NUS-REDAS RESEARCH

REAL ESTATE SENTIMENT INDEX

3rd 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 uncertainties in the external economic conditions coupled with the high transaction costs imposed by the new ABSD policies may have double whammy impact on the local residential markets. The sharp declines in the 3Q18 sentiments reflect bleak outlooks of the property players, especially on the residential markets in the next 6 to 12 months."

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 fell sharply to 4.0 in 3Q18 from 6.7 in 2Q18.

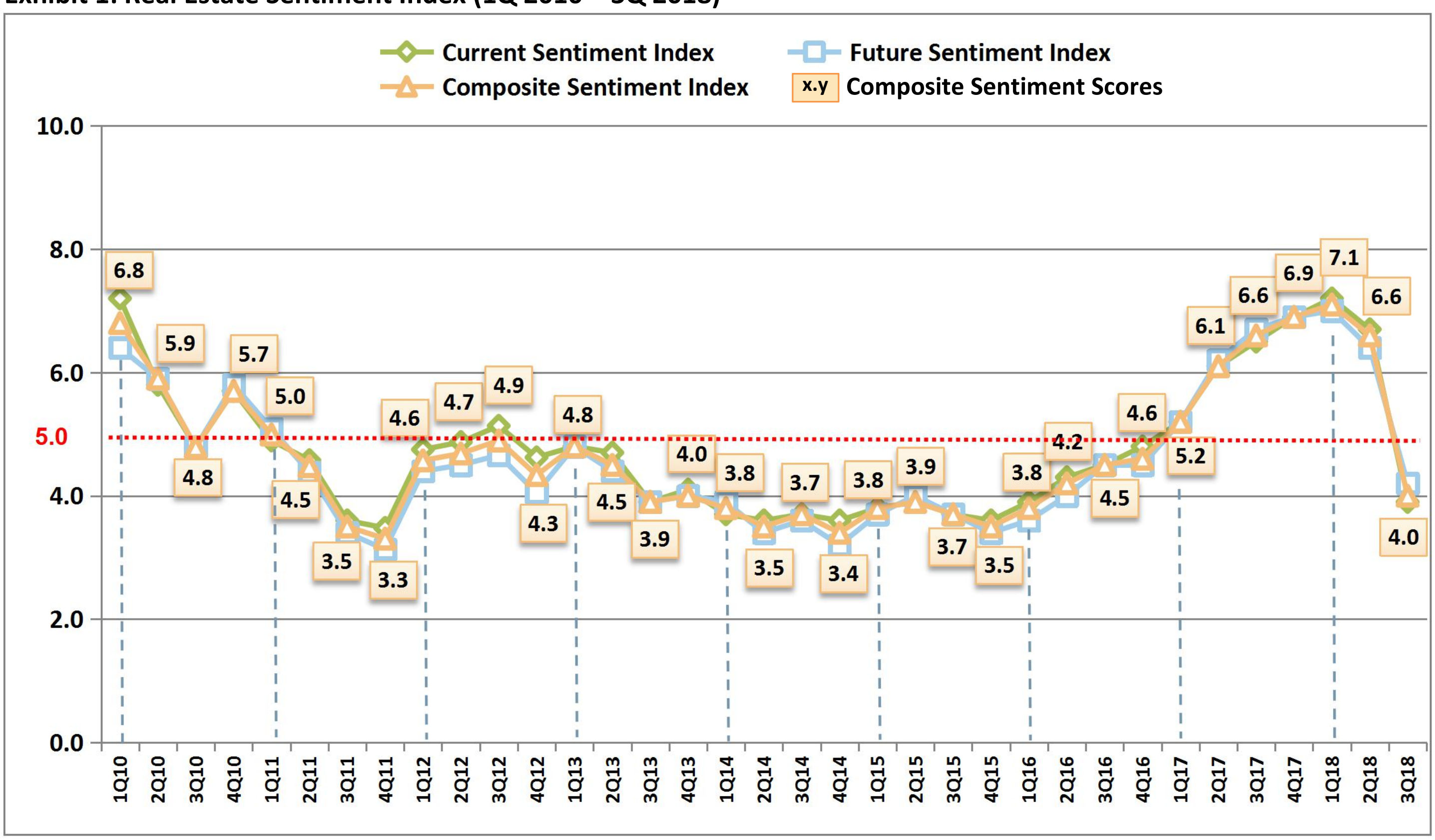
Future Sentiment Index:
The future sentiment score declined to 4.2 in 3Q18 from 6.4 in 1Q18.

Composite Sentiment Index:
The overall sentiment decreased to 4.0 in 3Q18 from 6.6 in 2Q18.

The falls in market sentiments were likely to be triggered by the new round of cooling measures released in July *(Exhibit 1)*.

[**Note:** A follow-up survey was conducted after the introduction of the new ABSD policy on 6 July 2018. The composite sentiment index was reported at 3.9; whereas the current and the future sentiment indices were 3.9 and 4.0, respectively.]

Exhibit 1: Real Estate Sentiment Index (1Q 2010 – 3Q 2018)



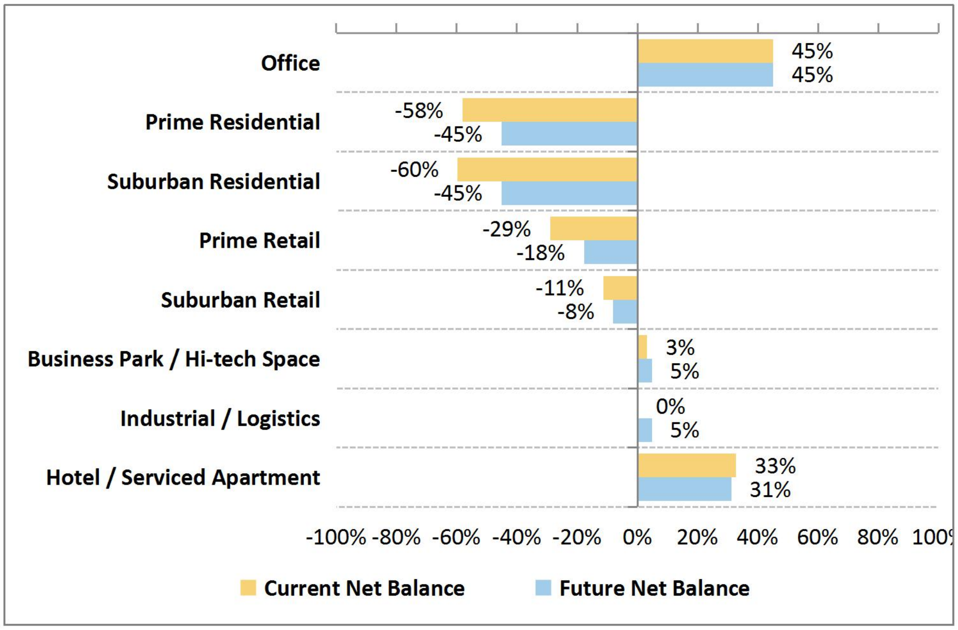
Source: NUS-REDAS Research

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

The performance of residential sectors was the most adversely affected by the July's round of cooling measures. For the prime residential sector, the current and the future net balances slumped from 63% and 58% in 2Q18 to -58% and -45% in 3Q18, respectively. While the current and future net balances for the suburban residential sector declined from 53% and 37% in 2Q18 to -60% and -45% in 3Q18. The abrupt changes in respondents' sentiments reflect pessimism of outlooks in the residential sectors *(Exhibit 2)*.

The office sector was the strongest performing sector in 3Q18; and the performance of retail sector, especially the prime retail sector, deteriorated slightly. The hotel and serviced apartment sectors showed some improvements in the current and the future net balances, which were reported at 33% and 31% compared to 19% and 16% in 2Q18, respectively.

Exhibit 2: 2Q18 Real Estate Market Performance



Source: NUS-REDAS Research

"Introduction of cooling measure coupled with revision of DC rates will dampen the collective sales market significantly. Sales volume of residential properties will slow as buyers adopt a wait-and- see attitude while prices will be somewhat "sticky"."

"The unexpected and surprising cooling measures introduced on 6 July are extremely disruptive and dampening sentiments in the residential market. Many potential buyers are withdrawing and taking cautious stand. Developers are so heavily penalized with hefty ABSD that make land-banking decision very challenging and risky - that is why there are growing numbers of unsuccessful en bloc transactions in recent months."

"Government should maintain constant land supply rather than withdrawing sites or have sudden surge in supply as these actions have strong impact on market highs & lows. By not accepting lower prices when market is down, sale prices for end products will always be elevated. The additional ABSD also increase costs to end buyers."

"For confirmed project in the pipeline will still carry on but developer may not be as aggressive as in the past for land bidding or en bloc"

Comments from Survey Respondents

"The uncertainties caused by unexpected policy changes and the fear of interest rate hikes and potential trade wars (among the leading economies) will have adverse impact on availability of funds and borrowings."

"The access to loans from banks and equity from fund raising for residential projects in the near future will depends on the property sales in the next few months."

"Trade war as a variable may affect sentiments and also economic performance."

""Impact of e-commerce on discretionary retail especially in prime areas; increase supply of residential for sale with weaken demand resulting from cooling measures will cause residential to be worse; logistics to benefit from e-commerce growth."

Comments from Survey Respondents

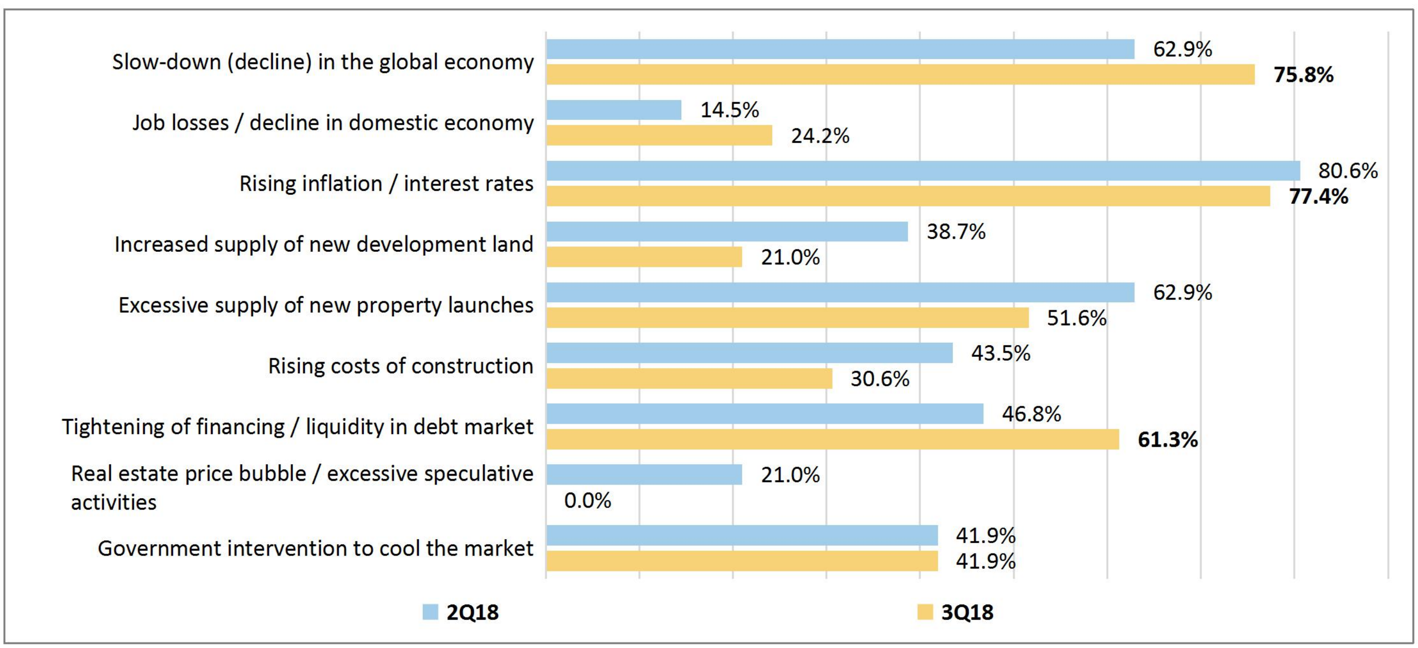
Do you foresee any potential risks that may adversely impact on market sentiment in the next 6 months?

In 3Q18, the respondents identify rising inflation and interest rates, slow-down (decline) in the global economy and tightening of financing / liquidity in debt market as the top three potential risks that may adversely impact market sentiment in the next 6 months *(Exhibit 3)*.

In a declining global economic condition, financing risks remain one the major risk factors for real estate businesses.

77.4% of the respondents were concerned about rising inflation and interest rates. 61.3% of them were concerned about tightening of liquidity in debt markets in the next 6 months, up from 46.8% in 2Q18.

Exhibit 3: 2Q18 Potential Risks



Source: NUS-REDAS Research

"Many developers bought land (both GLS and en bloc sites) in the last 12 to 18 months and they have little choice but to push out the projects for launch due to ABSD and QC restrictions."

"Interest in EC GLS should remain resilient, but interest in sites with private residential component is expected to stay soft, unless it is a strategic site with strategic commercial component."

"Developers will have to continue launching to space out the launches over the next few years. If they withhold launches, these will bunch up later on causing a big glut that will cause prices to fall."

"Developers are unlikely to re-price their launched projects considering the land price some have paid for, although some new launches may have the capacity to do so, if their costs permit. As such, prices will be fairly sticky."

"Shortage of construction worker and initial high land cost has significantly affected the margin of the developer and on the other hand maintain the same selling price will further affect developer's margin. "

"Some developers may be anxious to reduce their exposure, improve their cash flow and better time the market."

Comments from Survey Respondents

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

In 3Q18, 20.0% and 48.6% of the developers expected substantially and moderately more new launches, respectively.

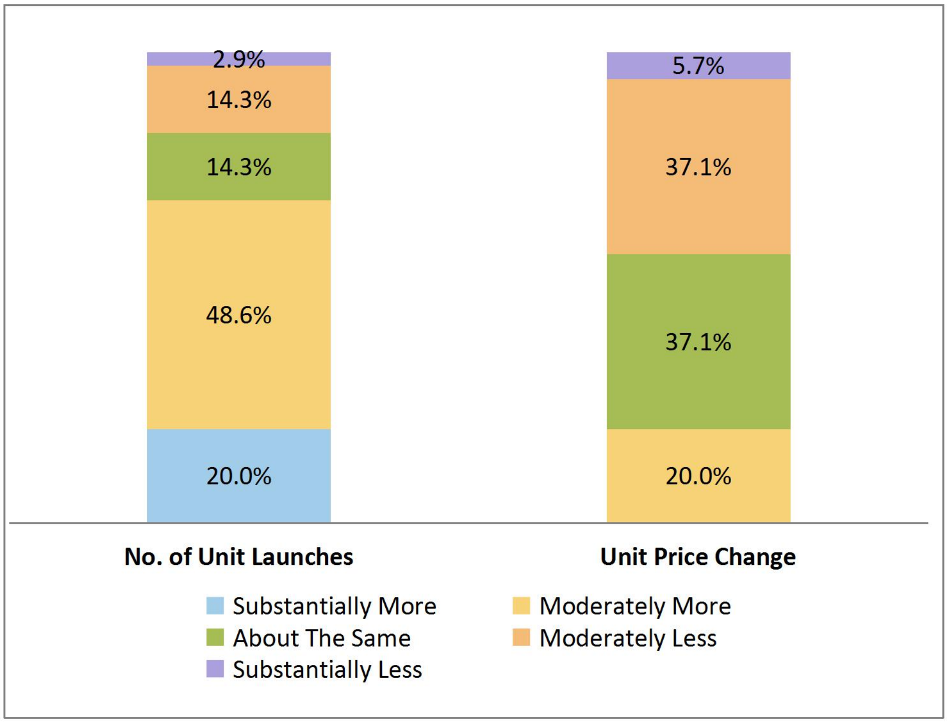
Unlike in 2Q18 where none of the developer anticipated new launches to decrease, 2.9% and 14.3% of developers expect substantially and moderately fewer units to be launched in their 3Q18 responses.

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

In terms of unit price change, only 20.0% of the developers anticipated residential property prices to increase in the next 6 months *(Exhibit 4)*.

In 3Q18, 37.1% and 5.7% of them expected the unit price to drop moderately or substantially in the next 6 months; whereas only 3% expected a price drop in 2Q18.

Exhibit 4: 3Q18 Residential Launches & Prices



Source: NUS-REDAS Research

Three most possible risks that are deemed to potentially further dampen the current local property market.

Top 1: External economic shocks
82.3% of all respondents choose external economic shocks as the top risk factor. The uncertainty brought by trade war and interest rate hikes likely to weigh down the market sentiment in a longer term *(Exhibit 5)*.

Top 2: Slowdown in local economic growth
54.8% of all respondents or 65.7% of the developers choose slowdown in local economic growth as the second top risk factor. Economic uncertainties exacerbate the difficulties in fund raising and refinancing for developers.

Top 3: New cooling measures / higher development cost
45.2% of all respondents and 48.6% of the developers choose new cooling measures and higher development costs as the third top risk factor, which are expected to further dampen local property market.

Assess the impact of the new ABSD introduced on 6 July 2018 on various sub-sectors of residential property markets in the next 6 months.

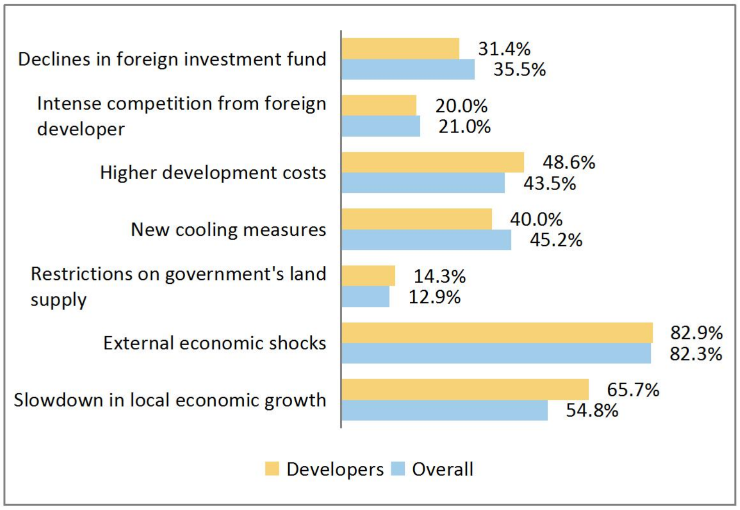
The respondents gave their assessments of potential impact of the July's ABSD measures on various sub-sectors of local residential markets in the next 6 months.

90.2% of all respondent felt that the en bloc market would be seriously affected in the next 6 months by the latest round of ABSD measures *(Exhibit 6)*.

63.9% and 36.1% of the respondents indicated that the ABSD would significantly impact new sales and resales in the private residential markets, respectively.

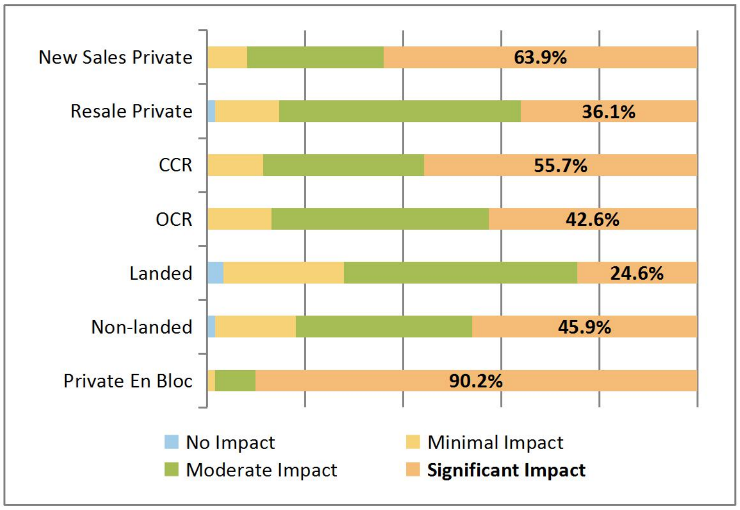
Residential properties in the core central region (CCR) are relatively more sensitive to the ABSD policy compared to those in outside core region (OCR). New non-landed residential property launches in CCR are likely to face more resistance with the new ABSD.

Exhibit 5: Possible Risks that Further Dampen Property Market



Source: NUS-REDAS Research

Exhibit 6: Impact of Latest ABSD on Various Sub-sectors



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.