

Briefing Sales & investment

February 2014



Image: Serangoon Plaza, Serangoon Road

SUMMARY

Fourth quarter investment sales fell to S\$3.9 billion.

- The private sector continued to dominate the market, contributing S\$3.1 billion or 80.5% of Q4's investment sales, while the public sector accounted for S\$757.2 million or 19.5%.

- The debilitating effects of the additional buyer's stamp duty combined with the total debt servicing ratio framework continued to weigh on the residential segment. The investment sales value shrank for the second consecutive quarter to S\$862.4 million in Q4.

- In Q4/2013, investment sales in the commercial segment amounted to

S\$1.8 billion. Two notable deals were closed – the S\$970 million deal for TripleOne Somerset and the S\$400 million sale of Serangoon Plaza.

- Investments in commercial strata-titled properties remained healthy, with the number of caveats lodged increasing slightly from eight in Q3 to 11 in Q4, while the total transaction value jumped 78.9% quarter-on-quarter (QoQ) to S\$329.1 million.

- We expect the investment sales value to reach S\$20.0 billion to S\$25 billion in 2014.

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 “A slow quarter of investment deals is masking underlying investor appetite for quality assets.”

Alan Cheong, Savills Research

➔ **Market overview**

Although some big-ticket deals were sealed in the last few days of 2013, including the S\$970 million deal for TripleOne Somerset and the S\$468 million sale of The Westin Singapore hotel, property investment sales in the fourth quarter of 2013 fell by 71.9% on a QoQ basis to S\$3.9 billion. This is from a high base of S\$13.8 billion in Q3 which was mainly bolstered by an active IPO market for REITs and the sale of some large state lands. For the whole of 2013, the investment market recorded a total of around S\$29.7 billion, representing a 0.9% increase from 2012.

The private sector continued to dominate the market, contributing S\$3.1 billion or 80.5% of Q4's investment sales. However, sentiment remained weak, with investment sales across all property types recording lower transaction volumes compared with the previous quarter. Consequently, the total investment value in the private sector recorded a 68.1% quarterly drop from S\$9.8 billion in Q3.

Under the Government Land Sales (GLS) programme, 11 state land parcels were sold for a total of S\$757.2 million, accounting for 19.5% of total investment sales. As the majority of the lands awarded in the reviewed quarter were for industrial use, with smaller site areas

TABLE 1 **Top five land sales under the GLS programme, Q4/2013**

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 Serangoon View (Parcel A)	Residential	Dec 2013	258.8	522	Kingsford Development Pte Ltd
Upper Serangoon View (Parcel B)	Residential	Dec 2013	201.6	522	Kingsford Development Pte Ltd
Tai Seng Street	Industrial	Dec 2013	120.1	271	Mapletree Trustee Pte Ltd
Gambas Crescent (Parcel 2)	Industrial	Oct 2013	46.3	127	Grow-Tech Properties Pte Ltd
Gambas Crescent (Parcel 1)	Industrial	Oct 2013	44.8	138	Grow-Tech Properties Pte Ltd

Source: Urban Redevelopment Authority, JTC Corporation, Savills Research & Consultancy

and lower values, the public sector's investment sales plummeted 81.1% QoQ.

For the whole of 2013, private sector transaction values increased 8.0%, from S\$18.6 billion in 2012 to S\$20.1 billion, while the public sector totalled S\$9.7 billion, down 11.2% from S\$10.9 billion a year ago.

The presence of Chinese investors/developers has been increasing

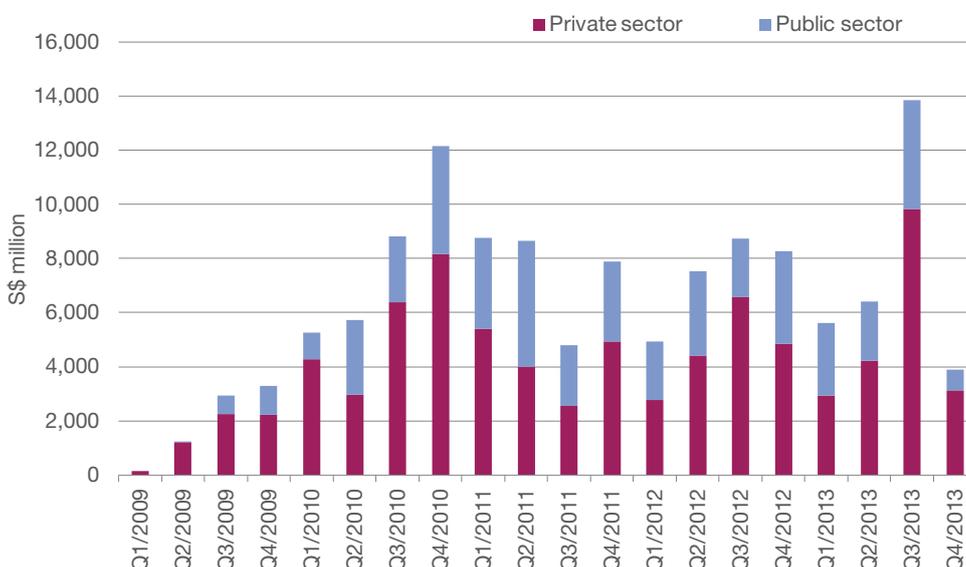
over the years. In 2013, they bought building blocks/land parcels totalling almost S\$3.3 billion (excluding joint ventures with local/other overseas investors and companies), tripling the S\$1.0 billion recorded in 2012. On the other hand, Singapore investors shifted their buying interest overseas in 2013. According to Real Capital Analytics' statistics, Singapore buyers invested a total of US\$17.3 billion in overseas properties, 31.8% higher than the US\$12.3 billion in 2012. The UK, China, Malaysia, Australia and the US are the top five destinations, accounting for 80.3% of the total overseas real estate investments by Singapore investors.

Residential

The debilitating effects of the additional buyer's stamp duty combined with the total debt servicing ratio framework continued to weigh on the residential segment. Meanwhile, only two residential sites were awarded through government tenders. These factors led to the investment sales value shrinking for the second consecutive quarter, from S\$2.0 billion in Q3/2013 to S\$862.4 million in the last quarter of 2013. The quarterly decline is 56.8% in Q4, higher than the negative 41.0% recorded in Q3.

In the private sector, only 25 residential homes (no less than S\$10 million each) and one en-bloc site (251-251F Pasir Panjang Road) were transacted. This represents a fall of

GRAPH 1 **Investment sales transaction values, Q1/2009–Q4/2013**



Source: Savills Research & Consultancy

20.8% QoQ to S\$412.6 million in Q4. For the whole of 2013, there were 123 luxury homes sold, representing a decline of 27.6% from the 170 recorded a year ago, while the collective sales market saw nine sites transacted in 2013 compared with 2012's 22 sites.

In December, the government closed the tender for two adjoining residential sites located along Upper Serangoon View on the same day in an attempt to moderate bids. However, Kingsford Development, a developer owned by three Chinese nationals, put in bids of S\$522 per sq ft per plot ratio for both sites. Amid the slowdown seen in the private residential sales market, the successful bids exceeded market expectations.

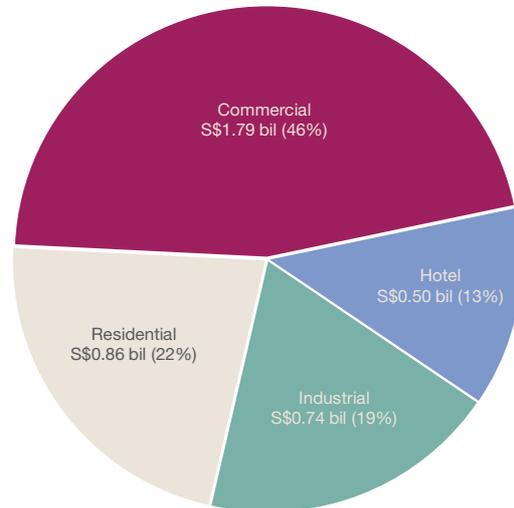
This creates a dilemma for local developers; on one hand, they have to replenish their land banks at reasonable prices amid weakening residential property sales, and on the other hand, they are facing keen competition from overseas developers who have ample liquidity and are eager to enter the local market.

Commercial

In Q4/2013, investment sales in the commercial segment amounted to S\$1.8 billion or 45.9% of the total transaction value. Commercial investment sales fell 63.7% from a high base of S\$4.9 billion recorded in the previous quarter which was mainly due to REITs' acquisitions for their IPOs. Nevertheless, the commercial segment recorded about S\$10.4 billion of investment sales in 2013, an increase of 30.2% from the S\$8.0 billion achieved in 2012.

There were two notable block transactions in the last quarter of 2013. One is the biggest commercial collective sale in 2013, which was completed in November. This is the S\$400.0 million sale of Serangoon Plaza to its majority owner, Feature Development. The price for this development, which is located in Little India, works out to S\$1,946 per sq ft based on the potential GFA of 205,563 sq ft. The other transaction is TripleOne Somerset, a 17-storey property located opposite Somerset MRT Station. The S\$970 million price tag made it the biggest office investment deal in 2013. A consortium led by Perennial Real Estate Holdings purchased the property for S\$1,714 per sq ft based

GRAPH 2 Investment sales transaction volumes by property type, Q4/2013



Source: Savills Research & Consultancy

on its net lettable area of around 566,000 sq ft.

Investments in commercial strata-titled properties also remained healthy, with the number of caveats lodged increasing slightly from eight in Q3 to 11 in Q4, while the total transaction value jumped 78.9% QoQ to S\$329.1 million in Q4. The substantial increase in transaction value was attributed to two big deals – two floors of SBF Center, which were sold for S\$64.0 million, and six adjoining shop units on the second level of Junction Nine, which were acquired by Sheng Siong Group for S\$54.9 million. Meanwhile, prices remained resilient. The 21st and 22nd levels of Springleaf Tower were transacted for S\$2,338 per sq ft in October, while another three levels (25th to 27th) in the same building were sold for S\$2,400 per sq ft in November, the highest price recorded in the development. The 41st level of Suntec City Tower Three also achieved a record price of S\$3,000 per sq ft in October.

Hospitality

The private hospitality segment, which posted a stellar performance in the last two quarters, has almost dried up, with only one deal closed in Q4. Daisho Group, a Japan-based property developer/investor acquired The Westin Singapore hotel for S\$468 million or about S\$1.5 million per room from a fund managed by MGPA. The

305-room, 99-year leasehold hotel is located in Asia Square Tower 2 at Marina Bay.

Industrial

Investment sales in the industrial segment totalled S\$742.8 million in Q4, making up 19.1% of the total market value. On a QoQ basis, this is a fall of 54.8% from the S\$1.6 billion achieved in Q3. However, the total for the year was about S\$3.5 billion. Except for newly-listed industrial REITs, including SoilBuild Business Space Reit and Viva Industrial Trust, acquisitions by other industrial REITs were limited, and in terms of transactions, were down from 11 in 2012 to three in 2013. In contrast, investment activity by non-REIT investors remained stable.

With effect from 15 November 2013, JTC's assignment prohibition period, ie, the period during which a lessee who has purchased JTC facilities on the secondary market is not allowed to sell, has been extended from three years to five years in the case of leases with ≤30 years remaining or ten years in the case of leases with >30 years remaining. Similarly, the minimum occupation period for anchor tenants under third-party build and lease/sale and leaseback schemes has also been extended. We believe that the new rules will ensure that industrialists who applied for premises stay committed and embedded in their professed trade. However, this could slow investment activity in this segment. ■

TABLE 2
Top five private investment sales, Q4/2013

Property	Sector	Transacted date	Price (S\$ million)	Buyer
TripleOne Somerset	Commercial	Dec 2013	970.0	A consortium led by Perennial Real Estate Holdings
The Westin Singapore	Hospitality	Dec 2013	468.0	Daisho Group
Serangoon Plaza	Commercial	Nov 2013	400.0	Feature Development, an associate of the Tong Eng property development group
Technopark @ Chai Chee	Industrial	Oct 2013	193.0	Viva Industrial Trust
11 Sunview Way	Industrial	Nov 2013	72.4	-

Source: Savills Research & Consultancy

OUTLOOK

The prospects for the market

Looking ahead, we are cautiously optimistic on the 2014 real estate investment sales market in Singapore. Our tinge of optimism is carried on the back of a better economic outlook, Singapore's still attractive investment location and positive office rental growth. The property cooling measures, expectations of rising interest rates alongside the Federal Reserve's quantitative easing tapering, and the pricing gap between buyers and sellers, however, will continue to weigh on investment sentiment and prolong the decision-making process. Together with fewer land parcels released under the GLS programme, we expect investment sales to reach S\$20.0 billion to S\$25 billion in 2014.

Please contact us for further information

Savills Singapore



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



Steven Ming
 Deputy Managing Director
 Head, Investment & Sales
 +65 6415 3624
 sming@savills.com.sg



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

Savills Research

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