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Savills World Research
Singapore

Briefing
Sales & investment

October 2012

Image: 78 Shenton Way

SUMMARY

With QE3 in force, fresh liquidity is expected to keep the investment sales market buoyant.

- Of the total transactions in Q3/2012, the private sector accounted for S$6.8 billion or 75.9% while the public sector contributed S$2.2 billion or 24.1%.
- The majority of investors were local developers or companies.
- By property type, the residential segment continued to lead with a total of S$3.7 billion worth of investment sales.
- A significant contraction in investment activity was seen in the office property sector.
- Transactions of retail malls, especially those located in suburban areas remained resilient with two deals completed, worth a total of S$1.08 billion.
- The hospitality segment increased sharply from S$151 million in Q2 to S$2.7 billion in Q3.

"Boosted by the successful listing of Far East Hospitality Trust, the investment sales market in Q3/2012 recorded transaction values totalling S$9.0 billion. Following the unveiling of QE3 by the US Federal Reserve, a fresh flood of liquidity is expected to spill into the real estate market here." Alan Cheong, Savills Research

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Market overview

The investment sales market in Singapore continued to grow in the third quarter of 2012, recording a total transaction value of almost S$9.0 billion, a 19.6% increase compared with the S$7.5 billion in the previous quarter. It is also the highest quarterly total seen since Q1/2011.

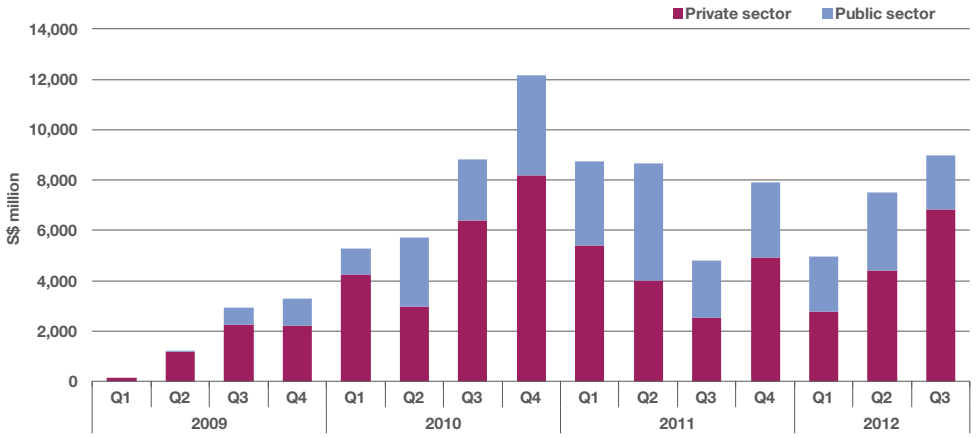
In Q3/2012, 24.1% of the total investment sales were contributed by the public sector, as a total of 21 state land parcels comprising eight residential sites and 13 industrial sites, were sold for nearly S$2.2 billion under the Government Land Sales (GLS) programme. However, this is 30.3% lower than its contribution in Q2/2012. The lower value is primarily due to the fact that eight out of the 13 industrial sites are smallish plots with short leasehold tenures of 22 years, and the number of residential sites awarded is less than that in Q2/2012.

In contrast, transaction values for the private sector amounted to S$6.8 billion or 75.9% of Q3's total investment sales. It rose a hefty 54.6% from the S$4.4 billion a quarter earlier, mainly due to Far East Hospitality Trust's acquisition of its initial portfolio. Meanwhile, the residential sector remained buoyant with a 26.7% quarterly increase. However, the ongoing eurozone crisis, the slowing Chinese economy and the perennial bid-ask gap between buyers and sellers have tempered some transactions in the private sector. For example, the commercial and industrial sectors recorded a slower pace of sales, showing a decline of 24.8% and 9.1% quarter-on-quarter (QoQ) respectively.

The majority of the buyers were still local developers or companies. The volatility in the global economic environment continued to deter investments in property, especially from overseas companies and institutional funds.

GRAPH 1

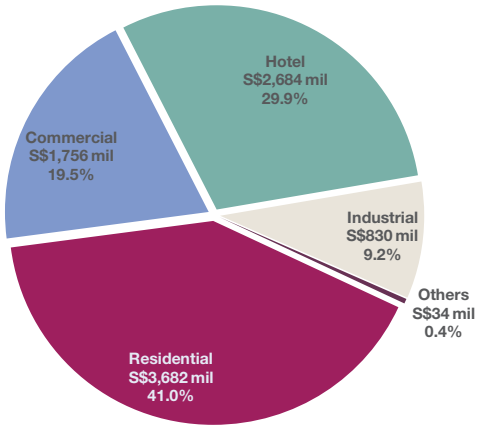
Transaction value of investment sales, Q1/2009–Q3/2012



Source: Savills Research & Consultancy

GRAPH 2

Transaction volume of investment sales by property type, Q3/2012



Source: Savills Research & Consultancy

Residential

In Q3/2012, the residential property segment continued to lead the investment sales market with S$3.7 billion of sales, making up 41.0% of the overall transaction value.

A total of eight land parcels were awarded under the GLS programme. High participation levels continued to be a feature for well-located sites. Similarly, smaller sites that command a lower price quantum, such as the Farrer Road site, generated keen interest from both big developers and new entrants.

The collective sales market yielded nine transactions totalling S$1.02 billion in the reviewed quarter. The upcoming Thomson MRT Line (TSL) has started to attract significant interest for properties surrounding the proposed stations. In September, Thomson View Condominium, near the future Upper Thomson MRT Station on the TSL, was collectively sold for S$590.0 million. It was the most expensive en-bloc transaction so far this year. Another development, Green Lodge, was also collectively sold for S$191.9 million. The remaining seven deals in Q3 were all smaller, below S$100 million each. Probably encouraged by a revival of buying activity in the high-end segment, it was observed that developers had started to take an interest in prime districts, but focused on smaller and more affordable sites.

Commercial

Commercial investment sales in Q3/2012 amounted to S$1.8 billion, contributing 19.5% of the total investment sales. As with the previous quarter, all the deals were in the private sector. However, the values recorded a 24.1% drop QoQ.

A contraction in investment activity was seen in the office property sector. Softening rents and increasing vacancy rates have weighed on the

TABLE 1

Major land sales under the GLS programme, Q3/2012

Location	Type of development allowed	Date of award	Successful tender price		Name of successful tenderer
			S$ mil	S$ per sq ft ppr	
Prince Charles Crescent	Non-landed residential	Sep 2012	516.3	960	Wingstar Investment Pte Ltd, Metro Australia Holdings Pte Ltd, Maxdin Pte Ltd
Bright Hill Drive	Non-landed residential	Aug 2012	291.5	720	UVD Pte Ltd
Tenah Merah Kechil Road/ Tanah Merah Kechil Link	Non-landed residential	Aug 2012	285.2	676	Fragrance Group Ltd, World Class Land Pte Ltd
Tai Thong Crescent (Parcel C)	Non-landed residential	Sep 2012	245.0	793	Verwood Holdings Pte Ltd, Intrepid Investments Pte Ltd
Dairy Farm Road	Non-landed residential	Sep 2012	244.3	616	First Shine Properties Pte Ltd, Meadows Bright Development Pte Ltd

Source: Urban Redevelopment Authority, Housing Development Board and Savills Research & Consultancy

TABLE 2

Major private investment sales, Q3/2012

Property	Sector	Transacted date	Price (S$ mil)	Buyer
A portfolio of 7 hotels and 4 serviced residences	Hospitality	Aug 2012	2,104.9	Far East Hospitality Trust
nex (50% stake)	Retail	Jul 2012	825.0	Mercatus Co-operative Ltd
Thomson View Condominium	Residential	Sep 2012	590.0	A consortium of Wee Hur Development Pte Ltd and Lucrum Capital Pte Ltd
Somerset Grand Cairnhill Singapore	Hospitality	Jul 2012	359.0	CapitaLand
78 Shenton Way (50% stake)	Office	Sep 2012	304.0	Alpha Investment

Source: Savills Research & Consultancy

outlook for the office market, creating a more cautious sentiment in this sector. In addition, the soaring prices of strata-titled units have deterred many buyers, resulting in an absence of transactions of strata-titled offices exceeding S$10 million in the reviewed quarter.

Only two block transactions were recorded in the CBD. The first is Robinson Point, located on Robinson Road, which was sold for S$284 million or S$2,132 per sq ft based on NLA, to a small group of Asian investors. The other is the sale of a 50% stake in 78 Shenton Way to Alpha Investment for S$304 million, which reflected S$1,682 per sq ft NLA. Outside the CBD in the Kallang area, the freehold Sam Leong Mansion was acquired by listed company KSH Holdings in a collective sale for S$40.3 million or S$1,087 per sq ft per plot ratio.

On the other hand, buying activity for retail malls, especially those located in suburban areas remained resilient. In July, NTUC Income increased its stake in Parkway Parade Partnership Limited which owns a portion of Parkway Parade, paying S$255.0 million which reflects S$1,888 per sq ft NLA. In the same month, Mercatus Co-operative Ltd, a consortium of the Singapore Labour Foundation, NTUC Income and NTUC FairPrice bought 50% of nex for S$825 million or S$2,679 per sq ft NLA from Pramerica Asia.

Hospitality

The hospitality sector recorded S$2.7 billion in Q3/2012, making up 29.9% of the quarter's total investment sales transactions, and increasing sharply from the S$151 million in the previous quarter. The surge in investment volume was due largely to the listing of Far East Hospitality Trust, whose initial portfolio of seven hotels and four serviced residences totalled about S$2.1 billion. In addition, another two serviced residences changed hands – Somerset Grand Cairnhill Singapore for S$359 million and Ascott Raffles Place for S$220 million.

Industrial

The reviewed quarter saw industrial investment sales grossing S$829.7 million or 9.2% of the overall investment sales. Cambridge Industrial Trust, the most active among the S-REITs, acquired three industrial properties for a total of S$97.3 million. Aside from S-REIT–related transactions, the most notable deal was BS Capital's S$240 million purchase of six freehold "Business 2" industrial land plots at Jalan Lam Huat. The transaction price represents S$206 per sq ft per plot ratio based on an aggregate land area of approximately 466,543 sq ft and a plot ratio of 2.5.

OUTLOOK

The prospects for the market

We remain cautiously optimistic about the investment sales market in the near term as a slowdown is expected in the region's economies, plus uncertainties arising from the eurozone continue to weigh down the global economy.

At the same time, policy risks have increased on the home front. For example, the government recently announced a new guideline on the number of homes in new residential projects aimed at limiting the number of "shoebox" apartments outside the Central Area. This measure will have an impact on the private land sales market, particularly smaller sites, as developers will not be able to build as many shoebox units on these sites to maximise their profits. In addition, the authorities are keeping a close tab on the commercial and industrial property markets in an effort to increase transparency in marketing materials so as to help end-users and investors be well-informed and rational in their buying decisions.

In the medium term, following the unveiling of a third round of quantitative easing by the US Federal Reserve, a fresh flood of liquidity is expected to spill into the real estate market. With the Fed pledging to keep interest rates at near-zero levels until at least mid-2015 and the greenback depreciating against other currencies, yield-driven investors could be motivated to commit to commercial/industrial properties here, where the spread between rental yields and the cost of borrowing is expected to widen. This should, in turn, drive prices up, causing yields to compress further down the road.

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