Edmund Tie & Company

REAL
ESTATE
TIMES

RESEARCH

SINGAPORE Q3 2017

Collective sale market still going strong

Will momentum from the rising number of private development collective sales help the residential market to recover?

Edmund Tie & Company Research

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Q3 2017 SNAPSHOT

Singapore's GDP grew by 2.9% y-o-y in Q2 2017. In August 2017, the Ministry of Trade and Industry narrowed the full-year growth forecast upwards from "1.0% to 3.0%" to "2.0% to 3.0%". The improvement in outlook was supported by growth in the electronics and precision engineering clusters. Although the external environment continues to be uncertain, Singapore's economic growth is expected to exceed the 2% growth in 2016.

Investment sales rose to

$10.9 bn

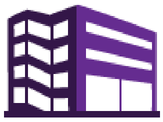
from $8.5bn in Q2 2017

Residential and office investment sales accounted for 71.2% of sales in Q3. Notable transactions concluded included Asia Square Tower 2 and the land parcel at Beach Road in the GLS Programme.

OFFICE

Rents in the **CBD eased by 0.1% q-o-q to around $8.80 per sq ft per month** in Q3 2017, compared to a 0.8% q-o-q decline in Q2 2017. Average monthly gross rents for offices in Raffles Place (Grade A) and Marina Bay (Premium) **stayed unchanged q-o-q at $9.60 and $10.50 per sq ft** respectively.

INDUSTRIAL



Monthly gross rents of first- and upper-storey factory space **remained flat q-o-q** in Q3 2017. Similarly, rents for business parks also **stayed resilient in Q3 2017 at around $4.60 per sq ft per month**. However, rents of hi-tech industrial space continued to **ease slightly by 0.5% q-o-q to around $2.90 per sq ft per month** in Q3 2017.

RETAIL

Gross rents of first-storey islandwide retail space showed signs of stabilisation, staying firm after nine consecutive quarters of decline. Retail rents of first-storey space in Orchard/Scotts Road **maintained at $37.20 per sq ft per month** while that of other city areas **held at around $19.75 per sq ft per month**. Similarly, prime first-storey monthly rents of retail space in the suburban areas **remained unchanged at $30.45 per sq ft**.

RESIDENTIAL

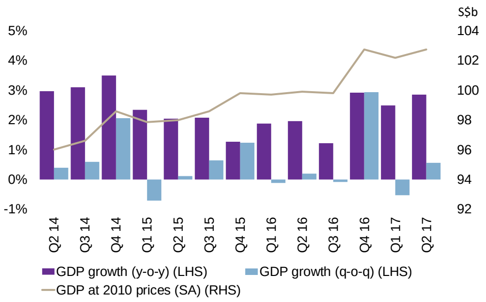
Prices for luxury apartments and non-landed homes in prime districts **rose by 0.5% q-o-q.** Private home sales **decreased by 18.4% q-o-q to 5,958** transactions, although that is largely due to seasonal effects. Rents for non-landed homes in non-prime districts **declined by 1% q-o-q** due to slowing rental demand and the increase in the number of completions in non-prime districts.

THE ECONOMY

Key Highlights

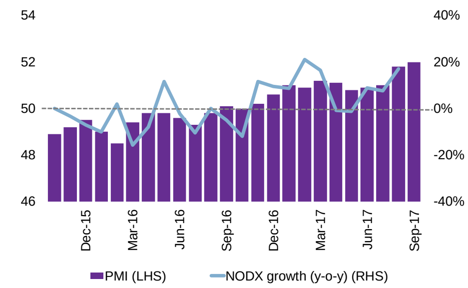
- Based on latest statistics, Singapore's economy grew by 2.9% y-o-y in Q2 2017.
- Factory activity rose for the thirteenth straight month, with the PMI posting a reading of 52.0.
- Firms in the services sector were more positive in the latest survey by Economic Development Board (EDB) for the period from July 2017 to December 2017.

FIGURE 1
GDP growth



Source: MTI, Edmund Tie & Company Research

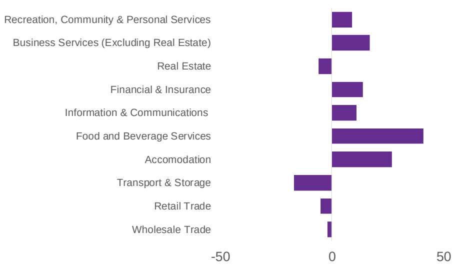
FIGURE 2
PMI and NODX



Note: NODX for September 2017 was not released as at time of publication

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

FIGURE 3
Sentiments of Service Sectors July 2017- December 2017



Source: EDB, Edmund Tie & Company Research

Market Commentary

The Singapore economy expanded by 2.9% y-o-y in Q2 2017 (Figure 1). The increase was supported by the manufacturing sector, which continued its sustained growth of 8.1% y-o-y. The electronics and precision engineering clusters were the main drivers, which improved on the back of strong global demand for semiconductors and semiconductor-related equipment.

The manufacturing sector, driven by the electronics sector, continued to expand, as Singapore's Purchasing Managers' Index (PMI) remained above the 50-point mark for the thirteenth straight month, increasing by 0.2-points over the preceding month to 52.0 in September 2017 (Figure 2). The government also unveiled its Industry Transformation Map for the electronics sector to strengthen its innovation ecosystem to attract MNCs support local companies. The non-oil domestic exports (NODX) in 2017 thus far has largely exceeded the performance of 2016. Based on the most recent statistic, the NODX went up by 17% on a y-o-y basis.

Sentiments in the services sector were more positive for the period from July 2017 to December 2017 (Figure 3). Transport & storage, real estate and the retail trade were the three most pessimistic industries in terms of their business outlook for the second half of 2017. Some service sectors displayed more optimism in the recent survey. Accommodation expectations rose from -15 in the previous survey to 27, and the food and beverage sector experienced a greater turnaround from -28 to 41 in the latest survey.

Despite optimism in the property sector, the external risks looming in the backdrop continued to weigh on real estate companies.

Outlook

Singapore's economic growth in Q3 2017 continued to ride on the strong performance of the electronics sector. However, there are concerns that the sector may slow down after interest for the new wave of smartphones has cooled. Separately, geopolitical tensions caused by the missile and nuclear tests of North Korea is likely to weigh on the growth potential. Notwithstanding, the relationship between Singapore and mainland China becomes warmer, which may create opportunities for stronger collaboration and growth.

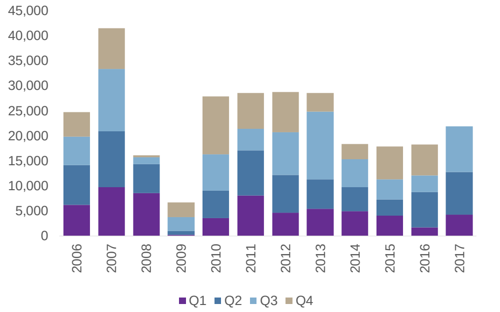
INVESTMENT SALES

Key Highlights

- Investment sales rose to $10.9bn in Q3 2017, the highest since Q3 2013.
- Residential investment sales maintained its momentum, increasing by 33% q-o-q to nearly $3.6bn in Q3.
- Office investment sales more than doubled q-o-q to $3.8bn in Q3.

FIGURE 4

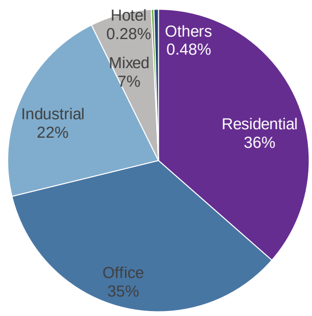
Investment Sales ($ m)



Source: Edmund Tie & Company Research

FIGURE 5

Investment Sales ($ m)



Source: Edmund Tie & Company Research

Besides collective sales, the keen interest in office space at prime locations is also driving up investment sales. This is especially so as there are signs that the office market is improving.

Market Commentary

The investment sales recorded in Q3 2017 was the highest since Q3 2013 (Figure 4). The momentum from collective sales continued to drive investment sales, with seven residential projects sold en bloc (Figure 5). The largest residential site sold en bloc in Q3 was Tampines Court for $970m. It was the largest collective sale for a former Housing and Urban Development Company property in the past 10 years since Farrer Court changed hands for $1.34bn in 2007.

Two residential land parcels in the Government Land Sales Programme were also awarded in Q3. The Woodleigh residential site was awarded for $700.7m, translating to $1,110.09 per sq ft per plot ratio. The other site is at Serangoon North Avenue 1, which was awarded to the top bidder for $446.28m ($964.8 per sq ft per plot ratio). The high land bids continued to reflect developers' confidence that the market has turned, and their hunger for more land.

The office sector was equally active with the sale of Asia Square Tower 2 to CapitaLand Commercial Trust (CCT) for $2.09bn, which works out to be $2,689 per sq ft on the net lettable area of about 778,719 sq ft. The unit price was slightly higher than the $2,667.50 per sq ft for Asia Square Tower 1, which was bought by Qatar Investment Authority for $3.4bn in June 2016.

Separately, the commercial site at Beach Road, which includes at least 70 per cent for office component, was sold for about $1.6bn. The winning bid worked out to be $1,706 per sq ft per plot ratio for the site, which has a maximum permissible gross floor area of 950,593 sq ft. The plot was triggered in July after a developer committed to bid at least $1.138bn ($1,197 per sq ft per plot ratio). The land rate was higher than that for the land parcel at Central Boulevard site, which was awarded for $1,689 per sq ft per plot ratio. The development of the site will further catalyse the Beach Road area as a commercial node.

The industrial investment sales also soared to $2.7bn in Q3 from $347.7m through the sale of Jurong Aromatics Complex ($2.09bn) and the collective sale of Citimac ($430.1m).

Outlook

We anticipate that momentum for investment sales is likely to continue in Q4, supported by the collective sales. Additionally, there is keen interest in Singapore's office buildings, with Chevron House and AXA Tower reportedly on the market.

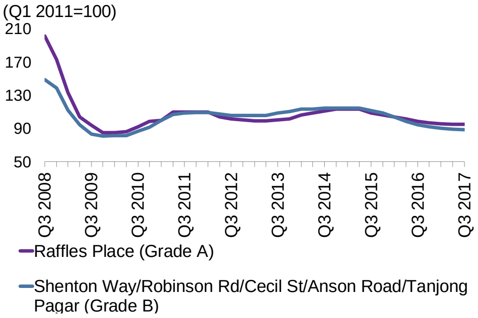
OFFICE

Key Highlights

- Office rents in the CBD eased by 0.1% q-o-q to around $8.80 per sq ft per month.
- Monthly office rents in Marina Bay remained unchanged q-o-q at around $10.50 per sq ft.
- Similarly, monthly gross rents of Grade A buildings in Raffles Place stayed firm q-o-q at $9.60 per sq ft. However, gross rents of Grade B offices in the Shenton Way/Robinson Road/Cecil Street/Anson Road/Tanjong Pagar subzone fell by 0.5% q-o-q to around $6.20 per sq ft per month.

FIGURE 6

Office rental indices



Source: Edmund Tie & Company Research

TABLE 1

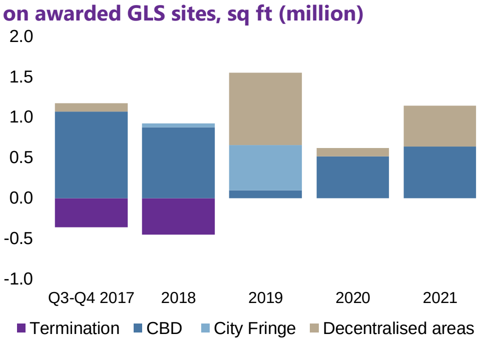
Shadow space and future vacant space as at Q3 2017

Subzone	Estimated Shadow Space (sq ft)	Estimated Future Vacant Space (sq ft)
Marina Bay	72,000	92,000
Raffles Place	136,000	311,000
Shenton Way/ Robinson Road/Cecil Street/Anson Road/Tanjong Pagar	57,000	136,000

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

The office market has showed signs of stabilising, with islandwide office occupancy improving by 0.3 percentage points q-o-q to 91.6%. The occupancy in Marina Bay dipped slightly by 0.1 percentage points q-o-q to 83.9% due to the completion of Marina One (East Tower) in Q2 2017. Notwithstanding, it had little bearing on the monthly gross rents of premium offices in Marina Bay (Figure 6), as Marina One is at least 70% pre-committed.

In contrast, the monthly rents of Grade B offices in Shenton Way/Robinson Road/Cecil Street/Anson Road/Tanjong Pagar declined by 0.5% q-o-q to around $6.20 per sq ft. The rents of these offices faced greater pressure due to the flight of quality and an increase in shadow space. The shadow space in Shenton Way/Robinson Road/Cecil Street/Anson Road/Tanjong Pagar rose by 37.7% q-o-q from 42,000 sq ft in Q2 2017 to 57,000 sq ft in Q3 2017 (Table 1). Notwithstanding, the increase in demand in offices in Shenton Way/Robinson Road/Cecil Street/Anson Road/Tanjong Pagar in Q3 2017 cushioned the fall in rents, as the decline was moderated from the 1.6% drop in Q2 2017.

Outlook

The outlook of the office market remains positive, with the finance and insurance sector posting a 3.8% y-o-y growth. The expected completions for the rest of 2017 is unlikely to impact on rents as the spaces are progressively being taken up.

The pipeline supply of offices in the CBD will be limited from 2018 to 2019, amounting to 972,000 sq ft (Figure 7). The bulk of the space comes from Frasers Tower, which is expected to obtain a Temporary Occupation Permit in Q2 2018.

Moving forward, demand for office space is likely to emanate from the information and communications sector and the co-working operators. The co-working space market is likely to be more competitive as both local and foreign operators seek a larger market share. For instance, Distrii, a leading operator of co-working spaces in mainland China, will open its new co-working space of over 60,000 sq ft at Republic Plaza in 2018.

The attractiveness of flexibility in lease terms and community areas in co-working spaces for like-minded individuals appeal not only to the companies in the gig economy, but also Multinational Corporations.

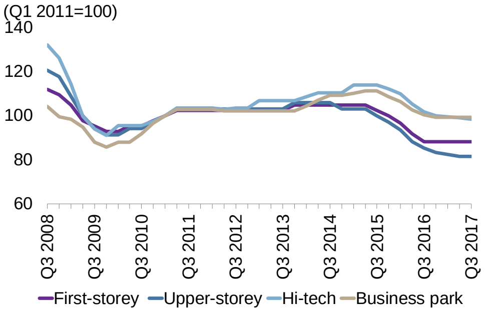
INDUSTRIAL

Key Highlights

- Monthly gross rents of first-storey factory space stayed firm at $1.85 per sq ft in Q3 2017.
- Similarly, monthly gross rents of upper-storey factory space remained unchanged at around $1.40 per sq ft.
- Rents of hi-tech industrial space declined by 0.5% q-o-q to around $2.90 per sq ft per month.
- Business park rents stayed firm at about $4.60 per sq ft per month.

FIGURE 8

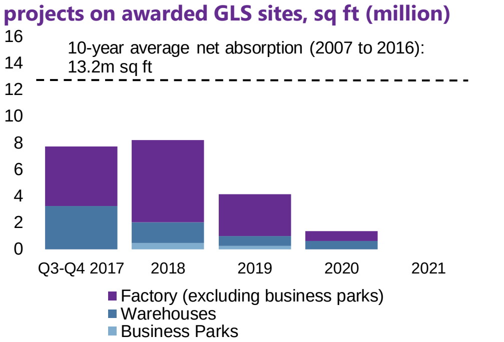
Industrial rental indices



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
Warehouse development by HSBC Institutional Trust Services (Singapore) Ltd	West Region	664,000	2017
Poh Tiong Choon Logistics Hub	West Region	472,000	2017
Proxima @ Gambas	North Region	346,000	2017
Mega @ Woodlands	North Region	864,000	2018
Nordcom Two	North Region	614,000	2018
Platinum@Pioneer	West Region	110,000	2018

Source: JTC, Edmund Tie & Company Research

Market Commentary

Rents for industrial spaces showed signs of stabilising in Q3 2017 amid the manufacturing sector's improvement. Monthly rents of first and upper-storey conventional factory space stayed flat at $1.85 per sq ft and around $1.40 per sq ft respectively in Q3 2017 (Figure 8). The average asking rents for ground and upper-storey conventional factories also remained unchanged q-o-q.

Monthly rents of business parks also stayed the same at around $4.60 per sq ft despite the limited pipeline supply. The demand and rents of older business parks remained subdued, dragging down the overall average rent.

To differentiate themselves, the landlords of the newer business parks were more proactive due to pressure from the growing supply of hi-tech space. Besides having a park-like environment offering recreational facilities and retail amenities, the management of business parks also organise events to engage their tenants. For instance, Mapletree Business Park collaborates with other organisations to coordinate events in the park for tenants to participate.

Outlook

Industrial rents are expected to remain stable for the rest of 2017. While the manufacturing industry has improved, the impact on demand for industrial space is likely to be lagged. Manufacturing companies may need to consider risks from the external environment and they could be in the process of restructuring. Additionally, more companies may focus on automating their production processes, as encouraged by the Government's transformation map initiatives, instead of relocating to new premises.

In 2018, industrial rents are likely to bottom out and the outlook appears more promising. The demand is likely to outpace supply in 2018, if the manufacturing sector continues to improve. In 2018, the pipeline supply amounted to 8.2m sq ft, which is less than the 10-year average net absorption of 13.2m sq ft (Figure 9). Some of the upcoming developments include Poh Tiong Choon Logistics Hub located at Pandan Road and Mega@Woodlands located at Woodlands Close (Table 2).

Moving forward, the industrial landscape is likely to change, with an emphasis on new technologies and value-added services that requires labour with specialised engineering skills. The Punggol North cluster will focus on the cybersecurity and digital media sectors, while the Jurong Innovation District is planned for advanced manufacturing, robotics, cleantech and smart logistics companies.

The outlook of the industrial sector remains positive with additional support from the Government under the Industry Transformation Map.

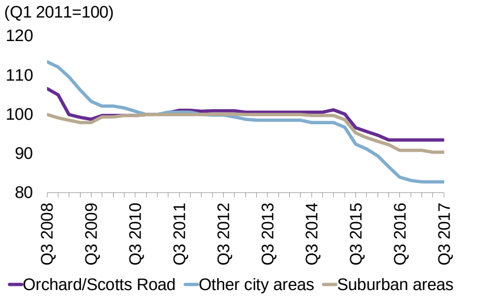
RETAIL

Key Highlights

- Retail rents of first-storey space stayed firm across the market. Monthly gross rents of prime first-storey retail space in Orchard/Scotts Road held at $37.20 per sq ft.
- Similarly, gross rents of first-storey retail space in the other city areas remained at around $19.75 per sq ft per month.
- Rents of first-storey retail space in the suburban areas also stayed unchanged at $30.45 per sq ft per month.

FIGURE 10

Retail rental indices of prime first-storey space



Source: Edmund Tie & Company Research

TABLE 3

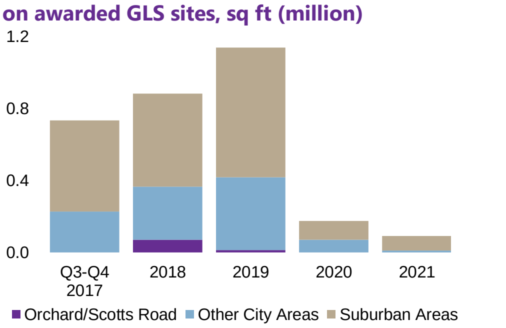
Selected retail developments in pipeline

Development	Region	Est NLA (sq ft)	Est TOP
Northpoint City	Suburban areas	318,000	2017
The Heart at Marina One (Phase 2)	Other city areas	137,000	2017
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 TripleOne Somerset	Orchard/ Scotts Road	70,000	2018

* Estimated based on 70% efficiency factor
Source: URA, Edmund Tie & Company Research

FIGURE 11

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



Source: URA, Edmund Tie & Company Research

Market Commentary

Monthly gross rents of islandwide prime first-storey retail space exhibited signs of stabilisation, staying firm at around $29.15 per sq ft in Q3 2017 (Figure 10). This came after nine consecutive quarters of decline. The resilience in rents can be attributed to the slight improvement in Singapore's retail sales.

For Orchard/Scotts Road, rents of first-storey retail space remained at $37.20 per sq ft per month for the fifth consecutive quarter. The rental level was supported by the increase in visitor arrivals and tourism receipts, which is expected to stimulate further demand for retail space in the area. Occupancy rates in Orchard/Scotts Road also rose by 0.2 percentage points q-o-q to 92.7%, as demand grew by 14,000 sq ft in Q2 2017.

Likewise, monthly gross rents of first-storey space in the other city areas and suburban areas held at about $19.75 and $30.45 per sq ft respectively. For malls in the other city areas, retail rents stayed flat for the second consecutive quarter. The rents for suburban malls remained constant in Q3 2017 after a slight q-o-q decline of 0.5% in Q2 2017. While gross rents have stayed flat, the effective rents may actually be lower, in order to retain and attract tenants.

Outlook

Despite an improvement in retail sales and visitor arrivals, retailers remained cautious on their business outlook amidst economic uncertainties. The ongoing competition from e-commerce continues to be another major threat for the brick-and-mortar retail market. The competition from e-commerce is expected to intensify, as there is untapped potential from e-retailers of emerging economies such as Malaysia and Thailand. Nevertheless, online retailers including Love, Bonito and SocietyA are also taking advantage of the weaker retail market to set up physical stores to extend their outreach and capture a larger market.

Separately, on the supply side, about 3.0m sq ft of retail space is slated to complete from Q3 2017 to 2021. In H2 2017, most of the upcoming developments will be located in the suburban areas, with the largest one being Northpoint City (Table 3). Most of the pipeline supply will be completing in the next three years (H2 2017 to 2019), with the supply tapering off in 2020 and 2021 (Figure 11).

Brick-and-mortar stores allow e-retailers to provide the personal touch to customers and create long-lasting interpersonal relationships with them, enhancing their sense of store/brand loyalty.

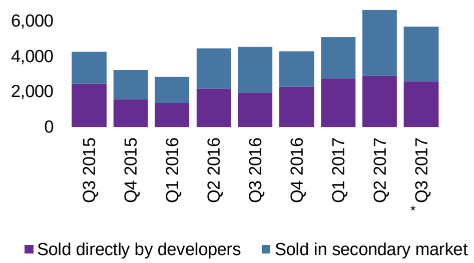
RESIDENTIAL

Key Highlights

- Private home sales fell by 18.4% q-o-q in Q3 2017, with secondary sales dropping by 23.6% q-o-q to 3,356 units. The fall was due to seasonal effects.
- Luxury apartment and non-landed home prices in the prime districts rose by 0.5%, while non-landed home prices in non-prime districts remained flat.
- Non-landed home rents fell across the board, with rents in non-prime districts dropping by 1% q-o-q.

FIGURE 12

Home Sales (excluding executive condominiums)

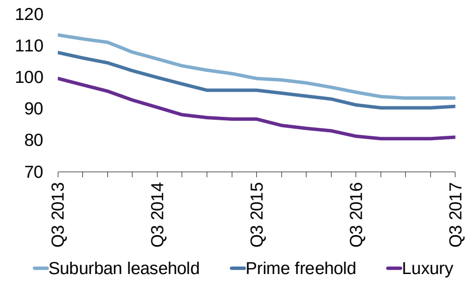


Source: URA, Edmund Tie & Company Research
Note: Units sold in Q3 2017 is based on caveats lodged in the quarter up till 24 Sep 2017, as at 2 Oct 2017.

FIGURE 13

Resale Non-Landed Residential Price Index

(Q1 2011=100)



Source: Edmund Tie & Company Research

The increase in development charge rates may have dampened interest by developers in the residential collective sales market.

Market Commentary

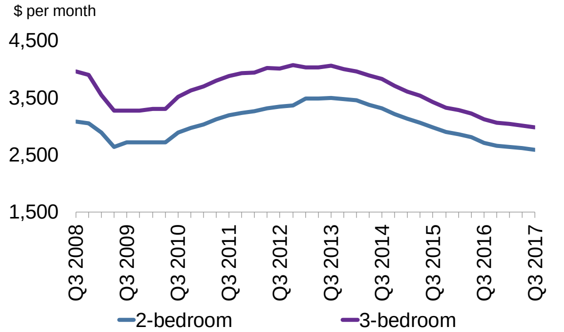
Private home market sales did not maintain its momentum from Q2 2017, falling 18.4% q-o-q to 5,958 units in Q3 (Figure 12). However, this was still a 30.9% increase over the same period last year. The secondary sales market experienced a 23.6% q-o-q drop to 3,356 units in Q3. The primary market was also lacklustre compared to Q2, as sales dropped by 10.5% q-o-q to 2,602 units.

The prices of luxury and prime non-landed freehold homes in the resale market experienced a 0.5% q-o-q rise in Q3 2017 (Figure 13). These figures were reinforced by the bullish land bids in the GLS programme and collective sales market, higher take-up rates of recent launches and the relatively lower supply in the prime districts. Suburban non-landed leasehold homes prices remained flat, as more projects were launched in these districts.

Rents of non-landed homes in suburban districts fell by 1% q-o-q in Q3 2017 (Figure 14). The high vacancy rate, which is about 8.1% as at Q2, coupled with an increase in completions in the area, continued to suppress suburban home rents. Rents of luxury apartments and homes in prime districts were slightly more resilient, falling by 0.5% q-o-q.

FIGURE 14

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



Source: Edmund Tie & Company Research

Outlook

The residential market is expected to bottom out in 2017, with prices likely to stay flat for the whole of 2017. There are signs that the market will recover and prices are likely to improve in 2018.

Rents for non-landed properties in both prime and non-prime districts are expected to remain subdued as the supply of homes increase. However, rents of choice developments in prime districts and growth clusters are likely to remain more resilient as compared to the non-prime areas.

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