NUS-REDAS RESEARCH

REAL ESTATE SENTIMENT INDEX

2nd 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.

REDAS

Real Estate Developers' Association of Singapore
190 Clemenceau Avenue #07-01,
Singapore Shopping Centre,
Singapore 239 924
URL: http://www.redas.com
Tel: 6336 6655 | Fax: 6337 2217

NUS National University of Singapore

National University of Singapore
Department of Real Estate
4 Architecture Drive
Singapore 117 566
URL: http://www.rst.nus.edu.sg
Tel: 65164553 | Fax: 6774 8684

2nd Quarter 2018

NUS-REDAS RESEARCH

REAL ESTATE SENTIMENT INDEX

2nd Quarter 2018

"The declines in the sentiment indices from the previous quarter peak may simply reflect the adjustments to the expectations by developers. The sentiments should not capture the anticipatory effects of the government interventions, unless they were privy to the policy announcements."

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 down to 6.7 in 2Q18 from 7.2 in 1Q18.

Future Sentiment Index:

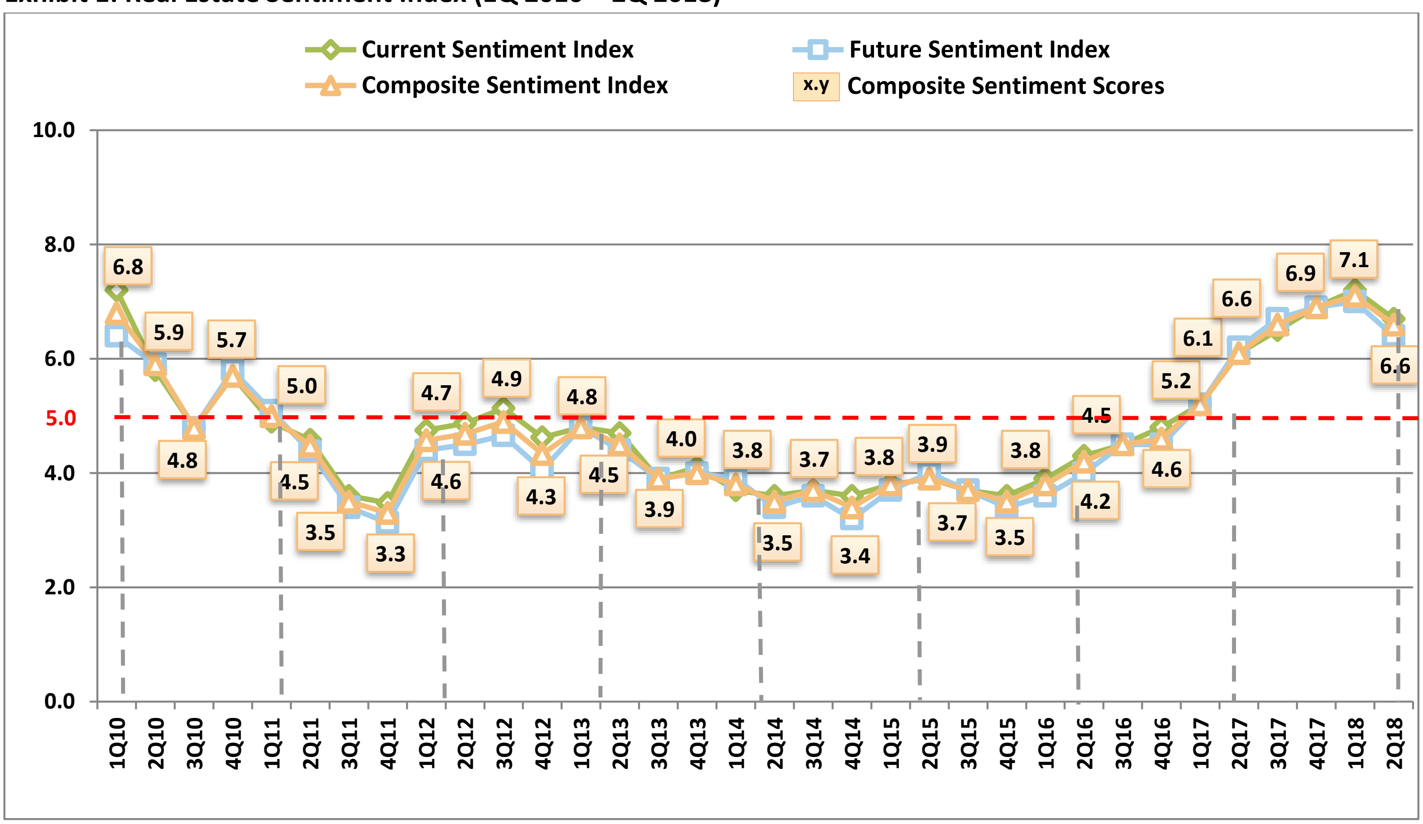
The future sentiment score declined to 6.4 in 2Q18 from 7.0 in 1Q18. Despite of the decrease, market outlooks are still optimistic in the next 6 months.

Composite Sentiment Index:

The overall sentiment decreased to 6.6 in 2Q18 from 7.1 in 1Q18.

After achieving the peak in the last quarter, the market sentiments declined for the first time since 4Q 2015 *(Exhibit 1)*.

Exhibit 1: Real Estate Sentiment Index (1Q 2010 – 2Q 2018)



Source: NUS-REDAS Research

"Sentiment across all sectors have improved with a stronger global macroeconomic backdrop, especially in the residential market on the back of the collective sales fever. However, the threat of a supply overhang in the commercial and residential sectors might dampen sentiments in the next 6 months."

"The key segments namely office and residential will ride on the improving market and economy."

"Performance across all sectors has improved on the back of a stronger economy, but this growth rate might slow down or be maintained at best."

"Retail businesses do not look like moving in the right direction and it will definitely has an impact on retail space."

"With recent comments by US Federal Reserve that they may consider increasing Interest rate, this will filter down to consumers on Housing Loan Mortgage Interest rates."

"Market moving slower than expected in the first five months of 2018 – could be that approvals for new projects being held up, and/or that prices of new projects creeping up too fast."

Comments from Survey Respondents

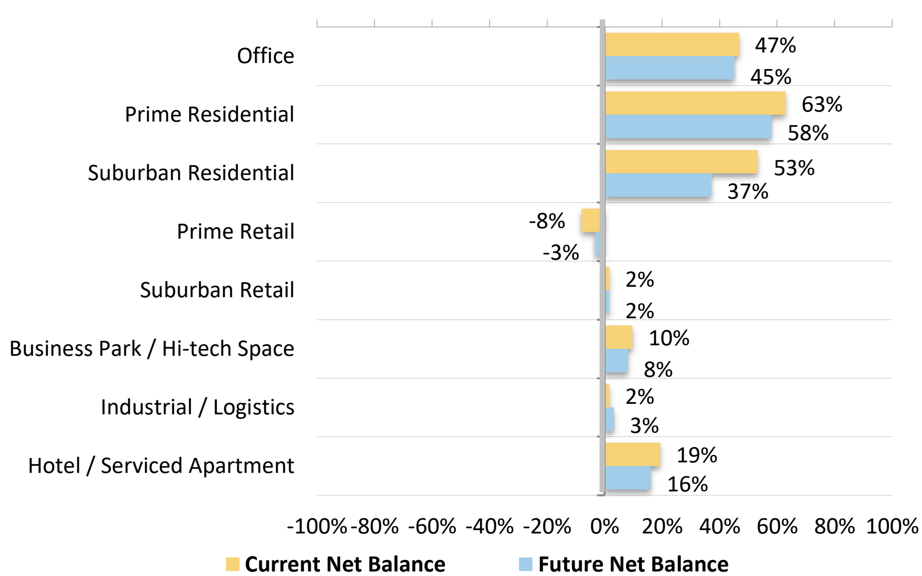
How would you rate the general performance (rental, price, occupancy, purchases etc.) of the sectors over the time periods shown?

Except for prime retail sector, the future net balances for all sectors declined in this quarter relative to 1Q18. Suburban residential saw the largest drop in both balances. Prime retail, suburban retail and hotel are the only three sectors with increased current net balances in 2Q18.

Prime residential, office and suburban residential are the three best performing sectors in 2Q18, attaining current balances of 63%, 47% and 53%, and future balances of 58%, 45% and 37%, respectively.

Prime retail sector remained as the sole sector showing negative current and future net balances of -8% and -3% in 2Q18, respectively. It is also the only sector showing improvements in the current and future balances from -16% and -5% in 1Q18, respectively *(Exhibit 2)*.

Exhibit 2: Real Estate Market Performance



Source: NUS-REDAS Research

"I am cautiously optimistic as the Singapore and global economies remain somewhat fragile. With a small open economy, the property market is sensitive to flight of capital."

"Sentiment is still positive but trade war risks is mounting and could dampen sentiment. Faster than expected rise in FED rates could also dampen sentiment."

"Higher interest rate environment coupled with the global uncertainties will be an overhang on companies' ability to raise capital in the debt and equity markets. Higher base rates will mean higher overall interest rates that companies need to pay."

"There might be public discontent and the threat of cooling measures if prices increase too quickly over a short time."

Comments from Survey Respondents

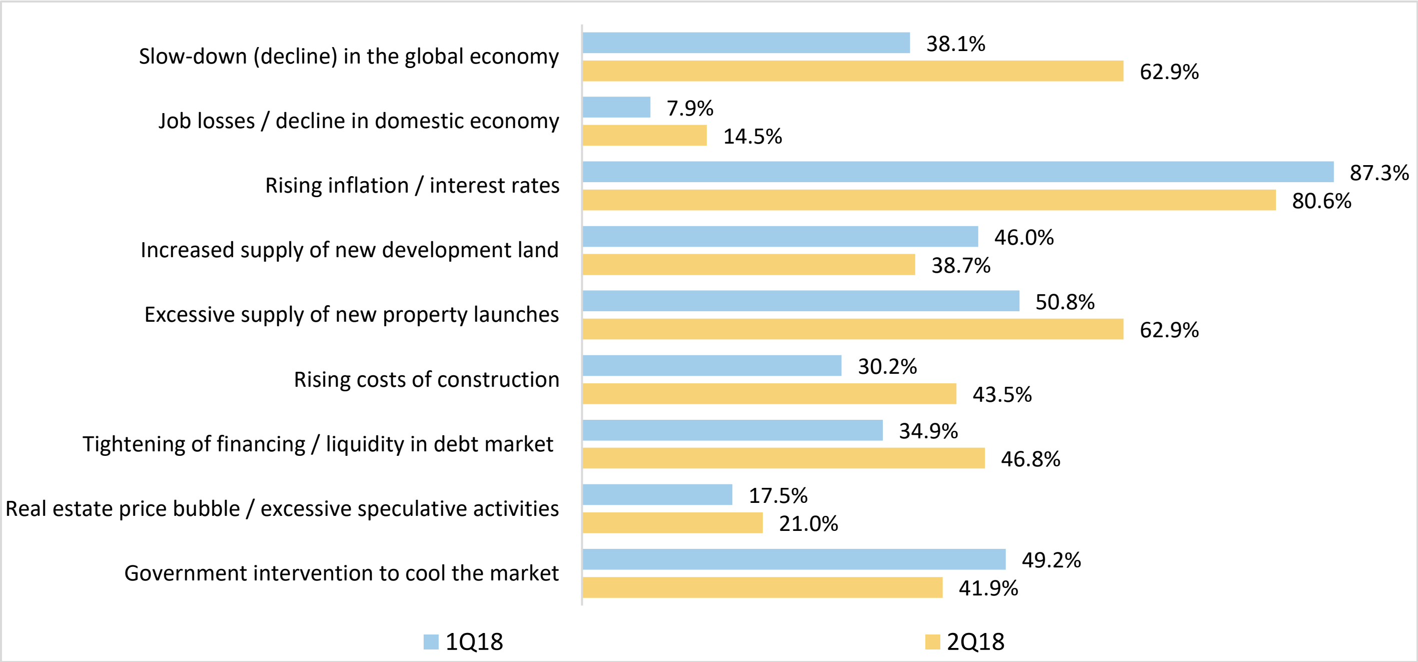
Do you foresee any potential risks that may adversely impact on market sentiment in the next 6 months?

In 2Q18, the respondents identify rising inflation and interest rates, excessive supply of new property launches, and slow-down (decline) in the global economy as the top three potential risks that may adversely impact market sentiment in the next 6 months *(Exhibit 3)*.

Rising inflation and interest rates remained as the top potential risk, even though the percentage of respondents voted it as a risk dropped from 87.3% in 1Q18 to 80.6% in 2Q18. 62.9% of the respondents were concerned about excessive supply of new property launches in the next 6 months, up from 50.8% in 1Q18.

The percentage of respondents who are concerned about slow-down (decline) in the global economy rose from 38.1% to 62.9% in 2Q18.

Exhibit 3: Potential Risks



Source: NUS-REDAS Research

"GLS sites are limited but more enbloc sites are becoming available. Generally the GLS sites are in the suburb or CBD-fringe locations except 1 or 2 in prime locations. Whereas most of the enbloc sites are in relatively prime locations and come with freehold tenure. Prices for both GLS and enbloc sites have rising substantially over the past year or so and hence will affect the selling prices of new launches in due course."

"As a result of current regulatory regime (ABSB and QC), most if not all developers will attempt to market the development units as soon as the projects are launch ready. In the forward 6 months, the probable projects to hit the market could be traced to the number of enbloc or GLS sites that were earlier sold."

"With recent lacklustre results in new launches, the market seems to take a breather. It also shows that the HDB upgrader's market is very price sensitive."

"Interest rate hikes likely to become of greater significance and have larger impact on transactions values."

"Professional Service fees have gone down compared to similar markets. Developers seem try to compensate high fees of cost of land by squeezing fees out of engineers and architects."

Comments from Survey Respondents

What are your expectations regarding the number of new residential units to be launched in the next 6 months?

In 2Q18, 45.5% and 42.4% of the developers expected new launches to be substantially more and moderately higher, respectively.

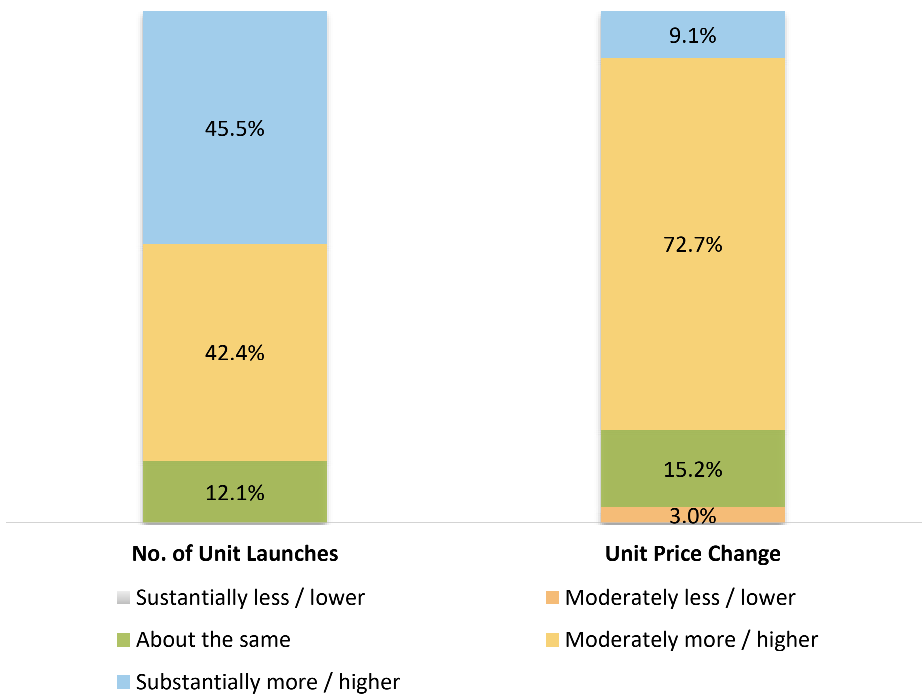
Only 12.1% of them expected new launches to remain at the same level in the next 6 months. None of the developers anticipated new launches to decrease.

What are your expectations on the pricing of new residential launches in the next 6 months?

In terms of unit price change, 81.8% of the developers anticipated residential property prices to increase in the next 6 months.

Another 15.2% of them expected the residential property price to hold at the same level. Only 3% expected a price drop *(Exhibit 4)*.

Exhibit 4: Residential Launches & Prices



Source: NUS-REDAS Research

Do you expect the en bloc sales heat to continue in the next 6 months? If yes, what possible factors could drive the en bloc sales in the next 6 months?

61% of all the respondents and 55% of the developers expected the en bloc sales fever to continue in the next 6 months *(Exhibit 5)*.

Among the respondents who have expected the en bloc sales heat to continue, 71% and 68% of them indicated that "developers are still hungry for new development lands" and "strong competition from foreign developers", respectively, are the two most possible factors to drive the en bloc sales in the next 6 months *(Exhibit 6)*.

Exhibit 5: Forecast of En Bloc Sales Heat Continuation

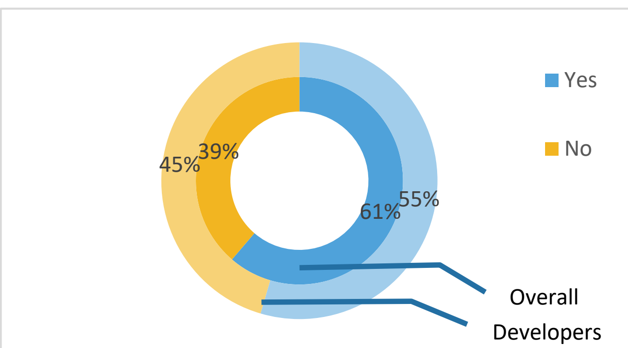
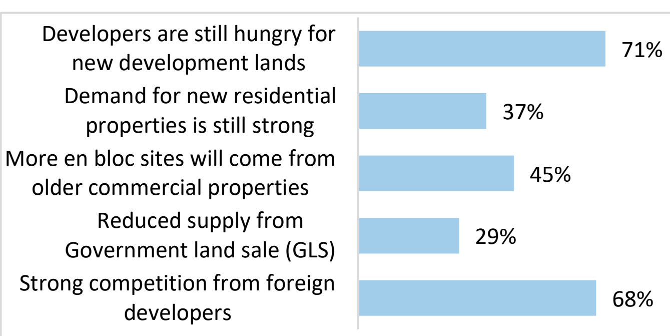


Exhibit 6: Possible Factors to Drive En Bloc Sales



Do you foresee the government to tighten the en bloc sales market in the next 6 months? If yes, why?

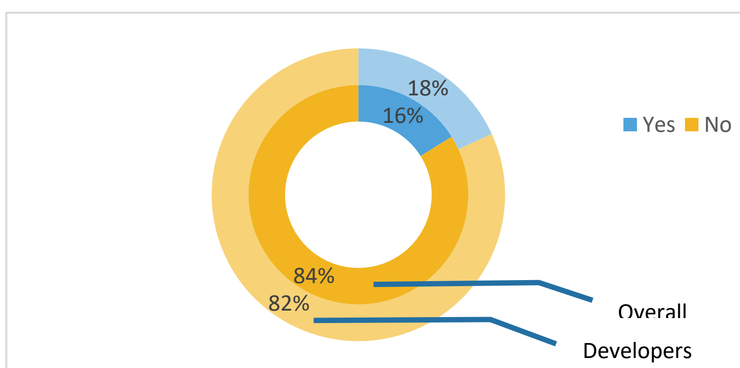
Only 16% of all the respondents anticipated the government to tighten the en bloc sales market in the next 6 months. The percentage from developers is slightly higher at 18% *(Exhibit 7)*.

Some reasons why the respondents foresaw the government to tighten the en bloc sales market:

- The price appreciation seems unsustainable, fuelled by large liquidity.
- Market is driven by the availability of cheap financing – cost and quantum.
- Land prices have increased too fast over a short time.
- The number of units developed from the en bloc sites is substantially more than those from the GLS program.

(*Note: the responses to the RESI questionnaire were collected before the introduction of the July 6th cooling measures*)

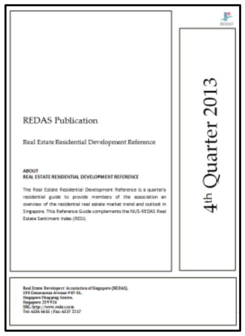
Exhibit 7: Forecast of Tightening of En Bloc Market



Source: NUS-REDAS Research

Other REDAS Publications:

REDAS Daily News



REDAS - Residential Development Reference

For enquiries, please contact:

Mai Xihao
Research Intern
xihao@redas.com
6336 6655

Sing Tien Foo
Associate Professor
rststf@nus.edu.sg
6516 4553

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.