SINGAPORE INVESTMENT
& CAPITAL MARKETS RESEARCH
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Knight Frank

Commercial and Hotel Sector Expected to Continue Leading the Investment Sales Market in 2014

2013 Investment sales totalled $27 billion, a 11.9 per cent improvement from 2012. However, 4Q 2013 Total Investment sales plunged by 69.5 per cent quarter-on-quarter to $3.8 billion. More headwinds ahead for Investment sales market amid high asset prices and capital outflow, with investment sales expected to decline to around $21 billion - $23 billion in 2014.

"Commercial and Hotel sector dethroned Residential sector. We expect Commercial and Hotel sector to retain the crown in 2014."

Ian Loh
Director & Head
Investment & Capital Markets

Summary

Higher Commercial and Hotel Investment Sales with Big-Ticket Transactions in 2013

Overall, the investment sales market performed better in 2013. It chalked up an accumulated sum of $27.0 billion, which represented a 11.9 per cent year-on-year (y-o-y) increase. This improvement was single-handedly lifted up by the spectacular sales transaction volume seen in 3Q 2013.

Despite the conclusion of two big-ticket commercial and hotel transaction sales of approximately $1.4 billion in 4Q 2013, total investment sales plunged by as much as $8.6 billion, from $12.4 billion in 3Q 2013 to only $3.8 billion in 4Q 2013. This was largely attributed to the dismal performance of the residential investment sales market, as investors diverted their attention to the commercial sector amidst the property cooling measures on the residential sector.

Due to a limited number of larger sites being sold under the Government Land Sales (GLS) Programme in 4Q 2013, total public investment sales plummeted to $0.6 billion, a significant decline of 84.1 per cent quarter-on-quarter (q-o-q).

Private investment sales also fell by 62.5 per cent q-o-q from the high base of $8.4 billion in 3Q 2013 to $3.1 billion in 4Q 2013. This is attributed to the decreased acquisition and REIT's flotation in 4Q 2013. Nevertheless, private investment sales continues to dominate the market by making up 83.1 per cent of the total share of investment sales in 4Q 2013.

The residential sector, which used to dominate the investment sales market, has fallen under pressure following the property cooling measures and the Total Debt Servicing Ratio (TDSR) ruling. Total residential investment sales dipped by a further 68.2 per cent q-o-q from $1.6 billion in 3Q 2013 to $0.5 billion in 4Q 2013. Overall, it has declined by 37.8 per cent y-o-y from $11.1 billion in 2012 to $6.9 billion in 2013.

Despite the lacklustre performance in 4Q 2013, overall investment sales in 2013 is positive due to record-setting performances from the commercial & hotel as well as industrial sectors. Both sectors achieved total investment sales of $16.7 billion and $3.3 billion in 2013 respectively, the highest since 2008.

Exhibit 1: Total Investment Sales by Property Sectors (2009-2013)

Source: Knight Frank Research

Exhibit 2: Summary of Total Investment Sales (4Q 2013 & Full Year 2013)

Sector	4Q 2013			Full Year 2013		
	Public	Private[1]	Total (% change q-o-q)	Public	Private[1]	Total (% change y-o-y)
Residential	$0.5b	$0.04b	$0.5b (-68.2%)	$5.5b	$1.3b	$6.9b (-37.8%)
Commercial & Hotel	$0.03b	$2.4b	$2.4b (-73.6%)	$3.3b	$13.4b	$16.7b (44.2%)
Industrial	$0.1b	$0.7b	$0.8b (-47.2%)	$0.6b	$2.7b	$3.3b (132.7%)
Total	$0.6b	$3.1b	$3.8b (-69.5%)	$9.5b	$17.5b	$27.0b* (11.9%)

Source: Knight Frank Research

1 Private investment sales refer to (1) investment transactions of private developments that are more than $10 million, or (2) transactions of more than 2 individual units within a private development that amount to more than $10 million.
* Rounded off to the nearest hundredth million. Summation may not equate due to rounding.

Residential

4Q 2013 Residential Investment Sales Fell to Levels Seen During 2009 Global Financial Crisis

Investment sales in the residential sector continued to remain anaemic especially since the TDSR ruling. Due to the lack of activities in both the public and private residential markets, investment sales value fell to a 3-year low of $460.4 million and $39.5 million respectively. The total investment value of about $0.5 billion is analogous to the latter half of 2009 (about 1 year after the 2008 Global Financial Crisis), where the average quarterly residential investment sales amount to about $0.7 billion.

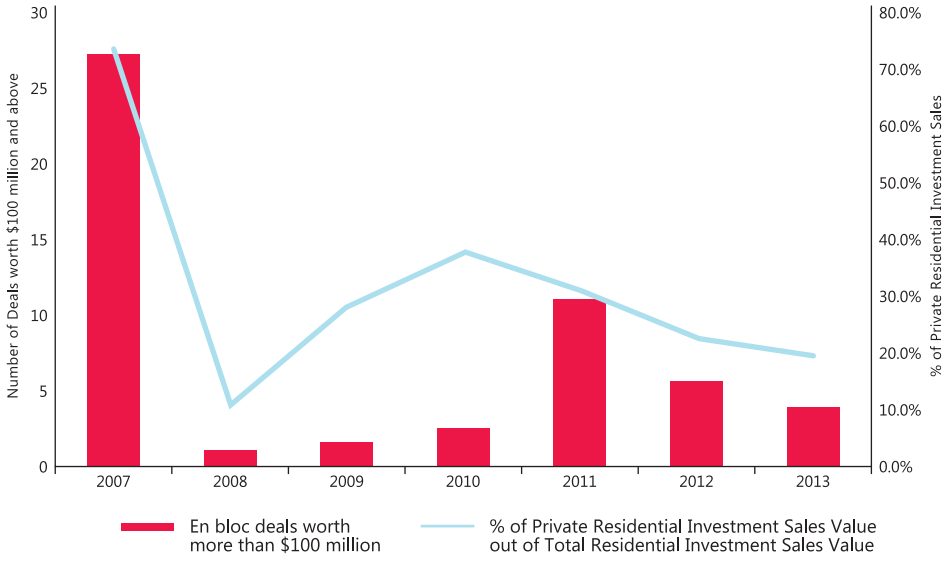
In 4Q 2013, there were only two adjacent GLS sites launched at Upper Serangoon View. Each site drew 8 competing bids and Kingsford Development was awarded both sites with a winning land bid of $522 per sq ft per plot ratio. The bidding strategy allows the developer to create a 'near monopoly' in the area and better control selling prices. The healthy bidding competition also demonstrated that developers are still on a lookout to boost their land bank despite the lacklustre residential market.

Greater Interest Towards GLS Sites to Increase Land Bank

As shown in Exhibit 3, there is a shift in interest from developers in their bids to increase their land bank. In contrast to 2007 when private residential investment sales comprised about 72.3 per cent of total residential investment sales, GLS programme in the recent five years has been the primary source for developers to shore up their land bank. In the past three years, the proportion of private residential investment sales has been declining from 31.0 per cent in 2011 to about 19.4 per cent in 2013.

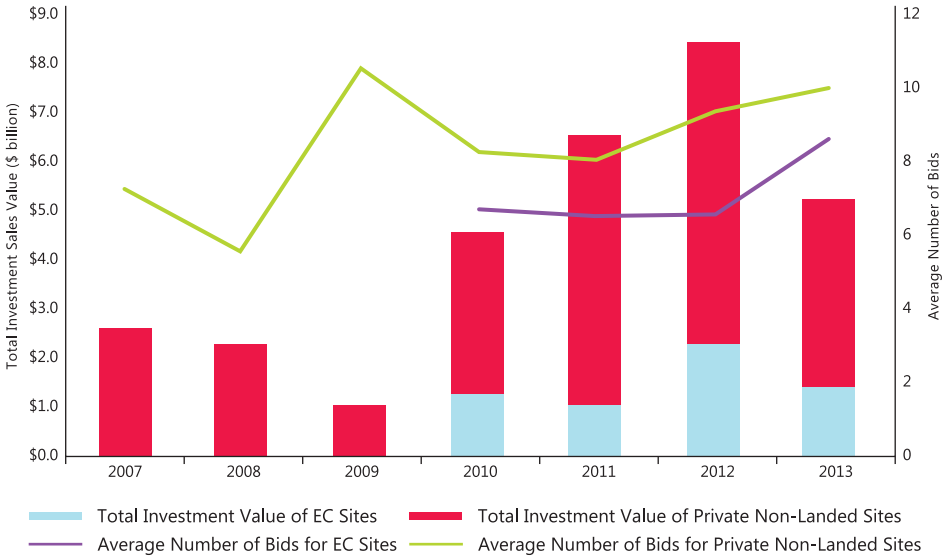
Exhibit 4 illustrates the surge in public residential investment sales since the post-Global Financial Crisis period. 2012 saw the highest amount of public residential investment sales at $8.4 billion based on a total number of 34 sites sold under the GLS programme. This was partly due to the government's effort in increasing land supply to cope with the rising demand over the recent years. Competition for GLS sites has also increased significantly as the average number of bids received for private residential and EC sites hovers around 9 and 7 bids respectively.

Exhibit 3: Performance of Private Residential Investment Sales (2007-2013)



Source: Knight Frank Research

Exhibit 4: Performance of Public Residential Investment Sales (2007-2013)



Source: Knight Frank Research

En bloc Sales Market Remains Weak with Mainly 'Bite-size' Deals

The private residential investment market has been seeing languishing transactions over the recent years since the en bloc fever in 2007.

One of the reasons for the receding en bloc sales is attributed to the complicated procedures involved. Apart from the sellers having to find replacement units, there could be difficulties encountered in obtaining approval for change of land use or land intensification.

In terms of the size of transactions, the number of deals worth more than $100 million has been similarly declining. Preference towards more 'bite-size' deals in the private residential investment market is largely driven by small and mid-size developers, who are usually unable to compete with the big players for large GLS sites.

Commercial and Hotel

Commercial Investment Sales Remains as Bright Spot

Though the total commercial investment sales value of $2.4 billion in 4Q 2013 is a stark contrast to the $9.2 billion recorded in 3Q 2013, commercial developments remains well sought after in 4Q 2013 with the conclusion of two major commercial transactions.

Leading the transaction in 4Q 2013 is a consortium led by Perennial Real Estate's purchase of TripleOne Somerset from Asia Real Estate Income Fund managed under Pacific Star. With a Net Lettable Area (NLA) of 566,000 sq ft, the purchase price of $970 million works out to be $1,714 per sq ft of NLA. Given that the sale price was $10 million lower than the $980 million which Perennial had offered, it could signal Pacific Star's objective to divest the asset in the near term, having put the property up for sale

since 2011. The 17-storey commercial property comprises 60,000 sq ft of retail space and the larger component is made up of office space.

Another notable transaction was the en bloc sales of Serangoon Plaza for $400 million or $1,946 per sq ft per plot ratio. This is the second biggest en bloc deal since Westwood Apartments was sold for $475 million in November 2007. The purchaser for the freehold site is Feather Development, who is also the majority owner of the building and an associate company of Tong Eng Group of Companies. According to the purchaser, redevelopment plan is already under consideration given that the current space is underutilised.

Strong Finishing from Hotel Market to Close 2013

Based on the latest statistics, the total number of international tourist arrivals for the first 10 months of 2013 was 12.9 million, 8.4 per cent higher than the same period in 2012.

This is largely driven by the burgeoning middle class population in Asia and the government's effort in reinventing Singapore as a MICE destination. On the back of this growing tourism industry, the hotel industry has enjoyed stellar performance in 2013.

In 4Q 2013, the hotel site at Havelock Road, which was launched for sale under the 2H 2013 GLS programme saw strong interest. The plot drew a nine-party tender and the top bid of $30.1 million came from I Hotel. This translates to a steep land price of $1,303 per sq ft per plot ratio, surpassing the previous record set by the sale of the mixed commercial and residential site at Yishun Avenue 2 / Yishun Central 1 in 3Q 2013.

Just before the year wound to a close, the hotel industry saw a record-breaking transaction. The Westin Singapore hotel was sold by Blackrock's Asia Property Fund III, a fund managed by private equity MGPA, to Japan-based property developer and investor Daisho group for $468 million.

Exhibit 5: Major Hotel Transactions in 2013

Hotel	Price	Buyer	Price Per Room
Mandarin Orchard Singapore	$1,190,000,000	OUE Hospitality Trust	$1,132,255
Grand Park Orchard Hotel	$1,160,000,000	Bright Ruby Resource	$1,400,000 – $1,500,000
Westin Hotel	$468,000,000	Daisho Group	$1,534,000
Park Hotel Clarke Quay	$300,000,000	Ascendas Hospitality Trust	$892,857
Rendezvous Grand Hotel	$264,300,000	Far East Hospitality Trust	$886,913
Park Regis Singapore	$250,000,000	Chinese Buyer	$818,000
Gallery Hotel	$235,500,500	RB Capital	$1,000,000
The Sentosa Resort & Spa	$210,850,000	Royal Group Development Pte Ltd	$1,000,000
Ibis Singapore Novena	$155,000,000	Alpha Investment Partners	$622,000
UE BizHub East (Hotel Component)	$138,000,000	Viva Industrial Trust	$549,801
Berjaya Hotel	$50,000,000	Elevation Group	$1,020,000
Hotel 1929	$35,000,000	Cheong Keng Hooi	$1,093,750

Source: Knight Frank Research

Featuring 305 guest rooms, the purchase price translates to slightly above $1.5 million per room, breaking the previous record of $1.4-$1.5 million per room set by Bright Ruby Resource's purchase of Grand Park Orchard Hotel in 3Q 2013.

The record price on a per room basis as well as the record land bid for the plum hotel site reinstated the bullish sentiment on the hotel sector and the investors' preference towards prime good quality assets.

Exhibit 6: Total Investment Sales Value for Private Commercial and Hotel Sector (2012 & 2013)

Source: Knight Frank Research

* refers to other uses such as schools

Industrial

Private Industrial Investment Sales Continued to Outperform in 4Q 2013

Private Industrial Investment Sales registered yet another strong quarter of performance with $0.7 billion in 4Q 2013. Coupled with the strong rebound in the last quarter, the total investment sales value for private industrial sector in 2013 amounted to $2.7 billion.

Investment activity in the private industrial market was boosted by the acquisition of the mixed-use development, UE BizHub East by Viva Industrial REIT. The total purchase price of $518 million comprised $380 million of business park component and $138 million of hotel component. The other two properties which were injected into the trust's portfolio include Mauser Singapore, as well as Technopark @ Chai Chee for a transacted price of $28 million and $193 million respectively.

Guang Ming Industrial building, a freehold property located at Upper Paya Lebar Road, was sold to a unit of Singhome Re Pte Ltd, controlled by F&H Fund Management for $45.8 million. The other notable deal was an industrial building located at 39 Benoi Road, which changed hands from Marine Acquisitions Corp to GKE Corporation Limited for $25.6 million.

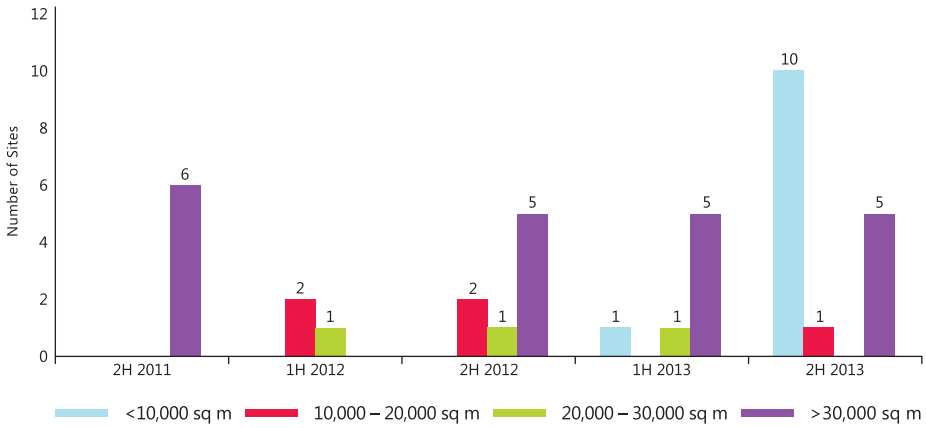
A Shift Towards Smaller Public Industrial Investment Sales

As seen in Exhibit 7, land sizes of industrial sites under the Industrial GLS programme have been declining since the beginning of 2013. Out of the 23 sites which were released for sale in 2013, 11 of these sites have GFA below 10,000 sq m. Unlike the larger sites which are located in suburban industrial estates, all of these 11 small sites are located in Tuas South. Zoned as B2 uses, they are part of the government's effort in making industrial sites more affordable to end user industrialists.

A total of 7 GLS industrial sites were released in 4Q 2013. This brings the accumulated number of industrial sites being transacted in 2013 to a record of 23 sites, reflecting the government's intention to increase land supply and ease the pressure on rising industrial land prices.

Bullish bids were also put up for another three B1 sites in Gambas Crescent under the 2H 2013 Industrial GLS programme. Grow-Tech Properties, which is owned by Far East Organization, brushed aside all competitors by submitting bids with prices at least 20 per cent higher than the next highest bidder for the three sites. The winning bids for Parcel 1, Parcel 2 and Parcel 3 were $44.8 million, $46.3 million and $39.3 million respectively, translating to approximately $121 per sq ft per plot ratio.

Exhibit 7: Industrial Sites transacted under GLS Programme (2H 2011-2H 2013)



Source: Knight Frank Research

Market Outlook

Commercial Investment Sales Market Expected to Show Resilience

Commercial investment sales market kicked off 2014 with a bright start with the recent sale of Long House Food Centre to TEE Land for a transacted price of $45.2 million. Brokered by Knight Frank, the purchase price translates to approximately $888 per sq ft per plot ratio before factoring in development charge. Riding on the wave of strong appetite for commercial properties, an Expression of Interest has been launched for 228 Orchard Road, a freehold prominent retail mall located along the main shopping and entertainment belt of Orchard Road.

Underpinned by Singapore's stable economic fundamentals and improving market sentiment on the commercial sector, commercial developments are most likely to lead the investment sales market in 2014. Continual growth in rental rates for Grade A office spaces and healthy tourism arrivals would see more liquidity channelled into the commercial sector. The only two available commercial sites under the reserve list of 1H 2014 GLS programme are Sims Avenue commercial site, and the Marina View white site. Both sites could add a total GFA of 188,340 sq m to the commercial stock supply in the market.

Although hotel investment sales market will continue to attract the attention of investors, it is unlikely to replicate its strong showing seen in 2013 unless there is major flotation of Hospitality REITs. For the first time since 2H 2001, no hotel sites will be made available under the 1H 2014 GLS Programme.

Waning Residential Investment Sales market

Investment sales in the residential sector is likely to weaken in 2014 due to the TDSR ruling as well as the implementation of measures for Executive Condominium (EC) developments. With the 30 per cent cap on the Mortgage Servicing Ratio and payment of resale levy by second-time EC buyers, developers will most likely be more cautious in their bidding strategies for the upcoming 5 EC sites in 1H 2014 GLS programme.

Pullbacks Expected in Industrial Investment Sales Market

With effect from 15 November 2013, JTC has tweaked its policy by lengthening the prohibition period for lease assignment and increasing the minimum occupation period for anchor tenants with sales and leaseback arrangement. These measures may reduce investors' risk appetite and private investment sales in the industrial market.

Headwinds in Investment Sales Market expected

2014 could be a muted year for the investment sales market with potential tapering in total transaction volume. As the government scales back its 1H 2014 GLS programme in the domestic property market, the outlook for the investment sales performance will primarily hinge on the private investment sales market. Investment sales in the residential sector could weaken given the waning demand and fall in home prices. Additionally, the possible ensuing market volatility from the tapering of quantitative easing by the US Federal Reserve could also adversely impact equity market performance and limit the amount of flotation of REITs in the market. Taking these factors into consideration, the total investment sales in 2014 likely to see a moderate decline to around $21 billion-$23 billion.

Outflow of Liquidity to Overseas Markets

The rising prices of land and property assets in Singapore and the onslaught of property cooling measures are diverting investors' attention towards overseas markets. The stronger Singapore Dollar against most other currencies has enhanced investors' appetite to invest overseas. Local developers are also venturing and expanding their presence abroad in response to the challenging local property market. One example is the overseas expansion by local developer Oxley Holdings with their latest and biggest acquisition of East London 40-acre Royal Wharf development for approximately $397 million.

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