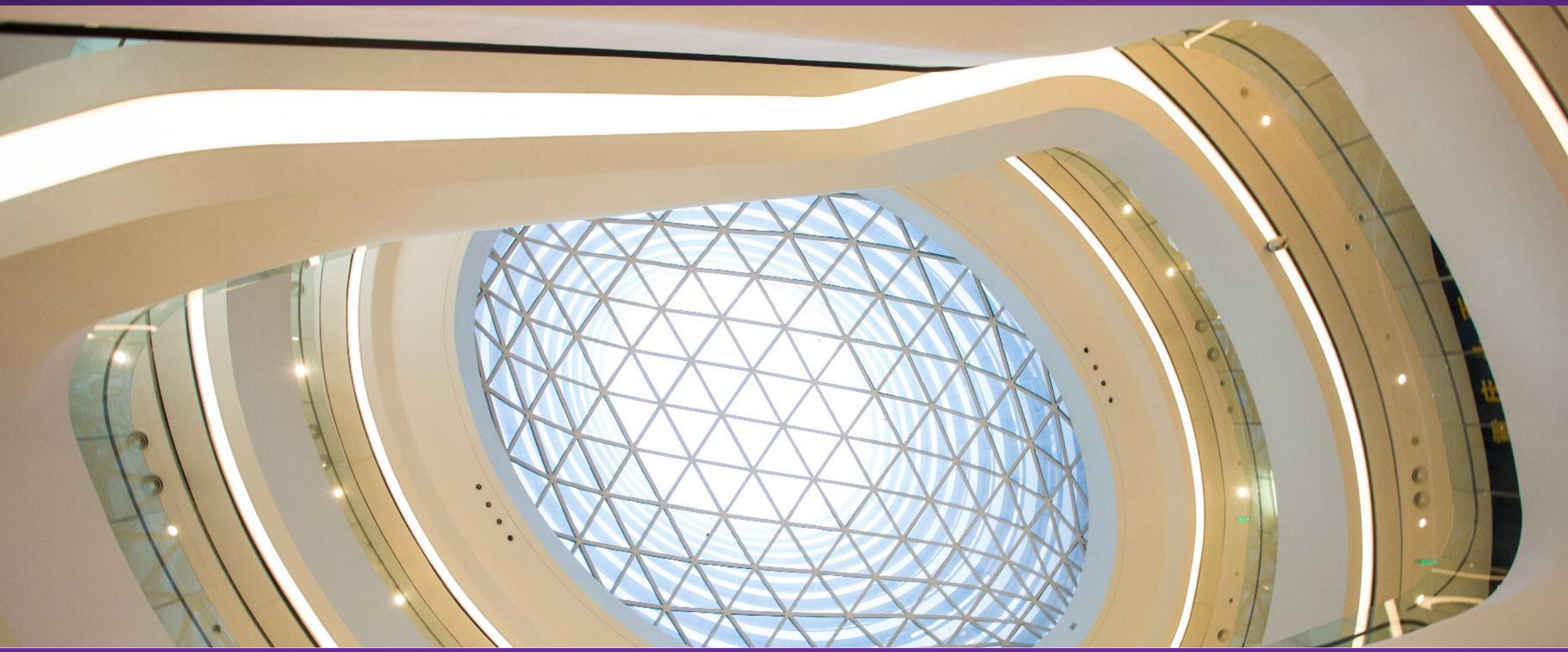
Edmund Tie & Company

REAL
ESTATE
TIMES

RESEARCH

SINGAPORE Q4 2017

Optimistic property outlook in 2018 amid stronger economic growth



The office market showed signs of bottoming out and the residential market has improved in 2017. Separately, investment sales in 2017 was the highest since 2007. What is the outlook for 2018?

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Q4 2017 SNAPSHOT

Singapore's GDP expanded by 5.2% y-o-y in Q3 2017, faster than the 2.9% in Q2 2017. The growth was mainly supported by an 18.4% expansion of the manufacturing sector. Firms in the service sector also anticipate a more favourable outlook from October 2017 to March 2018. With the improved global economic outlook, the Ministry of Trade and Industry (MTI) forecast Singapore's GDP to grow by 1.5% to 3.5% in 2018.

Investment sales rose to

$31.8 bn

in 2017 from $19.4bn in 2016

Residential and office investment sales accounted for 45% of total sales in 2017. Notable transactions concluded in 2017 included Jurong Point and Asia Square Tower 2.

OFFICE

Rents in the **CBD increased by 0.2% q-o-q to around $8.80 per sq ft per month** in Q4 2017. Overall monthly CBD office rents dipped 1.9% in 2017. Monthly gross rents of offices in **Marina Bay increased by 0.5% q-o-q to around $10.60 per sq ft** while monthly rents in **Raffles Place (Grade A) remained firm at $9.60 per sq ft**.

INDUSTRIAL

Monthly gross rents of business parks **remained stable q-o-q at $4.55 per sq ft** in Q4 2017. The monthly gross rents of business parks also stabilised in 2017 as compared to a decline in 2016. Similarly, rents of **first-storey factory space also remained stable at $1.85 per sq ft per month** in 2017. Monthly rents in **upper-storey factory space, however, declined by 2.1% to around $1.40 per sq ft** in 2017.

RETAIL

There were signs of stabilisation in islandwide retail rents in 2017. Monthly rents of first-storey space in Orchard/Scotts Road were the most resilient in 2017, **staying firm at $37.20 per sq ft**, compared to a decline of 2.2% in 2016. On the other hand, gross rents of prime first-storey retail space in the **other city areas and suburban areas fell slightly by 0.6% and 0.5% in 2017 to about $19.75 and $30.45 per sq ft per month respectively**.

RESIDENTIAL

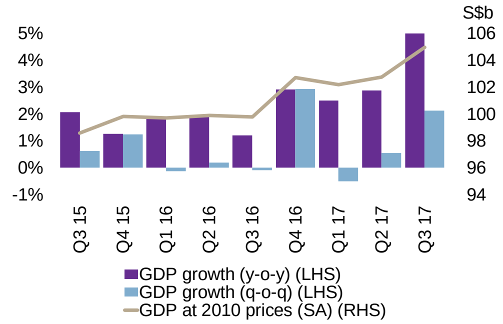
Private home sales **rose by 43.7% to 23,227 units,** exceeding the sales volume in 2013. Prices for luxury apartments and non-landed homes in prime districts **rose by 1% in 2017**. Rents for non-landed homes in non-prime districts **declined by 3% in 2017**.

THE ECONOMY

Key Highlights

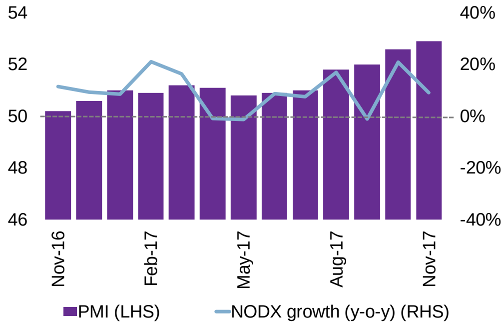
- In Q3 2017[1], Singapore's economy expanded by 5.2% y-o-y. The economy is expected to grow by 1.5% to 3.5% in 2018.
- The manufacturing sector is expected to maintain its growth momentum in 2018, with the Purchasing Managers' Index (PMI) recording an expansion in November 2017 for the 15th consecutive month.
- Most industries within the services sector anticipate improved business outlook between Q4 2017 and Q1 2018.

FIGURE 1
GDP growth



Source: MTI, Edmund Tie & Company Research

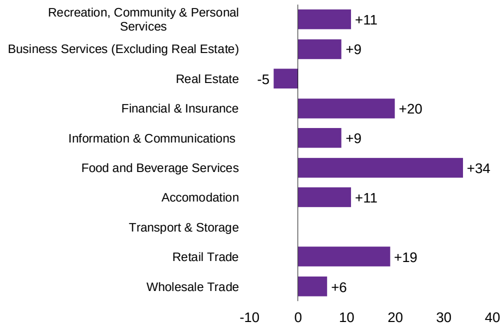
FIGURE 2
PMI and NODX



Note: PMI and NODX for December 2017 were not released as at time of publication

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

FIGURE 3
Sentiments of Service Sectors October 2017- March 2018



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

Market Commentary

The Singapore economy grew by 5.2% y-o-y in Q3 2017 (Figure 1), which was faster than the 2.9% in Q2 2017. The growth was brought about by an expansion of 18.4% y-o-y from the manufacturing sector, led by the electronics and precision engineering clusters which registered double-digit y-o-y growth in output in Q3.

The robust performance of the manufacturing sector was also evident from the PMI readings, which recorded the 15th consecutive month of expansion of 52.9 in November 2017 (Figure 2). This was the highest level since 2009, when the PMI reading was 53.3. According to the Singapore Institute of Purchasing & Materials Management (SIPMM), the latest statistics showed a broad-based expansion across all sectors. The growth in the manufacturing sector is partly due to higher demand for exports. In Q3 2017, NODX grew by 7.6% y-o-y, and the growth in exports extended to November 2017, growing by 9.1% y-o-y.

Apart from the manufacturing sector, there are signs that the services sector is improving as well. For the period October 2017 to March 2018, a net weighted balance of 9% of firms in the services sector foresee more favourable business conditions, compared to the 5% in H2 2017. This is especially so for firms in the F&B services, retail trade and accommodation industries, which expect the year-end holidays and festive season to bring about a positive impact on business conditions (Figure 3).

Singapore's economy is forecasted to grow by 1.5% to 3.5% in 2018, with GDP growth likely to be around the middle of the forecast range.

Outlook

Singapore's economy is expected to grow at a steady pace in 2018 amid steady global growth and a broadening expansion across domestic industries. Despite so, there are anticipation of "grey swans" events that may hamper Singapore's economic growth. Firstly, the bitcoin bubble may burst and impact other markets. Secondly, geopolitical tensions may heighten in Middle East and lead to greater volatility in the market through higher oil prices. Lastly, the liquidity in the capital market may tighten with US raising the Fed rates.

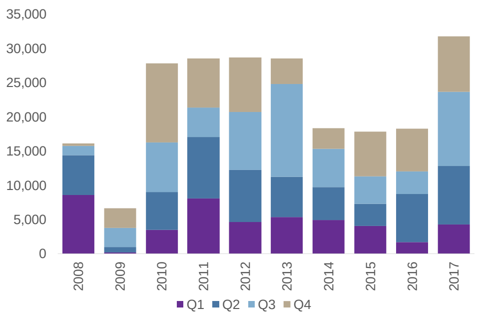
1 Q4 2017 GDP statistics were not released as at time of publication

INVESTMENT SALES

Key Highlights

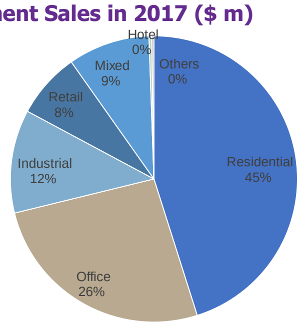
- Investment sales reached $31.8bn, the highest since 2007.
- Residential investment sales amounted to $14bn, driven by collective sales.
- Residential investment sales formed 45% of total sales in 2017, followed by office investments at 26%.

FIGURE 4
Investment Sales ($ m)



Source: Edmund Tie & Company Research

FIGURE 5
Investment Sales in 2017 ($ m)



Source: Edmund Tie & Company Research

The collective sales fever is likely to wane when developers have built sufficient land banks. Notwithstanding, projects that have distinct advantage, such as having a paranomic sea view or location in the prime districts will remain popular.

Market Commentary

Investment sales in Singapore reached $31.8bn in 2017 (Figure 4), increasing by nearly 64% from $19.4bn in 2016, and the highest since 2007.

Like in 2007, the higher investment sales volume in 2017 was also partly due to collective sales (Figure 5). The improvement in outlook for the residential sector, backed by higher home sales, and the depletion of the developers' land banks encouraged the developers to seek sites in the private market. The largest residential development sold en bloc in 2017 was Tampines Court, which transacted for $970m. The wave of collective sales maintained its momentum in Q4, highlighted by the collective sale of Royalville to Allgreen Properties for $477.94m or $1,960 per sq ft per plot ratio.

The Government Land Sales programme (GLS) in Q4 was equally competitive. The land parcel at Fourth Avenue attracted the highest bid of $552.96m or $1,530 per sq ft per plot ratio from Allgreen Properties. Separately, another plum GLS site at Jiak Kim Street was awarded to Frasers Centrepoint Limited for $955.4m ($1,732.55 per sq ft per plot ratio).

The commercial segment was equally active in 2017, headlined by the sale of Jurong Point ($2.2bn, $3,343 per sq ft NLA) and Asia Square Tower 2 ($2.09bn, $2,689 per sq ft NLA). Jurong Point is an attractive asset as the availability of suburban retail property of similar scale is rarely available. Given that at least 60% of the retail malls are tightly held by REITs, the uptick in retail investment sales is likely to be one-off. Separately, the interest of office properties was keen as highlighted by the sale of Asia Square Tower 2 and Chevron House ($660m, $2,526 per sq ft). With the office leasing market bottoming out, we anticipate there will be more interest in the market.

Outlook

While the Monetary Authority of Singapore and the Minister for National Development cautioned about the risks of the residential market, we anticipate the momentum of collective sales to continue till end next year, corresponding to the expected improvement in the residential market. Notwithstanding, the en bloc sales fever is likely to wane when most developers have sufficient land banks.

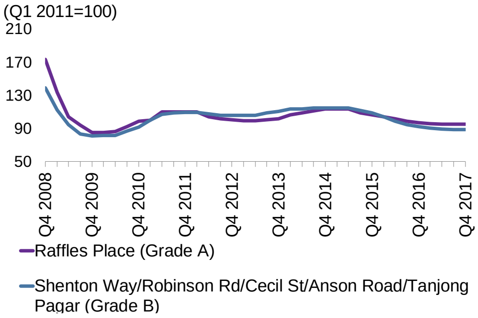
Separately, the commercial market is likely to be active, as institutions and funds are attracted to Singapore's strong economic fundamentals and pro-business government. Notwithstanding, the uncertain external environment due to the geo-politics and the possibility of tighter liquidity in the capital market are potential grey swan events that may slow investment sales.

OFFICE

Key Highlights in Q4

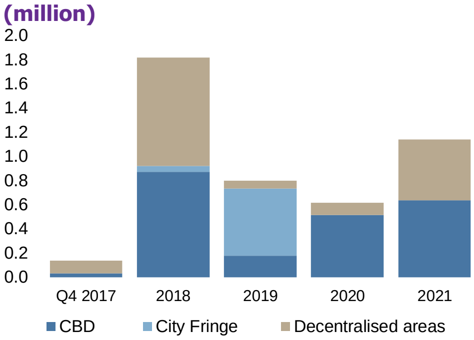
- Average office rents in the CBD increased by 0.2% q-o-q to around $8.80 per sq ft per month in Q4 2017, bringing about a decline of 1.9% in 2017.
- Monthly office rents in Marina Bay improved by 0.5% q-o-q to around $10.60 per sq ft.
- Monthly gross rents of Grade A buildings in Raffles Place and Grade B offices in the Shenton Way/Robinson Road/Cecil Street/Anson Road/Tanjong Pagar subzone stayed firm at around $9.60 and $6.20 per sq ft respectively.

FIGURE 6
Office rental indices



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

The office market has bottomed out in 2017 and office rents are anticipated to appreciate in 2018.

Market Commentary

Office rents in the CBD showed signs of bottoming out towards the end of 2017, as office rents rose 0.2% q-o-q in Q4 2017. However, the increase in rents were unable to offset the decline in rents from Q1 to Q3 2017. Overall monthly gross office rents dipped 1.9% in 2017 (Figure 6).

Notwithstanding, the office market remained segmented as the monthly gross rents of newer offices in the CBD were supported by companies that took the opportunity to move to better quality buildings. As the spaces of the newly completed office buildings were progressively taken up, the rents also stabilised and started to climb in Q4 2017. In contrast, the monthly gross office rents of Grade B offices in Shenton Way/Robinson Road/ Cecil Street/ Anson Road and Tanjong Pagar remained subdued, as landlords were more flexible in a bid to retain existing tenants. Hence, the monthly gross office rents in Marina Bay eased by 0.5% in 2017 but the monthly gross office rents of Grade B offices declined by nearly 4.0%.

Office occupancy in the CBD fell by 5.1% in 2017 due to the completions of Marina One, UIC Building and GSH Plaza. The total net supply of office space in the CBD amounted to 2.1m sq ft, more than the 1.3m sq ft of net supply in 2016. However, total net absorption in 2017 amounted to about 761,000 sq ft, which was higher than the 504,000 sq ft in 2016.

In 2017, demand emanated from the financial services sector and the information technology sector. Additionally, the co-working operators have been very active in the market. As of December 2017, there is around 103 co-working spaces in Singapore – out of which, 20% are in the CBD.

Outlook

With Frasers Tower set to complete in 2018, the total amount of new office space in the CBD coming on board in 2018 will amount to 874,000 sq ft (Figure 7). However, this is unlikely to impact rents negatively as the office space in new developments is progressively taken up. For instance, engineering firm Arup is the latest company reported to have taken up 40,000 sq ft of space in Frasers Tower. Its current location is at Keppel Towers. On the demand side, the financial and business services sectors are likely to grow further. A case in point is Omers, a Canadian pension fund company, which will be opening an office in One Raffles Quay in January 2018.

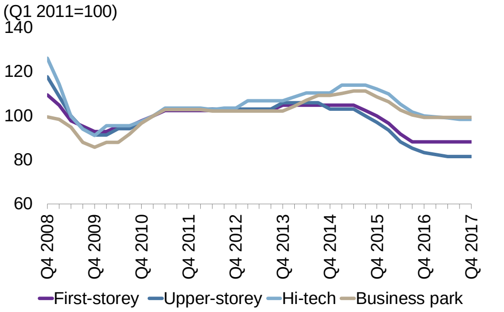
The anticipated recovery of the residential property market is likely to exert a spillover effect on the office market. As construction orders increase, we foresee more capital financing and increased activity along the supply chain.

INDUSTRIAL

Key Highlights in Q4

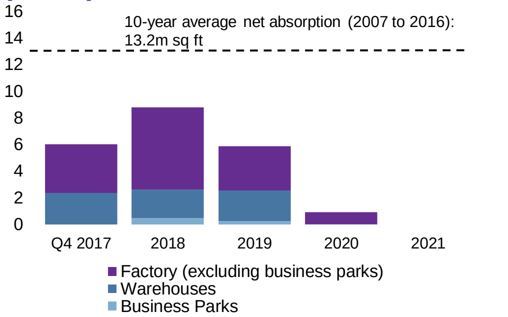
- Monthly rents of first-storey factory space in 2017 stayed unchanged from rents in 2016.
- Monthly gross rents of upper-storey factory space declined by 2.1% to around $1.40 per sq ft in 2017.
- Monthly rents of hi-tech industrial space eased by 1.6% in 2017.
- Business park monthly rents stayed flat in 2017 at $4.55 per sq ft.

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 1
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	Q4 2017
Proxima @ Gambas	North Region	346,000	Q4 2017
BTS-Beyonics	North Region	190,000	Q4 2017
Mega @ Woodlands	North Region	864,000	2018
Nordcom Two	North Region	614,000	2018
Shine@Tuas South	West Region	452,000	2018

Source: JTC, Edmund Tie & Company Research

Market Commentary

The industrial market remained subdued with average monthly rents of industrial spaces easing by 0.7% to around $2.70 per sq ft in 2017. However, there were signs of the market improving. The decline in rents was moderated compared to the 10.5% decline in 2016. The improvement in sentiments boosted by the growth of the electronics and precision engineering clusters enabled the industrial rents to moderate in 2017. Additionally, the lack of supply in some segments of the industrial market helped support rents.

Monthly rents of first-storey industrial space remained unchanged at $1.85 per sq ft in 2017, compared to the 11.9% decline in 2016 (Figure 8). There was strong demand for first-storey industrial space as it offered accessibility and convenience. Separately, monthly rents of upper storey industrial space softened as there were more options of upper-storey space for tenants.

The rental level of business parks in 2017 stayed largely the same as in 2016. The lack of new supply helped support rents and stem the decline in monthly rents of business parks, which dipped by 8.5% in 2016. However, an improvement in rents in the near future remains premature due to new completions of offices in decentralised locations such as Vision Exchange in Jurong East and Hexacube in Changi.

The restructuring of the industrial sector also implies that the needs of industrial space will evolve to support the new operations.

Outlook

The outlook of the industrial sector is more promising with the growing manufacturing sector. Notwithstanding, there is more than sufficient options in the market for the industrialists, especially if the expected completions in Q4 are pushed to 2018 (Figure 9). Additionally, the performance of industrial rents in 2018 is likely to be project specific. Industrial spaces that have the infrastructure and facilities to support the restructured manufacturing sectors will be highly demanded, while the older industrial buildings will face challenges in tenant retention. The completion of modern industrial spaces such as Mega@Woodlands (Table 1) will place greater pressure on the rents of the older projects. This is also reflected in the rents and occupancy of older business parks.

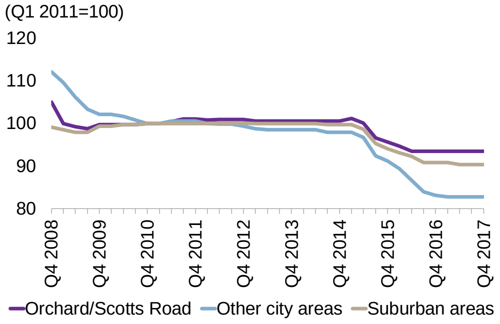
RETAIL

Key Highlights

- In 2017, the monthly rents of first-storey space in Orchard/Scotts Road was the most resilient, staying unchanged at $37.20 per sq ft.
- Gross rents of first-storey retail space in the suburban areas declined slightly by 0.5% in 2017 to $30.45 per sq ft per month.
- Among the regions, monthly rents of first-storey space in the other city areas fell the most, by 0.6% y-o-y to about $19.75 per sq ft in Q4 2017.

FIGURE 10

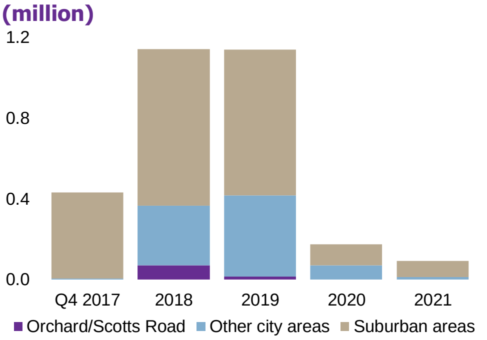
Retail rental indices of prime first-storey space



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 2

Selected retail developments in pipeline

Development	Region	Est NLA (sq ft)	Est TOP
Northpoint City	Suburban areas	318,000	Q4 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 Century Square	Suburban areas	216,000	2018
Additions/ alterations to Tripleone Somerset	Orchard/ Scotts Road	72,000	2018

* Estimated based on 70% efficiency factor

Source: URA, Edmund Tie & Company Research

Market Commentary

Monthly gross rents of prime first-storey retail space island-wide remained unchanged for the second consecutive quarter in Q4 2017, bringing about a slight decline of 0.3% in 2017. Compared to the 4.3% decrease in 2016, the fall in 2017 was relatively gradual. The moderation in the decline in rents was due to the recovery in retail sales, resulting in an increase in occupancy rates. In Q3 2017, there was a y-o-y growth of 0.4 percentage points to 91.0%.

Out of the three regions, retail rents of prime first-storey space at Orchard/Scotts Road were the most resilient, staying firm at $37.20 per sq ft per month in 2017, as opposed to a 2.2% decline in 2016 (Figure 10). This was a result of limited pipeline supply (87,000 sq ft) and an increase in tourist arrivals in 2017. Additionally, it continues to attract renowned overseas brands, such as Apple, Pablo and Don Quijote. The opening of these renowned brands triggered a virtuous cycle, attracting more crowds and reinforcing Orchard Road's position.

In contrast, monthly gross rents of first-storey retail space in the other city areas and suburban areas stayed flat in Q4 2017, leading to rents decreasing by 0.6% and 0.5% in 2017 to about $19.75 and $30.45 per sq ft respectively. The easing of decline in rents in 2017 suggested that the retail market is bottoming out.

Outlook

Although there were signs of rent stabilising, brick-and-mortar retailers face challenges as more consumers turn to e-commerce platforms. However, e-commerce will likely come under the local tax regime according to the Senior Minister of State for Law and Finance. This will mean having e-commerce players registering for Goods and Services Tax in Singapore or customers have to pay tax on the goods and services purchased online. This may act as an additional factor for the online retailers to go for physical space, if the prices between the goods bought online and offline narrow.

The upcoming new supply in suburban and other city areas may exert downward pressure on rents of retail spaces in both subzones. From Q1 to Q3 2017, about 621,000 sq ft of retail space were completed island-wide, with another 432,000 sq ft expected to complete in Q4 2017 (Figure 11). This will mainly emanate from Northpoint City (318,000 sq ft) (Table 2). Subsequently, there will be around 1.1m sq ft of space completing in 2018 and 2019 respectively. The other city areas will be faced with the largest pressure, with the supply in both years exceeding the 10-year annual average absorption (2007 to 2016) of 239,000 sq ft.

Under the Retail Industry Transformation Map, retailers are encouraged to use digital technologies to be competitive online by providing richer and more immersive customer experiences.

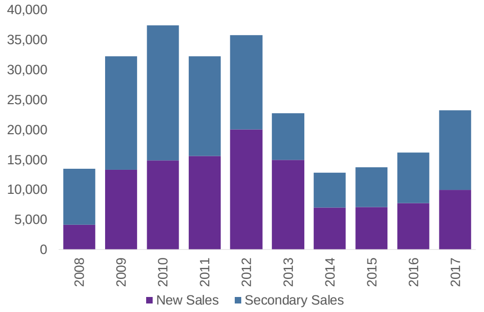
RESIDENTIAL

Key Highlights

- Private home sales rose by 43.7% to 23,227 units in 2017.
- Luxury condominiums and non-landed home prices in the prime districts rose by 1% in 2017 while non-landed home prices in non-prime districts eased by 0.5%.
- 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)



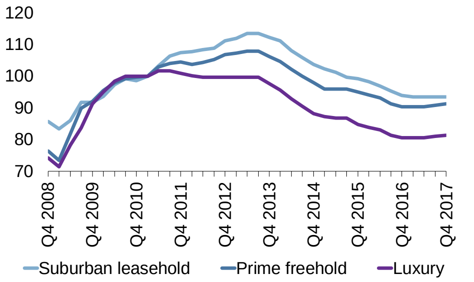
Source: URA, Edmund Tie & Company Research

Note: Based on caveats lodged in 2017 till 26 Dec 2017

FIGURE 13

Resale Non-Landed Residential Price Index

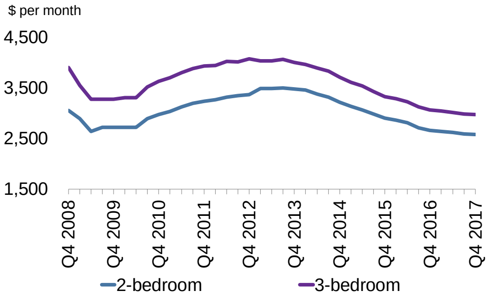
(Q1 2011=100)



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 home sales in 2017 rose by 43.7% to 23,227 units, edging out the 22,723 units in 2013 when private home prices were at its peak in Q2 2013 (Figure 12). The market picked up pace in early 2017 due to the pent-up demand from home buyers who were waiting on the sidelines for the cooling measures to be finetuned. The easing of some property cooling measures, including the cutting of sellers' stamp duties, set off a virtuous cycle with buyers and sellers becoming more optimistic.

Additionally, the positive sentiments are reinforced by the developers' land bids in the GLS Programme and collective sales. The flurry of collective sales also reduced the number of listings in the secondary market with more developments seeking en bloc. This further limited the options of prospective buyers, especially as the number of completed but unsold units held by developers continue to deplete. Hence, home prices bottomed out in 2017, with prices of luxury condominiums and non-landed homes rising by 1% in 2017 (Figure 13).

In contrast, the improvement in prices of landed homes over 2017 is not broad-based, as it depended on the location of the property and the quantum of the asking price. Due to the Additional Buyers Stamp Duties (ABSD) and Total Debt Servicing Ratio (TDSR), prices of landed homes of higher quantum (above $3m) stayed largely flat for the whole year.

Despite the TDSR and ABSD hampering the improvement in prices of landed homes in 2017, there was an uptick in prices of landed homes towards the end of 2017. For instance, prime freehold landed homes rose by 0.3% q-o-q to $1,964 per sq ft in Q4 2017. The statistics in Q4 2017 was likely a signal that the market for landed homes have bottomed and we anticipate prices to rise in 2018 nothwithstanding the higher quantum.

While the private home sales market improved in 2017, the rental market for private homes remained subdued. Rents of non-landed homes in suburban districts fell by 3% y-o-y in Q4 2017 (Figure 14).

Outlook

We anticipate the residential market to improve further in 2018. The demand from owners who have sold their homes via collective sale will drive the market and trigger a virtuous cycle. Home prices are also likely to increase as the new supply from collective sales come on board in 2019 or later.

Rents for non-landed properties in both prime and non-prime districts are expected to remain flat. Notwithstanding, rental performance is likely project specific with rents of choice developments in prime districts and growth clusters are likely to appreciate in 2018.

Home prices are likely to appreciate by 4%-8% in 2018, barring any external shocks.

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