

## Introduction

As expected, the last month of 2007 was very quiet and uneventful – to the disgust of many agents who subscribe to the notion of productivity equals profit from activities. There were a number of inconsequential policy changes concerning the real estate market. They are not expected to have any major impact on the fate of the property market.

Most of the changes, including CPF changes and Development Charge changes, have already been made known months ago and therefore did not cause a ripple.

More announcements were made regarding the Government Land Sale Programme for next year and that too did not cause any excitement as investors and developers had already been primed. Here are summaries of December's news.

### (A) Global financial market still uncertain in 2008

#### ▪ (A.1.) More bad news from the US sub-prime woes

The US sub-prime problems continue to claim their victims going into Christmas. A couple of embarrassing corporate news was unveiled including one that concerned Switzerland's largest bank UBS and the world's largest wealth manager. The bank announced further write-downs of around 10 billion dollars (6.8 billion euros) due to the US subprime mortgage crisis.

In an unprecedented move, Singapore's Government Investment Corporate bought, together with an unknown Middle Eastern investor, roughly 9% stake of the bank.

On 17 December 2007, Washington-based mortgage finance company Fannie Mae forecast further decline in US housing market in 2008. It said that existing home sales will drop 12% and existing home prices will fall another 4.5% in 2008, painting a bleak picture for the troubled US housing market.

According to forecasts from the National Association of Realtors (NAR), median home prices in the US declined for the first time since the Great Depression. Not only have homebuilders and mortgage companies been affected by the subprime crisis, banks and brokerages have been hit, posting write-downs and losses of more than \$80 billion.

There was evidence in abundance to show that the US housing crisis is not yet over. Economists of all subscriptions expect US housing prices to decline further as an increase in foreclosures adds to a glut of unsold homes on the market, forcing sellers to cut prices.

#### ▪ (A.2.) MAS sees more uncertainties next year

The Singapore central bank has also sounded warning that there will be more uncertainties in 2008 due to the current financial market turmoil. The region is facing increased risks to its growth outlook.

The Asia Pacific region as a whole is enjoying strong inflows of funds which have been channelled into property, equity and other financial assets. However, the risk is increasing and this makes it difficult for corporations and banks to sustain financial performance.

MAS said that household debts growth in October accelerated to 15.5% due to increase demands which are evenly spread. The growth is the fastest in almost 11 years. Home loan growth was up 14.4% while business loans galloped at 18.5%.

The negative housing equity situation has improved a great deal, with the proportion of negative mortgage accounts having halved to 2.5% in September 2007 from 5.1% in the same period in 2006.

The rise in banks' property exposure has been driven mainly by loans to property-related firms. Loans to individuals for investment purposes have also increased recently.

However, the MAS continues to be concerned about the double-digit growth of business loans being driven by the building and construction sector though the non-performing loans ratio of this industry has improved likewise.

## **(B) New measures concerning properties announced this month**

### **▪ (B.1.) New definition of Development baseline takes effect 1 January 2008**

From 1 Jan 2008, the old definition of development baseline being the highest of either the value resulting from the intensity guideline of 1958 Master Plan or 1980 Master Plan will be abolished.

Development baseline will be simply defined as the value of the approved development. The historical baseline values in the master plans of 1958 and 1980 will no longer play any part in the calculation.

The Development Charge payable is the difference of development ceiling (being the maximum value approved) and development baseline.

However, land owners who keep to the allowed use under the current master plan will still not be affected by the new way of computing Development Charge.

### **▪ (B.2.) New CPF interest rates to be effective on 1 January**

From 1 Jan 2008, CPF members will earn one percent higher interest on their first \$60,000 of savings as follows:

- Their Special, Medisave and Retirement Account (SMRA) will attract 5% instead of 4% previously.
- Their Ordinary Account (OA) will receive 3.5% for up to \$20,000. Anything higher than the required \$60,000 attracts the same interest rate.

For savings beyond \$60,000, a minimum rate of 2.5% will apply. However, the HDB subsidised loan rate will not be affected by the latest CPF interest rate change.

**(C) Events that could affect 2008 real estate market****▪ (C.1.) Luxury home segment unlikely to dominate market like last year**

There could be only 4,600 private homes, or 26% of the total number of new homes, to be launched next year in the Core Central Region (CCR). This year, there were 5,700 new units or 38% of the total 15,000 new homes launched.

Altogether, a total of 17,800 new private homes are expected to be launched in 2008. Though this figure is higher than last year's, there will be fewer luxury homes. As such, prices of high-end homes should hold strong in CCR.

Among the high-end projects expected to be launched next year are Marina Bay Suites, Sentosa Quayside, Goodwood Residence in Bukit Timah and The Hamilton at Scotts Road.

However, developers are not expected to rush the launches as there are good reasons for them to time the public launches to take advantage of the casino effect later on in 2009 and 2010.

The few positive factors such as en bloc sellers seeking replacement properties, foreigners looking for a safer haven, and soaring rents may still be the major deciders to hold the market together.

**▪ (C.2.) Mass market home may dominate next year**

For the residential sector, the buying activities should be concentrated in the mass market next year as high-end homes have become too expensive for most.

Government Land Sales programme should be more subdued in the first half of next year as the demand has already cooled off in the fourth quarter of 2007.

Prices of mass-market private homes are likely to appreciate 10% to 15% in 2008, after rising about 25% this year. But development costs had shot up by more than 30% so far this year. As such, there is still upside for mid-range home prices, which are still below their peaks.

While foreign buyers may not affect mid-range market so much, other external factors such as the US sub-prime market problems, rising oil prices and the US economy are universal and will likewise affect the mid-range market. If the external forces turn out to be neutral, the Singapore property market recovery will continue. But if they worsen, nobody will be spared.

**▪ (C.3.) More mass market home in mid-term**

The Government has again played a heavy hand in state intervention of the real estate market by announcing an expansive programme of land sales for the first half of 2008.

A total of 21 residential sites, mainly in the mass market segment which include new plots at Choa Chu Kang, Tampines and Sengkang will be released for public tender soon.

The land sales programme includes 17 new sites for sale, out of which 11 are in the confirmed list. Eight of them are residential, mostly in suburban areas such as West Coast Crescent, Yishun and Sembawang.

#### ▪ (C.4.) Fewer new property launches in the last quarter of 2007

Property sales in the fourth quarter of 2007 stood at \$2.9 billion so far. The figure dwarfed in comparison with the previous quarter's \$15.6 billion

Even with the time lag between a transaction and the lodgement of a caveat, it is unlikely that the fourth quarter figure can suddenly rise to match any of the previous quarters' sales figures this year. In fact, property sales broke record with closing figure of \$24.2 billion in the second quarter.

In fact, the weak performance of the property market is not surprising at all after the double whammy of US sub-prime crisis and the withdrawal of the deferred payment scheme in October. Buyers now understand the risks involved in property purchases and have been more prudence in their purchases.

Another reason for the sharp fall in transactions is the lack of new property launches in the last quarter of the year.

#### (D) News on Government land Sale programme

##### ▪ (D.1.) Lukewarm response at Boon Lay site

At the close of the tender, only two bids were received by URA for the 99-year leasehold site between Boon Lay Way and Lakeside Drive.

The top bid was put in by Frasers Centrepoint at \$205.6 million - or \$248 per sq ft per plot ratio (psf ppr) - for the 236,731 sq ft site. The site which could yield 828,552 sq ft in gross floor area (GFA), is a stone throw away from the Lakeside MRT station. The surprising weak response of the site may be due to the withdrawal of an earlier plan by Canadian International School to relocate to Jurong East.

Rising building costs and shrinking profit margin may have kept out the other bidders.

##### ▪ (D.2.) Government Land Sale (GLS) programme will continue in 2008

The Ministry of National Development will continue to release more quality land through its Government Land Sales (GLS) Programme, despite some private property analysts predicting supply glut in the near future.

[See Annex A for "Where are the GLS sites"]

A total of 37 sites will be offered in the first half of 2008 - 11 in the confirmed list (down from 14 for the current 2007 second half programme) and 26 in the reserve list (one site fewer than in the current list).

The number of sites to be released in the first-half of next year will roughly be similar in scale to the offerings for second half of 2007. See table below for details.

	1 <sup>st</sup> half 2008	2 <sup>nd</sup> half 2007
Private homes	8,250 units	8,000 units
Commercial space	4.4 million sq ft	3.8 million sq ft
Hotel rooms	5,850 rooms	6,500 rooms

The bulk of the supply for the first half of next year will continue to come from the reserve list, where sites are launched for tender only upon application by developers.

About 44,500 new private homes will be completed by 2010. Out of these, 17,800 units or 40% will be in the Core Central Region, which includes prime Orchard Road, Marina Bay and Sentosa Cove.

#### **(E) Sub-sale may make a return next year**

##### **▪ (E.1.) Fewer sub-sales deals but sub-sale value hits all-time high**

Sub-sale value of apartments transacted in the first three quarters of this year is at an all-time annual high of \$6.7 billion. However, in terms of volume, it is about half of what it was in 1995.

The number of sub-sale transactions fell to 1,374 (or a quarter-to-quarter decline of 23%) in the third quarter of this year.

Median sub-sale prices are at a new record high of \$1,246 psf. Quarter-to-quarter, the increase is 13.6% and a year-on-year increase of 25%.

The value per transaction of sub-sale apartments is also at a record high this year at \$1.71 million per transaction.

##### **▪ (E.2.) Lower supply and more TOP may drive up sub-sale deals**

In light of a lower supply of quality homes in choice locations and with various new developments becoming available for immediate occupation, sub-sale activities may hot up early next year.

The number of sub-sale apartments in the luxury band fell 41% to 317 transactions but it still makes up 45% of sub-sale transactions.

The overall value of sub-sale apartments for the whole of 2007 is expected to increase further, backed by potential price increases.

[See Annex B for "Who is the hottest in Sub-sales"]

#### **(F) En bloc sales news**

##### **▪ (F.1.) En bloc deals surpassed \$13 billion this year**

The sparkle of en bloc sales has been doused in the second half of the year. With December drawing to a close, only 27 sites worth \$2.81 billion were sealed in the second-half this year. In the first half of the year, a total 82 en bloc deals worth \$10.49 billion were transacted.

However, compared with the whole of last year where 79 deals amounting to \$8.2 billion, this year's tally of \$13.3 billion from 109 deals is still breath-taking.

En bloc sales for 2008 look set to be a subdued affair with the Development Charge percentage still standing tall at 70% of market value; and the new Collective sale rules making all parties work doubly hard for their money.

However, on a brighter note, with the economy cruising at comfortable speed, developers may still be keen to land-bank as long as there are 'quality sites' ripe for the picking. Any site with good investment potential will still attract fierce bidding.

Industry players also agree that the pace at which developers acquire more redevelopment sites through en bloc sales will be a function of how their newly launched projects perform.

▪ **(F.2.) Developers unlikely to pay high price for collective sale**

Developers will probably not pay high prices for collective sale sites from now on as the US sub-prime market woes have taken some froth out of the exuberant market. As such, supply volume may begin to slip.

Though not expecting a massive landslide in property prices, developers in general acknowledge that there would be a little slowdown in activities next year.

Developers have become the victims of their own success. They are now grappling with rising costs, shortage of construction materials and inadequate skilled labour.

However, the developers are well aware of the imminent challenges posed by rising oil prices, a weakening US dollar, the sub-prime crisis and occasional shocks in the supply of construction materials.

▪ **(F.3.) En bloc sale news: Amber Park at \$750m**

District 15 Amber Park, in Amber Gardens, Katong, is now on the collective sale market for \$750 million or \$1,234 per square foot per plot ratio.

The freehold site has a land area of 213,673 sq ft and has an approved gross floor area of 607,601 sq ft. The site could yield about 375 apartments with an average size of 1,600 sq ft.

There will be no development charge based on the existing plot ratio of 2.843, which is slightly higher than the gross plot ratio of 2.8 in the 2003 Master Plan.

**(G) Foreigner's interest in Singapore real estate never wanes**

▪ **(G.1.) 78 Shenton Way sold for \$650m to German group**

Germany's Commerz Grundbesitz Investmentgesellschaft (CGI) group has acquired 78 Shenton Way for \$650 million or \$1,857 psf based on a total net lettable area of about 350,000 sq ft.

The building seller, a joint-venture between Credit Suisse and CLSA funds, made a cool \$301.5 million from the transaction. The joint venture had bought the building in January 2007 for \$348.5 million. Not bad for a year's work.

CGI, which is the capital investment company for the open-ended fund Haus-Invest, is making its maiden entry into the Singapore real estate market

▪ **(G.2.) Apollo Centre sold to US funds for \$205m**

AEW Capital Management, an US property fund manager, has acquired Apollo Centre for \$205 million or \$1,378 per sq ft (psf) of lettable floor area.

Apollo Centre, located at the junction of Eu Tong Seng Street and Havelock Road, is a seven-storey commercial building with shops on the basement, first and second storeys and offices on the upper floors.

It sits on 54,600 sq ft of land and has a gross floor area of around 217,500 sq ft. The lettable floor area is 148,700 sq ft. It is on a 99-year lease, with 75 years left.

[See Annex C for "Who is AEW"]

▪ **(G.3.) Goldman seeking to make \$1 billion on DBS Building**

After holding on to the purchase of DBS Building along Shenton Way for two years, the building owner Goldman Sachs is sourcing for a buyer to pay it a cool \$1 billion profit.

Goldman had acquired DBS Building for \$789 psf or \$690 million two years ago and is now asking for at least \$2,000 psf of net lettable area (NLA) or \$1.75 billion.

However, property analysts estimated that in the current market, Goldman Sachs may fetch around \$1,750 psf to \$1,800 psf of NLA for DBS Building, given the building's age and short balance land tenure.

[See Annex D for "What has Goldman been up to"]

▪ **(G.4.) Foreigners bought a quarter of total residential sales**

Foreigners and permanent residents (PRs) chalked up 7,902 sales from January to November, which accounted for 24.9% of total residential sales so far.

The sales figures are the highest in 13 years, due to a robust regional economy and ever increasing arrivals of expatriates in Singapore.

Institutional investors also entered the market in a big way, picking up anything from several units to whole condo blocks and even development sites. They include Macquarie Global Property Advisors, Goldman Sachs and United States-based Wachovia Development.

The buying momentum propelled high-end condo prices pass the \$4,000 psf mark and surged past the \$5,000 psf mark for the very first time in local history.

A 53rd floor 5,048 sq ft penthouse unit at The Orchard Residences went for \$5,600 per sq ft in October, or slightly more than \$28 million. The 175-unit leasehold condominium is being built above the Orchard MRT Station.

All thanks to participation of foreign buyers, other developments that have registered sales of above \$4,000 psf include Hilltops, Ritz-Carlton Residences and Scotts Square.

In comparison, last year's price record - set in December by a unit in Marina Bay Residences - was only \$3,450 psf.

[See Annex E for "Foreign participation in buying commercial buildings"]

**(H) News on HDB Resale Market**▪ **(H.1.) Buyers snap up new flats from HDB**

As though it still needs further proof – the property bull is in the HDB market.

On 10 December 2007, HDB received more than 1,700 hopeful applications for just 316 new flats in Hougang, Punggol and Sengkang.

The 316 flats comprise 233 four-room, 57 five-room and 26 executive flats, with prices ranging from \$142,000 for a four-room flat in Hougang to \$358,000 for an executive flat in Sengkang.

In terms of sales, almost every unit of the HDB's unsold stock, released once every two months, has been snapped up immediately.

Just three years ago, there were as many as 10,000 unsold flats languishing in the market. But this figure had been dramatically trimmed to 2,400 as at 31 Oct 2007.

The HDB has said it would progressively offer all its unsold stock for sale in near term.

**Annex A****Where are the GLS sites**

Below are tables showing the estimated launch dates for all the sale sites next year.

Residential sites on the confirmed list

Location	No of units	Estimated Launch Date
Westwood Avenue	50	January 2008
West Coast Crescent	305	January 2008
Yishun Ave 1/ Ave 2	515	January 2008
Lorong 2 Lorong 3 Toa Payoh	535	February 2008
Sembawang Greenvale Phase 2	94	February 2008
Choa Chu Kang Drive	495	March 2008
Woodleigh Close	270	April 2008
Tampines Ave 1/Ave 10	575	June 2008

Residential sites on the reserve list

Location	No of units	Estimate Launch Date
Tampines Road (Landed)	35	Available for sale
Jalan Jurong Kechil	240	Available for sale
Punggol Field/Punggol Road (EC)	620	Available for sale
New Upp Changi/Tengah Merah Kechil	305	Available for sale
Bishan Street 14	535	Available for sale
Yishun Ave 11 (Executive Condo)	375	February 2008
Upp Changi Rd North/Flora Dr	380	March 2008
Chestnut Ave	435	March 2008
Jurong West ST 42 (EC)	465	March 2008
Sengkang East Ave/Buangkok Dr (EC)	465	April 2008
Upp Thomson Road	380	April 2008



Sengkang West Ave/Fernvale Link	465	June 2008
Sembawang Road/Canberra Dr	290	June 2008

**Annex B****Who is hottest in Sub-sales**

Icon has consistently been one of the top two developments in terms of sub-sales this year. Its median sub-sale price went up 26% quarter-on-quarter to \$1,495 in the third quarter. So far this year, 512 units in Icon have been sub-sold once.

The other hot candidate for sub-sale is The Sail @ Marina Bay which saw median sub-sale price going up by 21% quarter-on-quarter to \$2,093 psf. So far this year, a total of 370 units at The Sail have been sub-sold.

One-north Residences also registered a significant number of sub-sales, probably due to the allure of a 'Silicon Valley' look-alike culture of the R&D hub and the promises of high rental.

**Annex C****Who is AEW**

AEW and its affiliates manage more than US\$41 billion of real estate assets and securities in North America, Europe and Asia. The group set up an office in Singapore in April as a base from which to expand in the region.

Office rents in the city fringe area are about \$8.00 psf per month (psf pm) while retail rents range from \$8.00 to \$8.50 psf pm.

**Annex D****What has Goldman been up to**

Goldman has been very busy of late buying up prime office buildings in the central business district. In August this year, it purchased Chevron House at Raffles Place from CapitaLand for \$730 million or \$2,780 psf of NLA.

It is also expected to purchase the adjacent Hitachi Tower from CapitaLand for around \$3,000 psf, or about \$840 million.

Thanks to foreign funds such as Goldman Sachs, investment in Singapore's office sector has seen an astonishing \$14.9 billion worth of transactions so far this year - three times the sales figure for the whole of last year.

The severe constraints in demand/supply situation have pushed prime office capital values to nearly \$3,000 psf from about \$2,000 psf at the start of this year.

**Annex E****Summary of foreign participation in buying of commercial buildings**

In April this year, TSO Investment, a unit of a CLSA Capital Partners-managed property fund, sold SIA Building at Robinson Road to European pension fund manager SEB for about \$1,780 psf of net lettable area.

In September, SEB also bought 12 floors at Springleaf Tower in the Anson Road area at \$2,088 psf of net lettable area.

In October, Allco Commercial Real Estate Investment Trust acquired KeyPoint in the Jalan Sultan/Beach Road area for \$370 million or \$1,186 psf of net lettable area. The deal includes income support of up to \$10.5 million for two years to be provided by the seller.

In August, a Goldman Sachs-linked fund bought Chevron House (formerly Caltex House) along Raffles Place for \$2,780 psf, a record for an office block here. The tenure of land on which Chevron House stands is 99-year leasehold with a remaining lease of about 81 years.

The Goldman Sachs group is also expected to finalise the purchase of Hitachi Tower early next year for about \$3,000 psf. Hitachi Tower is just next to Chevron House and facing Collyer Quay.

Hitachi Tower has a 999-year leasehold status. The value of Hitachi Tower is higher than Chevron House also because it is not limited by rental caps for Chevron's lease. It is unlikely that in the near-term, rental value at Chevron House would have any upside.