Investment

Commercial sector drives market in Q4

Total investment sales for 2018 were S$31.81 billion, 9.5% less than S$35.14 billion recorded in 2017.

- Real estate investment sales in the fourth quarter of 2018 came in at S$4.33 billion, down 36.5% from Q3's S$6.82 billion.
- Investment sales of residential lands and homes amounted to S$664.0 million in Q4, falling 76.6% quarter-on-quarter (QoQ), as a result of property cooling measures and the absence of tender closing of sites under the Government Land Sales (GLS) programme.
- After July's private residential cooling measures, investment attention quickly turned to non-residential sectors, with REITs, institutional investors and insurance companies being active players in the market.
- The commercial sector recorded transactions with a total value of S$3.10 billion in Q4/2018, up 136.3% from Q3's S$1.31 billion.
- The industrial sector closed the final quarter of 2018 with S$572.4 million worth of transactions. Compared with the high base of S$1.73 billion in Q3, investment sales value tumbled 66.8% QoQ.
- With cooling measures on the residential property market still in place, non-residential sectors are likely to take over as the bright spots in 2019's real estate investment sales market.

> "With the residential collective sales engine flaming out, we expect investment sales in 2019 to fall to S$20-25 billion."
>
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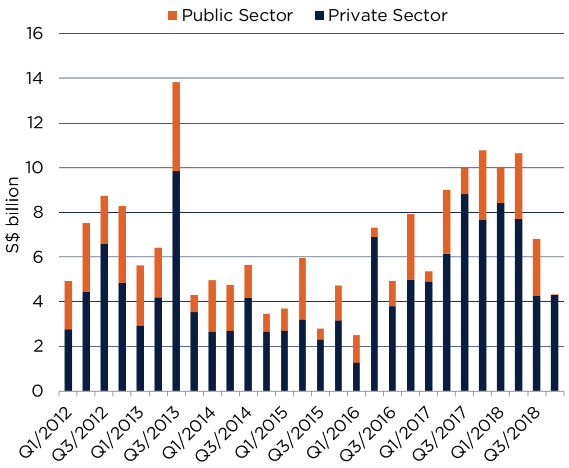
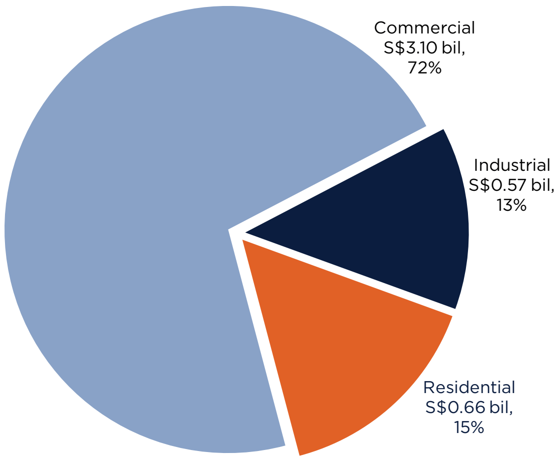
GRAPH 1: Investment Sales Transaction Values, Q1/2012 to Q4/2018



Source Savills Research & Consultancy

GRAPH 2: Investment Sales Transaction Volumes By Property Type, Q4/2018



Source Savills Research & Consultancy

MARKET OVERVIEW

Real estate investment sales in the fourth quarter of 2018 came in at S$4.33 billion, down 36.5% from Q3's S$6.82 billion. Total investment sales for the year were S$31.81 billion, 9.5% less than the S$35.14 billion recorded in 2017.

Under the Industrial GLS programme, Soilbuild Group Holdings Ltd won a 30-year leasehold Business 2 industrial site at Corporation Drive for a tendered sum of about S$44.1 million in October. This was the fourth quarter's only investment sale in the public sector.

In the private sector, investment sales inched up 0.6% QoQ to S$4.29 billion in Q4/2018. Although the latest cooling measures that took effect on 6 July 2018 have put a brake on the residential collective sales market, the void left behind has been partly filled by non-residential sectors, which contributed S$3.62 billion or 84.5% of Q4's total investment sales in the private sector.

RESIDENTIAL

Investment sales of residential lands and homes in Q4/2018 amounted to $664.0 million, falling 76.6% from the S$2.83 billion recorded for the previous quarter. The cause was mainly the July property cooling measures, which led to a drying-up of transactions in the collective sales market. Another driver was the absence of tender closing of sites under the GLS programme.

These measures have developers facing not only a heftier Additional Buyer's Stamp Duty (ABSD) when purchasing residential lands but also softer market sentiment and demand from those who wish to buy a second or other home. Developers became more prudent about land acquisitions and shifted their attention to clear their inventory. As a result, the market for collective sales came to a near-standstill with only one transaction concluded in Q4/2018; the S$131.1 million sale of Waterloo Apartments in the Bras Basah-Bugis area to Fragrance Group. However, the redevelopment plan for this site is for hotel use, as outline planning permission has been obtained to change the site's zoning from the existing "residential with first-storey commercial" to "hotel".

On the other hand, buying activity for housing units worth at least S$10 million each, especially landed houses in the Good Class Bungalow (GCB) area, stayed resilient despite the cooling measures. In Q4, 32 such luxury homes changed hands, up from 28 in an earlier quarter. The most expensive sale in the reviewed quarter occurred at 16 Cluny Road in a mortgagee sale. The freehold bungalow in the Cluny Park GCB area was acquired by the family of Philip Ng, chief executive of property group Far East Organization, for S$30.8 million, or S$1,901 per sq ft (psf) on a land area of nearly 16,200 sq ft.

COMMERCIAL

As expected, after the private residential cooling measures, investment attention quickly turned towards non-residential sectors with REITs, institutional investors and insurance companies being active players in the market, a trend that was more obvious in the office market on the back of strong rental growth. The commercial sector took over as the market's main driver with a total transaction value of S$3.10 billion registered in Q4/2018, more than double Q3's S$1.31 billion.

Other than 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[1] , a few

1 According to the caveat, the sale date for this transaction is 12 October 2018. Therefore, we regrouped the deal to Q4/2018 instead of Q3/2018, when OUE C-REIT announced the transaction in September 2018.

TABLE 1: Top Five Private Investment Sales, Q4/2018

PROPERTY	SECTOR	TRANSACTED DATE	PRICE (S$ MILLION)	BUYER
OUE Downtown (office component)	Commercial	Oct 2018	908.0	OUE Commercial Real Estate Investment Trust (OUE C-REIT)
78 Shenton Way	Commercial	Oct 2018	680.0	PGIM Real Estate
Manulife Centre	Commercial	Nov 2018	555.5	ARA Asset Management and Chelsfield
Ocean Financial Centre (20% stake)	Commercial	Nov 2018	537.3	Allianz Real Estate
Golden Wall Centre	Commercial	Nov 2018	276.2	Worldwide Hotels Group

Source Savills Research & Consultancy more big-ticket office deals closed in the last quarter.

US-based PGIM Real Estate bought 78 Shenton Way, an office property sitting on a site with a balance lease term of about 64 years, from a fund managed by Alpha Investment Partners. The sum was S$680.0 million, or S$1,900 psf based on net lettable area (NLA).

German insurer Allianz's property investment arm, Allianz Real Estate, made a foray into Singapore's core office market with a S$537.5 million investment by acquiring a 20% stake in Keppel Reit's Ocean Financial Centre located at Raffles Place. The acquisition is part of Allianz's strategy to allocate 5-to-10% of its real estate exposure to Asia-Pacific. The price was equivalent to about S$3,061 psf of NLA.

ARA Asset Management and British property group Chelsfield jointly purchased Manulife Centre, with a remaining leasehold tenure of 96 years, for S$555.5 million. The buyers plan to carry out asset enhancement and tenant repositioning in this 11-storey office building with ground-floor retail units along Bras Basah Road.

In the only commercial site collective sale of 2018, freehold commercial property Golden Wall Centre located near the Rochor MRT station, was sold en-bloc for S$276.2 million to Worldwide Hotels, which owns and manages six hotel brands in Singapore. An application for hotel use at the existing approved gross floor area of around 118,488 sq ft has been approved by the Authority.

Buying interest in conservation shophouses, especially from high net-worth individuals, remained healthy, due to the scarcity of such property as well as the higher ABSD rate for residential properties. Eight deals each worth at least S$10 million were recorded in the last quarter. Notable transactions included a pair of 99-year leasehold shophouses at 40 and 41 Duxton Hill, which changed hands at S$24.8 million or around S$2,787 psf based on a combined built-up area of 8,900 sq ft, and a freehold three-storey shophouse at 31 Keong Saik Road, which was sold for S$14.0 million or S$4,300 psf based on its built-up area – reportedly the highest unit price for conservation shophouses in District 1 and 2.

INDUSTRIAL

The industrial sector closed the final quarter of 2018 with S$572.4 million worth of transactions. Compared with the high base of S$1.73 billion in Q3, due mainly to Mapletree Logistics Trust's purchase of five ramp-up warehouses and the sale of a 25-ha site at Tuas South Avenue 14 to Logistics property specialist LOGOS, investment sales total value fell 66.8% QoQ. Nevertheless, investment activities in industrial lands and properties in the private sector remained stable in Q4/2018 with nine transactions each worth at least S$10.0 million closing.

In the biggest deal in Q4, Mapletree Industrial Trust acquired 18 Tai Seng, a nine-storey integrated industrial development comprising Business 2 industrial, office and retail spaces, for S$268.3 million from its sponsor Mapletree Investments in December. Other notable transactions in the reviewed quarter include footwear, bag and accessories maker Charles & Keith Group's S$60.0 million purchase of 8 Tai Seng Link and the S$56.8 million sale of Pantech 21 at Pandan Loop.

OUTLOOK

With cooling measures on the residential property market still in place, non-residential sectors are likely to take over as the bright spots in 2019's real estate investment-sales market.

Considering the expected increase in tourism arrivals and the limited pipeline supply of hotel rooms over the next few years, developers, hotel owners and investors have all raised their interests in the hospitality sector. For example, in the only two successful collective sales in Q4/2018 – Waterloo Apartments and Golden Wall Centre – the buyers are redeveloping the two sites into hotels. In January 2019, the GLS hotel site at Club Street fetched a record price for a 99-year leasehold hotel land of S$2,149 psf per plot ratio. Meanwhile, Oxley Holdings has accepted a letter of intent for the purchase of its Mercure and Novotel hotels on Stevens Road for S$950 million.

After the latest cooling measures cast a pall on residential en-bloc sales, more commercial or mixed-use properties have been put up or prepared for collective sales, including Golden Mile Complex, People's Park Centre and International Plaza. Notwithstanding large price tags, these developments' location advantages and redevelopment potential will remain attractive to developers.

The diversion of interest from the private residential market to other sectors is continuing and at the start of 2019, it is as yet unclear what large, non-private residential properties are likely to be put up for sale or receive unsolicited offers. However, in 2019 it would take a Herculean effort for non-residential sectors to supplant the strong collective and en-bloc residential sales achieved in just the first six months of 2018 (34 in total, with en-bloc sales totalling S$10 billion in 1H/2018 alone). To give readers a sense of that scale, the amount transacted on the collective private residential sales front was equivalent to over 4.5 transactions of Asia Square Tower 2, bought by CapitaLand Commercial Trust in September 2017.

For 2019, we therefore expect total investment sales to be in the S$20-25 billion range.