NUS-REDAS RESEARCH

REAL ESTATE SENTIMENT INDEX

2nd Quarter 2017

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 current and future sentiment indices were above the neutral line for two consecutive quarters in 2017. The robust sentiment scores show signs of exuberance among developers in the property market."

Sing Tien Foo
Associate Professor

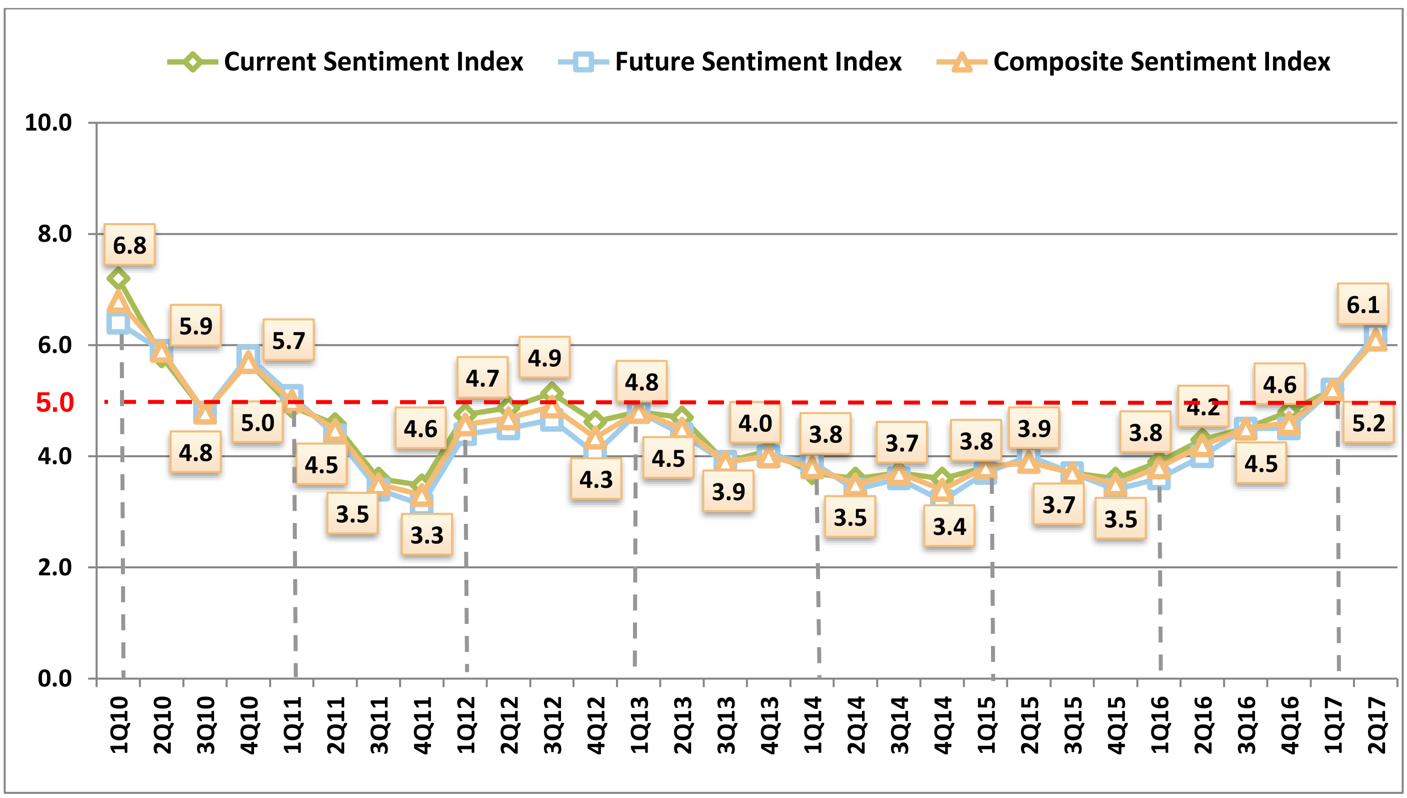
How would you rate the overall Singapore real estate market (commercial, residential, hospitality etc.) conditions over the time periods shown?

Current Sentiment Index:
The current sentiment index went up to 6.1 in 2Q17 from 5.2 in 1Q17.

Future Sentiment Index:
The score increased to 6.2 in 2Q17 from 5.2 in 1Q17. The future sentiment score reflects optimism on the market outlooks in the next six months.

Composite Sentiment Index:
The overall sentiment stood at 6.1 in 2Q17 up from 5.2 in 1Q17. Despite weak macroeconomic fundamentals, the composite sentiment continues to improve.

Exhibit 1: Real Estate Sentiment Index



Source: NUS-REDAS Research

"The sentiment is running high at the moment but there is still a doubt over the long term sustainability over the demand for retail assets and prices of residential and commercial assets."

"Residential market is expected to continue improving, with price upside as we approach 2018. Office market is also getting better with the economy seeing better prospects."

"Retail assets in the suburb are still a challenge as there are not adequate efforts and expertise to bring up the attractiveness of shopping malls."

"Improved sentiments and dwindling unsold inventory could allow developers to price their launches slightly higher."

"Financial institutions are still cautious over the Long term prospects of asset valuations. Public capital raising is relatively quiet and likely to be the case for the next 6 months to allow prices to stabilise. Private capital raising is also on the cautious side although it does appear that there is an increase level of interest to soak up residential assets that are affected by the anti-speculation measures."

"With the market getting more positive, fund raising via the stock market should get easier, while debt may be affected by higher interest rates."

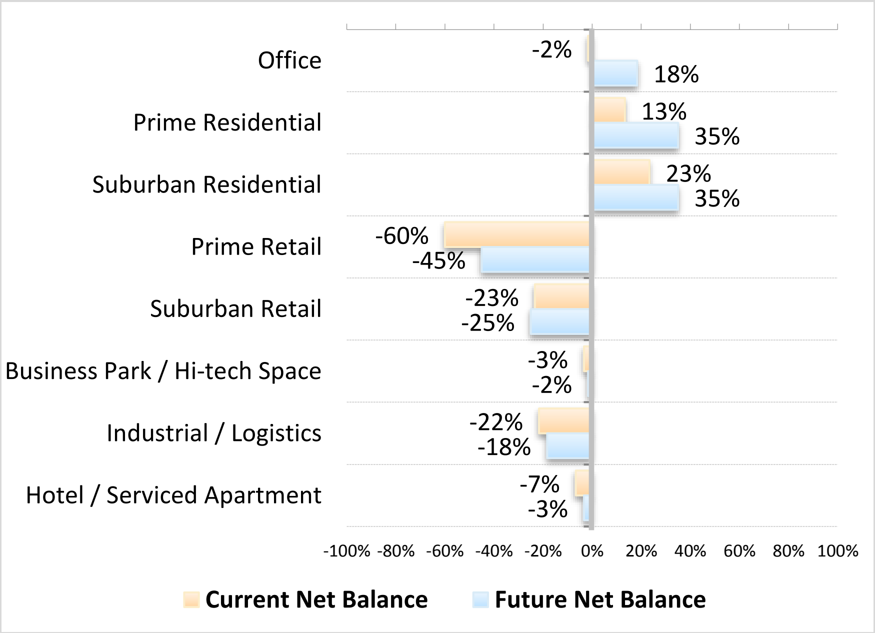
Comments from Survey Respondents

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

Current and future net balances for the prime residential, suburban residential and office sectors improve significantly in 2Q17. Both current and future net balances for prime and suburban residential sectors turn positive indicating that more respondents expect these two sectors to continue to improve in the next six months. The respondents are more optimistic on the future performance of office market with a future net balance of 18% compared to the current net balance of -2%.

Prime retail, suburban retail and industrial/logistics are the three sectors with negative net balance scores in 2Q17. Prime retail sector is the worst performing sector in 2Q17 with a current net balance of -60% and a future net balance of -45%, where the current score deteriorated from -55% and future score showed slight improvement compared to -48% in 1Q17.

Exhibit 2: Real Estate Market Performance



Source: NUS-REDAS Research

"Global economic recovery remains tepid and risk of China slowdown breathes heavily on the regional performance. While there is no major recessionary pressure in sight, the Singapore market is chucking along with no strong growth drivers."

"Expectations of a market recovery, relatively low interest rates, and uncertainties in foreign property markets will continue to fuel interest in the Singapore property market."

"With big ticket land purchase, bank's exposure to real estate debt will escalate, and risk over-exposure to this asset class. It may be required to curtail lending to developers."

"FED raised rates twice so far in 1H17 and at least one more raise is expected in 2H17. However, due to liquidity, domestic lending rates remain low, hence real estate sector remains an attractive asset class.

Comments from Survey Respondents

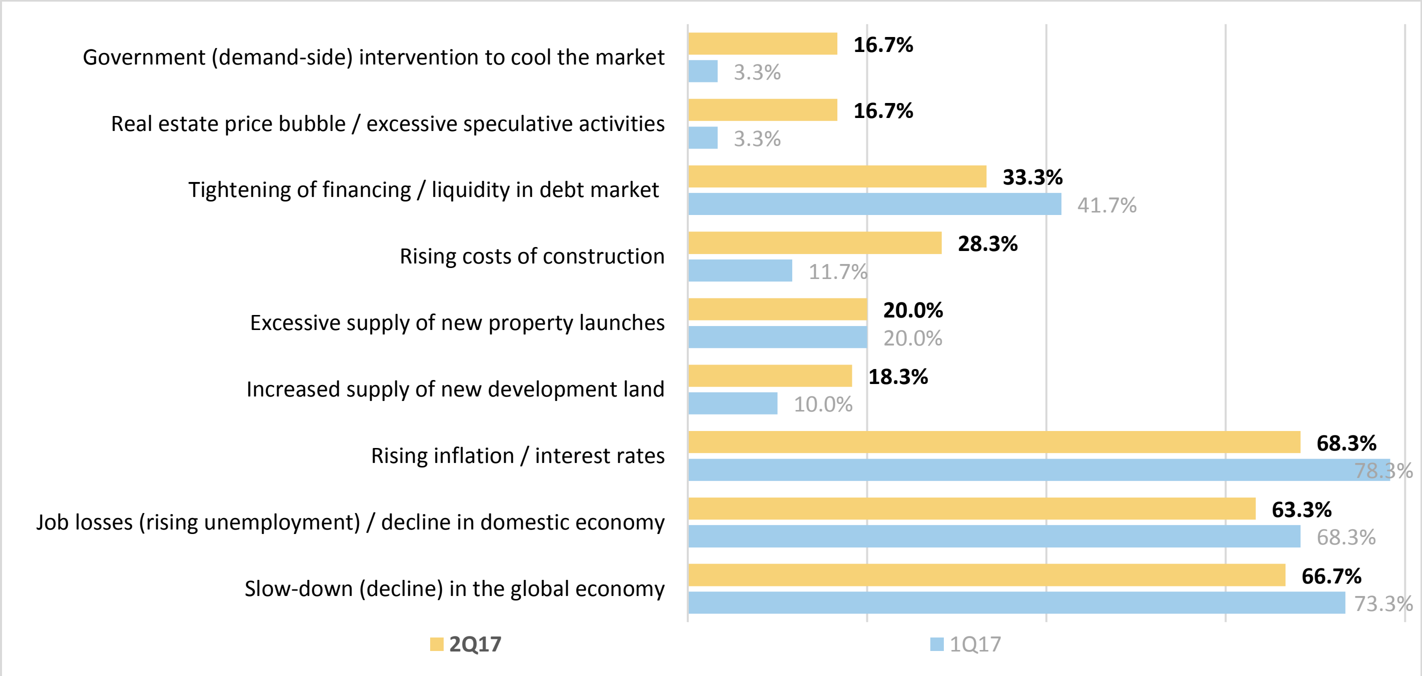
Do you foresee any potential risks that may adversely impact on market sentiment in the next 6 months?

68.3% of the respondents surveyed in 2Q17 identify rising inflation and interest rates as the main potential risks in the next six months.

66.7% and 63.3% of them indicate the slow-down of global economy and job losses as other potential risks.

Potential risks of real estate price bubble / excessive speculative activities and government interventions in the property market increased from 3.3% in 1Q17 to 16.7% in 2Q17. 28.3% of the respondents indicate rising cost of construction as another potential risk, up from 11.7% in 1Q17.

Exhibit 3: Potential Risks



Source: NUS-REDAS Research

"GLS can be managed by the government but as for the bidding price, this is entirely at the discretion of developers and we have seen that foreign owned developers are willing to bid higher for land which may eventually drive up the overall pricing of assets in the long run."

"Land prices are rising, as evidenced by recent En bloc transactions and land sales in the GLS. As such, there is a heightened interest in the En bloc market currently, we could see more sales this year. To prevent exacerbating the current supply glut, it may be prudent to hold or moderately increase the supply GLS Confirmed List, while increasing options in the Reserve List."

"Transaction volume has increased substantially especially for new developer sales, while prices are looking to rise in view of developers' aggressive bids for land amidst a lower supply."

"En-bloc and GLS land sales market sentiment is strengthening along with gradual improvement in sales transaction volume."

"With rising demand for land and escalating land prices, more land will be become available especially from GLS & En bloc sales, until inflexion point is reached."

"Recent sales performance is giving developers a boost to their confidence."

Comments from Survey Respondents

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

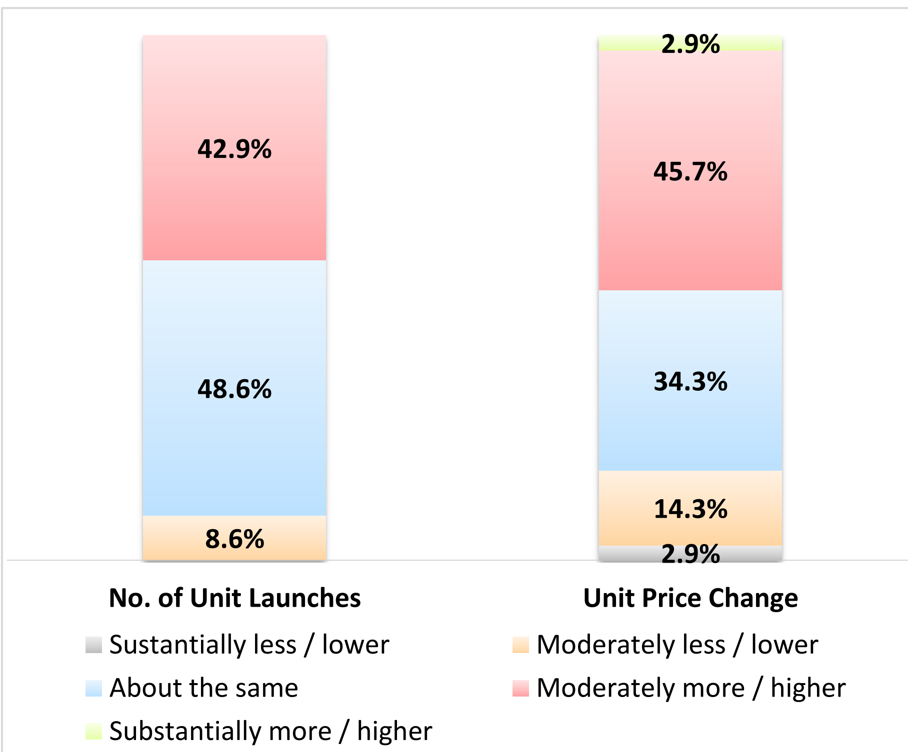
In 2Q17, 42.9% of the developers expected new launches to increase moderately, compared to 27.8% in 1Q17; 48.6% of them expected new launches to hold at the same level in the next six months.

Only 8.6% of them indicated that they would launch moderately less units.

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

In terms of unit price change, 45.7% of the developers anticipated residential property prices to increase moderately in the next six months, compared to 16.7% in 1Q17. 34.3% of them expected the unit price to hold, and 14.3% expected the unit price to reduce moderately in 2Q17.

Exhibit 4: Residential Launches & Prices



Source: NUS-REDAS Research

How will the recent upbeat in market sentiments affect the following activities in private residential property market in the next 6 months?

Exhibit 5 shows respondents' expectation on market activities in the next 6 months.

85% of the respondents are likely and very likely to show increased interests in En-bloc sales, and 81% of them are likely and very likely to make aggressive land bidding.

17% of the respondents indicate that current market conditions are likely and very likely to attract foreign buyers.

Exhibit 5: Expectation on future activities

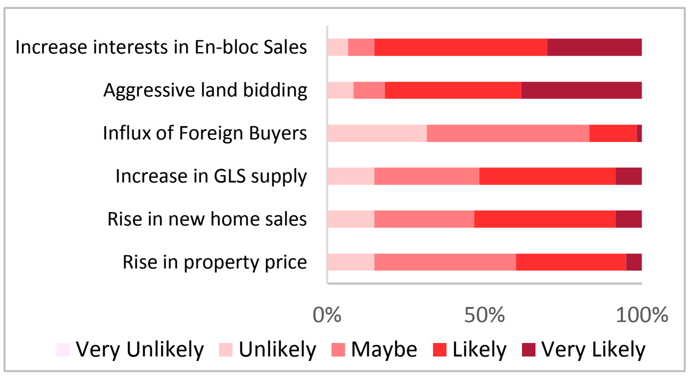
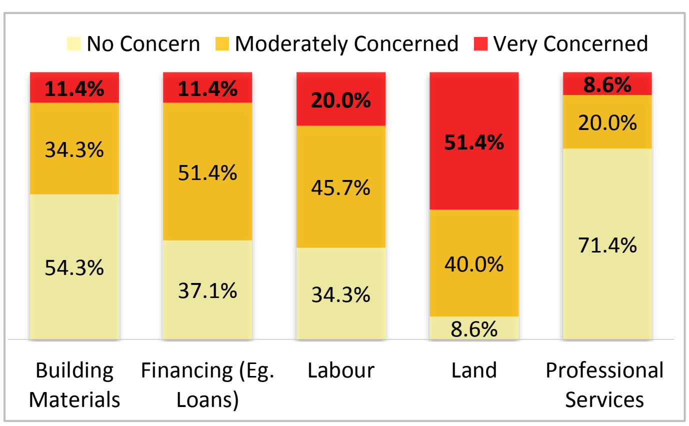


Exhibit 6: Developers' concerns



What are the positive factors currently driving up the En-bloc activities in the markets in 2017?

Exhibit 6 shows that more than 91% of developers are concerned, of which 51.4% of them are very concerned about land costs in the next six months.

With limited GLS, developers are likely to replenish their land-banks for long-term business sustainability. Keen competition GLS bidding turns developers to the En-bloc markets for alternative land supply.

Other factors driving up recent surge in En-bloc activities, especially in matured estates, include low cost of financing, expansion of foreign developers' activities, pent-up demand in the first half of 2017, and excessive liquidity of offshore funds, among others as shown in *Exhibit 7.*

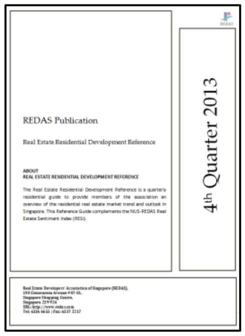
Exhibit 7: Reasons for popularity of En-bloc sales

Source: NUS-REDAS Research

Other REDAS Publications:


Real Estate Daily News 2015

REDAS Daily News


REDAS Publication

Real Estate Residential Development Reference

4th Quarter 2013

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.