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Savills World Research
Singapore

Briefing
Sales & investment

January 2018

Image: Amber Park at Amber Gardens

SUMMARY

Real estate investment sales surged to a ten-year high in 2017.

- Several large Government Land Sale (GLS) sites and private residential en bloc sites pushed the Q4 investment sales figure to S$10.81 billion, an 8.3% growth from Q3/2017.

- Strong Q4/2017 results contributed to full year figure of S$36.03 billion. This is an increase of 59.0% from the S$22.66 billion recorded in a year earlier and is also the highest figure since 2008.

- The residential segment was again the best performer in Q4/2017 with the investment value of residential sites and end-units rising 68.9% quarter-on-quarter (QoQ) to S$7.14 billion.

- Investment sales in the commercial segment grew by 19.2% QoQ to S$3.09 billion, mainly driven by the sales of the Beach Road commercial site and Chevron House.

- The industrial segment closed Q4/2017 with S$518.4 million worth of transactions, falling 81.9% QoQ. Nevertheless, the market did see some activity in terms of big-ticket sales in the last few months.

- It is anticipated that in 2018 investment levels may be slightly higher than the S$22.66 billion seen in 2016, settling in the range of S$25 to S$27 billion.

"Although 2018 may see lower investment sales numbers, this belies the fact that there are still keen buyers and a lack of available stock is the stumbling block." Alan Cheong, Savills Research

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

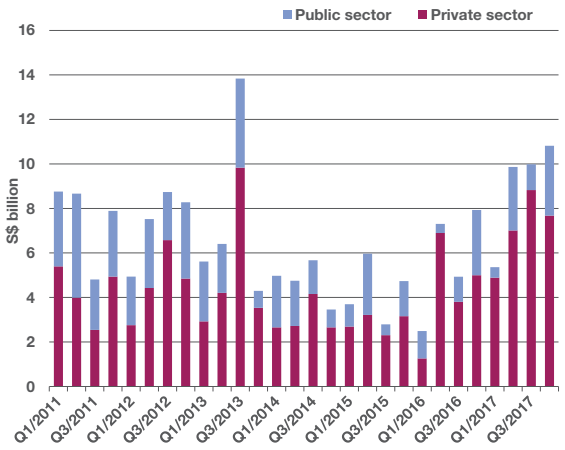
Market overview

In Singapore, real estate investment sales powered through Q4/2017 with an 8.3% QoQ increase in volume. According to Savills estimates, several large GLS parcels and private residential en bloc sites pushed Q4/2017 figures to S$10.81 billion.

In the public sector, sales of GLS sites spiked by 171.0% QoQ to S$3.14 billion, propelled by the commercial site at Beach Road and the residential sites at Jiak Kim Street and Fourth Avenue. In contrast, investment sales generating from the private sector declined by 13.0% QoQ to S$7.68 billion in Q4, but it was still one of the highest quarterly numbers in the last few years. Collective sales of private residential sites, already the hottest sector since the middle of 2017, continued to grow. In Q4 alone, transaction value was more than double from a quarter ago and climbed to S$4.65 billion from 18 sites. As a result, four out of the top five deals in the reviewed quarter were collective sales. These were Amber Park (S$906.7 million), Normanton Park (S$830.1 million), Florence Regency (S$629.0 million) and Royalville (S$477.9 million).

GRAPH 1

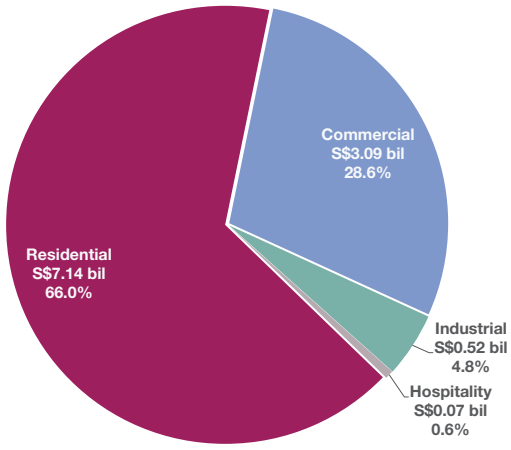
Investment sales transaction values, Q1/2011–Q4/2017



Source: Savills Research & Consultancy

GRAPH 2

Investment sales transaction volumes by property type, Q4/2017



Source: Savills Research & Consultancy

With the strong showing in the last quarter, the full year figure for 2017 amounted to S$36.03 billion. This is an increase of 59.0% from the S$22.66 billion recorded in a year earlier and is also the highest number since 2008.

Robust growth was seen in both the private and public sectors, bolstered mainly by the sale of some big-ticket deals, such as Jurong Point, Asia Square Tower 2 and Jurong Aromatics Complex, as well as the revival of private residential collective sales. The private sector recorded a total of S$28.40 billion worth of investment sales, a 67.5% year-on-year (YoY) jump.

Although the sites on the GLS programme's Confirmed List were relatively few in 2017, several sites under the Reserve List, such as the Beach Road commercial site and the residential sites at Stirling Road, Jiak Kim Street and Fourth Avenue, were triggered given the increasing number of developers who have gotten their capital and profits back from previous projects. Consequently, this weight of money ultimately resulted in record-high bids and which gave the public sector a largesse of S$7.63 billion, up 33.9% from a year ago.

Residential

The residential segment was again the best performer in Q4/2017. The investment value of residential sites and units rose 68.9% QoQ to S$7.14 billion, contributing about 66.0% of Q4's total volume.

In the reviewed quarter, the sales momentum of residential development sites continued strongly, with two GLS reserved sites and 24 private land parcels acquired by developers for a total of S$6.34 billion. In spite of the government's warning on over-exuberance in the residential property market, both domestic and foreign developers continued to bid aggressively for these sites. For example, the winning bid of S$1,733 per sq ft per plot ratio (psf ppr) for the Jiak Kim Street plot was the highest ever for residential sites (including sites zoned for residential with first storey commercial use) sold under the GLS Programme. While the land rates for en bloc purchases, such as Parkway Mansion in East Park (S$1,536 psf ppr[1]), Royalville in Bukit Timah (S$1,960 psf ppr) and Normanton Park in Clementi (S$969 psf ppr[2]) have set the benchmark in their respective micro-markets for those developments with comparable land tenures.

Meanwhile, developers from North Asia, particularly those from China, are rapidly becoming large players in the residential market. They invested heavily in Q4/2017, with the en bloc purchases of Normanton Park by Kingsford Development, Florence Regency by Logan Property and How Sun Park by a unit of the SingHaiyi Group.

Transactions of high-end residential properties increased in the Oct-Dec period with 31 landed houses and 18 condominium units, each worth at least S$10 million. The most expensive landed house sold in the reviewed quarter was a bungalow in Cluny Hill, sold for S$35.5 million or S$2,350 per sq ft based on the land area. This is a record price in terms of psf on land area in a Good Class Bungalow (GCB) area. In addition, a check of caveats downloaded from the Urban Redevelopment Authority (URA)'s Realis showed that 16 private non-landed homes were transacted at S$3,500 psf or more in Q4/2017. This is much higher than that in the previous three quarters in 2017. Together, these numbers reconfirmed the pick-up of activity in the high-end market segment in Singapore.

1 Including development charge
2 Including development premium and lease upgrading premium

Commercial

The commercial market also performed well in Q4/2017, mostly driven by the sale of the Beach Road commercial site and Chevron House. Investment sales in the commercial segment grew by 19.2% QoQ to S$3.09 billion in the reviewed quarter and contributed 28.6% of the transaction values in the fourth quarter.

The commercial site at Beach Road was drawn from the Reserve List of 2H/2017 GLS Programme and subsequently awarded in early October for S$1.622 billion. A joint-venture of GuocoLand and Guoco Group beat four other competitors in the state tender, with a very bullish bid which works out to S$1,706 psf ppr based on the plot's maximum gross floor area (GFA) of 950,592 sq ft. The land rate even surpassed the S$1,689 that IOI Properties paid in November 2016 for the white site along Central Boulevard, a more central location.

To some extent, the recent recovery in the office leasing market, together with the high commitment seen in the nearby Duo Tower, suggests a lifted optimism of bidders towards the viability of this site. An added benefit of this site is that other than for the 60% GFA which must be for office use, there an option for the developer to use the remaining GFA for residential use. This ability to sell down the latter during the construction phase could be another contributing factor for the aggressive winning bid.

The lack of investible grade stock restricted transaction levels within the private sector. There were only two significant block transactions sealed in the reviewed quarter. First in November, Hong Kong's Gaw Capital Partners purchased PoMo, a 99-year leasehold nine-storey office and retail block in Selegie Road at a price of S$342.0 million, or S$1,903 psf based on the net lettable area (NLA) of approximately 180,000 sq ft. Gaw Capital intends to revamp the development, particularly the retail component, to attract the student population from the many educational institutions in the area. Late in December, Oxley Holdings acquired Chevron House at Raffles Place for S$660.0 million. The 32-storey commercial development comprises a five-storey retail podium and 27-storey office tower. Based on its existing NLA of 261,280 sq ft, the price works out to about S$2,526 psf. Oxley also has plans to renovate the property which was completed in 1993.

Industrial

The industrial segment closed the final quarter of 2017 with S$518.4 million worth of transactions. This made up 4.8% of the total investment sales for that quarter. Compared with the high base of S$2.87 billion in Q3, due mainly to the sale of Jurong Aromatics Complex, investment sales value plunged by 81.9% QoQ. However the market did see some buzz in terms of big-ticket sales in Q4/2017 with half of the ten transactions made worth over S$30.0 million.

In December, ESR-REIT (formerly known as Cambridge Industrial Trust) paid S$240.0 million for an 80% interest in a special purpose vehicle that owns a leasehold interest in an industrial property situated on Ang Mo Kio Avenue 5. This is ESR REIT'S largest acquisition to date, also Q4's biggest investment sale in the industrial segment.

Other notable deals in Q4 include Credit Suisse's S$80.5 million sale of its building at Serangoon North Avenue 6 to Iron Mountain and the S$55.0 million divestment of an industrial property at Tuas Bay Drive by Soilbuild Business Space REIT.

Hospitality

In November, New Cape Inn, a hotel at Seng Poh Road in Tiong Bahru was sold to a unit of Nadathur Far East, a part of the Nadathur Group for S$67.0 million. As the group's first hospitality property acquisition in Singapore, the buyer is expected to renovate and rebrand the freehold 76-room hotel.

Compared with 2016, investment activity in the hospitality property segment picked up in 2017 with four deals resulting in a total transaction volume of S$275.4 million. Except for the serviced residence component in Funan, all the other three transactions involved small-sized hotels with rooms of less than 100. Investment interest for such properties in Singapore, particularly from overseas investors has returned. However, due to a price mismatch between buyers and sellers, together with relatively lower yields, the number of successful transactions

TABLE 1

Top land sales in the public sector, Q4/2017

Location	Type of development allowed	Date of award	Successful tender price (S$ million)	Name of successful tenderer
Beach Road	Commercial	Oct 2017	1622.0	GLL Prosper Pte Ltd and GLL Thrive Pte Ltd
Jiat Kim Street	Residential	Dec 2017	955.4	FCL Residences Pte Ltd
Fourth Avenue	Residential	Dec 2017	553.0	Allgreen Properties Ltd

Source: URA and Savills Research & Consultancy

TABLE 2

Top five private investment sales, Q4/2017

Property	Sector	Transacted date	Price (S$ million)	Buyer
Amber Park	Residential	Oct 2017	906.7	City Developments Ltd and Hong Realty (Private) Ltd
Normanton Park	Residential	Oct 2017	830.1	Kingsford Development Pte Ltd
Chevron House	Commercial	Dec 2017	660.0	Oxley Holdings Ltd
Florence Regency	Residential	Oct 2017	629.0	Logan Property
Royalville	Residential	Dec 2017	477.9	Allgreen Properties Ltd

Source: Savills Research & Consultancy

OUTLOOK

The prospects for the market

For 2018, it is anticipated that investment levels may revert back to levels slightly higher than those seen in 2016. That year, we saw S$22.66 billion of transactions. We expect this year's number to be in a range of between S$25 and S$27 billion.

Firstly, the collective sales market may still experience the same or an even greater level of activity in terms of the number of transactions. However, the average value of each transaction may fall from 2017's average of S$284.28 million to around that in the S$150-200 million range. The reason for the fall in the average transaction quantum is because of the need for a traffic study by the buyer in order to determine whether the road infrastructure can handle the additional vehicular flow arising from the new development. This could reduce the probability of a successful transaction for mega sites that are significantly underbuilt, relative to their latest plot ratio, but with the requirement of traffic considerations, it now creates real constraints to realizing the site's maximum profit potential when the traffic carrying capacity of the roads serving the redeveloped property is limited. This means that reserve prices are unlikely to be met, or even if they are, with the prospect of the minority appealing to the Strata Title Board (STB), the developer faces not only market uncertainty but an almost certainty that DC rates will rise during the time they fail to get STB clearance on the sale.

Secondly, for the commercial sector, unless there is a large portfolio made available for sale for which the transaction closes in 2018, the availability of large good quality investible grade assets is becoming a rarity. The prime office and retail assets that have been sold in the past two years are not likely to return to the market anytime soon because they have been acquired by long term holders.

Finally, in terms of the number of sites under the GLS programme that are expected to be awarded in 2018, the total value is likely to be lower because there does not appear to be as many high quantum sites on the list that can better those awarded in 2017. For 2018, the two highest value sites are in Holland Road and Sengkang Central and their expected prices are unlikely to better 2017's Beach Road and Jiak Kim Street sites.

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