Research &
Forecast Report

SINGAPORE | INVESTMENT

Q1 2016

Accelerating success.

Slow start to 2016 for Singapore real estate investment sales

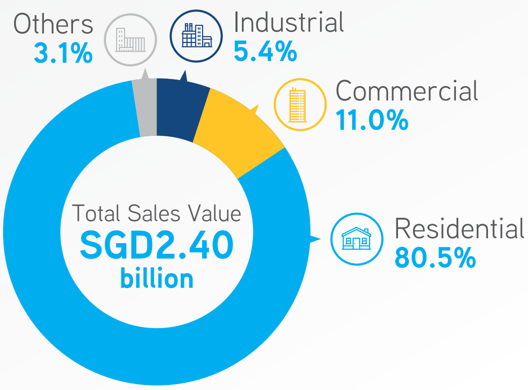
Joanna Chen Manager, Research and Advisory

Property investment activity in Singapore took off with a slow start in 2016, especially in the commercial and industrial sectors while residential activity was firmer. We expect residential sales to strengthen further due to continued interest in government land sales. We anticipate investment activity in the next few quarters to gradually pick up and total investment volume for 2016 is forecast to be around SGD15 to SGD18 billion (compared to SGD20 billion in 2015). With the supply of office space set to increase, we think occupiers should start early and act now to secure leases in the new developments at attractive rental levels.

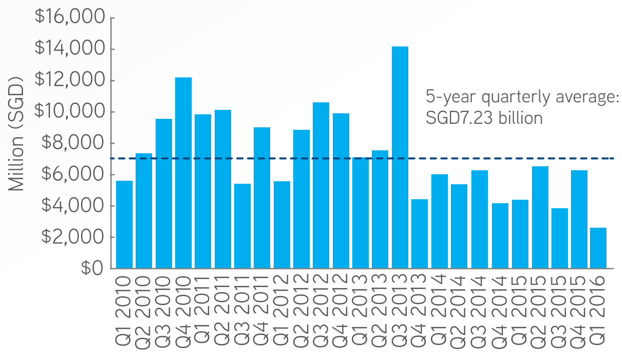
Investment Sales Performance and Forecast: Q1 2016

Q1 2016 Total Investment Sales			Total 2016 Forecasted Investment Sales
SGD2.40 billion	▼ **60.3%** QOQ Change	▼ **46.4%** YOY Change	**SGD15-18 billion**

Investment Sales Value by Sector: Q1 2016



Total Investment Sales Value



Note: Others refer to properties such as dormitory, HDB shops, medical suites and shophouses.
Source: Colliers International Singapore Research

Snapshot of sectoral performance: Q1 2016

Residential

QOQ	▲ 14.4%
YOY	▲ 19.1%

Total Investment Sales Value **SGD1.93 billion**

Private	SGD704 million
Public	SGD1.23 billion

Outlook:

- Continual keen interest from investors and developers in residential sites especially via public land sales

Commercial

QOQ	▼ 91.6%
YOY	▼ 80.1%

Total Investment Sales Value **SGD264 million**

Private	NIL
Public	SGD264 million

Outlook:

- Commercial investment turnover are likely to improve over the next few quarters with larger size deals in the pipeline
- Despite this, sentiment in commercial properties will remain subdued due to economic uncertainty, softer rents and oversupply conditions

Industrial

QOQ	▼ 66.3%
YOY	▼ 83.5%

Total Investment Sales Value **SGD130 million**

Private	SGD130 million
Public	NIL

Outlook:

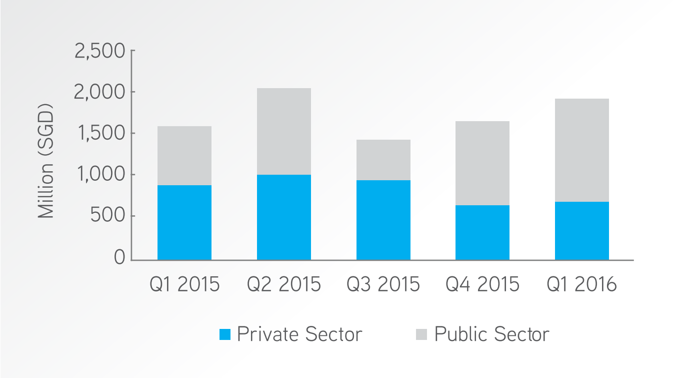
- While industrial investment sales are expected to pick up modestly from the low level seen in Q1 2016, investors will remain cautious when acquiring industrial properties
- Freehold industrial buildings in centralised location will continue to be sought after

Residential

The residential sector took the crown in the first quarter of 2016 as commercial investment sales slowed down.

Investment demand for private residential properties in Q1 2016 remained firm and recorded SGD704.17 million worth of transactions, albeit this is slightly below the quarterly two-year (2014 to 2015) average of SGD828.90 million.

Total Investment Sales Value by Type of Sales



Source: Colliers International Singapore Research

MAJOR RESIDENTIAL TRANSACTIONS			
PROPERTY	**TOTAL PRICE (CIRCA) (SGD)/MILLION**	**PRICE PER SQ FT (SGD)**	**PURCHASER**
PRIVATE INVESTMENT SALES			
3A Tanglin Hill	27.5	1,551 per land area	Individual Buyer
25 Gallop Road	27.0	1,700 per land area	Zhang Yong (Owner of HaiDiLao)
PUBLIC INVESTMENT SALES			
Siglap Road	624.2	858 per plot ratio	FCL Topaz Pte Ltd, Sekisui House Ltd and KH Capital Pte Ltd
New Upper Changi Road / Bedok South Avenue 3 (Parcel B)	419.4	760 per plot ratio	CEL Residential Development Pte Ltd
Yio Chu Kang Road (EC)	183.8	331 per plot ratio	Hoi Hup Realty

Source: Colliers International Singapore Research

Residential bulk sales expected to rise in view of Additional Buyer's Stamp Duty faced by developers

The residential real estate investment landscape this quarter comprises mainly individual strata-title and land sales transactions with no bulk sales. This differs from previous quarters when 21 units of Residences at Emerald Hill and 16 units at 111 Emerald Hill were sold at a total value of SGD111.83 million and SGD75.00 million, respectively.

Going forward, we envisage more bulk purchases in view of the Additional Buyer's Stamp Duty (ABSD) and Qualifying Certificate (QC) charges faced by developers who are unable to sell all units in their residential developments.

Based on Colliers' estimates, there is potentially an ABSD charge of approximately SGD69 million on the residential land in the Core Central Region purchased after 11 January 2011, assuming that the remaining units are unsold by their respective project deadlines in 2016-2017.

A developer who bought residential land between 8 December 2011 and 11 January 2013 will be subject to an ABSD charge (with interest of 5% per year) of 10% on the land purchase price, if the developer be unable to build and sell all dwelling units within the stipulated timeline of five years. The ABSD charge is 15% on the residential land bought after 11 January 2013.

Likewise, if a foreign developer is unable to build within five years and sell all units within two years of receiving a Temporary Occupation Permit, it will be charged QC fees of 8%, 16% and 24% on the land cost, pro-rated on the percentage of unsold units for the first, second and third year, respectively.

Assuming that there are no further units sold after Q1 2016, 23 residential developments within the Core Central Region (CCR) and Rest of Central Region (RCR) are expected to be subjected to the ABSD charge in the next two years.

To avoid ABSD and also to retain a land bank in a market segment where availability of residential land sites is limited, developers with more than 50% unsold units may choose to do a bulk sale to its parent company via an investment vehicle. However, it must be noted that developers adopting this strategy will also be subject to a 15% ABSD charge on the selling price of the unsold units, as opposed to a 15% ABSD charge on the total land cost. Therefore, the determining factor for a developer hinges on whichever is the lower of the two, the selling price of all unsold units or the total land cost.

For developers with fewer unsold units, they may release these units via bulk sales to a third party. Recently, there has been some heightened interest in the market for such discounted bulk sales in the mid- to high-end market segment, despite the requirement to pay a 15% ABSD charge on the selling price of residential units.

Notwithstanding this, developers may also choose to adopt other strategies such as reducing property prices to sell to individuals, de-listing or paying the ABSD/QC charge and selling the units when the property market recovers.

Any adopted strategy will largely depend on factors such as initial land price paid for the residential development, current number of unsold units, cash reserves on the balance sheet of the developer and future pricing of the unsold units.

Decisions made in the coming quarters are likely to set the level of market confidence and pricing trends for the mid- to high-end residential properties.

Continued keen interest from developers in Government Land Sales Site

The desperation to build up residential land banks continues despite the current lukewarm residential property market.

The three Government Land Sale (GLS) residential sites; namely Siglap Road, New Upper Changi Road / Bedok South Avenue 3 and Yio Chu Kang Road were well-received with at least eight developers bidding for each of these sites.

Among the three, the Executive Condominium (EC) site on Yio Chu Kang Road was the most contested, with ten bidders and a relatively aggressive bid by Hoi Hup Realty. The winning bid was 6.1% higher than the second-highest bid.

Located in a mature residential estate with amenities, in close proximity to prestigious schools such as Rosyth School, the Yio Chu Kang site is expected to be sought after by couples and young families with children.

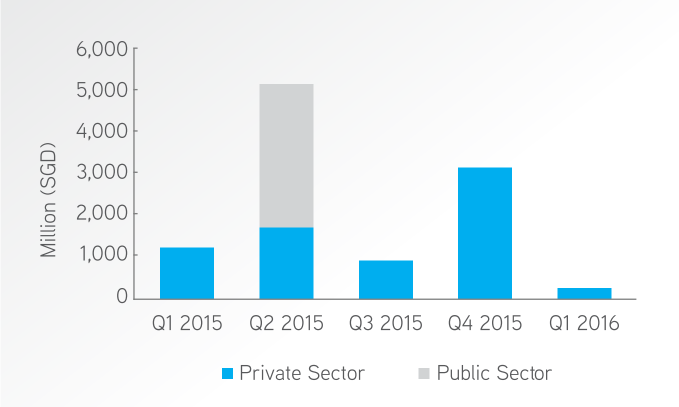
A relatively rare residential site in the east, Siglap Road, was sold at SGD624.18 million to a consortium comprising Fraser Centrepoint and Seksui House.

With the unparalleled sea view, proximity to good schools and walking distance to the upcoming Thomson-East Coast MRT station, there was a strong level of interest for the site with the first four bids achieving above SGD800 per sq ft.

Commercial

Commercial real estate investment volume recorded in Q1 2016 was the lowest since Q2 2010, amounting to a total of SGD263.52 million.

Total Investment Sales Value by Type of Sales



Note : Public Investment Sales herein only include full commercial sites
Source: Colliers International Singapore Research

Lack of mega deals leads to decline in commercial property sales in Q1 2016

Excluding the buoyant sales volume recorded in the last quarter, the number of commercial properties transacted in Q1 2016 is comparable to those seen in the first three quarters of 2015. Typically, there are about nine to ten commercial real estate transactions each quarter.

However, unlike previous quarters, commercial properties transacted in Q1 2016 are mainly bite-sized, comprising strata-title units and smaller developments. The largest transaction this quarter was the acquisition of several floors at SBF Centre by the Asia Pacific arm of Scor Reinsurance for SGD85.46 million over its GFA of 27,350 sq ft. Scor Reinsurance is expected to move to SBF Centre from its current location at Asia Square Tower 2.

This contrasts vastly with the large commercial real estate deals transacted in 2015, which consisted of at least one large transaction above SGD500 million each quarter, include AXA Tower at SGD1.17 billion, One Raffles Place at SGD1.03 billion, Bedok Mall at SGD780.00 million and City Development Limited's Profit Participation Security for 7&9 Tampines Grande, Central Mall-Office Tower and Manulife Centre at SGD1.07 billion.

The largest commercial real estate investment transaction in Q1 2016 was for SGD85.46 million; significantly lower than the mega deals of more than SGD500 million seen every quarter last year.

MAJOR COMMERCIAL TRANSACTIONS

PROPERTY	TOTAL PRICE (CIRCA) (SGD)/MILLION	PRICE PER SQ FT (SGD)	PURCHASER
PRIVATE INVESTMENT SALES			
SBF Centre (Level 29 & 30 & 8 smaller units on Level 27 & 28)	85.5	3,124 per NLA	Asia-Pacific arm of Scor Reinsurance
Suntec City (Level 30)	29.0	2,462 per NLA	N/A

Source: Colliers International Singapore Research

Offshore real estate opportunities competes with local commercial investment prospects

While investors remain interested in Singapore commercial properties, there is increased interest from domestic investors to diversify into other geographical regions.

According to Real Capital Analytics, total outflow of capital invested in commercial properties (office and retail) amounted to USD14.46 billion in 2015 (SGD[1]19.54 billion), which is more than twice the total 2015 commercial investment volume of SGD8.98 billion in Singapore.

The push factors include falling residential prices and softening commercial rents in the domestic market, while the pull factors, such as higher yields in overseas market, greater potential of price growth and favourable currency appreciation, all drove Singapore-based investors to look offshore.

Comparing the last three years, the capital outflow into overseas commercial assets from these Singapore-based investors grew at a Compound Annual Growth Rate (CAGR) of 75.2% from USD4.71 billion (SGD[1]6.37 billion) in 2013 to the current level of SGD19.54 billion in 2015.

Among the various overseas office opportunities, London, Shanghai and Australia are the top destinations for local investors. Yields for office properties in these countries are typically higher ranging between 4% and 6%, as compared to 3% and 4% in Singapore.

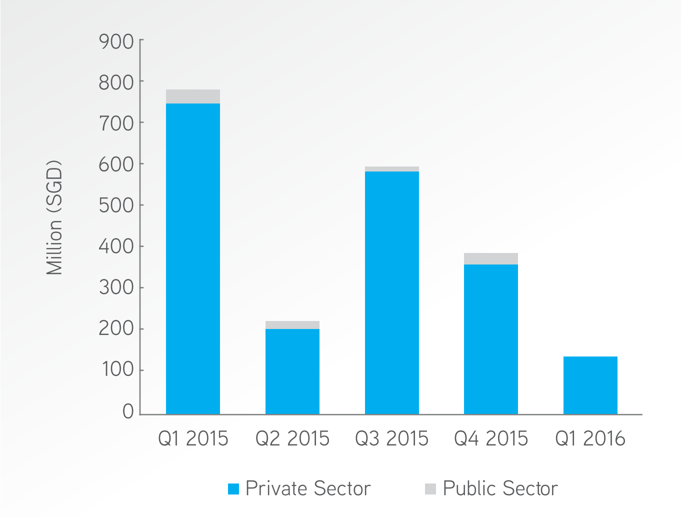
Despite the lure of overseas opportunities, a healthy stream of institutional interest in the Singapore commercial property market is piling up and prime developments in Singapore are still drawing a solid level of inbound investment interest, particularly when palatable pricing can be achieved between sellers and buyers.

There are still some prime developments such as Asia Square Tower 1, which has been priced between SGD3.5 billion and SGD4.0 billion, available on the market. With BlackRock Fund's ownership expiry date coming up on Asia Square Tower 1, there may be market movements on the property in the latter half of 2016.

Industrial

Against a backdrop of muted industrial space demand, investment interest in industrial properties remained lacklustre. Total investment sales value in the sector declined 66.3% quarter on quarter from SGD384.17 million in Q4 2015 to SGD129.58 million this quarter.

Total Investment Sales Value by Type of Sales



Note: Public Investment Sales herein only include industrial sites above SGD5 million
Source: Colliers International Singapore Research

MAJOR INDUSTRIAL TRANSACTIONS

PROPERTY	TOTAL PRICE (CIRCA) (SGD)/MILLION	PRICE PER SQ FT (SGD)	PURCHASER
PRIVATE INVESTMENT SALES			
Harper Kitchen	51.1	2,132 per GFA	A four-member consortium led by Nanshan Group Singapore
Swee Hin Building	22.3	423 per land area	N/A

Source: Colliers International Singapore Research

Industrial assets with unique features are still sought-after despite the general cautious sentiment

The subdued demand for industrial space has led to more cautious investment sentiments for industrial properties.

Although investors remained cautious of the price and the achievable yields of these assets, freehold industrial buildings in centralised locations are still sought after.

Of all nine industrial properties transacted this quarter, the industrial building, Harper Kitchen, was well-received with more than ten interested parties comprising Small and Medium-sized Enterprises (SMEs), large scale developers and private equity funds.

Unlike most 20-year leased buildings released by JTC, Harper Kitchen not only offers freehold tenure, but also provides a centralised location and close proximity to Tai Seng MRT station. In addition, the site of an existing estimated GFA of 54,250 sq ft can be redeveloped to reach its maximum allowable GFA of 83,624 sq ft.

Currently leased to Bakerzin, Putien and Crystal Jade for their food and beverage (F&B) operations, the site, which is zoned as Business 1-White use, will be suitable for retail, commercial or F&B use.

The oversupply of industrial properties in the current market lead to investors being more cautious of the achievable yields of potential industrial acquisition, targeting on assets that are freehold and in centralised location.

*"We anticipate that **demand for office space will be resilient** despite occupiers being generally cost conscious. This means two things for occupiers, start early and act now to secure leases in the new developments at attractive rental levels.*

*While the **industrial property sector will continue to be moderate** with landlords continuing to align rental expectations with market demand, we may see increased warehousing activities in the e-commerce trade and pharmaceutical industry.*

*We sense that **both developers and buyers are adjusting to the cooling measures with innovative schemes** to manage risk of both market and government intervention. The **low interest rate environment will continue to fuel strong interest** in both that of GLS sites and the residential market."*

- Tang Wei Leng, Managing Director | Colliers International Singapore

[1] *Based on a USD/SGD currency exchange rate of 0.74 as at 13 April 2016*

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