Singapore Research

Investment

Q3 2024 | knightfrank.com.sg/research

Fortune favours the brave with the start of rate cuts

"Deals that have been brewing prior to the interest rate cut announcement are now likely to surface, especially industrial properties and living sector assets. As the bid-ask gap narrows and the prospect of positive carry returns, the brave will increasingly pull the trigger on deals. "

DANIEL DING, HEAD, CAPITAL MARKETS (LAND & BUILDING, INTERNATIONAL REAL ESTATE)

TOTAL INVESTMENT SALES

S$8.3 BILLION[1] IN Q3 2024

S$6.7 BILLION IN Q2 2024

S$6.4 BILLION IN Q3 2023

With the end of the year closing in, the arrival of a long-awaited interest rate cut by the US Federal Reserve (Fed) is creating a growing buzz in the investment market in the second half of 2024. In September, the Fed announced that interest rates will be lowered by half a percentage point to a targeted rate of 4.75% to 5.00%. In anticipation, investment activity showed some nascent signs of a pick up in September with a growth of 24.8% q-o-q to reach a total transacted value of S$8.3 billion in Q3 2024[1]. Public sales amounted to S$2.3 billion and private sales totalled S$6.0 billion.

During the quarter, the total sales value of residential deals added up to S$3.2 billion, a decline of 24.7% q-o-q (Exhibit 1). Out of this total, S$2.3 billion (74.2%) comprised government land sales (GLS) sites zoned for residential use. In August, some of the GLS sites that were awarded included Zion Road (Parcel B) and Jalan Loyang Besar at S$730.1 million and S$557.0 million respectively (Exhibit 2). In addition to these GLS sites, the sale of several good class bungalows (GCBs) located at areas such as Tanglin Hill and Belmont Road also contributed substantially to the total sales value of residential investment deals. In July, a GCB at Tanglin Hill was sold for S$93.9 million and two GCBs at Belmont Road were sold for S$73.7 million and S$57.7 million.

The acquisition of a 50% interest in ION Orchard (includes ION Orchard, ION Orchard Link, ION Art Gallery, and ION Sky) by CapitaLand Integrated Commercial Trust (CICT) from CapitaLand Investment (CLI) for S$1.8 billion in September brought the total sales value in the commercial sector to S$2.7 billion, a quarterly increase of 37.2% in Q3 2024 (Exhibit 2). Other notable sales of retail assets included Stamford Court that was sold for S$132.0 million in August, and Sceneca Square that changed hands for S$64.0 million in September.

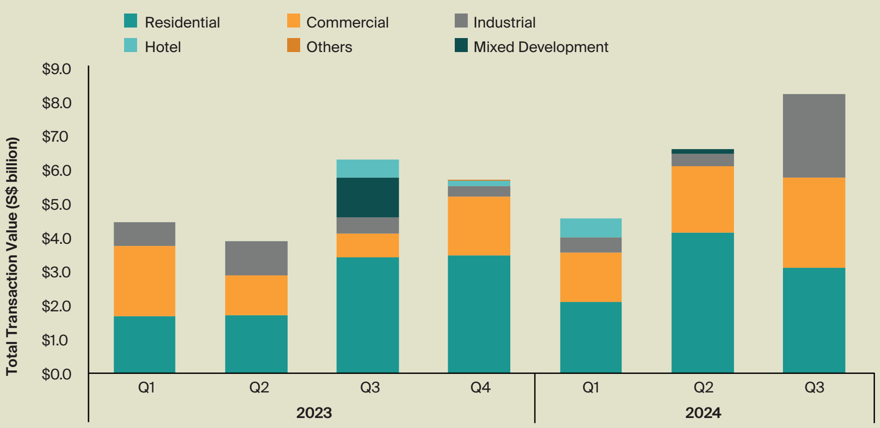
The biggest surge in sales activity was in the industrial sector as total sales value skyrocketed 567.6% q-o-q and 426.6% y-o-y to S$2.5 billion. This was due to the acquisition of a huge S$1.6 billion portfolio consisting of seven industrial properties by Lendlease and Warburg Pincus from a REIT owned by Blackstone and Soilbuild in August. Several other notable industrial deals included the 51% stake sale of 20 Tuas South Avenue 14 for S$444.6 million by ESR LOGOS Reit, and the stake sale of 49% for Elementum at S$272.0 million to a sovereign wealth fund from Brunei. Both deals took place in August.

COLLECTIVE SALES

There was a mixed bag of five collective sales launches in Q3 2024, one less compared to the previous quarter. However, no successful collective sale deals were closed. Collective sales for larger sites continued to be challenging, especially for residential developments.

[1] *Inclusive of the S$1.8485 billion sale of ION Orchard (Includes ION Orchard, ION Orchard Link, ION Art Gallery, and ION Sky) from CapitaLand Investment (CLI) to CapitaLand Integrated Commercial Trust (CICT), subject to the approval of CICT's unitholders at an extraordinary general meeting that will be held in Q4 2024.*

Exhibit 1: Total Investment Sales, by Property Sector



Source: Knight Frank Research (based on data available as at 30 September 2024)
Private investment sales are:-
a. Investment transactions that comprise an entire building or property with a total worth of S$10.0 million and above; OR
b. Bulk sales within a development amounting to S$10.0 million or more;
c. Institutional transfers that represent a change of legal ownership.

Exhibit 2: Top 5 Transactions in Singapore, Q2 2024

SITE / DEVELOPMENT	PROPERTY TYPE	SALES PRICE (S$MIL)	AREA (SF)	ESTIMATED UNIT PRICE (S$PSF)	BUYER	DATE OF SALE
ION Orchard[1]	Commercial	$1,848.5	623,607**	$5,928**	CapitaLand Integrated Commercial Trust	Sep-24[1]
GLS site at Zion Road (Parcel B)	Residential	$730.1	559,744*	$1,304*	Valerian Residential (Allgreen Properties)	Aug-24
GLS site at Jalan Loyang Besar	Executive Condominium	$557.0	764,388*	$729*	CNQC Realty (Progressive) Pte Ltd (CNQC International), Forsea Residence Pte Ltd (China Communications Construction Company) and ZACD Laserblue Pte Ltd (ZACD)	Aug-24
Solaris @ one-north	Commercial	$501.4	441,322**	$1,136**	Lendlease and Warburg Pincus	Aug-24
GLS site at Margaret Drive	Residential	$497.0	430,491*	$1,154*	Intrepid Investments Pte Ltd (Hong Leong Holdings), Hong Realty (Private) Limited and GuocoLand (Singapore) Pte Ltd	Aug-24

Source: Various sources, Knight Frank Research
* Refers to the estimated maximum permissible GFA and corresponding reported price psf ppr.
** Net lettable area (NLA) and corresponding price per NLA

With GLS sites being a direct competitor of collective sales, some evidence of easing land prices currently have GLS presenting a better opportunity for developers.

"With developers reticent towards the larger collective sale plots, landed houses with sizeable land areas or "mini landed enblocs" of several adjoining houses continue to be sought after by boutique developers, especially in prime areas where the land size has the flexibility to be subdivided and redeveloped into multiple homes." said **Chia Mein Mein, Head, Capital Markets (Land & Collective Sale)**.

OUTBOUND INVESTMENT FROM SINGAPORE

With the ongoing global tensions and high interest rates, outbound investment activity from Singapore slowed down to S$3.2 billion according to MSCI Real Assets (Exhibit 3). This represented a quarterly decrease of 29.3% and yearly decline of 39.1%. However, the announcement of interest rate cuts by the Fed is expected to spur more activity before the end of the year.

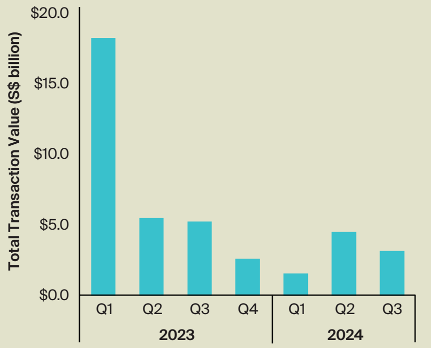
MARKET OUTLOOK

The first of the interest rate cuts will be the stimulus for deals that were simmering to surface, with a positive carry narrative emerging for properties currently in due diligence. More industrial deals can be expected, as well as in the living sectors (particularly serviced and co-living residences) as tourist and transient cross border worker volumes increase.

While the collective sales arena remains challenging, commercial and mixed-used developments have a higher chance of success in the prevailing market conditions.

Investment sales momentum is expected to improve in the coming months with the annual total projected to fall within Knight Frank's S$23 billion to S$25 billion target.

Exhibit 3: Cross-border Investments by Singapore-based Entities



Source: MSCI Real Assets, Knight Frank Research
Note: Based on transactions available as at 30 September 2024 (excludes transfer and refinancing of real estate assets).

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