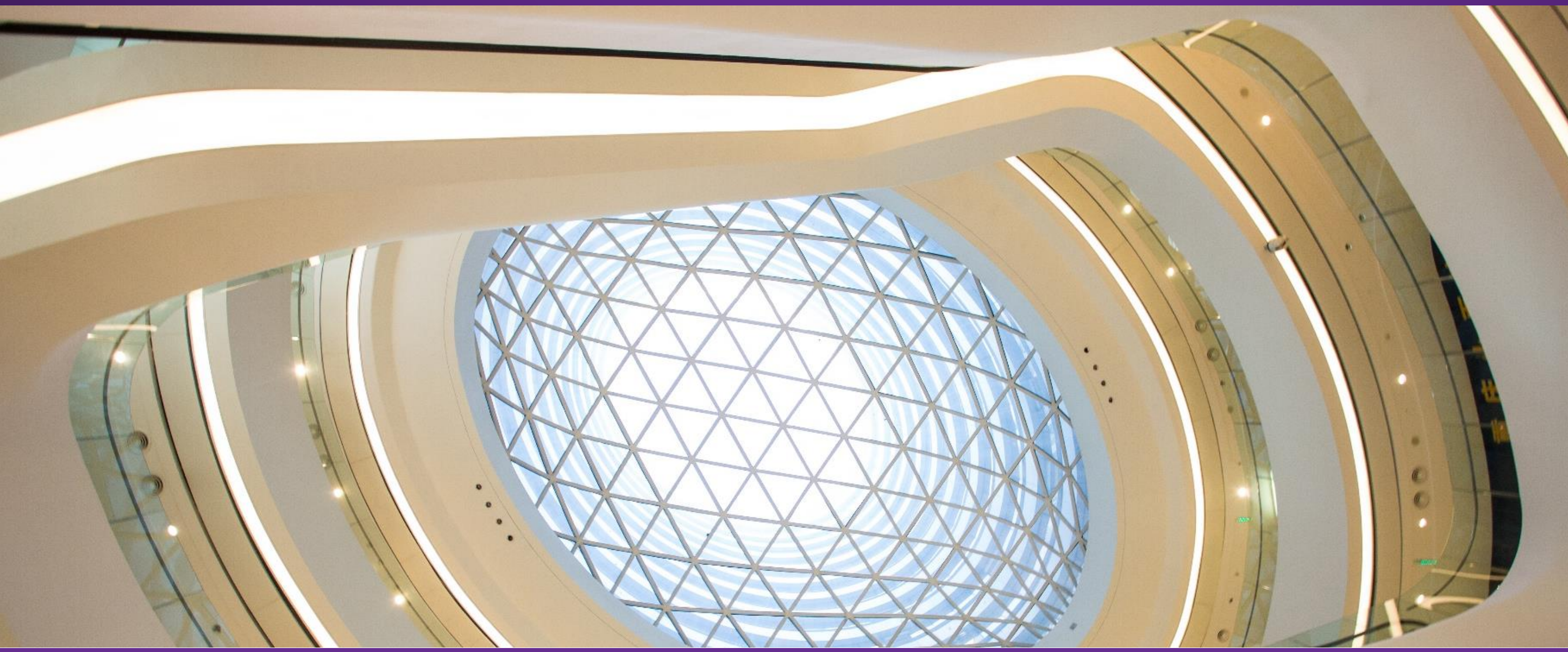
Edmund Tie & Company

REAL
ESTATE
TIMES

RESEARCH

SINGAPORE Q1 2018

Residential market on the upturn



Prices of private residential properties rose significantly in Q1 2018. How do the other market segments fare?

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Q1 2018 SNAPSHOT

Singapore's economy grew 3.6 per cent in 2017, led by growth in the semiconductor sector. The service sector expanded by 3.0 per cent year-on-year (y-o-y) in Q4 2017, supported by growth in the finance and insurance, wholesale and retail trade, as well as transportation and storage sectors. Business confidence remained positive, and Singapore's economy is forecasted to expand by about 3.2 per cent in 2018.

Investment sales declined to

$7.9 bn

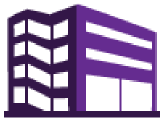
from $8.6bn in Q4 2017

Residential investment sales constituted 85.1 per cent of total investment sales in Q1 2018, with the collective sale of Pacific Mansions at $980m being the largest residential investment sale.

OFFICE

Average monthly rents in the **CBD increased by 1.1 per cent quarter-on-quarter (q-o-q) to around $8.90 per sq ft (psf) per month** in Q1 2018. Monthly gross rents of offices in **Marina Bay increased by 1.5 per cent q-o-q to around $10.70 psf.** Monthly rents in **Raffles Place (Grade A) also increased by 1.0 per cent q-o-q to $9.70 psf** in Q1 2018.

INDUSTRIAL



In Q1 2018, the gross monthly rents of business parks **increased by 0.5 per cent q-o-q to around $4.60 psf**. Monthly rents of **first-storey and upper-storey factory space remained stable at $1.85 psf and around $1.40 psf respectively** in Q1 2018.

RETAIL

The retail sector showed signs of bottoming out in Q1 2018, with **gross rents of first-storey space in Orchard/Scotts Road and suburban areas increasing by 0.5 per cent q-o-q to $37.40 and $30.60 psf per month respectively**. However, **gross monthly rents of first-storey retail space in the other city areas remained flat** for the fourth consecutive quarter at around $19.75 psf.

RESIDENTIAL

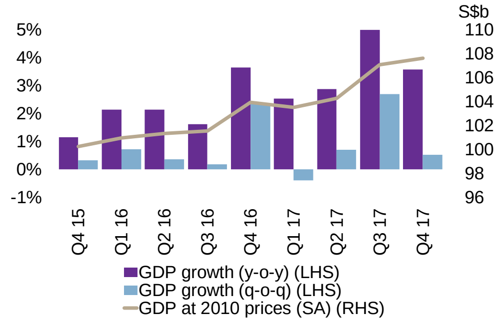
Private home sales **declined by 21.7 per cent q-o-q to 4,752 units,** due to fewer new launches and seasonal festivities. Prices for luxury apartments **rose by 7.0 per cent q-o-q in Q1 2018**. Rents for non-landed homes in non-prime districts **improved by 0.3 per cent q-o-q in Q1 2018**.

THE ECONOMY

Key highlights

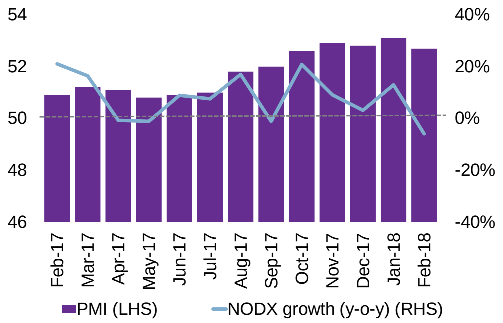
- In Q4 2017[1], Singapore's economy expanded by 3.6 per cent y-o-y. The economy is expected to grow by 3.2 per cent in 2018.
- Growth of the manufacturing sector is likely to moderate, signalled by the fall in non-oil domestic exports (NODX) in February 2018.
- The finance and insurance sector has a positive outlook for H1 2018.

FIGURE 1
GDP growth



Source: MTI, Edmund Tie & Company Research

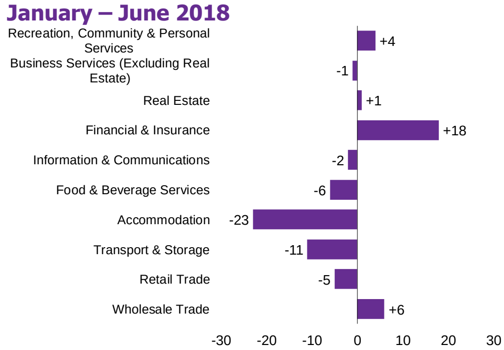
FIGURE 2
PMI and NODX



Note: PMI and NODX for March 2018 were not released as at time of publication

Source: IE Singapore, SIPMM, Edmund Tie & Company Research

FIGURE 3
Sentiments of service sectors January – June 2018



Source: Singapore Department of Statistics, Edmund Tie & Company Research

Market commentary

Singapore's economy grew by 3.6 per cent y-o-y in Q4 2017 (Figure 1), driven primarily by the electronics and precision engineering clusters. These clusters benefitted from the improving global demand for semiconductors, semiconductor equipment and optical products. Notwithstanding, the Purchasing Managers' Index (PMI) came in at 52.7 points in February 2018, lower than January's figure (Figure 2) due to a slower growth in orders for the electronics segment. In the same month, the NODX also contracted by 5.9 per cent y-o-y. However, the decrease could just be a blip, as the NODX rose by 16.5 per cent y-o-y in March.

Strong growth in the information and communication sector also contributed to the overall improvement in 2017's economic performance, growing by 6.0 per cent y-o-y as at Q4 2017. This was higher than the 5.1 per cent growth recorded in Q3 2017. The sector enjoyed strong demand for IT solutions as more companies adopt technology to streamline their processes.

The finance and insurance sector also expanded by 6.3 per cent y-o-y, supported by strong growth in fund management and expansion of the financial intermediation and insurance segments.

Business confidence in the services sector for H1 2018 remained positive (Figure 3). The most optimistic industries are financial and insurance, wholesale trade and recreation, community and personal services. Accommodation, transportation and storage, and food and beverage (F&B) services are the most pessimistic.

Although Singapore's economic outlook remains promising, geopolitical tensions and a potential trade war may dampen growth.

Outlook

According to the poll by the Monetary Authority of Singapore, private sector economists expect the economy to grow by 3.2 per cent. The upsides for Singapore's economy is the electronics sector and the strong property market performance. Notwithstanding, downside risks have emanated from trade protectionism and geopolitical tensions. For instance, China announced new tariffs of 25.0 per cent on US imports after the United States announced it was planning to impose similar tariffs on a range of Chinese imports.

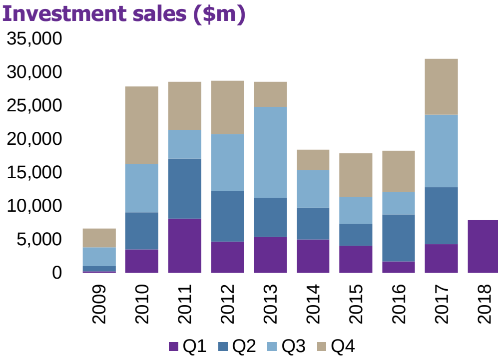
[1] Q1 2018 GDP statistics were not released as at time of publication

INVESTMENT SALES

Key highlights

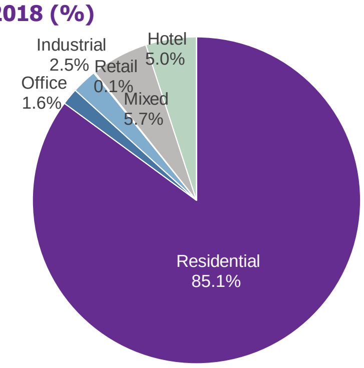
- Investment sales declined by 9.0 per cent q-o-q to $7.9bn in Q1 2018.
- The q-o-q decrease in investment sales was largely due to the decline of Government Land Sales (GLS), dropping from $1.5bn in Q4 2017 to $728.5m.
- Residential investment sales continued to constitute the bulk of total sales, recording about $6.7bn (85.1 per cent) in Q1 2018.

FIGURE 4
Investment sales ($m)



Source: Edmund Tie & Company Research

FIGURE 5
Proportion of investment sales by segment in Q1 2018 (%)



Source: Edmund Tie & Company Research

In 2018, investment sales in Singapore will be largely driven by collective sales. Additionally, there is keen demand for office developments.

Market commentary

Investment sales in Q1 2018 fell by 9.0 per cent q-o-q to $7.9bn (Figure 4), due to slower investment sales through the GLS programme. Investment sales from public tenders declined from $1.5bn in Q4 2017 to $728.5m in Q1 2018.

Isolating seasonal effects, investment sales in Q1 2018 translated to an increase of 87.8 per cent y-o-y from $4.2bn in Q1 2017. Although there were three sites sold under the GLS programme in Q1 2018, the land parcels awarded were smaller in size. Despite so, land rates have largely stayed unchanged.

The collective sales market for residential sites remained active, contributing to a 6.0 per cent q-o-q increase from $6.3bn to nearly $6.7bn in Q1 2018. It also comprised majority (85.1 per cent) of investment sales in Q1 (Figure 5). In Q1 2018, 19 sites were sold en bloc, with the largest transaction being Pacific Mansions. GuocoLand and Hong Leong Holdings acquired the freehold site for $980m, which worked out to about $1,806 per sq ft per plot ratio (psf ppr) after including a 10.0 per cent bonus GFA for balconies.

Sales activity for the hotel segment also picked up in Q1 2018. The investment sales of hotel properties increased from $67m in Q4 2017 to $392.8m. The sale of Oasia Hotel Downtown to Far East Hospitality Trust for $210m contributed to the increase in sales. The 314-room hotel obtained its Temporary Occupation Permit (TOP) in Q4 2015 and is housed together with an office component at 100 Peck Seah Street.

Outlook

The collective sales market is likely to maintain its momentum. We also expect the collective sales of commercial buildings to pick up significantly in H2 2018. Some commercial developments that are at varying stages of the collective sales process include Singapore Shopping Centre, Realty Centre, Goldhill Centre, People's Park Centre, People's Park Complex, Golden Mile Tower, Golden Mile Complex, Golden Wall Centre, Tanglin Shopping Centre, Shenton House and Sim Lim Square.

More developers have replenished their land banks and they are becoming increasingly selective. More private tenders were closed without the conclusion of the sale. Land rates have also stabilised. Based on estimates, there are about 140 residential projects undergoing a collective sale process. With more options, developers will only seek sites that fit their risk/return criteria.

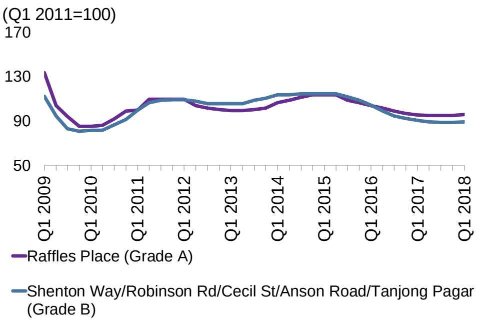
We also expect sales from the GLS programme to pick up significantly. For instance, the two-envelope tender for the mixed-use site at Holland Road received fifteen bids.

OFFICE

Key highlights in Q1

- Average office rents in the CBD increased by 1.1 per cent q-o-q to around $8.90 psf per month in Q1 2018.
- Monthly office rents in Marina Bay improved by 1.5 per cent q-o-q to around $10.70 psf in Q1 2018.
- Gross monthly rents of Grade A buildings in Raffles Place and Grade B offices in the Shenton Way/Robinson Road/Cecil Street/Anson Road/Tanjong Pagar subzone also rose by 1.0 per cent and 0.5 per cent q-o-q to around $9.70 psf and $6.20 psf in Q1 2018 respectively.

FIGURE 6
Office rental indices



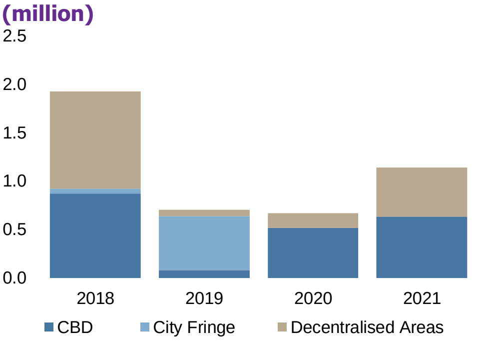
Source: Edmund Tie & Company Research

TABLE 1
Shadow space and future vacant space as at Q1 2018

Subzone	Q4 2017 estimated shadow space (sq ft)	Q1 2018 estimated shadow space (sq ft)
Marina Bay	70,000	61,000
Raffles Place	134,000	55,000
Shenton Way/ Robinson Road/Cecil Street/Anson Road/Tanjong Pagar	59,000	51,000

Source: Edmund Tie & Company Research

FIGURE 7
Office development pipeline including projects on awarded GLS sites, sq ft (million)



Source: URA, Edmund Tie & Company Research

Market commentary

In Q1 2018, average office rents in the CBD rose by 1.1 per cent q-o-q to around $8.90 psf per month, the second consecutive q-o-q increase. Overall office occupancy in the CBD also improved from 87.9 per cent in Q4 2017 to 90.3 per cent in Q1 2018. The average net absorption in the CBD was positive at around 624,000 sq ft.

The growth of wealth management and the information and communications technology sectors continued to support demand for office space. For instance, Liechtenstein-based VP Bank expanded its premises at Asia Square Tower 1, taking up the adjacent space previously occupied by BlackRock. Demand came from co-working space operators that were increasing their footprint.

Monthly office rents in Marina Bay improved by 1.5 per cent q-o-q to around $10.70 psf in Q1 2018. The occupancy in Marina Bay improved by 6.7 per cent q-o-q to 85.2 per cent in Q1 2018 as more companies have started to move into newer buildings.

Similarly, gross monthly rents of Grade A offices in Raffles Place rose by 1.0 per cent q-o-q to $9.70 psf in Q1 2018 (Figure 6), supported by strong occupancy levels as vacant spaces in Grade A buildings at Raffles Place backfilled. In addition, the total shadow space in Raffles Place declined from around 134,000 sq ft in Q4 2017 to around 55,000 sq ft in Q1 2018 (Table 1).

Outlook

Monthly office rents in the CBD are anticipated to improve in 2018, with tenants likely to have fewer options in the CBD in 2019. The bulk of supply in 2019 emanates from the city fringe (Figure 7). Additionally, the upcoming completions in 2018 have reported healthy pre-commitment rates.

Notwithstanding, the net absorption rate will decline in the future. As more companies adopt the fast-fail mindset, more flexibility is required in their operations. This is especially for companies in the information and communications technology sector, as they experimented with new business ideas. As a result, demand will be diverted to co-working spaces to meet short term needs.

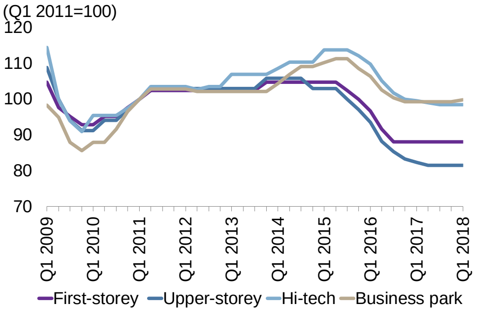
The demand of IT solutions is likely to grow with more companies digitising their processes. However, these IT companies tend to be lean and located in co-working spaces.

INDUSTRIAL

Key highlights in Q1

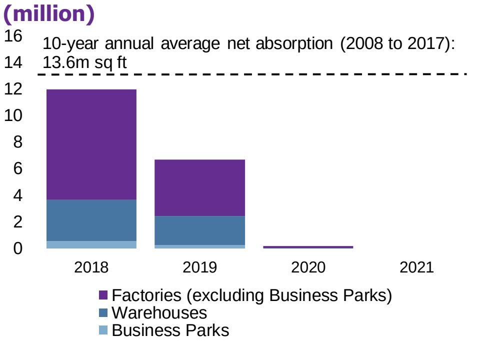
- Monthly rents of first and upper-storey factory spaces stayed unchanged q-o-q at around $1.85 psf and $1.40 psf in Q1 2018 respectively.
- Monthly rents of high tech industrial space stayed flat at around $2.90 psf in Q1 2018.
- Business park monthly rents increased by 0.5 per cent q-o-q to around $4.60 psf in Q1 2018.

FIGURE 8
Industrial rental indices



Source: Edmund Tie & Company Research

FIGURE 9
Industrial development pipeline including projects on awarded GLS sites, sq ft (million)



Source: JTC, Edmund Tie & Company Research

TABLE 2
Selected industrial developments in pipeline

Development	Region	Est NLA (sq ft)	Est TOP
Mega @ Woodlands	North Region	864,000	2018
Nordcom Two	North Region	606,000	2018
Yang Kee Integrated Logistics Hub	West Region	605,000	2018
Warehouse development by S H Cogent Logistics Pte Ltd	West Region	810,000	2019
T-Space	East Region	604,000	2019
Solaris @ Kallang 164	Central Region	481,000	2019

Source: JTC, Edmund Tie & Company Research

Market commentary

The industrial market showed signs of improvement, with average monthly industrial rents inching up by 0.2 per cent q-o-q to around $2.70 psf in Q1 2018. The improvement in rents was supported by the increase in net absorption for private industrial space, which rose from 2.7m sq ft in Q3 2017 to 6.5m sq ft in Q4 2017. The occupancy rates for private factory space and warehouses also rose by 0.3 and 1.6 per cent q-o-q to 88.9 per cent and 89.1 per cent respectively in Q4 2017.

Notwithstanding, the market remained fragmented, with only rents of new industrial developments in choice locations recording an improvement. Monthly rents of first-storey industrial space stayed flat for the sixth consecutive quarter at $1.85 psf in Q1 2018 (Figure 8). Monthly rents of upper-storey factory space also remained unchanged in Q1 2018 at around $1.40 psf.

Monthly rents of business parks rose by 0.5 per cent q-o-q to around $4.60 psf in Q1 2018, supported by the increase in business park occupancy from 84.9 per cent in Q3 2017 to 85.7 per cent in Q4 2017.

The industrial market is expected to remain segmented. Demand of newer developments that caters to the needs of Industry 4.0 is expected to grow in the future.

Outlook

Demand for newer developments with flexible layouts are expected to grow, especially for manufacturers seeking to upgrade their operations. Notwithstanding, the improvement in rents is likely to be in locations where clusters have been fully developed or are near MRT stations. Older developments are likely to face difficulties in retaining their tenants. Separately, as a recovering sector, demand from biomedical companies is likely to grow. For instance, Mundipharma will be starting the commercial production of antiseptics at its new plant in Singapore when it completes in 2019.

On the macroeconomic level, concerns over a potential trade war may moderate demand for space. However, the market is likely to remain stable due to the moderation of industrial space that is already in the pipeline. The expected completions in 2018 was a shade less than 12.0m sq ft, compared to 14.5m sq ft of completions in 2017.

Apart from the estimated completions of around 12.0m sq ft in 2018, the rest of the pipeline supply is slated to complete in 2019 and 2020 (Figure 9). The bulk of the supply will come from the North and West regions (Table 2).

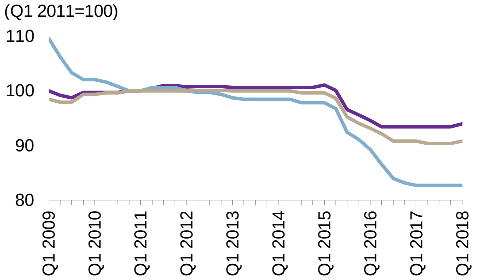
RETAIL

Key highlights

- Signs of improvement in rents were observed for Orchard/Scotts Road and suburban areas in Q1 2018. For Orchard/Scotts Road, monthly gross rents of first-storey space rose marginally by 0.5 per cent q-o-q to $37.40 psf.
- Similarly, monthly rents of first-storey retail space in the suburban areas grew slightly by 0.5 per cent q-o-q to $30.60 psf.
- However, gross rents of first-storey space in the other city areas remained unchanged at around $19.75 psf per month.

FIGURE 10

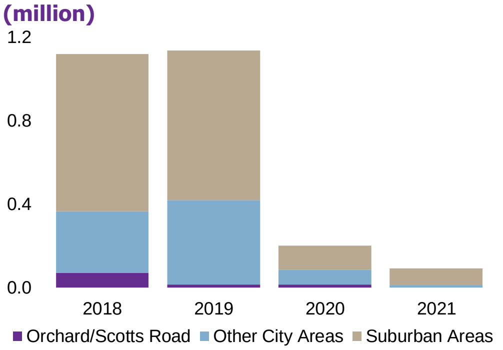
Retail rental indices of prime first-storey space



Source: Edmund Tie & Company Research

FIGURE 11

Retail development pipeline including projects on awarded GLS sites, sq ft (million)



Source: URA, Edmund Tie & Company Research

TABLE 3

Selected retail developments in pipeline

Development	Region	Est NLA (sq ft)	Est TOP
Paya Lebar Quarter	Suburban areas	340,000	2018
Additions/ alterations to shopping arcade of Raffles Hotel	Other city areas	219,000*	2018
Additions/ alterations to Century Square	Suburban areas	216,000	2018
Jewel Changi Airport	Suburban areas	579,000	2019
Funan	Other city areas	325,000	2019

* Estimated based on 70.0 per cent efficiency factor
Source: URA, Edmund Tie & Company Research

Market commentary

Retail rents inched upwards in Q1 2018, with gross monthly rents of island wide first-storey retail spaces increasing by 0.4 per cent q-o-q. This was the first q-o-q increase after 11 consecutive quarters. The improvement in rents came on the back of two consecutive quarters of growing occupancy rates, to 91.9 per cent in Q4 2017.

The increase was led by growth of retail rents in Orchard/Scotts Road and suburban areas. Gross monthly rents of first-storey retail space in Orchard/Scotts Road rose slightly by 0.5 per cent q-o-q to $37.40 psf, after staying firm for six consecutive quarters (Figure 10). Higher footfall due to more visitor arrivals and the lack of significant pipeline supply in the area attributed to higher rents. Additionally, international retailers keen on establishing their brand presence are drawn to Singapore's prime shopping belt.

Likewise, retail rents of first-storey space in the suburban areas grew by 0.5 per cent q-o-q to $30.60 psf per month. This was the first q-o-q increase since Q2 2012, when gross rents inched up slightly by 0.1 per cent q-o-q. Suburban malls at choice locations in populous residential estates continued to perform well.

On the other hand, gross monthly rents of first-storey retail space in the other city areas stayed firm at around $19.75 psf for the fourth consecutive quarter in Q1 2018.

Outlook

Despite the positive sentiments, the retail environment remains challenging especially for fashion retailers. Several international brands, such as Gap, Banana Republic and American Eagle Outfitters, exited the Singapore retail scene as their profit margins were compressed.

The demand for retail space is expected to come from the thriving F&B sector. In 2017, there was an increase in formation of F&B businesses to 3,298 from 2,968 in 2016, while the cessation declined from 2,780 in 2016 to 2,117 in 2017. Additionally, overseas F&B brands like Tsui Wah and Wu Pao Chun are setting up more stores in Singapore.

On the supply side, about 1.1m sq ft of retail space will be slated for completion in 2018 and 2019 respectively, with the bulk of this supply in the suburban areas (Figure 11). Despite the large amount of supply, these new developments have reportedly recorded healthy pre-commitment rates. An example would be Paya Lebar Quarter (Table 3). In March 2018, it was reported that its retail space was over 50.0 per cent pre-committed, including signed leases and those under final offers. Apart from FairPrice Finest and Kopitiam, Lendlease announced that Shaw Theatres will be their third anchor tenant.

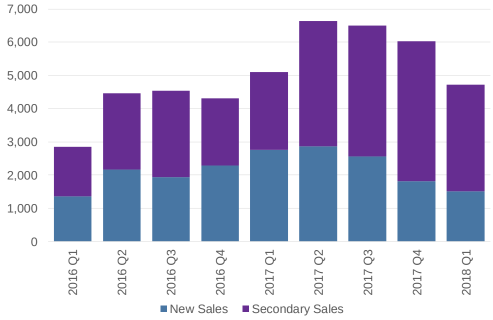
Online retailers are including brick and mortar shops in their business model to fill the gap of what they lack – physical presence.

RESIDENTIAL

Key highlights

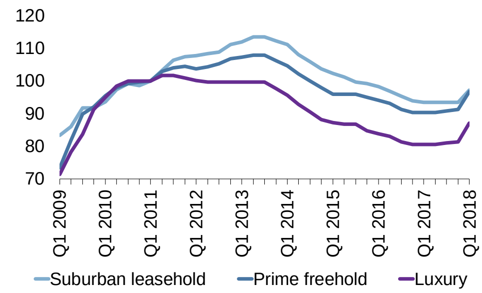
- Private home sales fell by 21.7 per cent q-o-q to 4,725 units.
- Prices for luxury non-landed residential properties rose by 7.0 per cent q-o-q and private residential prices in the prime districts rose by 6.0 per cent.
- Non-landed home prices in non-prime districts went up by 4.0 per cent.
- Non-landed home rents in prime districts rose by 1.0 per cent, and rents in non-prime districts also improved by 0.3 per cent q-o-q.

FIGURE 12
Home sales (excluding executive condominiums)



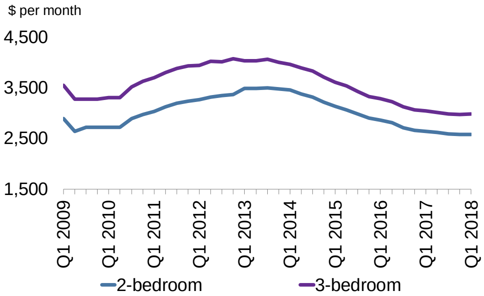
Source: URA REALIS as at 6 April 2018, Edmund Tie & Company Research

FIGURE 13
Resale non-landed residential price index
(Q1 2011=100)



Source: Edmund Tie & Company Research

FIGURE 14
Monthly rents for non-landed homes in non-prime districts ($)



Source: Edmund Tie & Company Research

Market commentary

The number of private residential properties sold in Q1 2018 declined by 21.7 per cent q-o-q (Figure 12) despite a more optimistic outlook of the market. Notwithstanding the seasonal effects, the lower sales volume was due to fewer units being launched in the primary market in Q1 2018.

The demand for private homes was still present, as indicated by sales in the secondary market. Secondary sales rose from 2,345 units in Q1 2017 to 3,212 units in Q1 2018. The demand for homes was partly supported by buyers who sold their homes through collective sales and were seeking replacement homes. There were also more foreign buyers purchasing homes in the prime districts. With Singapore's private residential market on the uptrend and other housing markets in Canada, The United Kingdom and Australia showing signs of slowing, more foreign buyers are finding Singapore residential properties attractive.

Despite the growth in demand, there were fewer options in the secondary market. As more developments begin their collective sales process, there are fewer listings on the market as prospective sellers are holding on until the collective sales go through.

As a result, prices for private residential properties rose significantly in Q1 2018 (Figure 13). The average unit price for non-landed luxury homes rose by 7.0 per cent q-o-q, while the average unit price for freehold properties in prime districts rose by 6.0 per cent q-o-q. The increase for leasehold non-landed homes at non-prime areas was smaller at about 4.0 per cent. Overall, the price appreciation of three-bedroom units was about 2.0 per cent higher than that of two-bedroom units.

The prices of landed homes also increased significantly in Q1, led by the price appreciation for freehold semi-detached and terrace homes. The average price of freehold terrace homes in prime districts rose the most, by about 4.9 per cent q-o-q. The increase in prices for detached homes was muted due to the larger quantum. The prices of detached homes in prime districts rose by 2.0 per cent q-o-q.

Separately, the rental market also showed signs of improving (Figure 14). With new supply slowing and the recalibrated market, average rents for non-landed residential properties in suburban districts improved by 0.3 per cent. However, it is slightly premature to conclude that the market has bottomed out as vacancies are still high.

Outlook

We anticipate prices for private homes to continue growing, barring any external shocks. We have also revised our forecast for home prices upwards, and the price index for all private residential properties (excluding Executive Condominiums) to rise between 8.0 and 12.0 per cent.

The increase in prices is likely to persist for at least two years, barring any shocks and government intervention.

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