En bloc deals may be back in play as developers run down landbanks

Smaller sites yielding 100 to 200 homes seen as sweet spot as developers shun risk amid headwinds, adds survey

BT EXCLUSIVE

By Nisha Ramchandani
nishar@sph.com.sg
@Nisha_BT

Singapore

OVER half the developers here are keen to replenish their landbank, with the en bloc market likely to garner more interest in the first half of this year, according to a survey.

However, smaller residential sites yielding 100 to 200 private homes are seen as the sweet spot as developers shun risk amid economic headwinds.

The fourth-quarter 2020 survey by the Institute of Real Estate and Urban Studies (IREUS) at NUS polled 47 executives in Singapore, of whom half are developers while the rest are from major real estate agencies, financial institutions funds and construction firms.

Certain questions around increasing landbank as well as level of interest in en bloc sales and Government Land Sales (GLS) were posed solely to developers, while the rest of the questions were answered by all the respondents.

Going by the results, about 55 per cent of developers polled are planning to build up their landbank while the rest of the developers said they will maintain their landbank.

Nearly two-thirds (62.5 per cent) of developers reckon that the en bloc market will see a greater level of interest in the first six months of this year, while more than half (over 58 per cent) of developers expect that the GLS programme will attract increased interest.

Both readings were markedly higher vis-a-vis the third quarter of 2020, where only 16 per cent of developers expressed an interest in GLS for the six months ahead while just under 10 per cent of developers appeared keen on en bloc sales at the time.

When it comes to en bloc, the majority of respondents, or 80 per cent, expect residential parcels to be transacted, as opposed to sites for mixed-use developments or offices.

However, it is smaller residential sites that are likely to pique the attention of developers. Nearly 40 per cent of respondents expect to see transactions for sites that can yield 100 to 200 units, while 26 per cent were in favour of land parcels which could be redeveloped to offer less than 100 units.

Only 11 per cent of those polled indicated sites which could yield 300 to 500 units would be transacted, while none were expecting deals for bigger sites with over 500 units.

By sticking to smaller sites, developers may manage risk better, pointed out deputy director of IREUS, Lee Nai Jia. "The risk of not being able to finishing selling within the stipulated period will be higher for larger sites, especially given the uncertain economic environment," he said. "However, they cannot go for sites that are too small, as that will push up the average cost of construction due to loss of economies of scale."

All this comes as the private residential market has seemed to shrug off the impact of an ongoing global pandemic, with unsold inventory easing to 24,341 units in Q4 2020, down 8.4 per cent from 26,578 units in Q3 2020 and 20.1 per cent from 30,473 units in Q4 2019. Taken together with conservative supply arising from the GLS programme, this could prompt some developers to turn to the en bloc market to replenish their landbank.

After the cooling measures in July 2018 effectively sounded the death knell for the previous en bloc cycle, there were some signs of interest stirring in 2020, albeit generally for smaller sites. Freehold development Yuen Sing Mansion, along Lorong 13 Geylang was sold through private treaty for S$15.2 million, while two adjoining condos at Sophia Road – Fairhaven and Sophia Ville – were bought by a developer for S$62 million.

Where en bloc sales are concerned, land parcels in the suburbs – or Outside Central Region (OCR) – are most likely to be transacted, according to nearly half (48 per cent) of those polled by IREUS. Land parcels in the city fringe, or Rest of Central Region (RCR), are the next in line, about 46 per cent of respondents said. But sites in the Core Central Region (CCR) appear least likely to be transacted, getting the vote of just 7 per cent of the respondents.

At the same time, respondents recognise that sealing en bloc deals won't be entirely smooth sailing. Over 70 per cent identified closing the price gap between buyers and sellers as the key sticking point that could scupper transactions. Meanwhile, slightly over half of those polled also expect that uncertainty in the construction sector owing to the pandemic could be another hurdle that needs to be crossed.

In the same survey, respondents were also asked how the government's plans to introduce diverse housing types – such as smaller flats for seniors and rental housing – in upcoming HDB estates in prime locations would affect the market positioning of new private developments nearby.

Forty one per cent indicated a private development next to a HDB estate with a diverse mix would have more units that were smaller in size compared to projects near a HDB estate with larger four- or five-room units, while 48 per cent expect no change in the unit mix.

Where the unit price is concerned, nearly 60 per cent of those polled anticipate higher prices for new private developments built near HDB estates, but 30 per cent expect no change. Only 11 per cent reckon that the prices will be lower.

Private residential developments close to a HDB estate with a diverse mix of housing types would most likely cater to the mid-tier market, the majority of respondents also said. Thirty five per cent expect the development would be positioned for the mass market while only 2 per cent reckon the project would cater to the luxury market.

More than half of respondents also do not expect any change in the prices or sales volumes of upcoming and existing private developments near in-demand estates if the HDB resale market is controlled.

☛ **East Coast development goes on collective sale by auction – the first since 1997, Page 4**
☛ **More expect government intervention to cool property market, Page 12**
☛ **Pricier, new condo launches drive resale market in Jan, Page 12**

Source: *The Business Times*, p12
Date: 10 February 2021

More expect government intervention to cool property market

By Rachel Mui
rachmui@sph.com.sg
@RachelMuiBT

Singapore

FEARS of spiking construction costs overtook economic woes as the top potential risk factor that may temper sentiment in the property sector in the next six months.

That is according to the latest Real Estate Sentiment Index published by the National University of Singapore Real Estate (NUS+RE), which represents the Department of Real Estate and the Institute of Real Estate and Urban Studies at the university.

The quarterly survey polled about 40-50 senior executives in the real estate sector who are closely following the pulse in the markets.

The proportion of respondents who indicated concerns on the rising costs of construction rose to 85.1 per cent in the fourth quarter of 2020, versus 76.9 per cent in Q3.

"Construction costs are expected to increase in the next six months due to shortage of manpower, supply disruptions of building materials and tighter regulations imposed on construction sites," one respondent said.

"This could potentially lead to persistent demand-supply mismatch in the near term."

In contrast, the proportion of respondents who indicated job losses/a decline in domestic economy as a potential risk factor fell to 61.7 per cent from 100 per cent, while those who were worried about the slowdown in the global economy declined to 76.6 per cent from 96.2 per cent.

Meanwhile, one risk factor that rose significantly was the potential risk of government intervention to cool the market, which jumped to 44.7 per cent in Q4 2020, from just 19.2 per cent in Q3 2020.

The other was the possible risk of a real estate price bubble/excessive speculative activities which increased to 25.5 per cent, from 5.8 per cent in Q3.

In terms of future launches and sales, about 58 per cent of property developers surveyed by NUS+RE expected prices to be moderately higher, while 29 per cent expected prices to remain the same.

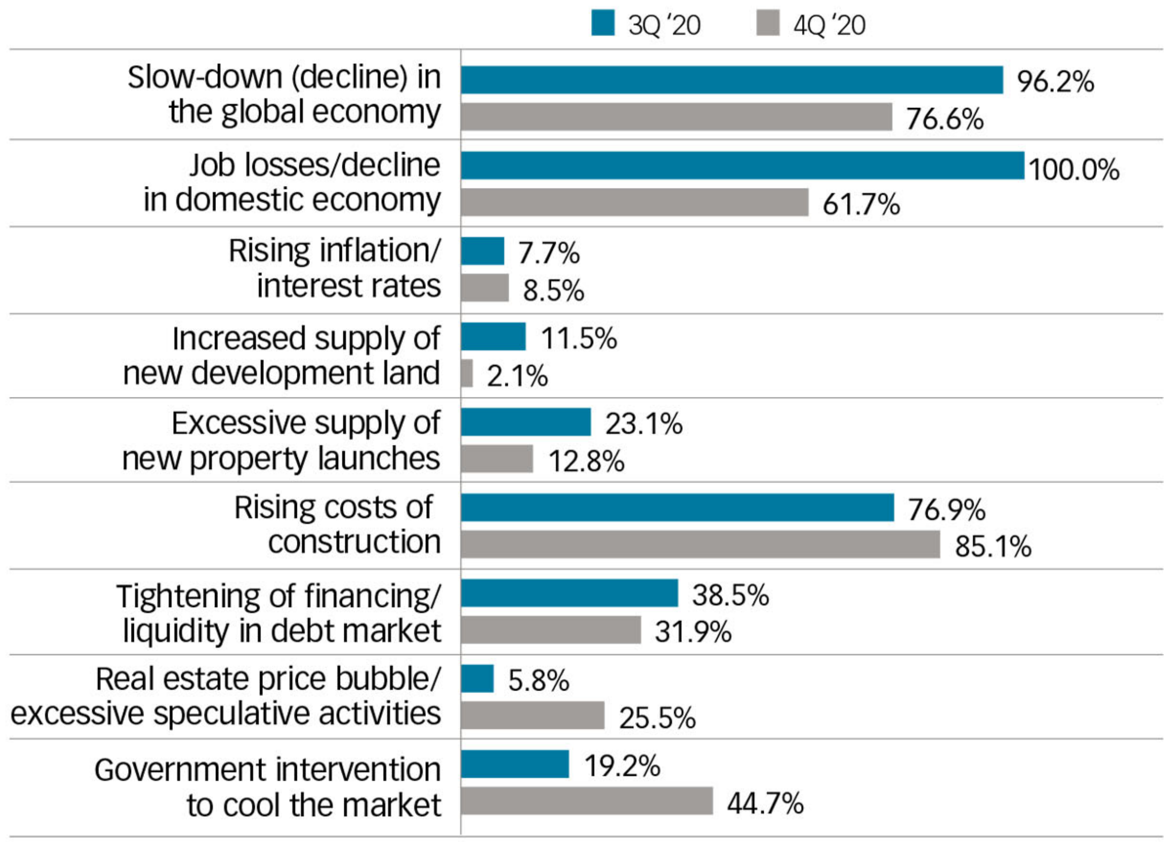
To add to that, about 54 per cent of developers expected the number of units to come to the market to be moderately or substantially more in the next six months.

Despite the pandemic's impact on the economy, market sentiment for the second half of last year has remained optimistic.

The study's composite sentiment index, a derived indicator for the overall real estate market sentiment, continued to climb upwards to 6.5 in Q4 from 5.4 in Q3, indicating an optimistic outlook on the market heading into 2021, NUS+RE noted.

Potential risks

Senior executives surveyed foresee the following risk factors may potentially depress market sentiment in the next 6 months



Source: NUS Real Estate