



REAL ESTATE  
TIMES

OCTOBER 2019

# SINGAPORE Q3 2019

Private non-landed residential sector not 'buoyant' but steady despite looming dark clouds

# INVESTMENT

## Market commentary

### Key market indicators

Singapore's gross domestic product (GDP) in Q2 2019 slowed to 0.1 per cent year-on-year (y-o-y) down from 1.1 per cent in the previous quarter. This was the lowest growth since Q2 2009 during the global financial crisis (GFC). Wholesale and retail trade, and manufacturing were the biggest drag on the economy, while finance and insurance, and information and communications sectors were the best performers. Accordingly, the 2019 GDP growth forecast has been lowered for the second time to 0.0 to 1.0 per cent.

Despite the growing global economic headwinds and trade tensions, Singapore still attracted some \$8.1bn of investment commitments in manufacturing and services in H1 2019 compared to \$5.3bn over the same period in 2018. The top investors continued to come from the USA and Europe with investments in the technology, chemicals and data services sectors.

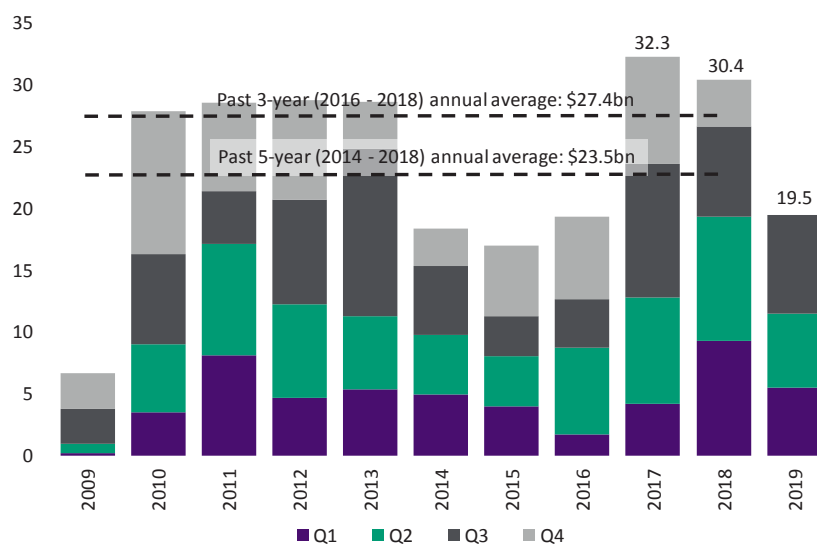
### Government Policies

- The development charge rates for the period September 2019 to February 2020 have been revised as follows: i) Use Group A (Commercial) has increased by an average of 1.7 per cent, with rates for about half of the 118 sectors increasing by between 3.0 and 7.0 per cent; ii) Use Group B (Residential, non-landed) was lowered marginally by 0.3 per cent on average, with rates for 7 sectors decreasing by 4.0 to 7.0 per cent; and iii) other Use Groups remained unchanged.
- The Government announced during the National Day Rally in August that the Greater Southern Waterfront district, which is expected to be developed in the next 5-10 years, will offer more commercial, residential (9,000 housing units) and entertainment options.

### Investment sales

Total investment sales value jumped 33.8 per cent quarter-on-quarter (q-o-q) to \$8.0bn in Q3 2019 (Figure 1), with the private sector accounting for the bulk (or 76.5 per cent) of the total investment sales value, although public investment sales value almost doubled, as more residential sites were sold under the Government Land Sales (GLS) Programme (Table 1 and Figure 2).

**Figure 1: Total investment sales, \$bn**



Source: Various sources, EDMUND TIE Research

- Singapore's 2019 GDP growth forecast downgraded for the second time to 0.0 to 1.0 per cent, underpinned by continued weakness in the manufacturing sector.
- Demand for housing loans continued to slowdown in June 2019, declining for the sixth consecutive month by 0.2 and 0.4 per cent month-on-month (m-o-m) and year-on-year (y-o-y) respectively.
- The Monetary Authority of Singapore (MAS) has maintained in June 2019 that the current cooling measures implemented since July 2018 remain appropriate.

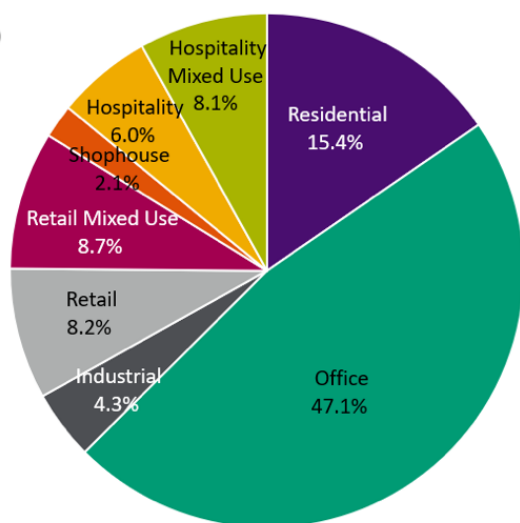
**Table 1: New sales volume by market segment (Q1 and Q2 2019)**

Key investment sale type	Q2 2019 (\$m)	Q3 2019 (\$m)	Q-o-q change (%)
<b>Private</b>	<b>4,999</b>	<b>6,133 (76.5%)</b>	<b>+22.7</b>
Office	2,827	3,180 (39.6%)	+12.5
Industrial	138.7	909.1 (11.3%)	+555
Retail	1,014	1,093 (13.6%)	+7.7
Hospitality	844.0	823.1 (10.3%)	-2.5
Residential	48.0	42.6 (0.5%)	-11.2
Shophouses	126.7	85.2 (1.1%)	-32.8
<b>Public (GLS)</b>	<b>997.5</b>	<b>1,888 (23.5%)</b>	<b>+89.3</b>
Residential	875.5	1,888 (23.5%)	+115.7
Industrial	122.0	Nil	Not meaningful
<b>Total</b>	<b>5,996</b>	<b>8,021 (100%)</b>	<b>+33.8</b>

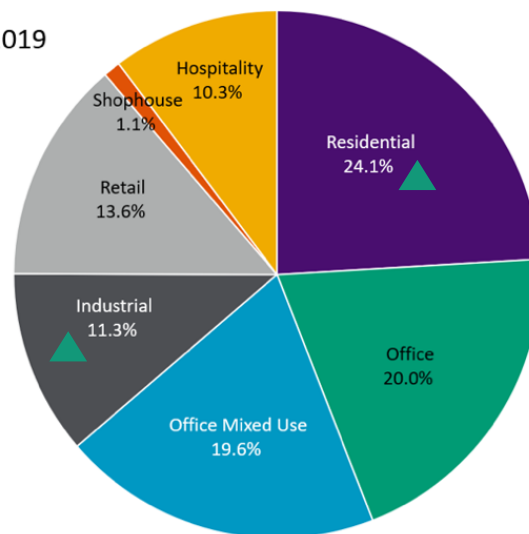
Source: Various sources, EDMUND TIE Research

**Figure 2: Total investment sales by asset type**

Q2 2019



Q3 2019



Source: Various sources, EDMUND TIE Research

Asset class	Key trends in Q3 2019
Office	<p><b>Private investment</b></p> <ul style="list-style-type: none"> <li>Increased for the second consecutive quarter, underpinned by another billion-dollar transaction of DUO Tower - the office and retail components were sold for \$1.575bn (or \$2,570 psf of net lettable area - NLA) (Table 2), while the hotel component (Andaz Singapore) remained with the owner (M+S Pte Ltd). This is Gaw Capital's second major office acquisition after purchasing Robinson 77 for \$710m (or \$2,300 psf NLA) in January this year; but also an expansion of Allianz Real Estate's office portfolio in Singapore after buying a 20 per cent stake of Ocean Financial Centre late last year.</li> <li>Another notable transaction was the sale of 71 Robinson Road for \$655m (or \$2,756 psf NLA) to a local developer Sun Venture. This fully occupied Grade A building had an initial implied yield of approximately 3.5 per cent.</li> </ul>
Industrial	<p><b>Private investment</b></p> <ul style="list-style-type: none"> <li>Investment sales value more than tripled q-o-q to \$909.1m, mainly attributed to the sale of two data centres for \$599.5m to Keppel DC REIT (related party transaction) which are considered tightly held assets.</li> <li>Additionally, there was a sale and leaseback transaction for a newly developed six-storey ramp up warehouse in Jurong for \$225m (or \$206 psf gross floor area – GFA).</li> </ul> <p><b>Public sales (GLS)</b></p> <ul style="list-style-type: none"> <li>There were no sites awarded in Q3, the last time this occurred was in Q1 2018. Although there were two bids submitted for a site at Senoko Drive in July 2019, they were rejected as they were below the reserve price.</li> </ul>
Retail	<p><b>Private investment</b></p> <ul style="list-style-type: none"> <li>Investment sales value rose for the third consecutive quarter by 7.7 per cent to almost \$1.1bn, due to the sale of 313@ Somerset for \$1.0bn (or \$3,479 psf NLA) to a REIT initial public offering (IPO) – Lendlease Global Commercial REIT, which is expected to list on 2 October 2019.</li> </ul>
Hospitality	<p><b>Private investment</b></p> <ul style="list-style-type: none"> <li>Although investment sales value declined by 2.5 per cent q-o-q, there were more development sites transacted namely: <ul style="list-style-type: none"> <li>Min Yuan Apartments was sold via a collective sale for \$141m (or \$2,613 psf ppr including an estimated development charge of \$19.6m). This was the first en bloc sale in 2019 since Q4 2018. The site was acquired by the Fragrance Group that also owns the adjacent site at 64 Waterloo Street (former Waterloo Apartments bought in Q4 2018). The group intends to amalgamate both sites for a hotel development.</li> <li>Darby Park Executive Suites was sold for a substantial profit of more than 70.0 per cent (or \$160m) just after 10 months. In June 2019, the former owner obtained a Written Permission and rezoning from residential use to hotel use from the URA to redevelop the site into an eight-storey hotel building,</li> </ul> </li> </ul>
Residential	<p><b>Private investment</b></p> <ul style="list-style-type: none"> <li>Following the collective sale of a small 5-unit development at Sophia View in Q2 2019, another en bloc site at Phoenix Road comprising 24 apartments and 12 shops was sold for \$42.6m (or \$630 psf ppr after factoring in the estimated differential premium). The site has a development potential of about 80 units based on an average unit size of 950 sq ft.</li> </ul> <p><b>Public sales (GLS)</b></p> <ul style="list-style-type: none"> <li>Investment sales value doubled q-o-q to \$1.9bn, as more sites with higher land prices were sold.</li> <li>Four sites were awarded in Q3 2019 vis-à-vis just two in Q2 (Table 2), notable transactions included: <ul style="list-style-type: none"> <li>The largest transaction was for the Tan Quee Lan Street site sold for \$800.2m (or \$1,535 psf ppr) to GuocoLand and Hong Leong JV. This was about 5.3 per cent higher than the Middle Road site which was sold for \$1,458 psf pps in March this year to Wing Tai Holdings. The site strategically aligns well with the Midtown Bay project across the road currently developed by GuocoLand.</li> <li>In contrast to the lesser number of bids received for the other three sites, the smaller site at one-north Gateway received the most bids with nine. It was awarded to a Hong Leong Holdings and Mitsui Fudosan Co JV for \$155.7m (or \$1,001 psf ppr). This site drew more bids likely due to its strategic location amid the growing one-north office and business park precinct which recently attracted high profile companies such as Grab and Razer setting up their headquarters. In addition, the development yield of some 165 units and limited upcoming supply were considered favourable.</li> </ul> </li> </ul>

**Table 2: Key private investment sale transactions in Q3 2019 (above \$100m)**

Development name/location	Tenure / (remaining tenure)	Purchase price	Purchaser/investor type
<b>Office/Office Mixed Use</b>			
DUO Tower and Galleria (City fringe)	99 years (91 years)	\$1.575bn (\$2,570 psf NLA)	Allianz Real Estate and Gaw Capital Partners (foreign institutional investor)
71 Robinson Road (CBD)	99 years (74 years)	\$655.0m (\$2,756 psf NLA)	Sun Venture (local property company)
Plus, 20 Cecil St (CBD)	99 years (69 years)	\$530.0m (\$2,320 psf strata area)	CapitaLand (local listed property company)
Anson House (CBD)	99 years (76 years)	\$210.0m (\$2,435 psf NLA)	Arch Capital Management (foreign institutional investor)
3 floors at Woods Square (Decentralised area)	99 years (93 years)	\$131.7m (\$1,800 psf strata area)	Far East Management (local property company – related party transaction)
<b>Industrial</b>			
Keppel DC Singapore 4 (99% stake)	30 +30 years (1 year, with renewal option)	\$392.3m (\$4,687 psf NLA)	Keppel DC REIT (local listed REIT) – related party transaction
1-Net North DC	70 years (17 years)	\$207.2m (\$969 psf NLA)	
48 Pandan Road	24 years	\$225.0m (\$206 psf GFA)	ESR REIT (local listed REIT) JV – related party transaction
<b>Retail/retail mixed-use</b>			
313 @ Somerset (Orchard/Scotts Road)	99 years (85 years)	\$1.003bn (\$3,479 psf NLA)	Keppel DC REIT (local listed REIT) – related party transaction
<b>Hospitality/hospitality mixed-use</b>			
Oakwood Premier OUE Singapore	99 years (46 years)	\$287.1m (\$1.1m per key)	AMTD Group and Dorsett Hospitality International (foreign institutional investor and property company)
Bay Hotel	Freehold	\$235.0m (\$0.7m per key)	Trade Dragon Global Ltd and Datapulse Technology (foreign institutional investor and local listed property company)
Darby Park Executive Suites	99 years (72 years)	\$160.0m (\$2.1m per key)	Foreign private entity
Min Yuan Apartments	999 years	\$141.0m (\$2,613 psf ppr)	Fragrance Group (local listed property company)

Source: Various sources, EDMUND TIE Research



**Table 3: Public GLS sales in Q3 2019 (above \$100m)**

Development name / market segment*	Site area (sq ft)	Plot ratio	Tenure (years)	Purchase price / (\$ psf ppr)	Purchaser/investor type
<b>Residential</b>					
Tan Quee Lan Street (CCR)	124,116	4.2	99	\$800.2m	GuocoLand & Hong Leong Holdings (local listed and private property companies)
Clementi Avenue 1 (OCR)	178,064	3.5	99	(\$1,535)	UOL & UIC (local listed property companies)
Bernam Street (CCR)	41,400	7.3	99	\$491.3m	Hao Yuan Investment (private local property developer)
one-north Gateway (RCR)	62,201	2.5	99	(\$788)	Hong Leong & Mitsui Fudosan (private and foreign listed property companies)

\* CCR = Core central region, RCR = rest of central region, OCR = outside central region

Source: URA, EDMUND TIE Research

## Outlook

Despite growing global tensions and uncertainties, a slowing local economy and business confidence falling to near two-year low in Q4 2019 (according to the latest Business Optimism Index), total investment sales value jumped 33.8 per cent q-o-q with heightened sales activity for commercial assets by local and foreign institutional investors including REITs.

- **Office** sector continues to stand out with another major transaction involving the DUO Tower, underpinning investors' confidence and positive outlook for the sector.
- The related party sale of two **data centres** to Keppel DC REIT in a tightly held market suggests the growing interests and demand of data centres as an alternate asset class and Singapore's status as a gateway and regional hub.
- **Residential** en bloc sales remained subdued and limited to smaller developments with the bulk of land sales coming from GLS sites, indicating that developers continue to be cautious amid the growing number of new projects launches and slowing economy.

With total investment sales value already exceeding our earlier lower bound estimates of \$18bn, the forecast for the remaining Q4 is likely to increase to range between **\$3bn and \$5bn**, bringing the total investment sales value in 2019 to \$22bn to \$24bn.

# OFFICE

## Market commentary

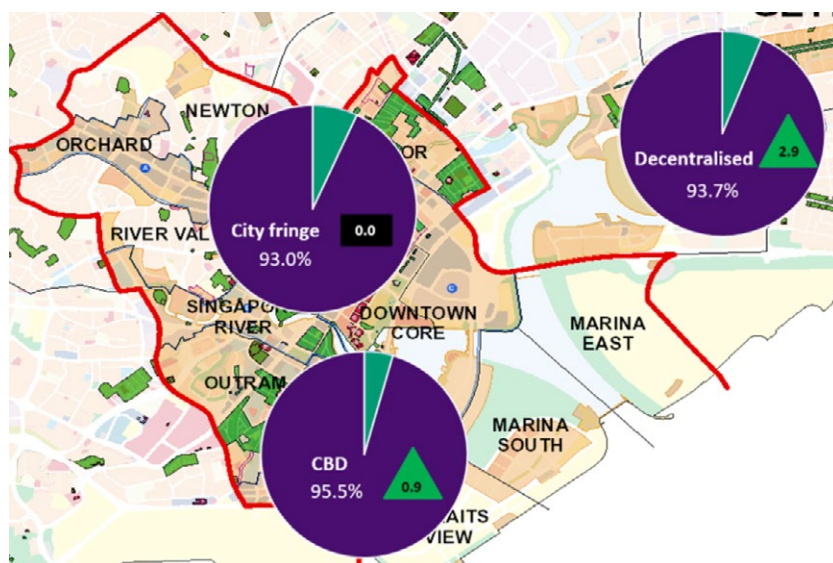
### Key market indicators

- The finance and insurance, information and communications, and business services sectors continued to contribute positively to Singapore's GDP in H1 2019.

### Investment market

- Total investment sales value continued to grow by 12.5 per cent q-o-q with the sale of DUO Tower and 71 Robinson Road and Anson House (Tables 1 and 2). These increased and sustained sale activities since the beginning of this year indicated confidence and optimism for the sector despite global headwinds and a slowing local economy.

Figure 3: Office occupancy rates in Q3 2019



Source: URA, OneMap, EDMUND TIE Research

### Office demand and occupancy rates

- Islandwide net absorption increased nearly four-fold to 851,000 sq ft in Q3 2019 and occupancy rate improved 1.2 percentage points (pp) q-o-q to 94.4 per cent.
- Occupancy rates in the decentralised area improved the most, mainly driven by new tenants progressively moving to their new office premises in Paya Lebar Quarter (PLQ), followed by the CBD and City fringe which remain unchanged q-o-q (Figure 3).
- Co-working and technology firms continued to be the key occupiers of CBD office space with several international companies setting up their regional offices in Singapore (Table 4).

Table 4: Key tenant movements in Q3 2019

Building	Location	Tenant	Sector	Comments (space occupied)
Marina Bay Financial Centre Tower 1	Marina Bay (CBD)	Pinterest	Technology	New office to service South east Asia (SEA) and India
Hong Leong Building	Raffles Place (CBD)	Epiq	Professional services	Relocation
MYP Centre		WeWork	Co-working	New location (100,000 sq ft)
Crown at Robinson	Shenton Way/ Robinson Road/ Tanjong Pagar (CBD)	LiquidX	Technology	Expansion of Asian HQ office
71 Robinson Road		Digital Reasoning	Technology	New APAC office
Maxwell Chambers Suites		INSOL International	Professional services	New Asia hub office
Twenty Anson		One&Co	Co-working	New location (13,000 sq ft)
Funan	City fringe	WeWork	Co-working	New location (70,000 sq ft)
		Trehaus	Co-working	New location (12,000 sq ft)
Suntec Tower 1	Decentralised areas	PCCW Solutions	Technology	Expansion of SEA HQ (12,000 sq ft)
Vision Exchange		GATE Energy	Oil & gas	New location
PSA Building		GeoSpock	Technology	New Asian HQ office
PLQ Tower 1		Spaces	Co-working	New location (52,000 sq ft)

Source: Various sources, EDMUND TIE Research

## Rental rates

With tightening vacancy rates and limited new supply, the average gross monthly rents rose across most of the sub-locations by between 0.0 and 1.5 per cent q-o-q (Table 5).

**Table 5: Average monthly gross office rents (\$ per sq ft)**

Location	Grade	Q2 2019	Q3 2019^	Q-o-q change (%)
CBD	Marina Bay	A+	11.10-13.10	11.25-13.30 1.5 ▲
	Raffles Place	A	9.35-11.35	9.40-11.45 1.0 ▲
	Shenton Way/ Robinson Road/ Tanjong Pagar	A+	9.95-11.95	10.10-12.10 1.5 ▲
		A	8.05-10.05	8.10-10.10 0.5 ▲
		B	6.55-8.55	6.60-8.65 1.0 ▲
City fringe	Marina Centre	A	8.90-10.90	8.90-10.90 0.0 —
	Beach Road/North Bridge Road	A	9.70-11.70	9.80-11.80 1.0 ▲
		B	6.50-8.00	6.55-8.05 0.5 ▲
	Orchard Road	*	8.55-10.55	8.55-10.55 0.0 —
Decentralised areas	one-north/Buona Vista/Harbourfront	*	6.50-8.00	6.55-8.05 0.5 ▲
	Tampines Regional Centre	*	5.10-5.60	5.10-5.60 0.0 —
	Jurong Gateway	*	5.50-6.80	5.60-6.90 1.0 ▲

\* Ungraded office space

^ Estimated forecasts only

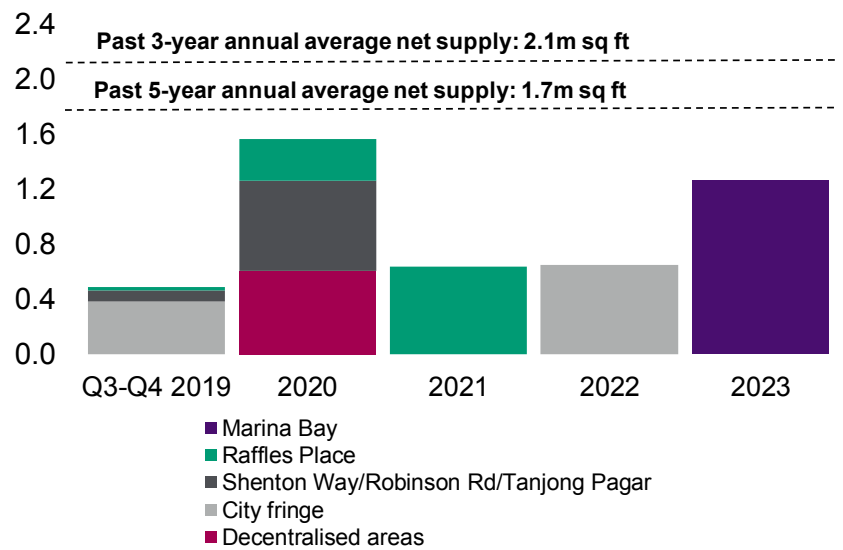
Source: EDMUND TIE Research



### Supply pipeline

- The total supply pipeline over the next 4 years to 2023 is approximately 4.6m sq ft (or 1.1m sq ft per annum). This is much lower than the 3- and 5-year average net supply of 2.1m sq ft and 1.7m sq ft respectively (Figure 4).
- 9 Penang Road, 139 Cecil Street and the renovation works at China Square Central are expected to be completed by end 2019. All these buildings have been fully pre-leased, except for China Square Central.

Figure 4: CBD office development pipeline, million sq ft



Source: URA, EDMUND TIE Research

### Outlook

Underpinned by tightening vacancies and increased investment sales activity, the office market continues to outperform the other asset classes despite weakening market conditions. This appears contrary to the past 10 years (post GFC in 2009) when the office market was relatively correlated to GDP growth. While average rents and capital values remain below pre-GFC levels, the fundamental basis for future high single- to double-digit rental growth appears 'unsustainable' as the underlying driver for current rental growth is largely due to the limited existing Grade A stock and future supply pipeline in the CBD. Hence, CBD rental rates are expected to increase by 5.0 to 10.0 per cent this year with 2020 levels likely to moderate.

# INDUSTRIAL

## Market commentary

### Key market indicators

The non-oil domestic exports (NODX) and the Purchasing Managers' Index (PMI) continued to decline in Q3 2019:

#### Singapore's NODX and PMI

Key economic indicators	June 2019	July 2019	August 2019	Key trends
<b>NODX</b>	<b>-17.3%</b>	<b>-11.4%</b>	<b>-8.9%</b>	<ul style="list-style-type: none"> <li>Decline of NODX appears to be easing, bolstered by higher gold exports.</li> </ul>
Electronics	-31.9%	-24.2%	-25.9%	<ul style="list-style-type: none"> <li>Electronic NODX dropped further in August weighed down by integrated circuits (-32.1 per cent), PCs (-28.6 per cent), and disk media products (-11.9 per cent).</li> <li>Non-electronics NODX continued to ease in August 2019 with pharmaceuticals (-23.6 per cent), petrochemicals (-20.8 per cent) and primary chemicals (-29.3 per cent) as the main drags.</li> </ul>
Non-electronics	-12.6%	-6.7%	-2.2%	
<b>PMI*</b>	<b>49.6</b>	<b>49.8</b>	<b>49.9</b>	<ul style="list-style-type: none"> <li>Both PMI and electronics PMI have been inching upwards after hitting a near 3-year low in June 2019, although the readings still indicate contraction.</li> </ul>
Electronics	49.2	49.3	49.4	<ul style="list-style-type: none"> <li>The slight uptick was due to higher new orders and factory output with the contraction in inventory slowing. However, the employment index continued to fall indicating cautious hiring plans.</li> </ul>

\* Reading above 50 indicates an expansion, while below 50 indicates a contraction.

Source: MTI, Enterprise Singapore, SIPMM, EDMUND TIE Research

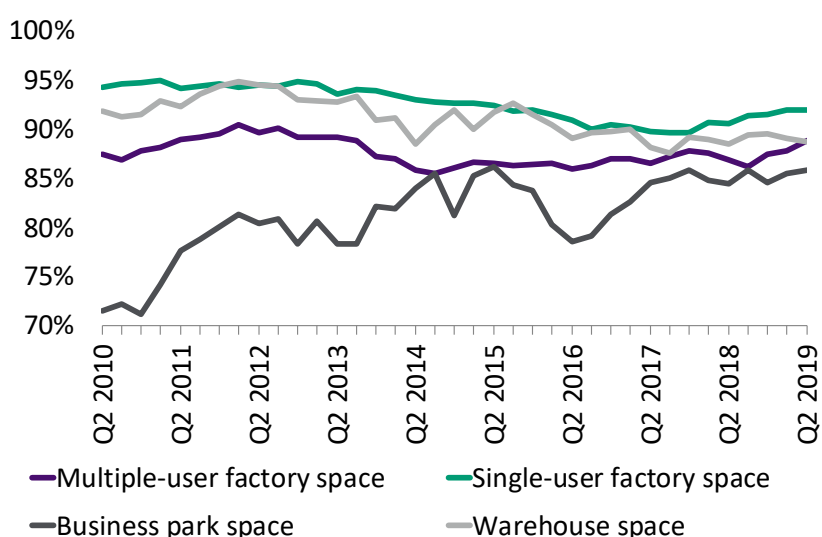
### Investment market

- With no GLS site awarded, private investment sales value jumped by more than five times in Q3 2019 mainly due to the sale of two data centres and a ramp-up warehouse in Jurong (Tables 1 and 2).

### Private demand, occupancy and supply (Q2 2019)

- Islandwide net absorption continued to weaken by 8.5 per cent q-o-q to some 1.6m sq ft, while net supply more than doubled to 1.4m sq ft in Q2 2019.
- Occupancy rates were relatively steady for all industrial types with marginal improvements in multi-user factories and business park (Figure 5).

Figure 5: Occupancy rates of private industrial space by type



Source: JTC, EDMUND TIE Research

- Notable tenant movements/expansion in Q3 included:
  - Google Asia Pacific taking up 344,100 sq ft, in Alexandra Technopark.
  - AIMS APAC REIT recently secured a US-based global medical device company as a master tenant for the four-storey ramp-up facility at 3 Tuas Avenue 2 (268,000 sq ft GFA).
  - Micron Technology's new and expanded fabrication plant in Woodlands was opened in August 2019.
- Net supply rose led by single-user factories with the completion of the STT Defu 2 data centre (DC) for ST Telemedia Global Data Centres (STT GDC) and a prefabricated construction components factory. In contrast, net supply for multi-user factories and warehouses fell, while business parks remained unchanged.

### Rental rates

- Rental rates are largely expected to trend downwards on the back of weakening manufacturing and wholesale trade sectors, although the easing of NODX and PMI may indicate a possible 'bottoming out'. In addition, the limited supply pipeline may provide some level of support to rental levels (Table 6 and Figure 6).
- On the other hand, rents for city fringe business parks rose by 1.0 per cent q-o-q likely due to the limited availability of suitable existing space and new supply.

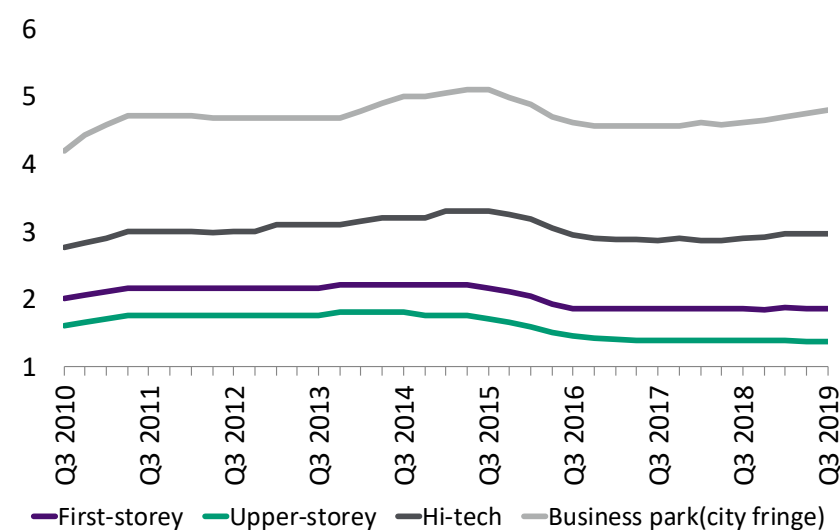
**Table 6: Average monthly gross rents (islandwide)**

Industrial type	Q2 2019 (\$ per sq ft)	Q3 2019* (\$ per sq ft)	Q-o-q change (%)
Multiple-user factory	First-storey: 1.74-1.99	1.73-1.98	-0.5 ▼
	Upper-storey: 1.39-1.59	1.38 to 1.58	-0.75 ▼
Warehouse/logistics	1.53-1.68	1.51-1.66	-0.1 ▼
Hi-tech industrial	2.85-3.05	2.85-3.05	0.0 —
Business park	City fringe: 4.30-4.80	4.35-4.85	1.0 ▲
	Non-city fringe: 3.50-3.80	3.50-3.80	0.0 —

\* Estimated forecasts only

Source: JTC, EDMUND TIE Research

**Figure 6: Private monthly industrial gross rents by type**



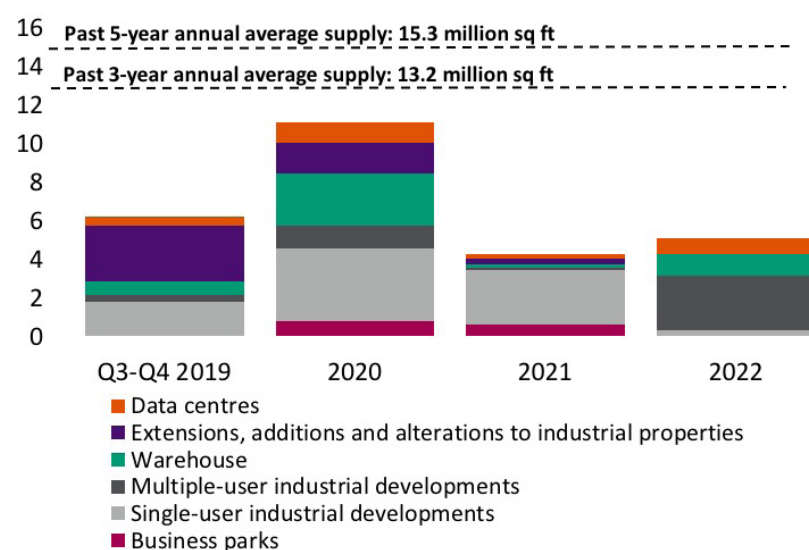
\* Estimated forecasts only

Source: JTC, EDMUND TIE Research

## Supply pipeline

- From now to 2022, there are approximately 26.7m sq ft NLA (or 7.6m sq ft per annum) in the supply pipeline. This is about 40 to 50 per cent lower than the past 3- and 5-year averages (Figure 7).
- With the completion of STT Defu 2 DC in Q3, there are still seven data centres in the pipeline totalling 2.6m sq ft. DC providers such as Digital Realty Trust have announced plans to develop its third DC, while Google and STT GDC are constructing their third and seventh DCs in Singapore respectively. This strong growth of DCs is to meet the rising demand for cloud business and enterprises undergoing digital transformation in Singapore.
- Although there are six business park developments in the pipeline of circa 1.4m sq ft, most of these business park developments are either owner-occupied or have been largely pre-committed. The largest development of approximately 400,000 sq ft is Surbana Jurong's new global HQ and Campus at the Jurong Innovation District.

Figure 7: Private industrial development pipeline (with planning approvals and GLS sites which are pending approvals), million sq ft



Source: JTC, EDMUND TIE Research

## Outlook

As global headwinds and uncertainties intensify, the industrial sector is expected to remain subdued and under some pressure with no quick recovery expected, especially for the manufacturing and trade subsectors. This will likely have broad flow-on impacts on most of the industrial types and to a lesser extent, DCs and business parks.

However, the Government stands ready to support the economy in the event of a downturn and has also reduced the industrial land supply on the GLS Programme. This, combined with a reduced supply pipeline over the next three years, will provide some support to occupancy and rental rates. Accordingly, rents for multiple-user factories and warehouses are expected to face some downward pressure of between -3.0 and 0.0 per cent, while the rental growth for business park space and hi-tech industrial space are likely to remain relatively positive, ranging between 2.0 and 5.0 per cent in 2019.

# RETAIL

## Market commentary

### Key market indicators

- Retail sales index excluding motor vehicles (ex MV) fell for the sixth consecutive month, down 2.4 per cent y-o-y in July 2019 (Figure 8). Every subsector fell except for medical goods & toiletries and supermarkets, with the main drags coming from furniture and household equipment (-8.3 per cent), computer and technology (-7.7 per cent) and watches and jewellery (-6.2 per cent).
- In contrast, the Food and Beverage (F&B) Services Index expanded for four consecutive months, up 3.2 per cent y-o-y in July 2019 with all subsectors growing led by fast food outlets (+5.2 per cent).
- Additionally, tourism receipts for shopping and F&B in Q1 2019 fell 7.0 per cent y-o-y. However, Mainland Chinese visitors continued to be the highest spenders with almost half of total spending on shopping.

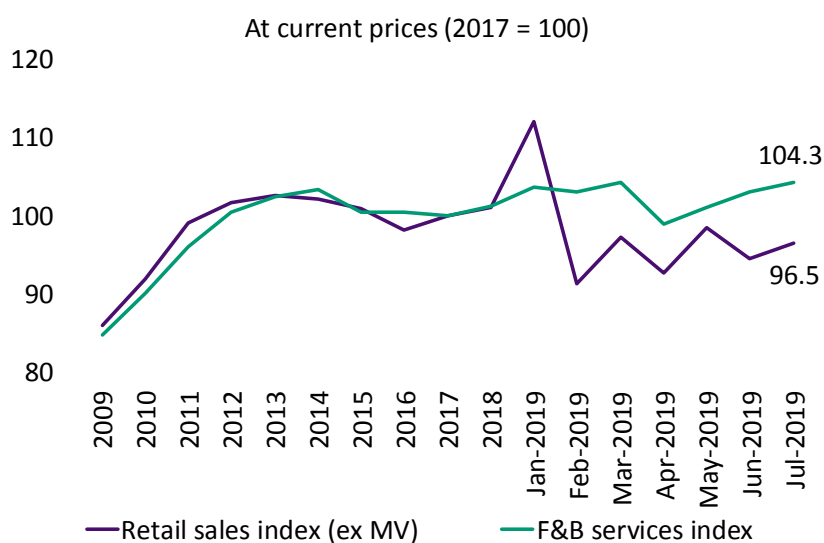
### Investment market

- The total investment transaction value grew by 7.7 per cent mainly due to the sale of 313@Somerset for just over \$1.0bn to Lendlease Global Commercial REIT which is expected to be listed on 2 October 2019 (Tables 1 and 2).

### Private demand, occupancy and supply

- Net absorption and supply rose significantly largely underpinned by the opening of Jewel Changi Airport and Funan in Q2 2019 and PLQ Mall in Q3 2019. Totalling more than 1.0m sq ft of retail space, these new malls were more than 90 per cent pre-leased. Accordingly, occupancy rates increased by 1.1 percentage points q-o-q to 91.2 per cent
- Despite the improved occupancy rates, the retail environment remains challenging with further closure and down-sizing of departmental stores and bookstores. Conversely, F&B appears to be 'bucking the trend' and continues to play an increasingly important component as part of a mall's retail mix.

Figure 8: Retail Sales Index (ex MV) and F&B Index (up till July 2019)



Source: Department of Statistics Singapore



### Orchard/Scotts Road (OSR)

- Net absorption increased from 12,000 sq ft to 36,000 sq ft in Q2 2019.
- Occupancy rate inched up 0.4 pp q-o-q to 94.3 per cent in Q2.
- There were a few notable closures at Centrepoin including Metro's flagship store, Times Bookstores and TianPo Jewellery. However, Decathlon will replace Metro as the anchor tenant and is expected to open in H1 2020.
- Other new F&B outlets in Q3 2019 included: Japanese Emma dessert opening its first overseas outlet at Plaza Singapura, Los Angeles ice cream shop, Little Damage, debuting at Wheelock Place, and Hong Kong café Tsui Wah with its second outlet at The Heeren.

### Other City Areas (OCA)

- Net absorption reversed from -16,000 sq ft in Q1 to 382,000 sq ft in Q2 2019 with the opening of Funan on 28 June 2019.
- Occupancy fell marginally by 0.1 pp q-o-q to 90.5 per cent in Q2.
- Some notable new tenants in Q3 2019 included:
  - Man Man Unagi (F&B), Tendon Kohaku (F&B) in Clarke Quay Central
  - American dessert shop Beverly Hills Cheesecake (F&B) in Raffles City
  - Japanese cafe 108 Matcha Saro (F&B), Taiwanese restaurant The Salted Plum(F&B) in Suntec City
  - JD Sports (Sports) and Taobao Store by Virmall (6,000 sq ft - department store and value store) in Funan
  - Japanese Meidi-Ya (supermarket) in Great World City
  - The North Face (footwear and apparel) at The Shoppes at Marina Bay Sands.

### Suburban Areas (SA)

- Net absorption jumped from 9,000 sq ft to 469,000 sq ft in Q2 2019 with the opening of Jewel Changi on 17 April 2019.
- Occupancy rate improved 2.0 pp q-o-q to 90.7 per cent.
- PLQ mall started trading on 30 August 2019 with the main retail mix by tenants as follows: F&B (44.0 per cent), beauty & health (18.0 per cent), fashion (16.0 per cent) with the anchor tenants being Shaw Theatres (leisure), FairPrice Finest (supermarket) and KopiTime (F&B).
- Other notable openings in Q3 included Apple's (IT) second store at Jewel Changi Airport, Fairprice Xtra (90,000 sq ft - hypermarket) at VivoCity replacing Giant and Chinese tea chain Heytea (F&B) at Westgate.

## Rental rates

Accordingly, rental rates are expected to remain largely flat with marginal rises in Q3 (Table 7).

Table 7: Average monthly gross rents in Q3 2019 (\$ per sq ft)

Location	Q2 2019	Q3 2019^	Q-o-q change (%)
OSR	First storey: 34.00-39.00	34.17-39.20	0.5 ▲
	Upper storey: 13.90-17.90	13.95-18.00	0.5 ▲
OCA	First storey: 16.10-21.10	16.10-21.10	0.0 —
	Upper storey: 8.00-12.00	8.05-12.05	0.5 ▲
SA (prime malls)	First storey: 25.30-31.30	25.30-31.30	0.0 —
	Upper storey: 15.00-20.00	15.00-20.00	0.0 —

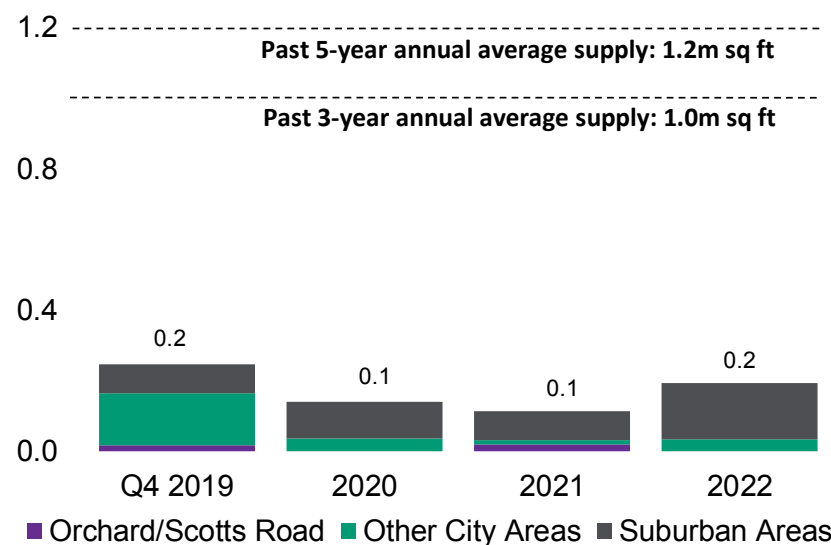
^ Estimated forecasts only

Source: URA, EDMUND TIE Research

## Supply pipeline

The supply pipeline from now until 2022 is projected to be limited comprising some 692,000 sq ft NLA (Figure 9) with the China Square Central retail podium (80,000 sq ft) expected to be completed by Q4 2019.

Figure 9: Retail development pipeline, million sq ft



Source: URA, EDMUND TIE Research

## Outlook

With growing economic headwinds and weak retail sales, islandwide rental rates are projected to remain subdued and mixed ranging from -2.0 to 1.0 per cent in 2019, although the limited supply pipeline from 2020 onwards will provide some support to rents and occupancy.

In addition, the continued investment sales activity since early 2019 suggests investors' confidence in the sector, although the landlords and retailers' ability to transform and adapt to the changing retail landscape is increasingly becoming more important.

# RESIDENTIAL

## Market commentary

### Key market indicators

- Latest Urban Redevelopment Authority (URA) flash estimates indicate that private non-landed prices rose by 1.7 per cent q-o-q vis-à-vis 2.0 per cent in the previous quarter. Prices of non-landed properties in all market segments grew, led by the core central region (CCR) with 2.9 per cent q-o-q, followed by rest of central region (RCR) with 1.6 per cent and outside central region (OCR) with 0.7 per cent.
- Based on advanced estimates, the seasonally adjusted unemployment rate for residents was up slightly by 0.1 pp to 3.1 per cent q-o-q in Q2 2019. However, retrenchments have not increased but remained low at 2,300.
- Housing loans fell for the 8th straight month by 1.1 per cent y-o-y, as demand for housing loans continue to weaken since the latest cooling measures were introduced in July 2018.

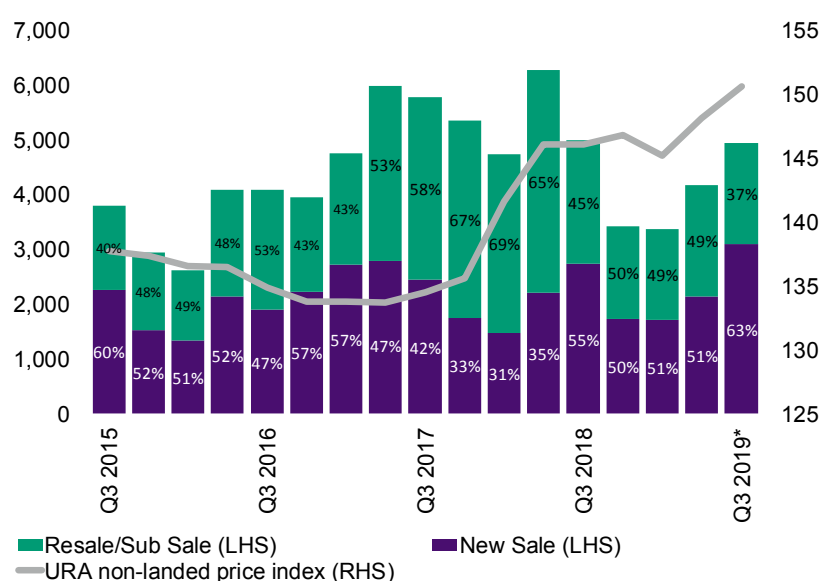
### Investment market

- Investment sales value doubled on a q-o-q basis in Q3 as more GLS sites were sold compared to the previous quarter (Tables 1 and 3) and accounted for the bulk of land sales.
- In contrast, private en bloc site sales remain subdued and limited to smaller developments as developers remain cautious amid the growing number of existing and upcoming new projects launches as well as current economic uncertainties (Tables 1 and 2).

### Private non-landed sales volume, prices, completed supply and rents (excluding executive condominiums - ECs)

- New sales volume is expected to outweigh resale volume (includes both resale and sub sale) for the second consecutive quarter, as the number of units from new projects launched in Q3 jumped by about 67.0 per cent q-o-q to approximately 4,500 units in Q2. This big increase was mainly attributed to launch of three major new projects: One Pearl Bank (774 units), Parc Clematis (1,468 units) and Avenue South Residences (1,074 units) (Table 8).
- As such, new sales in Q3 are projected to surge by more than 44 per cent q-o-q to circa 3,100 units (Figure 10) led by RCR and OCR due to the launches of the three major new projects mentioned above.

**Figure 10: Private non-landed home sales volume (excluding ECs) and URA price index**

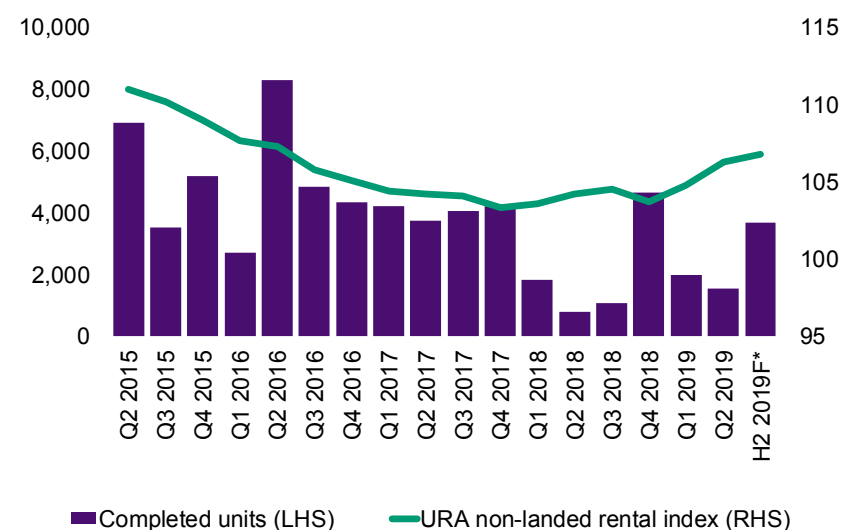


\* Forecast of new sale and resale volumes for Q3 2019

Source: URA, EDMUND TIE Research

- Conversely, resale volume is likely to decline some 9.0 per cent q-o-q to about 1,800 units, as buyers continued to prefer new units over older resale units, with a wide range of projects to choose from.
- Accordingly, total sales volume in Q3 is projected to reach approximately 5,000 units, which is about 20 per cent more than the previous quarter and a record high since Q3 2018.
- With the number of non-landed unit completions projected to average approximately 5,500 units per annum until 2020, which is significantly below the 3- and 5- year averages of 14,900 and 16,500 units respectively, the rental market is expected to remain stable with some positive upside considering that the vacancy rate had remained relatively steady over the past two quarters. As such, islandwide rents are forecasted to moderate slightly to between 0.5 and 1.0 per cent q-o-q growth in Q3, versus 1.4 per cent in Q2 2019 (Figure 11).

**Figure 11: Private non-landed completions (excluding ECs) and URA rental index**



\* Forecast of rental index for Q3 2019

Source: URA, EDMUND TIE Research

### New non-landed project launches

- Bulk of the launches were in July and September, as developers typically do not launch new projects during the Hungry Ghost Month in August.
- The majority of new launches were in RCR, with six projects totalling 2,615 units, up by more than 50.0 per cent from Q2.
- Initial sell-down rates of the new projects launched ranged from 2.6 to 30.4 per cent with One Pearl Bank achieving the highest sell-down rate, followed closely by Avenue South (Table 8). Both projects were considered attractively priced based on both projects' city fringe location, good access to amenities and transport, as well as the overall product quality, notably One Pearl Bank's renovation-zero concept which is a benefit for investors.

**Table 8: Non-landed private residential launches (excluding ECs) in Q3 2019 (projects >100 units)**

Development	Developer	District (market segment)	Tenure (years)	Total units	Launch month in 2019	Initial sell-down rate*	Indicative average price (\$ psf)
One Pearl Bank	CapitaLand	3 (RCR)	99	774	July	30.4%	\$2,400
Avenue South Residence	UOL, UIC & Kheng Leong Co	3 (RCR)	99	1,074	September	30.1%	\$2,000
Parc Clematis	SingHaiyi Group	5 (OCR)	99	1,468	End August	27.7%	\$1,550
View at Kismis	Roxy-Pacific Hldgs & Tong Eng Group	21 (RCR)	99	186	July	25.3%	\$1,700
Meyer Mansion	GuocoLand	15 (RCR)	Freehold	200	September	13.0%	\$2,700
Haus on Handy	CDL	9 (CCR)	99	188	July	12.2%	\$2,850
Uptown@Farrer	Low Keng Huat	8 (RCR)	99	116	September	11.2%	\$1,850
The Antares	TA Corp, Hock Lian Seng Hldgs & Keong Hong Hldgs	14 (RCR)	99	265	September	6.8%	\$1,760
Cuscaden Reserve	SC Global, New World Dev & Far East Consortium	10 (CCR)	99	192	September	2.6%	\$3,392
2 smaller projects with less than 100 units				71			
<b>Total units</b>				<b>4,534</b>			

\* Estimate based on URA caveats as at 1 October 2019

Source: URA, EDMUND TIE Research



## Outlook

Since the start of 2019, approximately 41 new projects comprising more 12,000 units have been launched with an estimated average sell-down rate of 27.0 per cent as at Q3. An additional 2,500 to 3,500 units is anticipated to be launched in the remaining quarter. With total new sales volume over the past three quarters likely to exceed 7,000 units, new sales are expected to be within our earlier forecast of 8,000 to 10,000 units for 2019.

Although the rise of the price index for two consecutive quarters appears to be 'diverging' from economic fundamentals, this does not necessarily imply that the market is 'buoyant' and / or developers are profiteering. To put things in perspective, the following factors should be considered as well:

- New unit prices tend to be higher than resale units, especially after factoring the higher land prices paid by developers during the en bloc fever. Consequently, the higher proportion of new sale volume vis-à-vis resale would result in higher prices, all else being equal. Additionally, our analysis shows that land cost as a percentage of average selling price has been trending upwards, which means that developers' margins are likely compressing.
- The estimated average sell-down rate for the 41 new projects launched since the beginning of this year was approximately 27.0 per cent. In comparison, the sell-down rate of new projects launched 12 months prior to the cooling measures in July 2018 were averaging some 47.0 per cent. Furthermore, the number of new launches and units were substantially lower than the first three quarters of this year. Hence, this does not suggest that the market is 'buoyant'.

Accordingly, although overall unit prices are forecasted to rise by between 2.0 to 4.0 per cent this year, barring any economic shocks.

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