

# Briefing Sales & investment

January 2015



Image: Crowne Plaza Changi Airport, Airport Boulevard

## SUMMARY

The real estate investment market fell back into its slumber in the fourth quarter of 2014.

- The real estate investment market fell back into its slumber in Q4/2014, registering about S\$3.5 billion worth of investment transactions, down 38.2% from the S\$5.6 billion recorded in Q3. This brings the full-year figure to S\$17.8 billion, significantly lower (by 40.3%) than 2013's S\$29.7 billion.

- The private sector continued to dominate the market, contributing about S\$2.7 billion (or 76.8%) of Q4's investment sales.

- Investment sales in the residential segment amounted to S\$1.42 billion

in Q4, contributing 41.1% of total transaction value. The top performing segment of the quarter, residential investment sales grew 18.1% QoQ, despite several hurdles. Private sector sales were the driver of this increase.

- OUE Hospitality Trust's acquisition of Crowne Plaza Changi Airport and its future extension (563 rooms in total), from a subsidiary of OUE Limited was the largest transaction in 2014.

- Our forecast for 2015 remains at S\$17.0 to S\$20.0 billion.

“While high-end residential block deals may increase this year, uncertainty over interest rate movements and slower economic growth may hamper the consummation of commercial deals.”

Alan Cheong, Savills Research

### → Market overview

After three consecutive quarters of improved investment sales, the real estate investment market fell back into its slumber in Q4/2014, registering about S\$3.5 billion worth of investment transactions. Down 38.2% from the S\$5.6 billion recorded in Q3, this is the lowest quarter since Q4/2009. This brings the full-year figure to S\$17.8 billion, significantly lower (by 40.3%) than 2013's S\$29.7 billion.

The decline for Q4 was attributed almost equally to both the private and public sectors, where the former fell 34.9% QoQ while the latter slumped 47.1% QoQ. The private sector continued to dominate the market, contributing about S\$2.7 billion (or 76.8%) of Q4's investment sales. However, except for the residential and industrial sectors, weaker performance was seen across all property segments compared with the previous quarter. While opportunistic investors emerged in these two segments, the general trend is that the macro-economic risk of rising interest rates, as well as the recent plunge in oil prices, could have weakened market sentiment in the reviewed quarter.

Nine state land parcels, comprising three residential sites and six industrial sites, were awarded under

TABLE 1 **Top five land sales under the GLS programme, Q4/2014**

Location	Type of development allowed	Date of award	Successful tender price		Name of successful tenderer
			S\$ million	S\$ per sq ft per plot ratio	
Tampines Road/ Upper Serangoon Road	Residential	Nov	276.8	849	Asset Legend Ltd
Sembawang Road/Canberra Link (Executive Condominium)	Residential	Oct	229.4	353	Qingjian Realty (Residential) Pte Ltd
Lorong Puntong	Residential	Oct	173.6	731	Nanshan Group Singapore Co. Pte Ltd
Plot 1, Tampines North Drive 1	Industrial	Dec	64.4	87	Goldprime Land Pte Ltd
Plot 12, Tuas South Avenue 7	Industrial	Oct	31.0	56	Hock Lian Seng Holdings Ltd

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

the Government Land Sales (GLS) programme in Q4, for a total of S\$801.6 million, accounting for 23.2% of total investment sales.

For the whole of 2014, private sector transaction values were down 44.7% from S\$20.1 billion in 2013 to S\$11.1

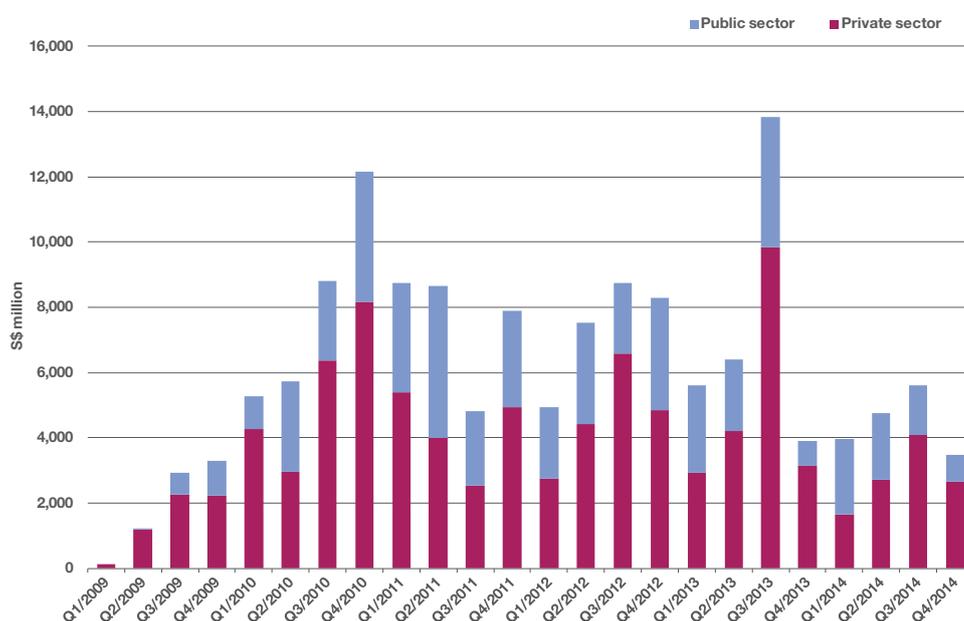
billion, while the public sector achieved S\$6.7 billion, a 31.0% drop year-on-year (YoY) from S\$9.7 billion.

### Residential

Investment sales in the residential segment amounted to S\$1.42 billion in Q4, contributing 41.1% of total transaction value. The top performing segment of the quarter, residential investment sales grew 18.1% QoQ, despite several hurdles, such as the cooling measures, the limited number of residential sites made available through government tender (only three sites in Q4) and the traditionally quieter year-end festive season. This increase was led by private sector sales.

In the private sector, 20 luxury homes (not less than S\$10 million each), three bulk sales and one en-bloc site (Royal Oak Residence) were transacted. Transaction values for this segment in Q4 jumped 2.5 times, to S\$744.4 million QoQ, the highest since Q2/2013, indicating the presence of opportunistic buyers after a subdued third quarter. For the whole of 2014, 79 luxury homes were sold, a 35.8% decline from the 123 recorded a year ago, while the collective sales market saw only one transaction, compared with nine sites in 2013. The only en-bloc site sale was Royal Oak Residence at 21 Anderson, which

GRAPH 1 **Investment sales transaction values, Q1/2009–Q4/2014**



Source: Savills Research & Consultancy

Arch Capital sold for S\$164.0 million (S\$1,860 per sq ft) to the Blackstone Group in December through the transfer of shares.

Under the GLS programme, three residential sites were awarded in Q4, with one of them being an Executive Condominium (EC) site. The EC site at Sembawang Road/Canberra Link received a lukewarm response with only two bidders, while the other two sites on Lorong Puntong and Tampines Road/Upper Serangoon Road were hotly contested by 18 and 11 bidders respectively. The site at Lorong Puntong had a top bid of S\$731 per sq ft per plot ratio (psf ppr), while a higher-than-expected bid of S\$849 psf ppr from Asset Legend Limited, a unit of Cheung Kong Holdings, won the site at Tampines Road.

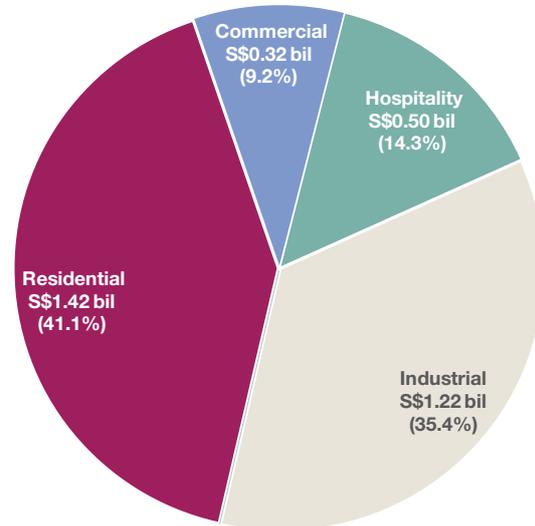
### Commercial

The commercial segment, which had been the star performer of investment sales for the past two quarters, suffered a drastic drop in transaction volumes of 84.0% QoQ. Consequently, the values tumbled from a record S\$1.98 billion in Q3 to S\$317.0 million in Q4. This segment thus represented only 9.2% of total investment sales. The fact that there were no commercial GLS sites released in the reviewed quarter could have contributed to this contraction. Another possible reason could be the large-ticket nature of such buildings, where a slight decrease in the number of transactions would result in a large fall in sales values.

The office investment segment registered only six strata deals (worth S\$156.6 million) in Q4, a stark contrast to the S\$1.94 billion done in Q3. Nevertheless, full-year office investment sales went up 17.5%, from S\$3.5 billion in 2013 to S\$ 4.2 billion in 2014.

The retail segment fared better in Q4, with seven shop houses, one strata and one block deal totalling S\$161.1 million in transaction value. This was against S\$36.5 million in the previous quarter. The block transaction involved Sim Lian Holdings purchasing the Da Vinci building at Upper Bukit Timah Road for S\$58.0 million. However, on a yearly basis, private sector retail investment sales fell sharply from a high of S\$5.2 billion in 2013 to just S\$654.5 million in 2014.

GRAPH 2 **Investment sales transaction volumes by property type, Q4/2014**



Source: Savills Research & Consultancy

Overall, the commercial segment fetched S\$5.5 billion in 2014, about half of the S\$10.4 billion achieved in 2013. The sober performance could be due to the shift in the retail landscape from physical shops to e-commerce, as well as uncertainties in the global economy.

### Industrial

The industrial segment closed the year with S\$1.2 billion (or 35.4%) of total investment sales, the highest since Q3/2013 and over 3.5 times Q3's figure. Private sector investments contributed 90.0% –the most notable deals were data centres S25 and T25, which were involved in the initial public offering of Keppel Data Centre (DC) Real Estate Investment Trust (REIT), costing S\$262.8 million and S\$162.0 million respectively. Keppel DC REIT is the first data centre REIT to be listed in Asia. Another notable deal was a Built-To-Suit warehouse at 7 Bulim Street for S\$131.5 million.

However, interests in industrial GLS sites seem to be dwindling, as seen from a reduced number of bidders, with mostly about five for each land tender. The annual figure for 2014 from this segment amounts to S\$2.4 billion, 30.0% less than 2013's figure of S\$3.5 billion. The reduction in the number of industrial GLS sites awarded in 2014 also had a part to play.

### Hospitality

With only one private deal recorded (at S\$495.0 million, representing 14.3% of total investment sales), the hospitality segment shrank 55.1% QoQ. The largest transaction in Q4/2014, this was the sale of Crowne Plaza Changi Airport (320 rooms) and its future extension (243 rooms) by a subsidiary of OUE Limited to OUE Hospitality Trust in November. The 77-year leasehold hotel is located at Changi Airport Terminal 3.

### Outlook

Expectations of rising interest rates and a low yield environment could deter investors from committing to deals. As the global economy faces greater uncertainty in 2015, the investment sales market is expected to remain soft in the next few quarters.

The Ministry of National Development announced a continuing moderation in the GLS Programme for 1H/2015, with six residential sites included in the Confirmed List. We expect bids to stay flat next year despite softer market sentiment, as there are relatively few opportunities (other than the GLS programme) for developers to replenish their landbank.

Two factors are likely to influence the state of the investment market in 2015. Firstly, with the cooling measures likely to stay in force, end-buyer

**TABLE 2**  
**Top five private investment sales, Q4/2014**

Property	Sector	Transacted date	Price (\$ million)	Buyer
Crowne Plaza Changi Airport and its future extension	Hospitality	Nov	495.0	OUE Hospitality Trust (OUE H-Trust)
S25	Industrial	Dec	262.8	Keppel Data Centre (DC) REIT
Treasure on Balmoral	Residential	Dec	185.0	Hiap Hoe Holdings
Royal Oak Residence	Residential	Dec	164.0	Blackstone Group
T25	Industrial	Dec	162.0	Keppel Data Centre (DC) REIT

Source: Savills Research & Consultancy

demand will remain tepid. This may lead to a behavioural change amongst seasoned developers to bid more cautiously in the GLS tenders or private en-bloc sites. However, given the competitive nature of the GLS programme and the relatively few sites on offer, vis-à-vis the number of developers in the market who have the financial wherewithal to buy, land prices are likely to stay resilient. Secondly, with continuing yield compression in the commercial and hotel segments, and running counter to expectations of interest rates rising, institutions may be more compelled to sell rather than buy, whilst buyers may turn cautious for the very same reasons. This may curb transaction volumes in the commercial and hospitality space. Our forecast for 2015 remains at S\$17.0 to S\$20.0 billion. ■

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