MARKET IN MINUTES

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Investment

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Investment sales continued to power ahead

Similar to the previous quarter, a few big-ticket block transactions of commercial and industrial properties concluded in the reviewed quarter pushed up transaction values.

- In Singapore, for Q3/2019, real estate investment sales hit S$10.67 billion, a sharp rise of 45.6% from the S$7.33 billion achieved in the previous quarter.
- In Q3/2019, the residential sector clocked in a total of S$2.77 billion in investment sales, constituting 25.9% of the total market.
- Despite a revival of buying activity in the private residential sales market, developers' enthusiasm for land acquisitions is still low, and may remain so until they clear most of their existing inventory.
- S$4.17 billion or 39.1% of Q3's total investment sales came from the commercial sector. The transaction value rose 8.6% quarter-on-quarter (QoQ).
- On a quarterly basis, investment sales in the industrial sector surged by 536.1% to S$2.49 billion, accounting for 23.3% of Q3's total investment sales. Many of these deals came about through active acquisitions by Singapore Real Estate Investment Trusts (S-REITs).
- In the hospitality sector, five deals were recorded in Q3/2019, contributing S$852.8 million or 8.0% of total investment sales. This has almost doubled the transaction volume of the second quarter.

"Singapore's investment sales market appears to be holding up well in a sea of uncertainty and low economic growth."

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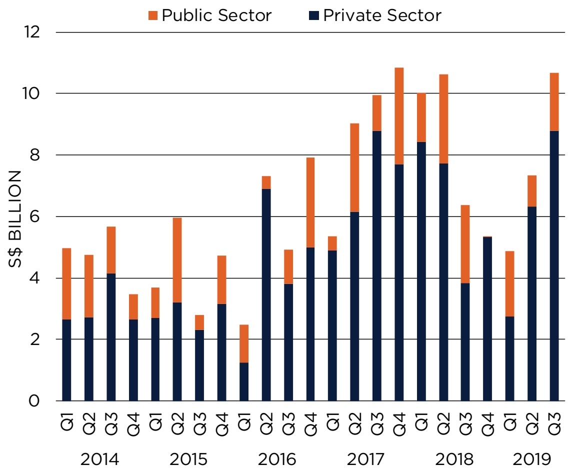
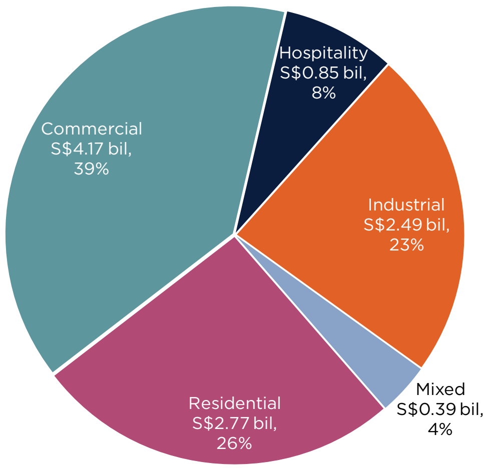
GRAPH 1: Investment Sales Transaction Values, Q1/2014 to Q3/2019



Source Savills Research & Consultancy

GRAPH 2: Investment Sales Transaction Volumes By Property Type, Q3/2019



Source Savills Research & Consultancy

MARKET OVERVIEW

In Singapore, the real estate investment market recorded S$10.67 billion worth of deals in Q3/2019, rising a sharp 45.6% from the S$7.33 billion achieved in the previous quarter. This has marked the second straight quarter of growth this year.

In the public sector, the transaction value rose by 88.6% QoQ to S$1.89 billion with four residential plots awarded under the Government Land Sales (GLS) Programme. The private sector also posted a quarterly growth of 38.8% with a total of S$8.78 billion worth of investment sales. Like the previous quarter, a few big-ticket block transactions of commercial properties were concluded in the reviewed quarter, pushing up the overall transaction value. In addition, the active acquisition by S-REITs and the new listing of Lendlease Global Commercial REIT also played major roles in bumping up the numbers.

RESIDENTIAL

In Q3/2019, the residential sector clocked in a total of S$2.77 billion in investment sales, making up 25.9% of the total market. Compared with a quarter ago, this was an increase of 34.1%.

Buying momentum for luxury and super-luxury non-landed private residential properties (each worth at least S$10 million) continued. A total of 32 such units changed hands in the reviewed quarter, with 27 priced above S$3,000 per sq ft (psf). The most expensive one in term of price quantum was a 6,900-sq ft penthouse at 3 Orchard By-The-Park at Orchard Boulevard which was sold for S$32.0 million, while the highest per square foot price of S$4,702 was achieved by a 3,509-sq ft penthouse at Wallich Residence in Tanjong Pagar. Sales of landed houses (each worth at least S$10 million) also remained healthy with 18 such transactions sealed in the same quarter, on par with the 19 transactions in a quarter ago.

The private sector saw only one residential site sold in the quarter. A subsidiary of Qingjian Realty acquired a 99-year residential site located along Phoenix Road near Bukit Panjang through collective sales process for S$42.6 million. After factoring in the estimated differential premium payable, the price works out to a land rate of S$630 psf per plot ratio (ppr) based on the land area of 63,002 sq ft and gross plot ratio of 1.4.

Under the GLS Programme, four 99-year private residential sites were sold. In July, the land parcel at Clementi Avenue 1 secured five bids with the highest submitted by a tie-up between UOL Group and United Industrial Corporation at S$491.3 million or S$788 psf ppr. Subsequently, the batch tender for the other three GLS sites closed in September. The Tan Quee Land Street site located next to Bugis MRT station attracted only two bids and was awarded to a joint venture of GuocoLand and Hong Leong Group for S$800.2 million (or S$1,535 psf ppr), while the site at Bernam Street in the Tanjong Pagar area of the CBD drew four bids with the top bid of S$440.9 million (or S$1,463 psf ppr) coming from Hao Yuan-linked HY Realty. In contrast, due to a smaller outlay, limited existing stock and future new supply in the vicinity, the participation rate for the tender of the one-north Gateway site was much higher at nine bids, and the highest bidder was TID Residential at S$155.7 million (or S$1,001 psf ppr).

Despite a revival of buying activity in the private residential sales market, the lower number of bidders, less aggressive tender prices for state lands, as well as the fading interest in private enbloc sale sites, reaffirmed that developers' enthusiasm for land acquisitions is low. They may remain in this state perhaps till they clear significantly more of their existing inventory.

COMMERCIAL

S$4.17 billion or 39.1% of Q3's total investment sales came from the commercial sector. The transaction value rose 8.6% from the S$3.84 billion in a quarter ago. This is also the highest

TABLE 1: Top Land Sales In The Public Sector, Q3/2019

PROPERTY	TYPE OF DEVELOPMENT ALLOWED	DATE OF AWARD	SUCCESSFUL TENDER PRICE (S$ MILLION)	SUCCESSFUL TENDERER
Tan Quee Lan Street	Residential	Sep 2019	800.2	GLL D Pte Ltd, Intrepid Investments Pte Ltd and Hong Realty (Private) Limited
Clementi Avenue 1	Residential	Jul 2019	491.3	UOL Venture Investments Pte Ltd and UIC Homes Pte Ltd
Bernam Street	Residential	Sep 2019	440.9	HY Realty Pte Ltd
one-north Gateway	Residential	Sep 2019	155.7	TID Residential Pte Ltd

Source URA, Savills Research & Consultancy

TABLE 2: Top Private Investment Sales, Q3/2019

PROPERTY	SECTOR	TRANSACTION DATE	PRICE (S$ MILLION)	BUYER
Duo Tower and Duo Galleria	Commercial	Jul 2019	1,575.0	Allianz Real Estate and Gaw Capital Partners
Mapletree Business City (Phase 2) and the Common Premises	Industrial	Sep 2019	1,550.0	Mapletree Commercial Trust
313 @ Somerset	Commercial	Aug 2019	1,003.0	Lendlease Global Commercial REIT
71 Robinson Road	Commercial	Jul 2019	655.0	Sun Venture
Bugis Junction Towers	Commercial	Sep 2019	547.5	Village Prop Pte Ltd

Source Savills Research & Consultancy

for a single quarter since Q2/2016.

Driven by strong liquidity and a low interest rate environment, buying interest from institutional investors, private equity funds and investment managers were all concentrated on the commercial sector, in particular office properties in the CBD. In addition, recent political turmoil in Hong Kong has possibly diverted capital flows to other gateway cities in Asia like Singapore.

A few big-ticket deals were concluded in the reviewed quarter. These included: Allianz Real Estate and Gaw Capital Partners' S$1.575 billion acquisition of Duo Tower and Duo Galleria, which are the office and retail components of the mixed-use complex in the Ophir-Rochor precinct; the S$655.0 million sale of 71 Robinson Road to SV Robinson, a real estate investment company owned by Sun Venture; and Keppel REIT's S$547.5 million sale of its strata portion of Bugis Junction Towers to Village Prop, an entity that is majority-owned by US-based global alternative investment manager Angelo Gordon, with Singapore-based property investment manager TCRE Partners holding a minor stake. The net yield for these deals is estimated to be in the range of 3.0% to 3.5%.

Separately, Lendlease injected 313@Somerset to its Lendlease Global Commercial REIT for S$1.003 billion. As one of the REIT's initial portfolio, the eight-storey shopping mall located in the Orchard Road shopping belt has a net lettable area of 288,277 sq ft and is 99.6% occupied as at 30 June 2019. The REIT's IPO has launched on the Mainboard of the Singapore Exchange on 25 September.

INDUSTRIAL

On a quarterly basis, investment sales in the industrial sector surged by 536.1% to S$2.49 billion, accounting for 23.3% of Q3's total investment sales. Many of these deals came about through the active acquisitions by S-REITs.

The largest deal was the sale of Mapletree Business City (Phase 2) and the common premises on Pasir Panjong Road. Mapletree Commercial Trust bought this business park development from its sponsor, Mapletree Investments, for S$1.55 billion. Other deals included: Keppel DC REIT's purchase of two data centres, Keppel DC Singapore 4 (99% interest) and 1-Net North Data Centre at S$585.1 million; and ESR REIT's S$225.0 million acquisition of a newly redeveloped six-storey ramp-up warehouse located at 48 Pandan Road[1].

The current low interest rate environment and access to cheap funding costs are favourable market conditions for S-REITs to acquire properties to expand their portfolio. In addition, the Monetary Authority of Singapore (MAS) in July announced that it is considering raising S-REITs' current leverage limit of 45% when making real estate acquisitions. It will allow S-REITs to better compete against private capital and foreign REITs. As a result, we may see increasing levels of asset acquisitions by S-REITs in the future.

HOSPITALITY

In the hospitality sector, five deals were recorded in Q3/2019, contributing S$852.8 million or 8.0% of total investment sales. This has almost doubled the transaction volume of the second quarter.

In July, a joint venture of PAM Holdings and Datapulse Technology bought Bay Hotel Singapore at Telok Blangah for $235 million. Later in August, Royal Group sold Darby Park Executive Suites, a six-storey serviced residence property located along Orchard Grove Road, for $160 million to an entity linked to Indonesian tycoon Bachtiar Karim, with the site being rezoned from residential to hotel use. Finally in September, a joint venture by Hong Kong financial services firm AMTD Group and Far East Consortium International agreed to pay $287.1 million for Oakwood Premier OUE Singapore, the serviced residences at OUE Downtown in Shenton Way; while Min Yuan Apartments at 62 Waterloo Street was sold en bloc for S$141 million to Fragrance Group, who intends to redevelop the site with the adjacent land plot at 64 Waterloo Street into a hotel development. In addition, a 38-room hotel at Middle Road in the Bugis area was sold at S$29.7 million.

There has been an exponential increase in the value of hospitality assets sold since 2016. The increase is mainly due to the cooling measures in force on the private residential market which deterred investors, pregnant with funds, that needed to deploy them urgently. For over five years now, hospitality assets have been bought not so much as a yield play, but to preserve or for capital appreciation. The market for hospitality assets is still hot and we believe that if a product is listed at a slight premium to market price, it should still sell.

OUTLOOK

Conventional thinking would conclude that the investment sales market is expected to turn relatively quiet in the near term as caution reigns amid macroeconomic uncertainties. However, that could be far from the case. The clash of liquidity and socio-economic turbulence in the Asian region may instead divert capital to our shores. The next quarter is likely to be dominated by sales from the private sector, as the number of GLS sites which are expected to be awarded from October to December 2019 will be very limited. Our previous forecast for 2019 was that investment sales should come in at between S$20-25 billion. Given that the first three quarters already logged in S$22.87 billion, the full year figure could come in higher.

The forecast for investment sales requires much deeper thinking. Because Singapore is an open economy, macroeconomic considerations may not be the sole factor determining the performance of this market. Other factors like disturbances on the socio-economic front has of late been an even greater influence on real estate investment sales. And soon, the expanding pool of negative yielding bonds in Europe may spur more capital to flow to Asia. This will upset historical relationships like those correlating rising investment sales alongside faster economic growth and/or when there is a decompression of yields.

In this topsy-turvy world of change inciting more change and one where established rules of conduct (freedom of trade) are broken, we believe that Singapore's investment sales market is at the early stage of explosive expansion. For 2019, we will revise our full year forecast to S$28-30 billion while for 2020, it goes to S$30-35 billion.

1 According to the caveat, the sale date for this transaction is 7 August 2019. Therefore, we regrouped the deal to Q3/2019.