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MARKET COMMENTARY

Since our June's issue, global macroeconomic uncertainties and geopolitical "fire and fury" standoffs between North Korea and the U.S. have not shown signs of letting up and will continue to cast a long shadow over the global economy in the months ahead.

In China, authorities have moved aggressively to curtail debt-fuelled overseas investments that could pose severe risks to its slowing economy. Several of its largest overseas asset buyers including Wanda, Fosun International, Anbang and HNA Group have been placed under scrutiny, amidst the government's campaign to check financial risks. In our June's market commentary, we stated that China is facing a monumental debt problem that can be traced to the country's vast shadow banking industry. A recent report by Bloomberg in August further revealed that HNA Group has been tapping into a network of trusts and asset management products to fund their acquisitions and daily operational expenses. The company has pledged over US\$10 billion of unlisted shares to non-bank lenders and have paid interest rates on shadow debt that far exceed China's benchmark rates for bank loans and bond issuance.

Besides China, a number of Asian economies such as Hong Kong, Malaysia, Singapore, Thailand, Korea and Vietnam have seen a huge rise in private sector debt in recent years. The credit build up is likely to persist in the near-term to medium-term given top central banks' cautious and slow stance on removing monetary stimulus. With inflationary pressures remaining weak in most parts of the world, policymakers are likely to keep monetary policy benign to support demand. A period of deleveraging is needed in order to cease further asset inflation and reduce the risk of financial sector problems further down the line.

In Singapore, the enbloc fever in the property market is making a comeback, with deals coming thick and fast in the past three months. In spite of the authorities' continued stance on curbing property prices, the resurgence in enbloc deals can be attributed to local property developers anxious to replenish their land banks as well as aggressive land bidding by new foreign entrants in the Singapore property market. We believe that the recent pickup in land bidding prices by developers and the return of enbloc fever are also largely connected to global liquidity and capital excesses, generated by almost a decade-long of record low interest rates. We are still unconvinced that the recent aggressive land bids will translate to strong take-ups or sell-outs at high asking prices in the primary market.

WHAT'S HAPPENING ON THE GROUND?

- Leaders of top central banks defended post-crisis reforms at their annual retreat in Jackson Hole, Wyoming, while discussing the causes and consequences of populist waves that have reshuffled the political order in the U.S. and Europe. Monetary policy was however not a major focus during the three-day gathering. When it was discussed, the messages from the Federal Reserve and European Central Bank stressed their gradual approaches to unwinding emergency-era stimulus as global growth picks up. Policy makers instead poured over the pros and cons of free trade and made a full-throated defence of the safety net created since the 2008 financial crisis (Source: Bloomberg, 28 August 2017)
- Amber Park, a collective sale site along Amber Road in Singapore, has been launched for sale by tender by sole marketing agent JLL at a minimum price of S\$768 million or about S\$1,284 psf per plot ratio. The property was built in the mid-1980s and comprises 200 units in two 27-storey apartment blocks. More than 80% of the owners have consented to the collective sale at the minimum price. Under the 2014 Master Plan, the 213,670 sq. ft. site is zoned "Residential" with a gross plot ratio of 2.8. It may be redeveloped to accommodate a high-rise apartment development of around 24 to 26 storeys, depending on the technical height controls imposed by the relevant authorities. (Source: Business Times, 28 August 2017)

- The Singapore government is considering the sale of large land parcels, within the next few years, in Jurong Lake District (JLD) where it aims to create 100,000 new jobs and add 20,000 new homes. According to the Minister for National Development Lawrence Wong, the aim is to create a critical mass of developments once the High-Speed Rail (HSR) terminus starts its operations by end-2026. The development of the JLD, which will take at least 15 to 20 years, will start with the area around the terminus for the Singapore-Kuala Lumpur HSR. (Source: Business Times, 26 August 2017)
- The bungalow market in Singapore is keeping up with last year's momentum, with transactions likely to equal if not surpass 2016's volume. Based on CBRE Research's analysis of caveats data, 23 transactions have been made in Good Class Bungalow (GCB) Areas totalling S\$480.6 million so far this year. In 2016, 37 bungalows in GCB Areas changed hands for a total of S\$788.5 million. Bungalows in GCB Areas are the most prestigious form of landed housing in Singapore with strict planning conditions laid out by the Urban Redevelopment Authority. Only Singapore citizens are allowed to buy landed homes in the 39 GCB Areas on mainland Singapore. (Source: Business Times, 18 August 2017)
- Singapore's Ministry of Trade and Industry (MTI) narrowed its full-year GDP forecast upwards, reflecting a more confident stride amid an improving global and domestic environment and backed by a better-than-expected growth in the 2nd quarter of 2017, led mainly by manufacturing. However, the Monetary Authority of Singapore (MAS) kept its neutral monetary policy stance announced in April, saying that it remains appropriate in view of the stable growth and inflation prospects for this year. The MAS's next policy decision is due in October. (Source: Business Times, 12 August 2017)
- The tender for the collective sale of Normanton Park, near Science Park and Kent Ridge Park, has been launched. The reserve price is S\$800 million, which translates to S\$898 psf per plot ratio. This unit land price is inclusive of two payments that the developer of the 660,999 sq. ft. site will have to make to the state. One is an estimated differential premium of S\$225.3 million for intensification of the site based on the maximum permissible gross floor area of 1,388,099 sq. ft.; the other is an estimated S\$220.6 million to top up the site's lease to 99 years. Under the Urban Redevelopment Authority's Master Plan 2014, the site is zoned for "Residential" use with a gross plot ratio of 2.1. (Source: Business Times, 21 August 2017)
- Recent sale prices for bungalows in Singapore's Sentosa Cove have fallen to levels similar to those of mass market condos on a psf basis. The declines, of nearly 20% from a year earlier, reflect the slide in the broader luxury segment. Eight Sentosa Cove bungalows sold in the first six months of this year went for an average of \$1,541 psf, said a report released by property consultancy CBRE. That was an 18.1% fall from the average selling price of \$1,881 psf in the second half of last year. (Source: Straits Times, 15 August 2017)
- Resale prices of private condominiums and apartments fell 0.5% in July, after rising 0.7% in June. The Core Central Region and Rest of Central Region recorded a price increase of 0.6% and 0.4% respectively, while the Outside Central Region price index fell by 1.9%. Year on year, prices in July were up by 2% from a year ago. Year to date, prices have increased 2.2%. Transactions wise, the resale volume fell by 9.7% to an estimated 952 units resold in July. This compared to 1,054 units resold in June 2017. Year on year, July's resale volume was 20.1% higher compared to 793 units resold in July 2016. (Source: Business Times, 8 August 2017)

Current Funds by SISAM

SiS Credit Fund | SiS Intrepid Venture | SiS Real Estate Opportunity Fund

To find out more, email enquiry@sisasset.com