NUS-REDAS RESEARCH

REAL ESTATE SENTIMENT INDEX

1st Quarter 2019

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 net balances in the prime and suburban residential sectors show that there are still more respondents who are pessimistic than those who are optimistic about the private residential markets in the current and the next 6-month periods, despite the rise in the overall market sentiment."

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?

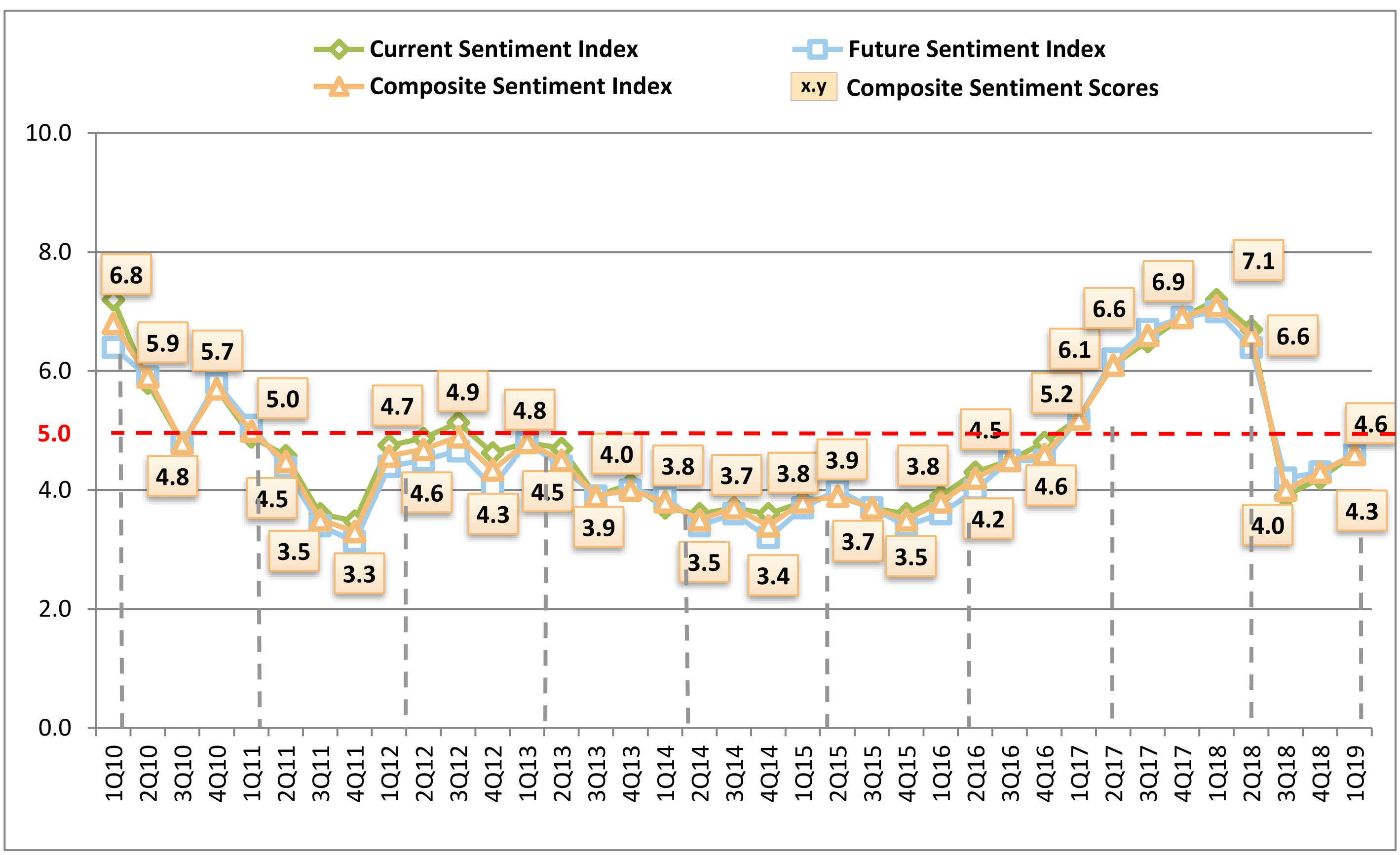
Current Sentiment Index:
The current sentiment index went up to 4.6 in 1Q19 from 4.2 in 4Q18.

Future Sentiment Index:
The future sentiment score increased to 4.6 in 1Q19 from 4.3 in 4Q18.

Composite Sentiment Index:
The overall sentiment stood at 4.6 in 1Q19 up from 4.3 in 4Q18.

Developers' sentiments continue to recover from the shocks of the cooling measures released in July 2018.

Exhibit 1: Real Estate Sentiment Index (1Q 2010 – 1Q 2019)



Source: NUS-REDAS Research

"Residential land prices have moderated by an average of 10-15% over the last one year. However, this price moderation does not translate into essentially lower costs for developers due to tightened planning parameters and the minimum sized unit requirement in a dozen locality. If the developer buys the land at 10% cheaper than the peak but the planning parameters result in a situation where the number of units goes down by 10%, it is a zero sum. That is why the market is not moving despite the lower land asking prices (for residential only). In terms of commercial, there are many upcoming interesting land plots in the city core, at various stages of the enbloc process. Recent changes to MP2019 has also resulted in better potential for some of these land parcels due to special incentive schemes to change/vary the usage of the land."

"Commercial sector is showing signs of improvement going by the recent interest and transactions. Residential will likely remain muted in view of the current policy regulations."

"I think the market still need some time to digest those current stock in the market, whereas more overseas organization setting up their office here would push higher demand for retail market."

"Things seem to have stabilized to some extent after the July 18 cooling measures on residential properties. The office sector continues to remain healthy."

Comments from Survey Respondents

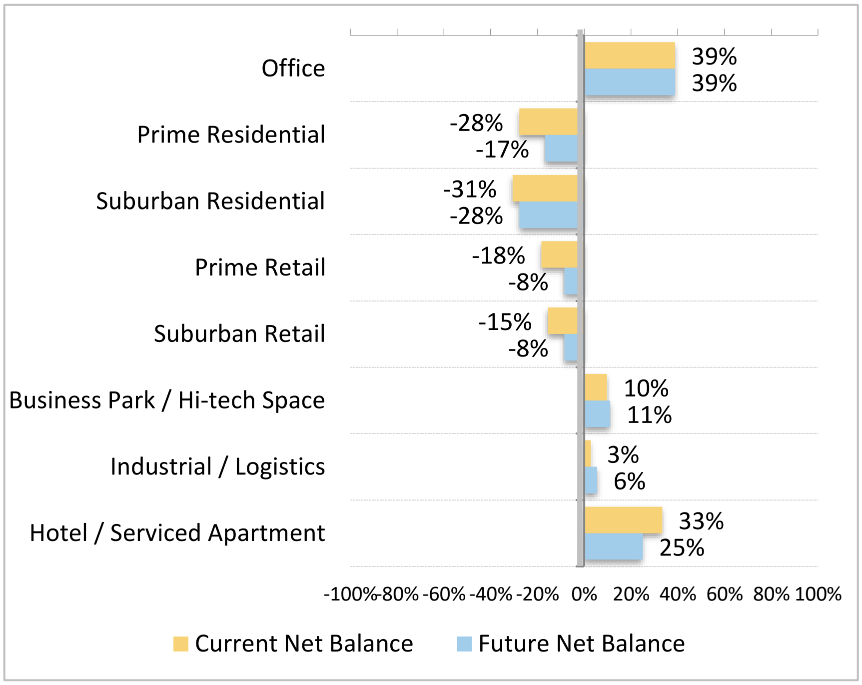
How would you rate the general performance (rental, price, occupancy, purchases etc.) of the sectors over the time periods shown?

The current and future net balances in 1Q19 show improvements in all sectors except for the office sector. However, the office sector is still the strongest sector with the current and the future net balances of 39% and 39%, respectively. The hotel / serviced apartment sector shows the second highest current and future net balances of 33% and 25% in 1Q19.

Both the current and future net balances for the Industrial / Logistics sector turn from negative in 4Q18 to positive in 1Q19 indicating that more respondents expect this sector to improve in the next six months.

Prime residential, suburban residential, prime retail and suburban retail sectors continue to have negative net balances in 1Q19. Among the four sectors, suburban residential is the worst performing sector with the current and future net balances of -31% and -28% in 1Q19, respectively.

Exhibit 2: Real Estate Market Performance



Source: NUS-REDAS Research

"I've been seeing more people having better understanding of the real estate market. Fund raising with respect to products link to real estate can be challenging. Corporate debts are at an all-time high which in turn will affect business sentiments and employee mindsets. This will see more people consolidating instead of spending or investing."

"Lethargic global demand and US-China trade uncertainty should collectively dampen overall market in Singapore. Overall, we should be heading into the late business cycle with greater downside risk of a correction at play."

"Though market sentiments are cautious, they are not expected to deteriorate much - likely to hold but of course subject to external factors such as China-US trade tensions, Brexit, etc."

Comments from Survey Respondents

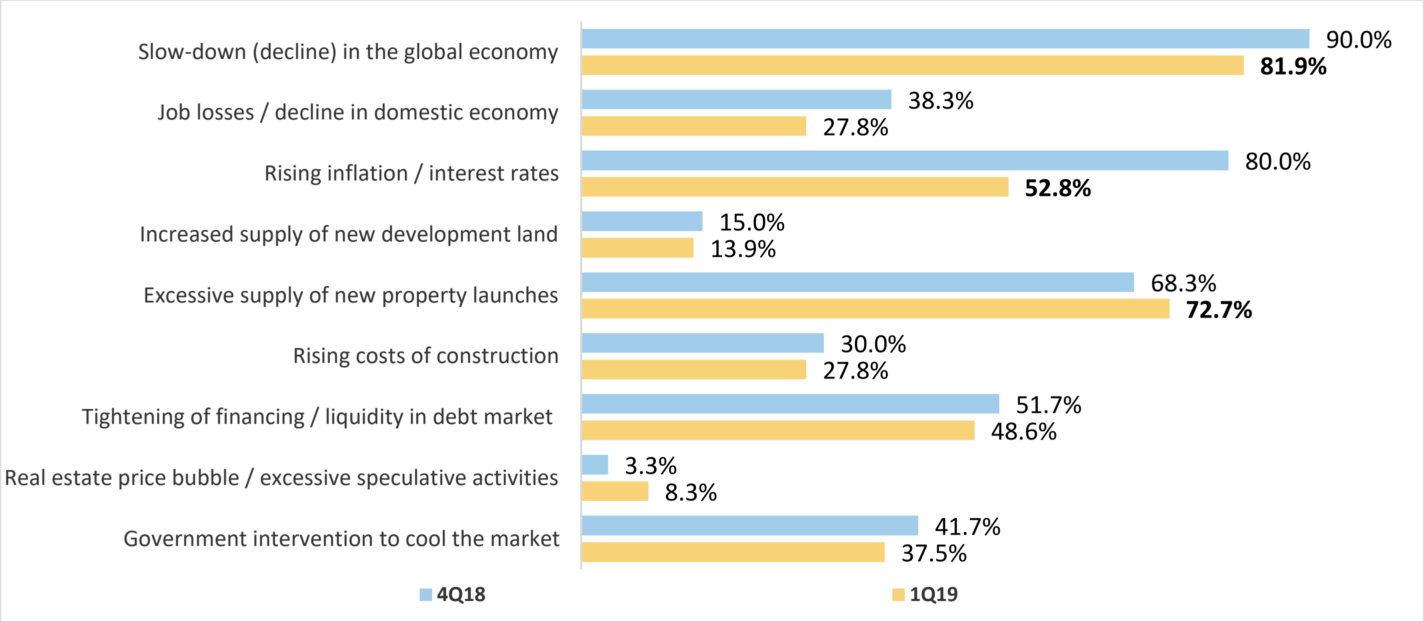
Do you foresee any potential risks that may adversely impact on market sentiment in the next 6 months?

In 1Q19, the respondents identified decline in the global economy, excessive supply of new property launches, and rising inflation / interest rates as the top three risk factors that may adversely impact the market sentiment in the next six months.

81.9% of the respondents were still worried about the slow-down in global economy in 1Q19. 72.7% of the respondents were concerned about excessive supply of new properties in 1Q19, compared to 68.3% in 4Q18.

The percentage of respondents who are worried about rising inflation / interest rates dropped from 80% in 4Q18 to 52.8% in 1Q19.

Exhibit 3: Potential Risks



Source: NUS-REDAS Research

"Supply of GLS sites has been moderated and hence they are likely to attract much interests among developers. As most of the private enbloc sites are large they are unlikely to attract much interests due to the lengthy sale process, high land ABSD penalty and QC conditions."

"Going by the standard timeline, most of the land that have been secured during the enbloc wave are ready for launch. Of course, developers will moderate and hold back launches if they need to, but there is always the over-arching 5-year timeframe, and in view of that, developments have to be launched."

"There need to be more towards reducing construction costs through technological advancement. This is too slow in Singapore considering the technology that is already out there."

"The large units mean that the overall quantum prices would be higher and the potential buyer pool would be smaller. This will affect the sales rate of developments and developers would have to factor this into their land purchase evaluation."

"Many of the new units are coming from land that were purchased earlier at relatively higher land prices and developers are unlikely to lower the prices much unless they are willing to take a loss."

Comments from Survey Respondents

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

In 1Q19, 51.3% and 35.9% of the developers indicated that they would substantially and moderately increase their new launches, respectively.

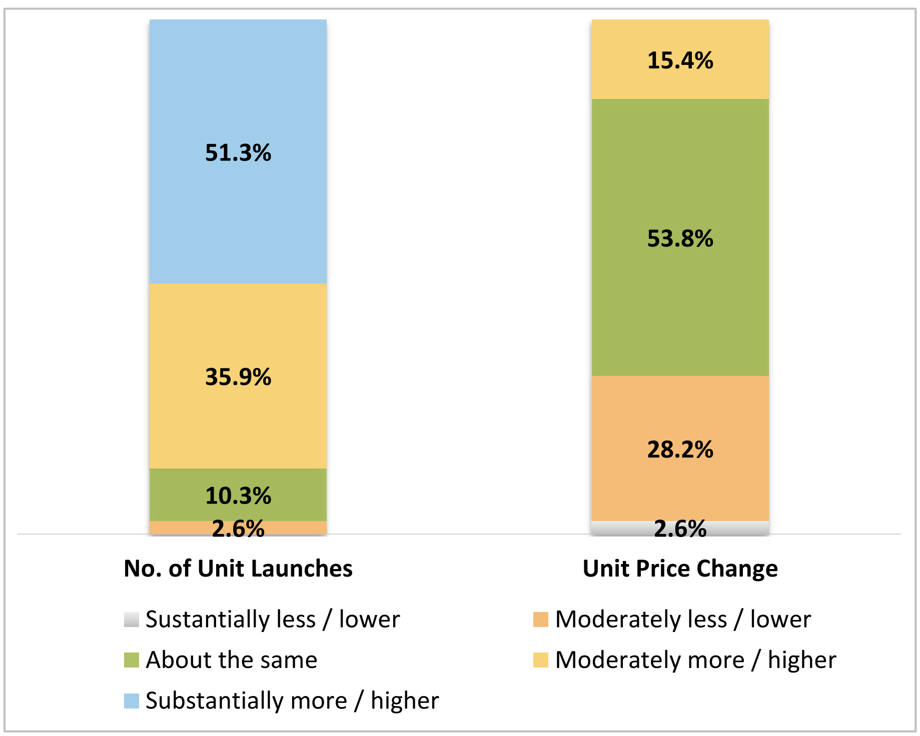
Only 2.6% of them would launch moderately less number of units in the next 6 months.

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

In terms of unit price change, 15.4% of the developers anticipated residential property prices to moderately increase in the next six months.

53.8% of them expected residential property prices to remain at the same level, and 30.8% of them expected a drop in the prices in the next six months.

Exhibit 4: Residential Launches & Prices



Source: NUS-REDAS Research

How would you rate the potential impacts of the recent DC rate revision on Commercial, Hotel/Hospital and Residential (non-landed) use groups?

More than half of the respondents felt that the DC rate changes for the commercial sector would have moderate impact on investment sales, redevelopment, government land sales and rental rates.

45.8%, 62.5% and 33.3% of the respondents expected the increase in Hotel/Hospital DC rate to have significant impact on investment sales, redevelopment and government land sales, respectively.

33.3%, 38.9% and 38.9% of the respondents felt that decreases in the non-landed residential DC rates have no impact on en bloc sale activity, new government lands and pricing of new projects, respectively.

How will the increase in the minimum average DU size impact potential en bloc activities, especially projects located outside the Central Area?

More than one third of the respondents expected increase in the minimum average DU size to have significant impact on developer's interests in en bloc sites, bid prices for en bloc sites, en bloc sale numbers, supply of shoebox units in redeveloped projects, and prices of new launch units built on en bloc sites, respectively.

Exhibit 5: Assessment of the Commercial DC Rate Increase

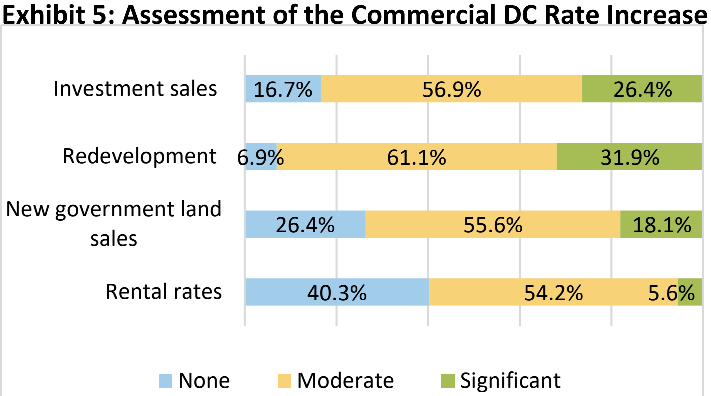


Exhibit 7: Assessment of the Residential DC Rate Decrease

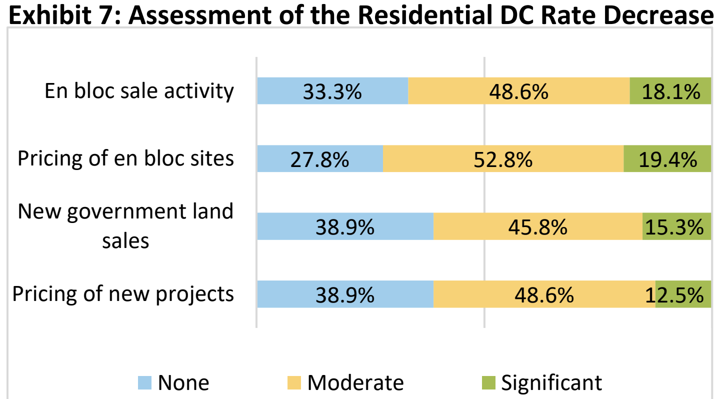


Exhibit 6: Assessment of the Hotel/Hospital DC Rate Increase

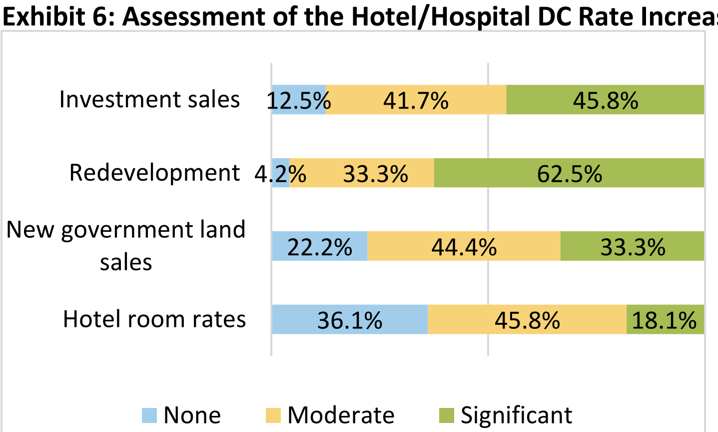
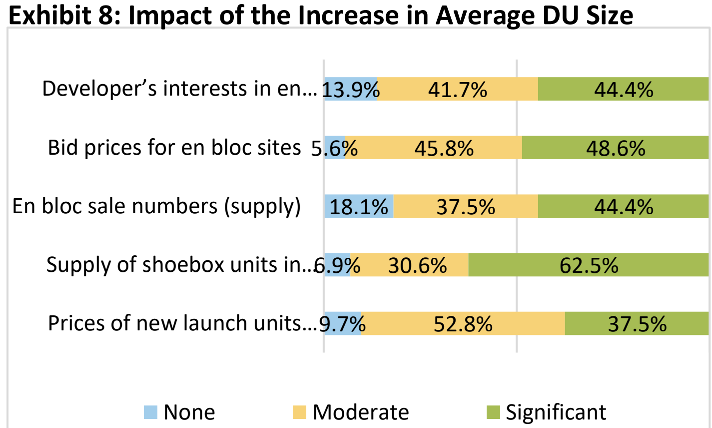


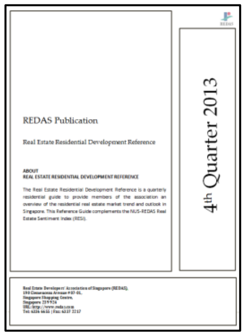
Exhibit 8: Impact of the Increase in Average DU Size



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.