

Briefing Sales & investment

November 2013



Image: Paragon Mall, Orchard Road

SUMMARY

Record high investment values amid a weak market.

- An active IPO market for REITs, on top of the sale of some larger Government Land Sale (GLS) sites, boosted investment sales figures to S\$13.7 billion.
- Buying activity in the private sector was subdued, with 74 deals recorded in Q3, down 17.8% from the 90 transactions in Q2.
- The Hungry Ghost Month, the introduction of a total debt servicing ratio (TDSR) and expectations of rising interest rates from the tapering of quantitative easing by the US Federal Reserve were possible reasons behind the slowdown in the number of transactions.
- To replenish their land banks, local developers with strong balance sheets have put in relatively aggressive bids for GLS sites in the face of keen competition from overseas developers.
- The hospitality segment was the bright spark in the reviewed quarter, with seven hotels changing hands for a total of about S\$2.9 billion.
- We expect investment sales to ease to S\$2.0 billion to S\$3.0 billion in the last quarter of 2013, bringing the full-year figure to S\$28 billion to S\$29 billion.

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 “An active IPO market, coupled with the need of cash-rich developers to replenish their land banks, will set the tone for the rest of 2013 and the first half of 2014.”

Alan Cheong, Savills Research

➔ **Market overview**

The real estate investment market recorded S\$13.7 billion worth of deals in Q3/2013, more than double the S\$6.4 billion achieved in the previous quarter, and historically the highest quarterly value recorded. Many of these deals were achieved due to an active IPO market for REITs. The trusts listed in Q3, including Soilbuild Business Space Reit, SPH Reit and OUE Hospitality Trust, acquired their IPO portfolios for a total of about S\$5.7 billion. Meanwhile, Viva Industrial Trust purchased UE BizHub East in Changi Business Park for S\$518 million in preparation for its launch in November. In total, acquisitions by these REITs amounted to almost S\$6.2 billion, contributing 45.1% to total investment sales.

Buying activity in the private sector, however, was subdued. Including the above-mentioned transactions by REITs, there were 74 deals recorded in the reviewed quarter, down 17.8% from the 90 transactions seen in Q2. The Hungry Ghost Month, the introduction of a TDSR and expectations of quantitative easing tapering by the

US Federal Reserve, leading to higher interest rates, were possible reasons behind the slowdown in the number of transactions, although this did not affect the total value achieved.

Under the GLS programme, 16 state land parcels were awarded for a total value of slightly over S\$4.0 billion. Because of the sale of some large GLS sites, such as the commercial and residential site at Yishun (S\$1.4 billion) and the commercial site at Cecil Street/Telok Ayer Street (S\$924.0 million), this is the highest quarterly value recorded under the GLS programme since Q3/2011.

Residential

In Q3/2013, the residential segment recorded a total of S\$2.0 billion in investment sales, the lowest since Q4/2009. Compared with a quarter ago, fewer state lands were awarded, and the anaemic sales of luxury homes and collective sale sites have caused a plunge of 61.9% quarter-on-quarter (QoQ).

The private sector contributed only S\$505.8 million. Of these deals, just 26 residential units (no less than S\$10 million each) were sold in Q3, 36.6% less than the 41 recorded in the previous quarter. The S\$37.8 million Singa Court at Jalan Singa was the only en-bloc deal in the reviewed

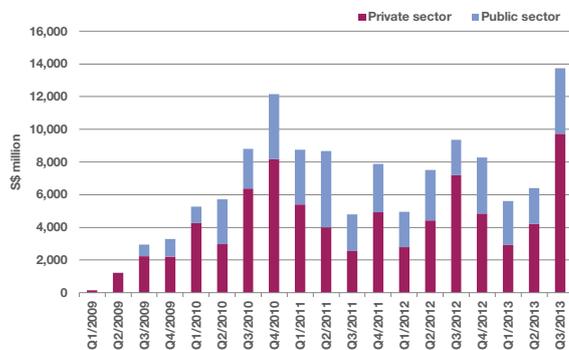
quarter. In contrast, state lands under the GLS programme continued to draw intense interest. To replenish their land banks, local developers with strong balance sheets have put in relatively aggressive bids for GLS sites in the face of keen competition from overseas developers. However, we expect bids to be more reasonable going forward after developers absorb the impact of the TDSR.

Commercial

Investment sales in the commercial segment surged by 159.4% QoQ to S\$4.9 billion in Q3, accounting for 35.8% of Q3's investment sales.

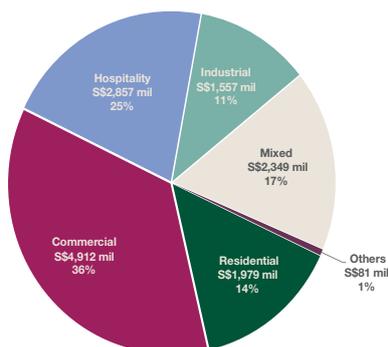
In July, SPH REIT injected Paragon and Clementi Mall into its IPO portfolio with a total purchase consideration of S\$3.07 billion. This was followed by OUE Hospitality Trust which acquired Mandarin Gallery for S\$525 million for its portfolio. In August, the 99-year leasehold commercial site at the junction of Cecil Street and Telok Ayer Street attracted four bidders, of which Frasers Centrepoint topped the bidding list with S\$924.0 million or S\$1,112 per sq ft per plot ratio. This translates to 18.8% higher than the second bid at S\$936 per sq ft per plot ratio, reflecting Frasers Centrepoint's mid- to long-term confidence in the office leasing market.

GRAPH 1 **Investment sales transaction values, Q1/2009–Q3/2013**



Source: Savills Research & Consultancy

GRAPH 2 **Investment sales transaction volumes by property type, Q3/2013**



Source: Savills Research & Consultancy

TABLE 1 **Top five land sales under the GLS programme, Q3/2013**

Location	Type of development allowed	Date of award	Successful tender price		Name of successful tenderer
			S\$ million	S\$ per sq ft per plot ratio	
Yishun Avenue 2/ Yishun Central 1	Commercial and residential	Sep 2013	1,428.9	1,077	North Gem Development Pte Ltd and FC North Gem Trustee Pte Ltd (as Trustee Manager of North Gem Trust)
Cecil Street/Telok Ayer Street	Residential	Aug 2013	924.0	1,112	FC Commercial Trustee Pte Ltd (as Trustee Manager of Aquamarine Star Trust)
Mount Sophia	Residential	Sep 2013	442.3	1,157	Hoi Hup Realty Pte Ltd, Sunway Developments Pte Ltd and S C Wong Holdings Pte Ltd
Punggol Drive/ Edgedale Plains (EC)	Residential	Aug 2013	312.8	355	Peak Square Pte Ltd
Tampines Avenue 10 (Parcel B)	Residential	Jul 2013	289.7	562	MCC Land (Singapore) Pte Ltd

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

→ Except for these transactions, buying activity for either whole buildings or strata-titled units actually slowed significantly in Q3. However, prices remained resilient. For example, some floors in Springleaf Tower on Anson Road were transacted at S\$2,220 per sq ft to S\$2,320 per sq ft in the reviewed quarter. The commercial podium of Thong Sia Building on Bideford Road was sold for S\$120 million by Raffles Medical Group in August, 30.3% higher than the S\$92.1 million paid for it in February 2011.

Hospitality

The hospitality segment was the bright spark in the reviewed quarter. Seven hotels were sold for a total of about

S\$2.9 billion (including the retail podium of Grand Park Orchard Hotel). Many of the recent transactions exceeded S\$1 million per room. Probably because of the lower price quantum, hotels in shophouses gained in popularity among investors. In the long term, hotel investments should remain positive due to continued optimism in the tourism and MICE (meetings, incentives, conferencing and exhibitions) sectors, on the back of sustained economic growth in Asia and a stable political environment in Singapore.

Industrial

Investment sales in the industrial segment amounted to S\$1.6 billion in Q3/2013, more than triple the

amount from a quarter ago. Among these, Soilbuild Business Space Reit's acquisition of seven properties for its IPO contributed a total of S\$905.3 million or 65.8% of the segment's total investment sales.

In contrast to the residential and commercial sectors, investment sales of industrial properties revived from a quarter ago. Notable deals include Cambridge Industrial Trust's sale of its 97 strata units at Lam Soon Industrial Building for S\$140.8 million, the S\$37 million collective sale of Henley Industrial Building off Upper Paya Lebar Road and Boustead Real Estate Fund's S\$39.4 million purchase of AusGroup's fabrication facilities on Tuas Road. ■

TABLE 2 **Top five private investment sales, Q3/2013**

Property	Sector	Transacted date	Price (S\$ million)	Buyer
Paragon	Commercial	Jul 2013	2,500	SPH REIT
Mandarin Orchard Singapore	Hospitality	Jul 2013	1,180	OUE Hospitality Trust
Grand Park Orchard Hotel (including retail podium)	Hospitality	Aug 2013	1,160	Bright Ruby Resources
Clementi Mall	Commercial	Jul 2013	570.5	SPH REIT
Mandarin Gallery	Commercial	Jul 2013	525	OUE Hospitality Trust

Source: Savills Research & Consultancy

OUTLOOK

The prospects for the market

Despite recent signs of a recovery in developed countries, the global economic environment remains volatile. Coupled with the increasing difficulty in obtaining credit and expectations of rising interest rates, the investment sales market is expected to face more challenges ahead. We expect overall investment sales to ease to S\$2.0 billion to S\$3.0 billion in the last quarter of 2013, bringing the full-year figure to S\$28 billion to S\$29 billion.

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