Investment

Circuit breaker halts investment activity

Strict border controls have effectively shut down all incoming visitors, while all developers’ sales galleries were closed, and physical property viewings were not permitted for most of the second quarter.

- The real estate investment volume came in at S$2.14 billion for the second quarter, a 25.7% decline compared to the first.
- In Q2, investment sales in the residential segment fell by 82.7% quarter-on-quarter (QoQ) to S$344.4 million and accounted for 16.1% of the quarter’s total investment sales.
- Investment sales in the commercial segment reached S$1.56 billion, almost five times the S$314.4 million recorded in the previous quarter.
- The Singapore arm of Chinese e-commerce giant Alibaba Group has agreed to acquire a 50% stake in AXA Tower in a deal which values the property at S$1.68 billion, making this easily the largest property sale so far in 2020.
- In Q2/2020, the industrial segment recorded S$235.3 million in investment sales, down 59.3% from the previous quarter.
- As Singapore entered Phase Two of its reopening on June 19th, market activity is beginning to resume. We therefore expect deals to increase from the last quarter of 2020 as time is required for negotiation, due diligence, etc.

“While the desire to invest remains strong, travel restrictions are disrupting the deal process.”

ALAN CHEONG, SAVILLS RESEARCH
MARKET OVERVIEW
Real estate investment sales in Singapore slowed down further in the second quarter and came in at a total of S$2.14 billion for the three months from April to June, showing a 25.7% decline from the S$2.88 billion recorded a quarter ago.

In order to prevent increasing local transmission of COVID-19, the Singapore government has implemented a circuit breaker - a heightened set of safe distancing measures, such as the cessation of all non-essential business and activity, from April 7th. Since then, all developers’ sales galleries have had to be closed and physical property viewings were not permitted for most of the second quarter. This dampened market sentiment and during the period, put the brakes on investment activity. Investors are still trying to digest the overall macro-economic situation and the resultant impact on the property market. Also, as a result of the outbreak, the authorities have extended the public tender period for Government Land Sale (GLS) sites from the traditional six to eight weeks to six months. Therefore, except for one industry site, there were no GLS sites awarded in Q2.

RESIDENTIAL
In Q2, investment sales in the residential segment fell 82.7% QoQ to S$344.4 million and accounted for 16.1% of the quarter’s total investment sales. As there were no acquisitions of residential land in the reviewed quarter, Q2’s investment sales were all accounted for by sales of individual units.

From the caveats captured in URA’s REALIS, there were only 17 luxury housing units (each S$10 million or more) transacted in the second quarter. This comprised eight landed houses and nine non-landed units. The number was 58.5% less than the 41 recorded a quarter ago. The drop was attributable to the lockdown as strict border controls effectively shut down all incoming visitors and in-person property viewings were prohibited.

Nevertheless, there were still some bright spots in the market. There were two bulk purchases of high-end non-landed residential units inked in the quarter, including 14 units at Marina One Residences for about S$60.0 million and eight units at V On Shenton for about S$44.0 million. Both buyers are foreigners, with the former coming from Mainland China. The market was of the view that these buyers still see Singapore as a safe haven.

COMMERCIAL
The commercial segment was the star performer and bucked the trend for the quarter in review. In contrast to other property types, the total tally of investment sales in this segment reached S$1.56 billion, almost five times the S$314.4 million recorded in the previous quarter.

In May, in a deal which values the property at S$1.68 billion, the Singapore arm of Chinese e-commerce giant Alibaba Group has agreed to acquire a 50% stake in AXA Tower located at Shenton Way in the CBD from a Perennial-led entity comprising a consortium of investors. This is the biggest property sale so far in 2020. Alibaba’s Southeast Asia e-commerce platform, Lazada is the anchor tenant in this 50-storey office development with a retail podium, taking up over 15% of the office space. Following completion of the transaction, Alibaba and the Perennial-led consortium will redevelop the property into a new integrated complex with commercial, hotel and residential components.

There were another two notable deals in the quarter. In April, Perennial Real Estate Holdings sold its remaining 30% stake in 111 Somerset, a 17-storey newly refurbished commercial complex in the Orchard Road precinct, to casino magnate Stanley Ho’s Shun Tak Holdings. Following the purchase,
the latter will have 100% ownership of the property. Based on the property's valuation, the 30% stake works out to S$342.0 million. Later in June, Oxley Holdings offloaded the retail and banking podium of its Oxley At Raffles (former Chevron House) in Raffles Place for S$315.0 million, comprising S$192.7 million for the retail strata lots at levels B2, B1, one and two, and S$122.3 million for commercial lots on levels three, four and five. The buyer is reported to be an entity linked to Saudi Arabia-based Olayan Group.

These three big-ticket deals made for a strong showing for the commercial sector in the reviewed quarter. However, it was noted that deals such as AXA Tower have been in the works for some time and 111 Somerset is an internal transfer.

**INDUSTRIAL**

In the second quarter, the industrial segment recorded S$235.3 million in investment sales, plunging by some 59.3% from the previous quarter. Buying interest in logistics facilities and data centres has increased further after the pandemic, as the advent of 5G, work from home, wider use of video conferencing and e-commerce ratchets up demand for such industrial properties. For examples, DWS, Deutsche Bank's asset management arm announced the acquisition of a warehouse asset at Sunview Way in Jurong for about S$75.0 million in May. The 403,000 sq ft property comprises a four-storey ramp-up warehouse and ancillary office space and serves as the APAC headquarters for its sole tenant, NYSE-listed 3PL operator XPO Logistics. Separately, a joint venture of Singapore Press Holdings (SPH) and Keppel Data Centres Holdings acquired a leasehold interest at 82 Genting Lane for S$50.0 million to develop and run data-centre facilities there.

**OUTLOOK**

As Singapore entered Phase Two of its reopening on June 19th, market activity should begin to resume. Thus far, there have been no distressed sales. However, there are motivated sellers who want to dispose their real estate as the pandemic is forcing them to restructure operations. A few properties, especially commercial / mixed-used developments (e.g. PIL Building, ABI Plaza and Tower Fifteen), have been put up for sale in the last few weeks. However, there is likely to be a price gap between buyers and sellers which will take some time to resolve.

Although remaining cautious, there are numerous investors holding cash who are ready to buy in the prevailing low interest rate environment. As Singapore and Hong Kong have traditionally been hubs for private equity companies, those who have a presence here may still be able to conduct due diligence work. It will be those who do not have a presence who will struggle to close. Until the hassle of travelling is substantially reduced, which we assume to be quite some time away, the deal machine will only be accessed by investors represented here. We therefore expect deals to increase from the last quarter of 2020 as time is required for negotiation, due diligence, etc. The full-year investment sales value could range from S$9 billion to S$11 billion.