Briefing
Sales & investment

November 2018

Image: OUE Downtown at Shenton Way

SUMMARY

Real estate investment sales in Q3 lost the strong momentum which started in Q2/2017.

- For the third quarter of 2018, real estate investment sales came in at S$7.10 billion, down 33.4% quarter-on-quarter (QoQ).

- In Q3/2018, the residential sector recorded a total of S$2.83 billion in investment sales. The almost non-existent sales of en-bloc sites and the slowdown in luxury apartment transactions resulted in volume falling 59.2% QoQ.

- On a quarterly basis, investment sales of commercial properties rose 43.0% to S$2.22 billion in Q3.

- The biggest transaction in the private sector was OUE Commercial Real Estate Investment Trust's (OUE C-REIT) S$908.0 million acquisition of the office component in OUE Downtown at Shenton Way.

- The industrial sector was another bright spot in Q3/2018 with the investment sales volume for industrial properties surging 63.8% to S$1.09 billion.

- If some office building deals are transacted in the fourth quarter, we may end the year with S$29 – 30 billion worth of investment sales. In 2017, the number was S$35.1 billion. The main cause of this year's decline is the 6 July release of new ABSD rates that stymied the collective sales market.

> "With the collective sales market hitting an air pocket, the investment sales market can only rely on commercial sales as a partial fillip."
> Alan Cheong, Savills Research

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Market overview

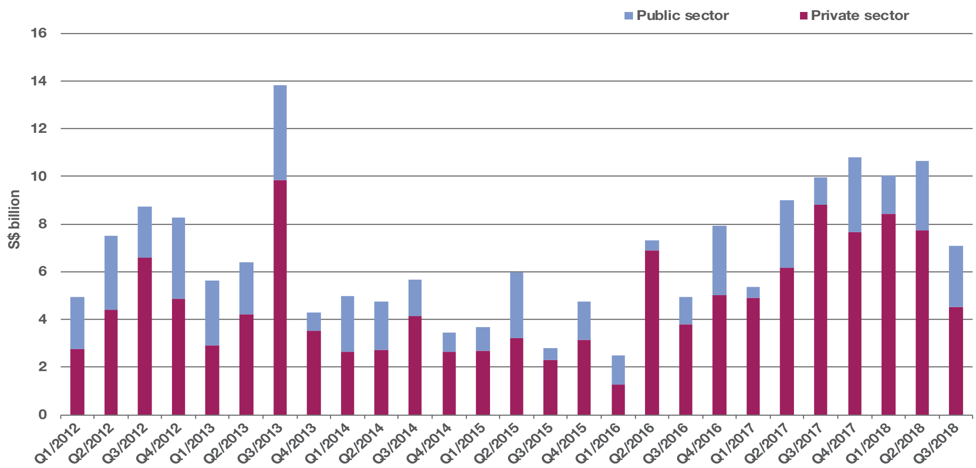
Singapore's real estate investment sales in Q3 lost the strong momentum that began in Q2/2017 and ended the quarter at S$7.10 billion, down 33.4% QoQ. The latest property cooling measures that came into effect on 6 July involved higher Additional Buyer's Stamp Duty (ABSD) and tighter loan-to-value (LTV) limits. This dampened market sentiment in the residential sector, especially in acquisitions of private residential collective sale sites, and has been the main cause of the fall of overall investment sales in the reviewed quarter.

In the public sector, investment sales fell 12.3% QoQ to S$2.56 billion in Q3. In total, nine sites from the Government Land Sales (GLS) programme (including five residential sites, three industrial sites, and one commercial and residential site) as well as a residential site at Nepal Hill under the JTC concept and price tender were awarded.

In Q3, the transaction volume of properties in the private sector fell by 41.4% QoQ to S$4.54 billion. Compared with the lacklustre performance of the residential sector, investment sales of commercial and industrial properties showed strong growth in the reviewed quarter. The activity initiated by Real Estate Investment Trusts' (REITs) played an important role in boosting overall investment sales value. These deals included the S$908.0 million paid by OUE C-REIT for the office component in OUE Downtown at Shenton Way; the S$789.6 million outlay made by CapitaLand Mall Trust (CMT) for a 70% stake in Westgate at Jurong East; and the S$730.0 million paid by Mapletree Logistics Trust (MLT) for five logistics properties. In addition, there was also a steady stream of purchases of non-residential properties, such as office buildings, strata-titled commercial units and shophouses, by foreign funds, family offices and high net worth individuals.

GRAPH 1

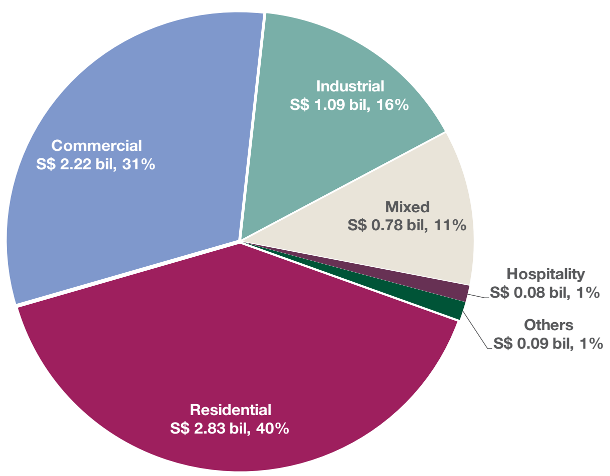
Investment sales transaction values, Q1/2012 – Q3/2018



Source: Savills Research & Consultancy

GRAPH 2

Investment sales transaction volumes by property type, Q3/2018



Source: Savills Research & Consultancy

Residential

In Q3/2018, the residential sector recorded a total of S$2.83 billion in investment sales. Compared with a quarter ago, the almost non-existent conclusion of en-bloc sale sites and the decline in luxury apartment transactions caused volume to fall 59.2% QoQ.

For the first half of 2018, the collective sales market for private residential developments was in play, accounting for 47.0% of the total volume of investment sales, which came in at S$20.7 billion. However, the revised ABSD that came into force on 6 July put the brakes on the number of collective sales transactions. In addition, at least two developers have called off their purchases since then: Teck Guan Ville in Upper East Coast and Fairhaven in Sophia Road. As developers now face a heftier 25% ABSD (compared to the previous 20% rate) and an additional, non-remittable 5% ABSD for purchasing residential properties for housing development, their appetite for collective sales has waned. Only two en-bloc deals worth approximately S$353 million were concluded in the third quarter: Casa Meyfort at Meyer Road and Phoenix Heights in Bukit Panjang. The former escaped the new ABSD rates as the deal was inked before 6 July.

Meanwhile, most developers have adopted a prudent and cautious stance towards the GLS tenders. The GLS residential sites at Dairy Farm Road and Jalan Jurong Kechil received just five and three bids respectively, while the offering prices were less bullish compared to those achieved in the market before the cooling measures. On the other hand, the impact of the latest cooling measures on the executive condominium (EC) market segment has been relatively moderate. A limited supply of EC sites and strong take-up of such units have lent support to the higher participation rates and strong bid prices seen in the tenders of two sites in Canberra Link (nine bids with a top bid of S$558 per sq ft per plot ratio) and Anchorvale Crescent (seven bids with a top bid of S$576 per sq ft per plot ratio).

On the back of a high-end, private non-landed unit worth at least S$10 million, transaction volume also dropped to six units in Q3/2018, down 68.4% from the 19 recorded a quarter ago. The tightened financing rules and increased ABSD of up to 20% for foreign buyers (compared to the previous 15% rate) have also sent buyers scurrying from the market.

In contrast, the buying activity for landed houses remained healthy in the reviewed quarter. According to Savills' record, 22 detached and semi-detached houses were sold for no less than S$10 million each. Although the number of such houses transacted in Q3 declined from Q2's 26, the total transaction value inched up 2.2% QoQ to about S$523.1 million, thanks to an increase of big-ticket deals of Good Class Bungalows (GCBs).

Commercial

On a quarterly basis, investment sales of commercial properties rose 43.0% to S$2.22 billion in Q3. This accounted for 31.3% of the total sales value.

In the office sector, there were three notable deals in Q3. In July, Frasers Commercial Trust (FCOT) sold 55 Market Street, a 16-storey commercial property in Raffles Place with a tenure of 999-year leasehold, to AEW Capital Management. The price of S$216.8 million works out to S$3,020 per sq ft based on the net lettable area (NLA) and a net property income yield of 1.7%. Later in September, OUE C-REIT acquired the office component in OUE Downtown at Shenton Way for S$908.0 million or S$1,713 per sq ft of NLA. As the current passing rent of the property is lower than the market rent in the submarket, OUE Limited, the vendor will provide rental support of up to an aggregate amount of S$60.0 million or for a period of up to five years upon completion of the transaction, whichever comes first. In the same month, Epic Land, a consortium led by Lian Beng Group, sold seven strata office units in Prudential Tower at Cecil Street to Blackrock for about S$130.0 million.

The biggest transaction of retail properties in Q3 was the CMT's acquisition of a 70% stake in Westgate, the retail component of an integrated retail and office development in Jurong Lake District, which opened in December 2013. The acquisition is based on an agreed market value of S$1,128 million (S$2,746 per sq ft of NLA) on a 100% basis, 70% of which is S$789.6 million. With this transaction, the CMT now owns 100% of Westgate.

In Q3/2018, eight deals for shophouses, each worth at least S$10 million, were recorded. The most expensive transaction in the reviewed quarter was for three adjoining units that are part-3 and part-5-storey corner shophouses located at 33 Liang Seah Street, which sold for S$29.0 million or S$2,522 per sq ft based on a combined gross floor area (GFA) of 11,500 sq ft. Compared with the first two quarters this year, buying activity for this kind of conservation property has slowed recently, probably due to the limited number of shophouses being put up for sale as well as compressed yields on the back of owners' higher asking prices.

Mixed

In Q3/2018, the total investment sales volume in the mixed-use property sector was about S$777.78 million, contributing from the sale of a 99-year leasehold commercial and residential GLS site at Sengkang Central. On a quarterly basis, the transaction value dropped by 47.2%.

A joint venture between CapitaLand and City Developments Limited (CDL) has clinched the Sengkang Central site through a dual-envelope concept and price tender. Their top bid was equivalent to S$924 per sq ft per plot ratio based on a maximum GFA of 842,124 sq ft. As the tender closing date came before 6 July, the site still attracted a few major developers in Singapore to submit concept proposals and tender prices through consortiums, while CapitaLand-CDL's offering price was quite bullish.

TABLE 1

Top land sales in the public sector, Q3/2018

Location	Type of development allowed	Date of award	Successful tender price (S$ million)	Name of successful tenderer
Sengkang Central	Commercial & residential	Aug 2018	777.8	Siena Residential Development Pte Ltd and Siena Trustee Pte Ltd (as Trustee-Manager of Siena Commercial Trust)
Hillview Rise	Residential	Jul 2018	460.0	Intrepid Investments Pte Ltd and Garden Estates (Pte) Limited
Dairy Farm Road	Residential	Sep 2018	368.8	UED Residential Pte Ltd
Anchorvale Crescent (EC)	Residential	Sep 2018	318.9	Evia Real Estate (8) Pte Ltd & Gamuda (Singapore) Pte Ltd
Canberra Link (EC)	Residential	Sep 2018	271.0	Hoi Hup Realty Pte Ltd and Sunway Developments Pte Ltd

Source: HDB, URA, Savills Research & Consultancy

TABLE 2

Top five private investment sales, Q3/2018

Property	Sector	Transacted date	Price (S$ million)	Buyer
OUE Downtown (office component)	Commercial	Sep 2018	908.0	OUE Commercial Real Estate Investment Trust (OUE C-REIT)
Westgate (70% stake)	Commercial	Aug 2018	789.6	CapitaLand Mall Trust (CMT)
Casa Meyfort	Residential	Jul 2018	319.9	GuocoLand Limited
6 Fishery Port Road	Industrial	Jul 2018	244.0	Mapletree Logistics Trust
55 Market Street	Commercial	Jul 2018	216.8	AEW Capital Management

Source: Savills Research & Consultancy

Industrial

Other than the commercial sector, the industrial sector was also a bright spot in Q3/2018 with investment sales volume surging 63.8% to S$1.09 billion. The sector's market share of total transaction value also rose by 9.1 percentage points (ppts) to 15.4%, from 6.3% a quarter ago.

The largest transaction in the reviewed quarter was MLT's purchase of five ramp-up warehouses located in the western part of Singapore for a total of S$730.0 million. The vendor, Hong Kong-listed CWT International, which is a wholly-owned subsidiary of Chinese conglomerate HNA Group, will lease back these properties with terms ranging from five to ten years.

Separately, in late September, Ascendas-Singbridge Group expanded its data centre portfolio by paying S$99.6 million for a six-storey data centre located at 9 Tai Seng Drive. The group has plans to undertake asset enhancement initiatives to better service both current and future customers.

OUTLOOK

The prospects for the market

In the light of the higher ABSD rates and the new 5% non-remittable ABSD levied on developers buying residential lands for development, the wind has been taken out of the sails for the collective sales market. This will have a chilling effect on the residential investment market, and in turn dampen the entire investment sales market. While we may expect some fillip in the commercial sector as developers and investors turn their focus to non-residential areas, the void left behind in the residential collective sales market is not easily filled.

With office rental yields at 3.5% and the sector lacking large office buildings for sale, for the rest of this year transactions will be muted. Even if a mid-sized, middle-aged Grade A office building were to be sold in the remaining months of this year, it may not be enough to match the torrid levels of activity in the collective sales market that occurred prior to 6 July, in which the market was reporting transactions almost every week.

In our Q2/2018 briefing, we conservatively reduced the total expected volume of investment sales in 2018 from $36 billion to $25–27 billion. However, in light of the aggressive bid of S$777.8 million bid for the Sengkang Central GLS site, and the possibility of two commercial buildings being sold, there is room to adjust that range up to S$29–30 billion.

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