders for Government Land Sales (GLS) residential sites continued to receive high participation rates from developers, both local and foreign (especially China-based ones).

- There was a revival in the collective sales of private residential/mixed sites. Year-to-date, four en bloc sales worth slightly over S$1.5 billion were sealed.

- In dollar-value terms, the commercial segment ranked second to the residential segment, raking in a total of S$3.62 billion worth of investment sales in Q2. The biggest deal is the sale of Jurong Point for nearly S$2.2 billion.

- Under the GLS programme, a commercial and residential site at Upper Serangoon Road was awarded to a joint-venture of Singapore Press Holdings and Kajima Development for S$1.132 billion.

- With the first half of 2017 already clocking up S$14.31 billion of investment sales, our forecast for 2017 has been revised up to S$23 - 25 billion.

"Developers, hungry to replenish their land banks or expand into Singapore's real estate market, are adopting a business-as-usual approach and brushing aside economic and interest rate concerns."
Alan Cheong, Savills Research

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Market overview

In the second quarter of 2017, real estate investment sales surged 68.9% on a QoQ and 23.1% on a YoY basis to S$8.99 billion.

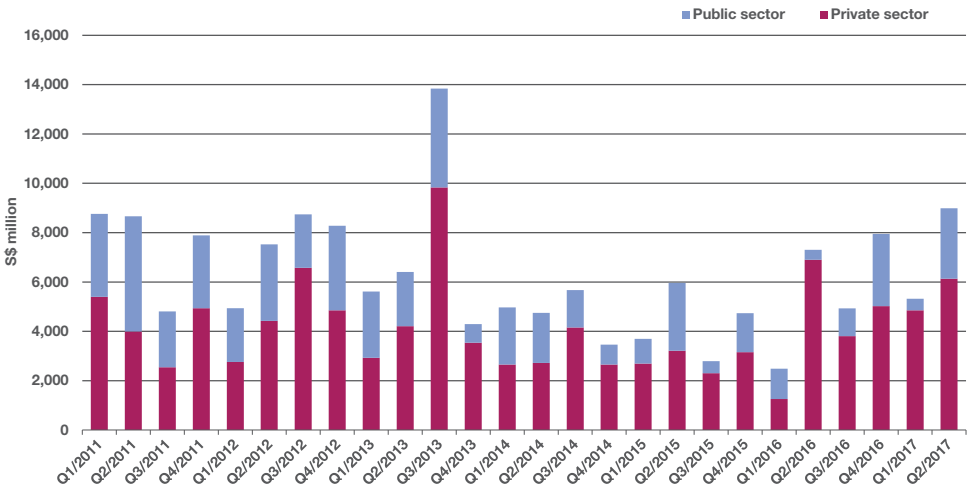
Notable deals in the private sector include the sale of Jurong Point to Mercatus Co-operative Ltd (S$2.198 billion), FWD Group's acquisition of a 50% stake in One George Street (S$591.6 million) and the collective sales of two privatised Housing and Urban Development Company (HUDC) projects – Eunosville (S$765.8million) and Rio Casa (S$575.0 million). In the public sector, eight land parcels were awarded under the GLS programme, totalling S$2.86 billion in value. Among these, two big land parcels – a residential site at Stirling Road and a commercial and residential mixed site at Upper Serangoon Road – achieved prices exceeding one billion, at S$1.003 billion and S$1.132 billion respectively.

Residential

In Q2/2017, the residential segment recorded S$3.96 billion of investment sales or 44.0% of the total investment value. On a QoQ basis, sales increased 84.5%.

GRAPH 1

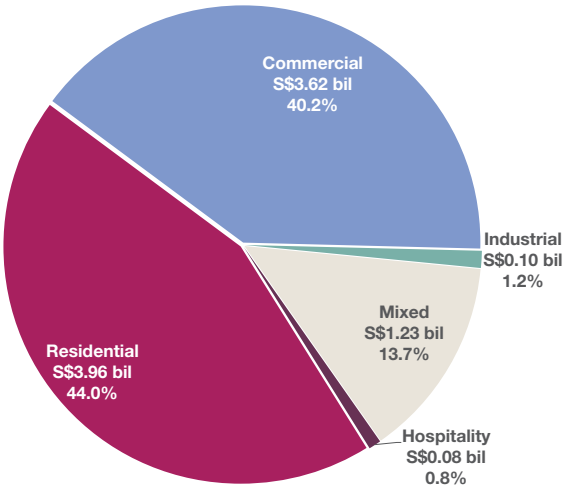
Investment sales transaction values, Q1/2011–Q2/2017



Source: Savills Research & Consultancy

GRAPH 2

Investment sales transaction volumes by property type, Q1/2017



Source: Savills Research & Consultancy

The tenders for GLS residential sites continued to receive high participation rates from developers, both local and foreign (especially China-based ones). For example, a joint venture of Logan Property and Nanshan Group, both China-based developers, put in the top bid of S$1.003 billion for the 227,215-sq ft site in Stirling Road, while another China property developer, Hong Kong-listed Fantasia Holding Group, has come out on top for a residential site at Lorong 1 Realty Park for S$75.8 million. At the same time, in order to obtain the site, the top bids from these overseas developers have been generally aggressive, with a substantial gap before the second bids. For the two above-mentioned land parcels, the gap was 8.3% and 22.2% respectively.

The keen competition was also evident in tenders for the other two residential sites awarded in Q2. The tender for a Toh Tuck Road plot attracted 24 bids; it was won by Malaysian property developer SP Setia International, whose S$265.0 million offer was only 1.9% higher than the second bid. For the land parcel at Tampines Avenue 10, local developer City Developments Ltd (CDL) upstaged eight other bidders with a top bid of S$370.1 million. Although the number of bids was one of the lowest recorded in a residential GLS tender since 2016, the top bid was bullish as the plot's unit price, S$565.4 per sq ft per plot ratio (psf ppr), was 17.2% higher than the S$482.6 paid for a nearby site by MCC Land two years ago. The depleting land banks of developers and the significantly lower number of sites being made available by the government on their confirmed list are key reasons behind the high land prices. In addition, the recent pick-up in primary sales has also helped to build up developers' market confidence.

Limited supply from the GLS programme has pushed developers to seek for land parcels in the private sector. There was a revival in the collective sales of private residential/ mixed sites in Q2/2017. For the year, four en bloc sales worth slightly over S$1.5 billion were sealed. They are One Tree Hill Gardens near Orchard Road (S$65.0 million), Rio Casa at Hougang Avenue 7 (S$575.0 million), Eunosville at Sims Avenue (S$765.8 million) and the mixed development Goh & Goh Building on Upper Bukit

Timah Road (S$101.5 million). In terms of the number of deals done, this has already surpassed the three that were concluded for the whole of last year that totalled about S$1.0 billion.

Except for collective sales, developers are also active in acquiring land plots by different ways. Two other land acquisitions were concluded in the reviewed quarter. One is 1 Draycott Park, a freehold land in the Orchard area that was sold via a private treaty to a subsidiary of Malaysian property developer Selangor Dredging at S$72 million, while the other is also a freehold vacant land at Jalan Remaja in the Hillview area, which was acquired by Tuan Sing Holdings for S$47.8 million from Andermatt Investments Pte Ltd.

Sales of high-end residential properties picked up in the reviewed quarter. In Q2 alone, 34 landed houses and 12 condominium units, each worth at least S$10 million, were transacted. This is the highest number since Q4/2012. Buyers are looking for value buys, as they believe the prices for such luxury residential homes may have hit bottom. The top three most expensive landed houses sold in the reviewed quarter are all good class bungalows (GCBs). They are 12 Queen Astrid Park (S$46.0 million), 17 Leedon Park (S$40.9 million) and 7 Victoria Park Close (S$40.0 million). For non-landed units, the top transaction was the S$25.6 million purchase of a 9,300-sq ft penthouse unit at The Nassim by the Mukhtar family, which controls Allied Bank in Pakistan, followed by a unit at the 13th level of The Marq on Paterson Hill for S$21.8 million.

Commercial

In dollar-value terms, the commercial segment ranked second to the residential segment, recording a total of S$3.62 billion worth of investment sales in Q2/2017. Its market share is about 40.2%. Compared with the S$2.83 billion in Q1, it rose 27.7%.

The biggest deal in the reviewed quarter is the sale of Jurong Point for nearly S$2.2 billion to Mercatus Co-operative Limited, one of the NTUC social enterprises. Located right next to the Boon Lay MRT Station, the property is one of the biggest suburban shopping malls in Singapore. The price works out to S$3,343 per sq ft of net lettable area (NLA) with a net passing yield of 4.2%. This deal alone contributed about 60.8% of the total investment sales value in the commercial segment.

There are another three notable transactions of office properties sealed in the reviewed quarter. In April, Tuan Sing Holdings, through its wholly owned subsidiary Gerbera Land Pte Ltd, purchased Sime Darby Centre at Bukit Timah for S$365.0 million (S$1,800 psf of NLA) from Sime Darby Property (Dunearn) Private Limited, a 70:30 consortium of Blackstone and Sime Darby Berhad. Tuan Sing plans to reposition this commercial property into a hub of activities to serve the needs of the vast residential community in the vicinity. In addition, Hong Kong-based insurer FWD Group acquired a 50% stake in One George Street, a Grade A office building at George Street, from CapitaLand Commercial Trust (CCT) in May. Based on the agreed property value and net property income, the 50% stake amounted to S$591.6 million with the net passing yield at about 3.2%. In June, Afro-Asia Shipping Co (Pte) Ltd

TABLE 1

Top land sales in the public sector, Q2/2017

Location	Type of development allowed	Date of award	Successful tender price (S$ million)	Name of successful tenderer
Upper Serangoon Road	Commercial & Residential	Jun 2017	1,132.0	Elara 1 Pte Ltd and Callisto 1 Pte Ltd
Stirling Road	Residential	May 2017	1,002.7	Logan Property (Singapore) Company Pte Ltd and Nanshan Group Singapore Co. Pte Ltd
Tampines Avenue 10 (Parcel C)	Residential	May 2017	370.1	Bellevue Properties Pte Ltd
Toh Tuck Road	Residential	Apr 2017	265.0	S P Setia International (S) Pte Ltd
Lorong 1 Realty Park	Residential	Jun 2017	75.8	Fantasia Investment (Singapore) Pte Ltd, Sun Renwang and Yang Xinping

Source: HDB, URA and Savills Research & Consultancy

TABLE 2

Top five private investment sales, Q2/2017

Property	Sector	Transacted date	Price (S$ million)	Buyer
Jurong Point	Commercial	Apr 2017	2,198.0	Mercatus Co-operative Limited
Eunosville	Residential	May 2017	765.8	MCL Land Limited
One George Street (50% stake)	Commercial	May 2017	591.6	FWD Group
Rio Casa	Residential	May 2017	575.0	Oxley-Lian Beng Venture Pte Ltd
Sime Darby Centre	Commercial	Apr 2017	365.0	Tuan Sing Holdings Limited

Source: Savills Research & Consultancy

(AAS) sold Afro-Asia Building, one of the oldest office blocks on Robinson Road, for S$170.0 million to Robinson Development (Pte) Ltd, a joint venture of AAS and Shimizu Corporation. Robinson Development has a redevelopment plan of a 19-storey commercial building with completion scheduled for mid-2020.

Mixed-use

Under the GLS programme, a 99-year leasehold 273,842-sq ft commercial and residential site at Upper Serangoon Road was awarded in June. Next to the Woodleigh MRT station, this is the first land parcel for private non-landed residential units at the new Bidadari estate. Consequently, in spite of a large investment amount and an un-tested area, developers had keenly contested the tender award, with a joint-venture of Singapore Press Holdings (SPH) and Kajima Development putting in the top bid of S$1.132 billion. The consortium intends to develop more than 600 private condominium units on the site. Meanwhile, the consortium also will build a 310,000 sq ft retail and commercial component, a 64,583 sq ft community club and a 23,573 sq ft neighbourhood police centre, according to the tender requirements. Together with the S$101.5 collective sales of Goh & Goh Building at Upper Bukit Timah Road by Alika Properties Pte Ltd, a BBR Holdings indirect subsidiary, the mixed-use property segment contributed a total of S$1.23 billion worth of investment sales, accounting for 13.7% of the market share.

Industrial

In Q2/2017, a total of S$104.4 million investment sales was recorded in the industrial segment. This segment accounted for only 1.2% of the total investment sales value in Q2/2017. As a result of weak demand for industrial space due to continuing economic restructuring, the weak oil, gas and marine industries and an oversupply situation, investment sales activity for industrial sites and properties was quiet in the last few quarters. Transaction values have been declining for three consecutive quarters since Q4/2016.

Three B2-zoning industrial sites under the industrial GLS programme were awarded for slightly more than S$12.1 million. In the private sector, five industrial properties changed hands for a total of S$92.3 million. Properties in three out of these five transactions were sold by REITs, including Mapletree Industrial Trust, Cambridge Industrial Trust and Ascendas Reit. The divestment is in line with these Reits' current business strategy, including the divestment of non-core properties and recycling of capital for better investment and returns.

OUTLOOK

The prospects for the market

The collective sales market for private residential sites should remain active in the next few quarters. Several projects, such as Serangoon Ville, Tampines Court, Florence Regency and Normanton Park, have been either put up for sale or are in the midst of having a collective sale committee set up. However, in view of slow economic growth and overly bullish expectations of sellers, the collective sales may not repeat the last boom of 2005 to 2007. Unlike a decade ago, when interest centred on prime district properties, the market is dominated by mass-market projects. These are dominated by the collective sales of privatised HUDC estates, exemplified by Eunosville and Rio Casa.

With the first half of 2017 already clocking in S$14.31 billion of investment sales, our forecast of an S$18 billion to S$20 billion investment sales range for 2017 now looks conservative. When the year is up, the finally tally could range from S$23 billion to S$25 billion. Reasons for this firstly include the high land prices paid for GLS sites of late, which will raise the baseline for land sale proceeds. Two, we have collective sales sites that may be concluded within the next few months. Third, the commercial site at Beach Road in the reserve list of 1H/2017 GLS programme has been triggered for tender, which should rake in over S$1.14 billion when finally awarded to the highest bidder. Finally, if Asia Square Tower 2 is sold within the year, it would add over S$2.0 billion to our investment tally.

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