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Savills World Research
Singapore

Briefing
Sales & investment

July 2018

Image: Tulip Garden

SUMMARY

Strong real estate investment sales in 1H/2018 face roadblocks in 2H/2018.

- Investment sales reached S$10.53 billion in 2Q/2018, up 4.7% quarter-on-quarter (QoQ).

- Investment sales of residential land and homes came in at S$6.82 billion in Q2/2018. Although this was down 15.3% QoQ, this sector continued to take the lion's share of total sales value.

- After a quiet first quarter, commercial property investment activity picked up with the sector recording S$1.57 billion in transaction value in Q2/2018, surging 286.3% from Q1's S$410.0 million.

- In Q2/2018, investment sales in the mixed-use sector reached S$1.47 billion, contributed by two deals, accounting for 14.0% of total market share.

- REITs' acquisitions helped industrial sector sales volume double from S$332.6 million in Q1 to S$666.7 million in Q2, although compared to the other sectors, the scale of investment activity looked rather tepid.

- The revised Additional Buyer' Stamp Duty (ABSD) that was implemented on 6 July 2018 is expected to put a dampener on the number of collective sales transactions in the coming six months. We have revised our full-year investment sales forecast down from S$36 billion to S$25-27 billion.

"Punitive measures targeting both second-time residential property buyers and developers will cause residential investment sales to pause." Alan Cheong, Savills Research

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Market overview

In Singapore, real estate investment in Q2/2018 continued to grow strongly, recording S$10.53 billion in sales. This was 4.7% higher than the S$10.06 billion recorded in Q1/2018.

Investment sales from the public sector amounted to S$2.92 billion in Q2, up 81.6% QoQ from the S$1.61 billion in Q1. Under the Government Land Sales (GLS) programme, a total of seven sites (including three residential sites, three industrial sites and one commercial & residential site) were awarded in Q2. Meanwhile, the strong increase was also bolstered by the Holland Road commercial and residential site and the Silat Avenue residential site, which achieved S$1.213 billion and S$1.035 billion, respectively.

By contrast, the volume of transactions in the private sector fell by 10.0% QoQ to S$7.61 billion in Q2/2018. Investment sales of commercial, industrial and mixed-use properties showed substantial increases from the prior quarter, although this was offset by the decline in the residential segment as more smaller-sized collective sale deals were done in Q2.

Residential

Investment sales of residential land and homes came in at S$6.82 billion in Q2/2018. Although down by 15.3% QoQ, the sector continued to take the lion's share of total sales value, at 64.8% of the overall market transaction volume in the quarter.

Three 99-year leasehold GLS private residential sites at Cuscaden Road, Mattar Road and Silat Avenue were awarded. Given their appealing locations and developers' market confidence, the tender for the Cuscaden Road site drew nine bids, while the Mattar Road site received 10 bids. For the Cuscaden Road site, the top bid of S$2,377 per sq ft per plot ratio (psf ppr)—from a joint venture of SC Global Developments, New World Development and Far East Consortium International—set a record for a residential GLS site.

Twenty private residential sites were sold in Q2/2018, 15 of which were collective sales. Together with the 18 sites sold in Q1, developers have acquired a total of 33 sites, spending S$9.78 billion in the collective sales market, surpassing the S$8.24 billion for 29 sites concluded in the whole of 2017. Collective sales activity remained healthy; however, developers have become more selective even as the number of sites launched for sale has increased. The success rate for a collective sale has fallen significantly compared to 2016 and 2017. Developers' buying interest has also shifted to freehold sites in the high-end and mid-tier markets with a smaller price quantum.

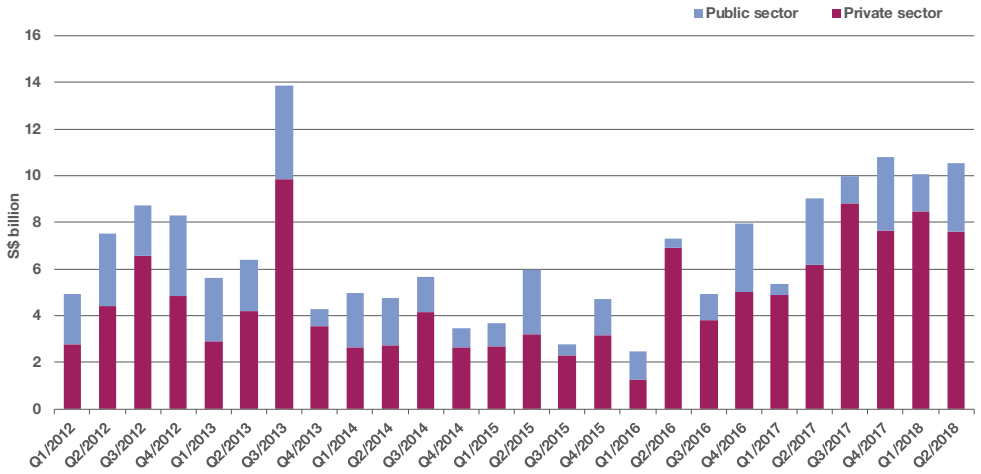
In Q2/2018, the largest residential transaction in the private sector was Tulip Garden's S$906.9 million en bloc sale to MCL Land and Yanlord Land Group. The price reflects a land rate of S$1,790 psf ppr for this freehold residential site located along Farrer Road in District 10. In terms of land rate, the freehold Park House at Orchard Boulevard fetched a record of S$2,910 psf ppr. Other notable collective sale deals included Dunearn Gardens at Dunearn Road (S$468.0 million or S$1,914 psf ppr[1]), Chancery Court at Dunearn Road (S$401.8 million or S$1,610 psf ppr[2]) and Asia Gardens at Everton Road (S$343.0 million or S$1,722 psf ppr).

In Q2/2018, 24 landed houses and 19 condominium units, each worth at least S$10 million, found buyers.

1 Including different charge.
2 Including different premium and lease upgrading premium.

GRAPH 1

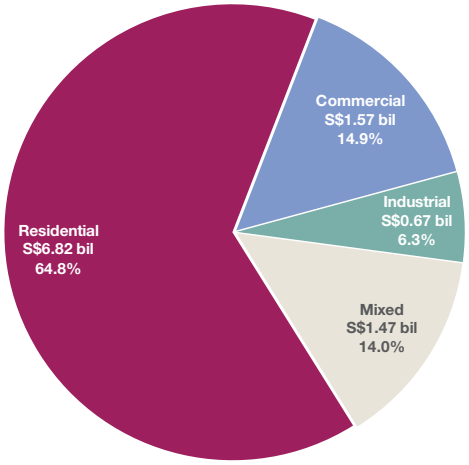
Investment sales transaction values, Q1/2012 – Q2/2018



Source: Savills Research & Consultancy

GRAPH 2

Investment sales transaction volumes by property type, Q2/2018



Source: Savills Research & Consultancy

Among these, five are non-landed units from the developments New Futura, Le Nouvel Ardmore, Boulevard Vue and Wallich Residence at Tanjong Pagar Centre that were transacted at above S$4,000 psf. The luxury segment has revived, along with the recovery in the wider market.

Commercial

After a quiet first quarter, investment activity for commercial properties picked up in Q2/2018 with the sector recording a total of S$1.57 billion in transaction value, up 286.3% from Q1's S$410.0 million.

Two office developments in the CBD changed hands. In April, MYP announced the S$247 million divestment of MYP Plaza, a 14-storey freehold office building at Cecil Street, to Golden Estate Properties Pte Ltd, which is affiliated to Filipino billionaire Lucio Tan's group of companies. The price was equivalent to S$3,000 psf based on its net lettable area (NLA). Later in June, CapitaLand Commercial Trust sold Twenty Anson to AEW Capital Management at S$516 million or S$2,503 psf of NLA. At this price, the net property yield is 2.7%.

In the meantime, the buying activity of strata-titled office units has improved significantly. Some benchmark prices have been achieved in popular developments with strata office units. For example, the 20th floor at Samsung Hub at Church Street was transacted at S$3,550 psf in April, while an office space with 20,828 sq ft in Springleaf Tower at Anson Road changed hands at S$2,602 psf in June.

In the retail sector, two notable block transactions were sealed in Q2/2018. The first is the purchase of Sembawang Shopping Centre from CapitaLand Mall Trust at S$248 million, or S$1,727 psf of NLA, by a joint venture of Lian Beng Group and Apricot Capital, while the second is SPH REIT's S$63.24 million acquisition of The Rail Mall. The latter is a stretch of shopping and dining outlets at Upper Bukit Timah Road with a remaining tenure of 28 years. Transaction prices for both deals were higher than market expectations.

Mixed

In Q2/2018, the total investment sales volume in the mixed-use property sector came in at S$1.47 billion. This came from two deals and accounted for 14.0% of total market share.

The first mixed-used deal was recorded in May when the Urban Redevelopment Authority (URA) awarded a 99-year leasehold commercial and residential GLS site in Holland Road to a consortium comprising Far East Organization, Sekisui House and Sino Group, through a dual-envelope concept and price tender. The winning bid of S$1.213 billion was equivalent to S$1,888 psf ppr based on a maximum gross floor area (GFA) of 642,766 sq ft. Owing to the site's rarity appeal as the first state land sale site launched as part of the Holland Village Extension plan unveiled in URA's 2014 Master Plan, the tender, which closed on March 20, attracted a total of 15 bids from 10 consortiums made up of all of Singapore's large established developers.

The other transaction came from the collective sale of Chinatown Plaza for S$260 million to a property unit affiliated to Singapore-based Royal Golden Eagle. Located along Craig Road, the property stands on a 33,953-sq ft freehold site zoned for commercial and residential use. The land rate is about S$1,915 psf ppr based on its existing GFA of 135,742 sq ft.

Industrial

In Q2/2018, the largest transaction in the industrial sector was Keppel DC REIT's purchase of a 99% interest in Kingsland Data Centre at Sunview Way for S$295.1 million. ESR-REIT bought a four-storey multi-tenanted ramp-up logistics facility with ancillary offices at Greenwich Drive in Tampines LogisPark for S$86.2 million, while Mapletree Industrial Trust acquired a warehouse at Tai Seng Drive for S$68 million with a plan of converting the property into a high-specification industrial building.

After focusing on the divestment of non-core properties in the past two years, some industrial REITs have begun expanding their portfolios again. Consequently, these REITs' acquisitions have helped sales volume in the industrial sector double from S$332.6 million in Q1 to S$666.7 million in Q2. Nevertheless, in absolute terms, the sector's share of total investment activity remained small.

TABLE 1

Top land sales in the public sector, Q2/2018

Location	Type of development allowed	Date of award	Successful tender price (S$ million)	Name of successful tenderer
Holland Road	Commercial & residential	May 2018	1,213.3	Stirling Land Holdings Pte Ltd, Stirling View Pte Ltd (as Trustee of Commons SR Trust) and Stirling Property Pte Ltd (as Trustee of Commons Commercial Trust)
Silat Avenue	Residential	May 2018	1,035.3	UOL Venture Investments Pte Ltd, UIC Homes Pte Ltd and Kheng Leong Company (Private) Limited
Cuscaden Road	Residential	May 2018	410.0	Amberden Pte Ltd, FEC Properties Pte Ltd and Orchard Square Pte Ltd
Mattar Road	Residential	May 2018	223.0	FSKH Development Pte Ltd

Source: JTC, URA, Savills Research & Consultancy

TABLE 2

Top five private investment sales, Q2/2018

Property	Sector	Transacted date	Price (S$ million)	Buyer
Tulip Garden	Residential	Apr 2018	906.9	MCL Land and Yanlord Land Group
Twenty Anson	Commercial	Jun 2018	516.0	AWE Capital Management
Dunearn Gardens	Residential	Apr 2018	468.0	EL Development
Chancery Court	Residential	May 2018	401.8	Far East Organization
Park House	Residential	Jun 2018	375.5	Shun Tak Holdings

Source: Savills Research & Consultancy

OUTLOOK

The prospects for the market

The revised Additional Buyer' Stamp Duty (ABSD) implemented on 6 July 2018 is expected to put a dampener on the number of collective sales transactions in the coming six months. As developers now face a 5% non-remittable ABSD charge for the land they purchase, they are unlikely to take a loss, instead transferring the charge to vendors through a haircut on their reserve price. This could result in a drying up of collective sales transactions.

To understand why this might be the case, we need to turn the clock back to the 2014-15 period when collective and en-bloc sales activity ground almost to a halt. During that period, developers' sales of uncompleted projects fell 51.8% (year 2014) and 51.6% (year 2015), compared to 2013 levels. This led to developers adopting a cautious approach to acquiring new landbank. Collective sellers held a different view, however, not moving from the reserve prices set in the bullish 2011-13 period. As the bid-ask spread was irreconcilable, transactions dried up.

With buyers of second properties now being hit by a punitive extra 5% ABSD, developers believe it will be more difficult for them to sell out large projects within five years of the award of the land. The revised 25% ABSD levied on developers who fail to complete sales of new units within five years is thus likely to present an obstacle to large collective sales sites that could yield well over a thousand new launch units. A replay of the 2014-15 situation is likely and, for 2H/2018, we expect transactions in the residential collective sales market to shrink significantly. The S$9.78 billion achieved in the collective sales market for 1H/2018 is unlikely to be repeated. While some smaller sites may still be sold, the total achieved for 2H/2018 may well be just a fraction of the 1H number, perhaps even below S$1 billion.

Given the volume of money in the global system in search of investible assets, investor attention may be turned to the industrial and commercial sectors, where regulations on the purchase and sale of properties are not as onerous as those applied to the residential sector. However, while there may be transactions in non-residential sectors that come about because of the recent cooling measures, these are unlikely to fill the void left by the expected pull-back in collective sales transactions.

Owing to the recent measures that seek to curb second property purchases, plus the punitive levies on developers that acquire land from 6 July 2018 and fail to sell all new units within a five-year period, investment sales volumes are likely to fall short of our previous forecast of S$36 billion for 2018. We have revised down our forecast to S$25-27 billion. Although this is lower than 2017's S$35.1 billion, it is still above the S$22.6 billion recorded in 2016.

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