NUS-REDAS RESEARCH

REAL ESTATE SENTIMENT INDEX

1st Quarter 2018

About Real Estate Sentiment Index (RESI)

The Real Estate Sentiment Index (RESI) is jointly developed by the Real Estate Developers' Association of Singapore (REDAS) and the Department of Real Estate (DRE), National University of Singapore. The quarterly structured questionnaire survey is conducted among senior executives of REDAS member firms. RESI measures the perceptions and expectations of real estate development and market conditions in Singapore. RESI comprises a Current Sentiment Index and a Future Sentiment Index, tracking changes in sentiments over the past and the next 6 months respectively, and a Composite Sentiment Index which is the derived indicator for the current overall market sentiment. RESI scores range from 0 to 10, reflecting the extent of pessimism or optimism of the survey respondents. A "net balance percentage" approach is adopted to derive the scores for key determinants of the real estate market sentiment.

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"The real estate market sentiment has been at the all-time high after showing 10 consecutive quarters of increases since 4Q 2015. The improvements in the performance were broad-based and found in all sectors of the property markets. Prime and suburban residential markets showed the most robust performance in 1Q18 supported by the strong take up in new launches."

Sing Tien Foo
Associate Professor

How would you rate the overall Singapore real estate market (commercial, residential, hospitality etc.) conditions over the time periods shown?

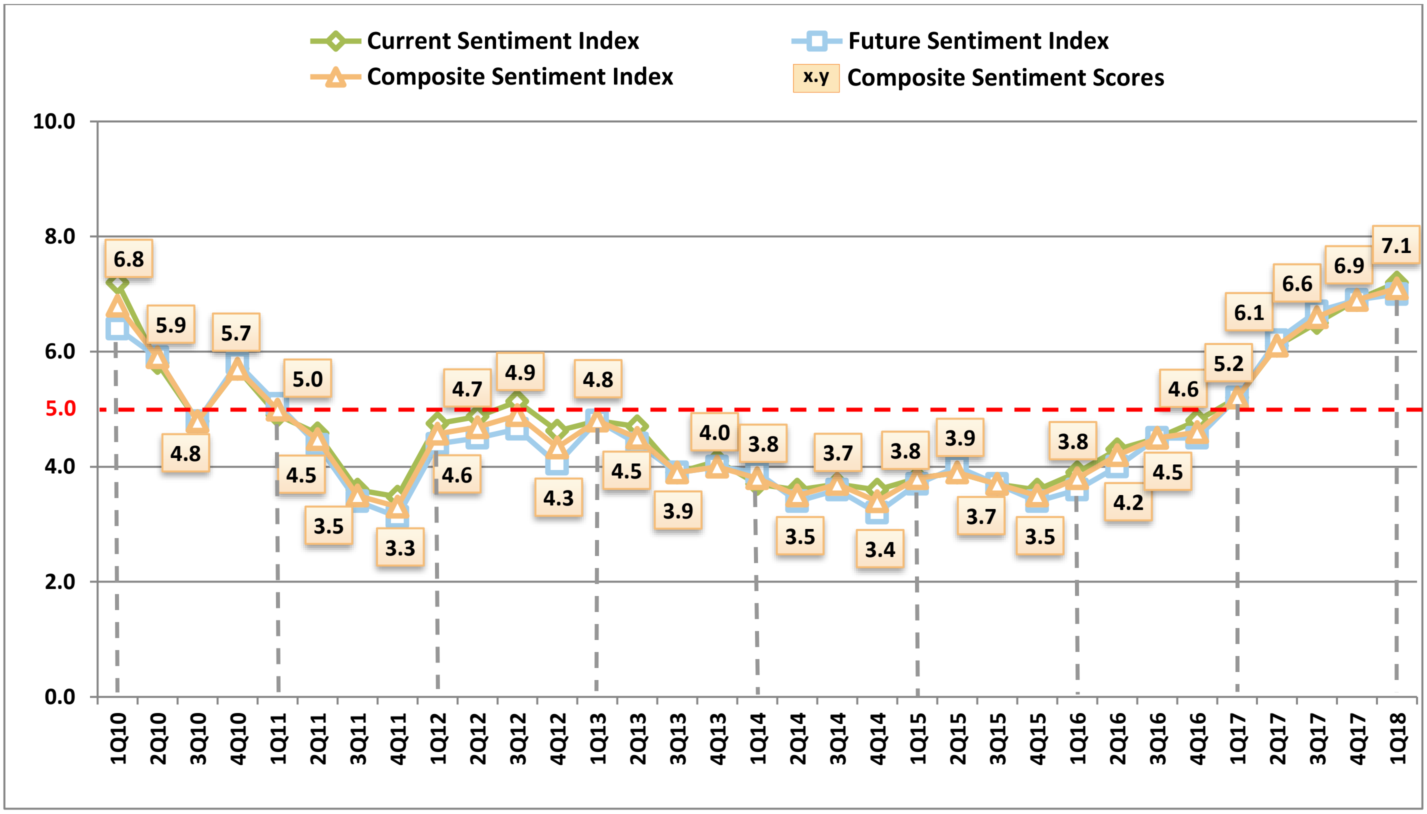
Current Sentiment Index:
The current sentiment index went up to 7.2 in 1Q18 from 6.9 in 4Q17.

Future Sentiment Index:
The future sentiment score increased to 7.0 in 1Q18 from 6.9 in 4Q17, which show that the market outlooks continue to strengthen in the next six months.

Composite Sentiment Index:
The overall sentiment stood at 7.1 in 1Q18 up from 6.9 in 4Q17.

Developers' sentiments have experienced ten consecutive quarters of increases since the trough in 4Q15. It is noted that the rate of increase of the sentiment index is positive but the upturn momentum appears to be slowing down quarter over quarter.

Exhibit 1: Real Estate Sentiment Index (1Q 2010 – 1Q 2018)



Source: NUS-REDAS Research

"Market sentiment has broadly improved over the last 6 months but it remains to be seen if the impact of stronger SGD and higher (interest) rates will have any meaningful impact going forward."

"The property market is generally in a buoyant mood in view of the rather healthy economy which boosts the office sector. There are pent-up demand for residential properties from those waiting on the sidelines and those who are selling their existing properties in enbloc transactions."

"Recovery in office take up, residential sales (enbloc) and economic positivity have helped lift the market in recent quarters. However, the uncertainty over trade war and interest rate movement continue to weigh down sentiments. Net effect is an improvement in condition and pace of improvement likely to remain steady, unlike the exuberance in prices of high end residential segment during 2005-2007, which was spurred by the influx of foreign buyers and limited policy intervention."

"Retail should start to play some catch-up in view of the improving consumer sentiment, tight labour market and recovering tourism."

"Keen competition is driving steep increase in land prices, but home price might not rise fast due to cooling measures still in place. Developers' margin might be squeezed."

Comments from Survey Respondents

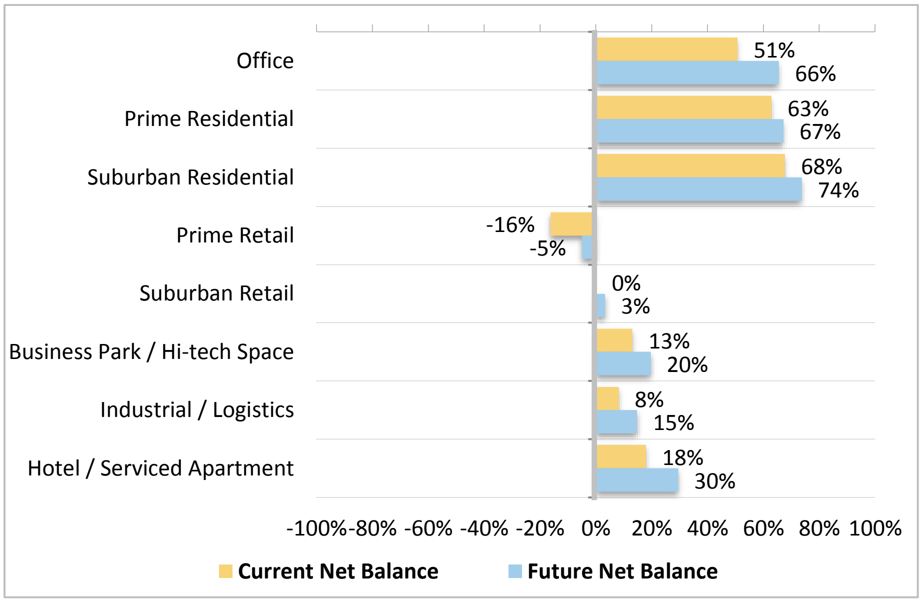
How would you rate the general performance (rental, price, occupancy, purchases etc.) of the sectors over the time periods shown?

The current and future net balances show improvements in all sectors in 1Q18. Prime residential and suburban residential sectors are the two best performing sectors in 1Q18. The current net balances of 63% and 68%, and the future net balances of 67% and 74% reflect optimism in the two residential sectors.

The office sector's performance is also robust, with the current net balance and future net balance increasing to 51% and 66%, respectively.

Compared with other submarkets, the prime retail sector is the only sector still showing negative current and future net balances of -16% and -5% in 1Q18, respectively. However, the sector shows improvements relative to the current and future balance of -31% and -10% in 4Q17, respectively.

Exhibit 2: Real Estate Market Performance



Source: NUS-REDAS Research

"Interest rates are expected to rise but likely to be moderate. Nevertheless, this will put some pressure on smaller companies seeking loans. The market is generally still quite liquid and fund raising should not be a problem."

"Most local developers are competing for land to remain their development pipeline and keep their businesses intact. While many have ventured into other markets, they would still compete for land stock here to maintain their market presence. Prices will likely to continue to increase as demand outstrips supply but as the market is heading into the late cycle, the volume should slow as already reflected by type of enbloc sites that are heading into the market. This inflationary pressure is likely to work itself into the secondary market as the collective sale owners enriched by their new-found wealth, heads into the market seeking a replacement home."

Comments from Survey Respondents

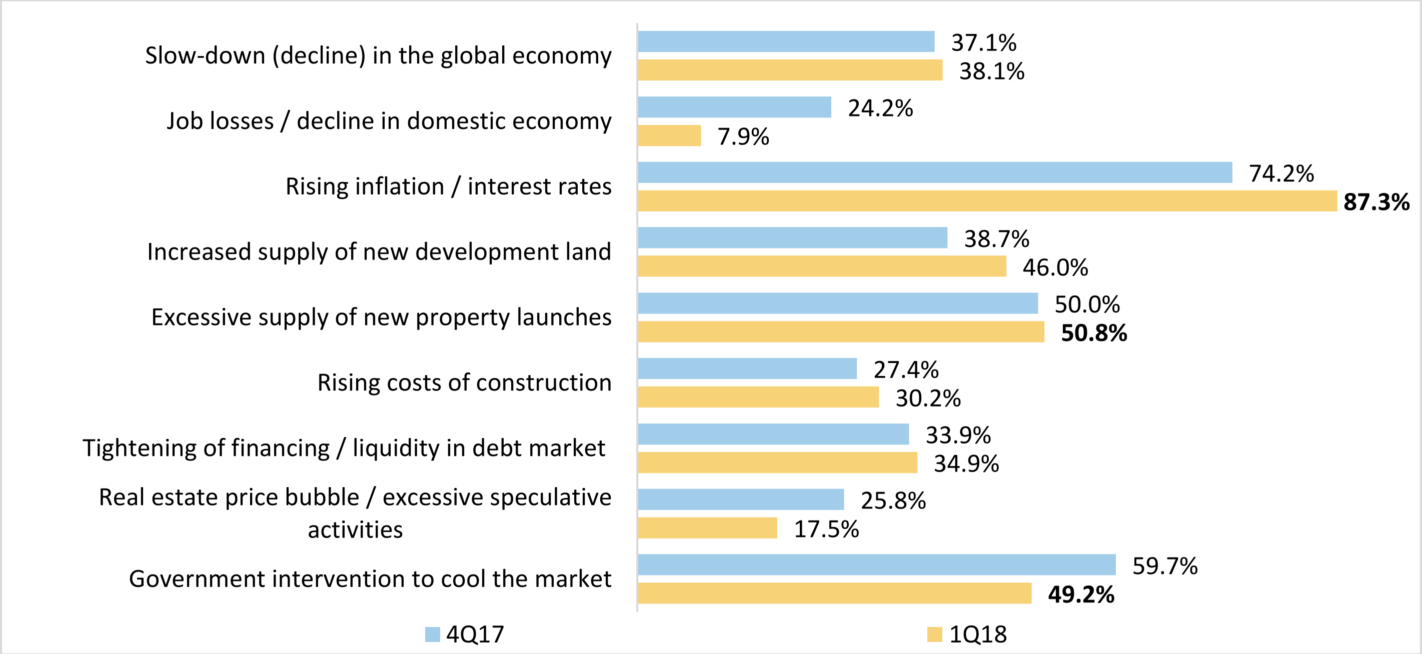
Do you foresee any potential risks that may adversely impact on market sentiment in the next 6 months?

In 1Q18, the respondents viewed rising inflation / interest rates, excessive supply of new property launches, and government intervention in the market as the top three potential risks that may adversely impact market sentiment in the next six months.

87.3% of the respondents were concerned about rising inflation and interest rates in the next 6 months, increased from 74.2% in 4Q17 and 50.8% in 3Q17.

In view of new launches in the pipeline, 50.8% of the respondents were worried about excessive supply of new properties. Compared to 59.7% in last quarter, 49.2% of the respondents were still concerned about unexpected government interventions into the market.

Exhibit 3: Potential Risks



Source: NUS-REDAS Research

"Interest on land will continue to be in demand especially for premium sites, be it from GLS or enbloc sale of site as the pool of enbloc beneficiaries will start to receive proceeds gradually and will likely re-enter the market and pick up replacement homes or reinvest in properties for capital appreciation or rental investment."

"Enbloc sales create new demand but also double new supply. High land prices may translate to higher prices but to a limited extent with the huge supply coming on stream."

"With huge capital outlays in enbloc, more long term funding from equity market or bonds or creative borrowing is needed, and interest rate impact should add to costs of long term projects."

"The land price has been increasing for the past 12 months and it is not a healthy ratio of land to total development cost. The land releases from government is sufficient with variety of choices but yet the pricing is very high."

"Developers are chasing up land prices in order to replenish stocks, especially listed ones who need to account to shareholders. Well located suburban land will continue to have strong demand due to the need to build affordable homes currently in demand."

"Developers are still waiting for the right time to launch and may only launch small batch to test market receptiveness to new and increasing pricing level."

Comments from Survey Respondents

What are your expectations regarding the number of new residential units to be launched in the next six months?

In 1Q18, 26.5% and 55.9% of the developers indicated that they would substantially increase or moderately increase their new launches, respectively.

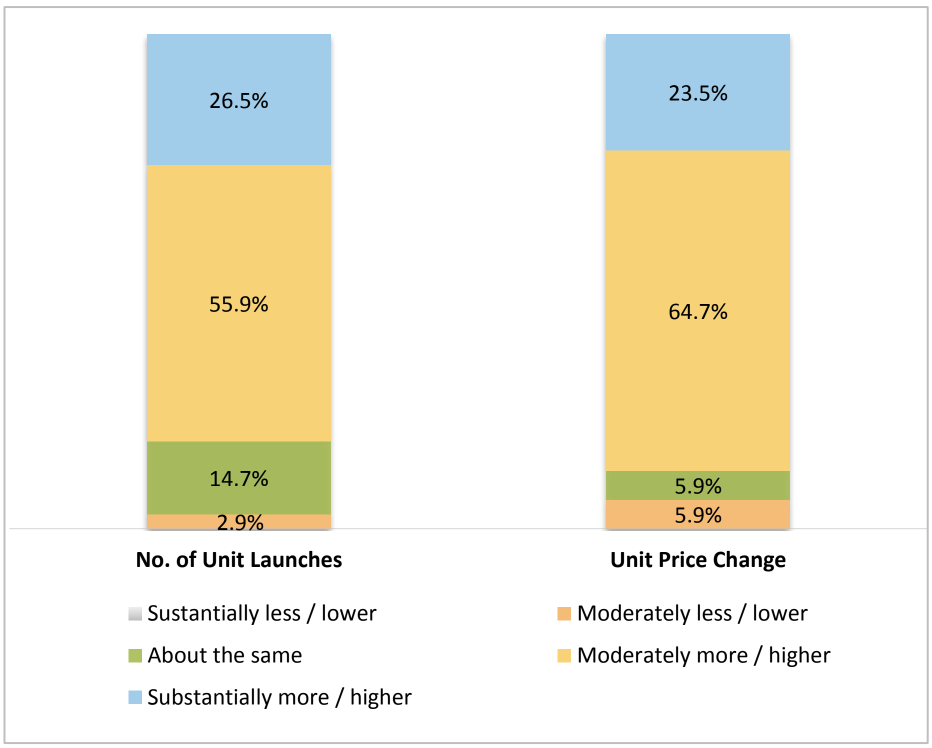
Only 14.7% of them would hold the new launches at the same level in the next 6 months.

What are your expectations on the pricing of new residential launches in the next six months?

In terms of unit price change, 88.2% of the developers anticipated the residential property prices to increase in the next six months.

Only 5.9% of them expected the residential property prices to hold at the same level, and 5.9% expected a drop in the prices.

Exhibit 4: Residential Launches & Prices



Source: NUS-REDAS Research

What is your assessment of latest DC rate revision? How do you rate the impact of this rate hike?

52% of the respondents and 62% of the developers indicated that the latest DC rate revision for non-landed residential properties (increased by 22.8% on average) is unusually high.

Despite the unexpectedly high DC rate hike, 65.1% of respondents indicated that there would not be significant cutback in collective sales activities in the next 6 to 9 months. 52% and 16% of all the respondents felt the DC rate hike only has minimal impact or no impact on land acquisition volume.

What is your forecast of the residential property price movement in the year 2018?

The respondents generally agreed that the residential property prices would continue to increase in 2018. *Exhibit 8* shows that 31.7%, 15.9% and 15.9% of the respondents indicated that residential property prices would increase by 5%, 8% and 10%, respectively.

In summary, 60.3% of all the respondents and 64.7% of the developers expected the residential property prices to increase by between 5 and 8%, whereas 25.4% of all the respondents and 29.4% of the developers expected the property prices to increase by 10% and more.

Exhibit 5: Assessment of the Latest DC Rate Revision

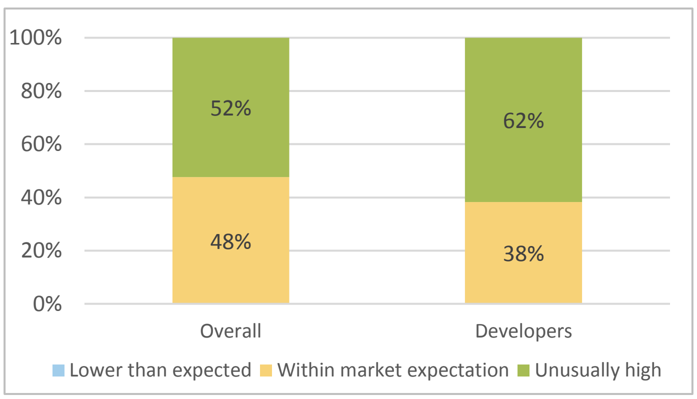


Exhibit 7: Other Impacts of DC Rate Revision

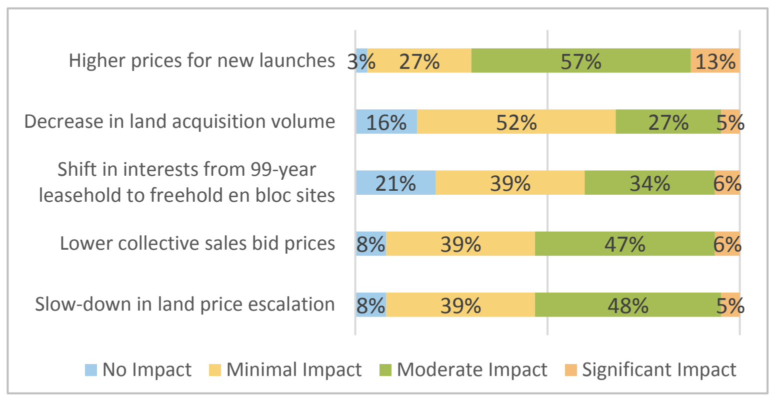


Exhibit 6: DC Rate Hike's Impact on Collective Sales

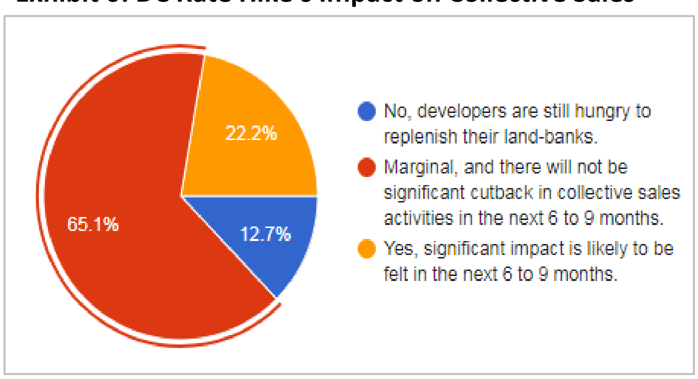
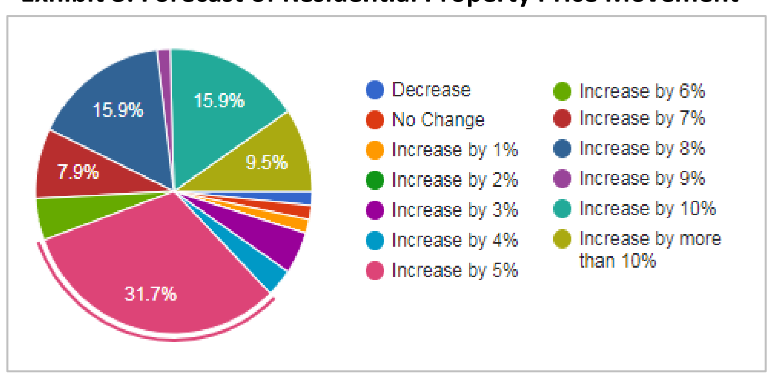


Exhibit 8: Forecast of Residential Property Price Movement



Source: NUS-REDAS Research

Other REDAS Publications:

REDAS Daily News

REDAS - Residential Development Reference

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Explanatory Note

The RESI is an objective and comprehensive measurement specifically gauging the confidence of senior executives in the Singapore real estate and development industry. The survey measures respondents' perceptions and expectations of current and future real estate market conditions. Respondents assess relative market conditions between now and in the past six months, as well as their expectations for the next six months. A standard format questionnaire is mailed out electronically to REDAS members. Respondents include developers, consultants, financial institutions, professional firms and service providers. The survey is thus representative of the overall Singapore real estate industry. The survey is conducted quarterly, in March, June, September and December.

A "net balance percentage" is used to indicate the overall direction of change in sentiment. This is the difference between the proportion of respondents who have selected the positive options ("better" and "increase") and the proportion of respondents who have selected the negative options ("worse" and "decease"). A "+" sign in the scores denotes a net positive sentiment (optimism) and a "-"sign indicates a net negative sentiment (pessimism). The derived net balance scores are not weighted by the size of the respondents' business.

About REDAS

The Real Estate Developers' Association of Singapore (REDAS), established in 1959, is Singapore's premier business association in the real estate and development industry. REDAS represents some 250 members comprising developers, builders, real estate consultancies and allied professionals, bankers, REITs and fund managers. The Association actively engages regulators, policy makers and private sector partners to promote best practices and to support the growth of a vibrant and progressive industry for the creation of quality real estate in Singapore. REDAS regularly organizes activities such as networking sessions, seminars, charity golf tournaments and international business missions. To uphold the quality of products of members, REDAS also provide conciliation panel services for purchasers of residential property.

About NUS DRE

The NUS Department of Real Estate (DRE), first established as the Department of Building and Estate Management in 1969, is part of the School of Design and Environment (which also includes the Department of Architecture and the Department of Building). DRE aims to be the leading centre for real estate education and research in Asia with the mission to develop leaders and advance knowledge for the global real estate industry. The Department has a strong reputation in real estate research, especially in the areas of investment, finance, urban planning and economics. DRE has partnerships with leading global universities for research and other academic exchange. It also has strong links with the local real estate industry through collaborations in research and executive training.