NOT FOR THE FAINT-HEARTED

NON-LANDED HOMES IN SENTOSA COVE

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SQUARE FOOT RESEARCH PTE. LTD.
Phone: +65 6223 2163
Website: www.squarefoot.com.sg

Losing the shine of its heyday, the non-landed residential segment in Sentosa Cove is experiencing a severe oversupply. In addition to the clock ticking due to the leasehold nature of properties there, the lack of any growth catalysts in the area is another reason why the situation may not improve in the short term.

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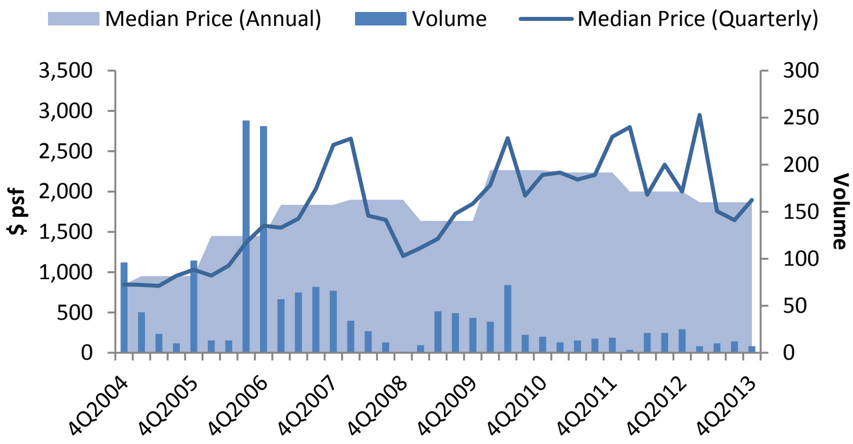
Waning Demand

Touted as one of the world's most prestigious and desirable residential enclaves, the haven for the wealthy seems to be losing its appeal as sales of non-landed homes in Sentosa Cove plummet to its lowest in 2013.

Sales of non-landed homes in Sentosa Cove plunged by 48.6% y-o-y in 2013 with only 36 transactions, based on caveats lodged. Moving in tandem with the lacklustre sales, median transaction price in 4Q13 also tumbled by 44.2% from its peak in 1Q13 to a trough of $1,646 psf in 3Q13 before rebounding slightly to $1,895 psf, an increase of 15.1% q-o-q and a decline of 5.3% y-o-y. Anually, median transaction price in 2013 continued to decline since its peak in 2010, falling 17.6% since and 6.62% y-o-y to $1,868 psf. (Figure 1)

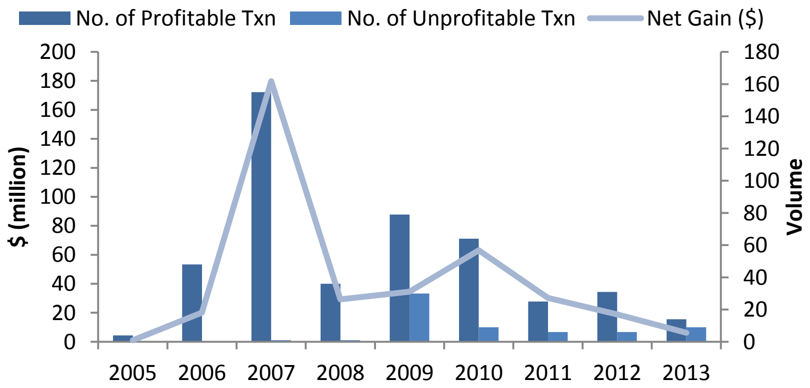
The waning demand is also evident by the 50% rise in unprofitable transactions (despite the fall in volume) and the 55% dive in number of profitable transactions in 2013. Estimated gross realised loss in the secondary market increased by 13.8% to $5.46m whereas gross realised profits decreased by 50.8% to $11.7m,

Figure 1: Median Price and Sales Volume of Non-Landed Residential Properties in Sentosa Cove



Source: URA, Square Foot Research

Figure 2: Number of Profitable and Unprofitable Non-Land Residential Resale Transactions



Source: URA, Square Foot Research

Table 1: Gross Realised P/L in the Secondary Market

Year	Loss	Profit	Net Gain
2005	-	1,027,485.00	1,027,485.00
2006	-	20,099,959.00	20,099,959.00
2007	(629,370.00)	180,457,815.00	179,828,445.00
2008	(105,985.00)	29,365,863.00	29,259,878.00
2009	(12,423,148.00)	46,984,525.00	34,561,377.00
2010	(6,185,668.00)	69,258,375.00	63,072,707.00
2011	(2,434,035.00)	32,698,725.00	30,264,690.00
2012	(4,798,692.00)	23,718,484.00	18,919,792.00
2013	(5,462,170.00)	11,671,475.00	6,209,305.00

Source: Square Foot Research

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leading to a drop in net gain by 50.8% to $6.2m in 2013. (Figure 2, Table 1)

Pushing the Price Boundary

Out of the 10 non-landed residential projects in Sentosa Cove (launched since 2004), only 4 have been fully sold, they are The Berth by the Cove, the Azure, the Oceanfront @ Sentosa Cove and The Coast at Sentosa Cove, all of which were launched before 2007. Projects launched after 2007 paled in comparison with the total number of unsold units estimated at near two-thirds, or 67%. To date, there remains a project that has yet to launch for sale, despite the land being sold 6 years ago in January 2008, and that the project has already completed construction.

Among the projects that have been launched for sale, at the bottom of the sales chart is The Residences at W Singapore Sentosa Cove, which was the last to launch, it has an estimated 90% of its 228 units remaining unsold.

The stark difference in sales performance between projects launched before 2007 and projects launched after 2007 may be due to the sudden spike in developer selling price. Primary market median transaction price more than doubled from $1,290 psf to $2,662 psf between the two periods even as sales slowed. (Table 2)

Oversupply of Rental Units

The rental market in Sentosa Cove is currently flooded with supply amidst the declining demand. Developers are also opting to lease out unsold units instead of lowering selling prices. We estimate about two-thirds of the remaining unsold units of Turquoise and Seascape have been rented out. In addition, units at Cape Royal (formerly Pinnacle Collection), the last of the 10 non-landed residential projects in Sentosa that has yet to launch for sale, were released for lease in 2H13, adding 302 units to the rental market.

The highest price ever paid for a non-landed residential unit in Sentosa Cove is $3,605 psf for a unit at Seven Palms, developed by high-end developer SC Global.

The high price-tag and languid rental market have resulted in the compression of rental yield to below 3% (with the exception of The Berth by the Cove), which is relatively unattractive for 99-year projects.

The 99-year leasehold nature of the projects will not be in favour of the developers. In addition to the clock ticking, some owners are in the secondary market trying to offload their units at prices below the developer's. Fortunately for developers in Sentosa Cove, they are exempted from provisions in the Residential Property Act. This exempts developers from the 2-year deadline to sell all units after completion or risk paying hefty penalties for extension.

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Table 2: Non-landed residential projects in Sentosa Cove

Project Name	Launch Year	New Sale Median ($psf)	New Sale Min ($psf)	New Sale Max ($psf)	Total No. of Units	No. of Units Sold	% Sold	Avg Price ($psf) [2]	Avg Rent ($psf pm) [2]	Rental Yield [4]
THE BERTH BY THE COVE[1]	2004	851	680	1,425	200	200	100%	1,602	4.91	3.68%
THE AZURE[1]	2005	1,029	872	1,454	116	116	100%	1,970	4.23	2.58%
THE OCEANFRONT @ SENTOSA COVE[1]	2006	1,370	1,051	1,536	264	264	100%	1,773	4.35	2.94%
THE COAST AT SENTOSA COVE[1]	2006	1,596	1,290	1,950	249	249	100%	1,807	3.94	2.62%
TURQUOISE	2007	2,592	2,445	2,772	91	43	47%	2,591 [3]	3.74	1.73%
MARINA COLLECTION	2007	2,669	1,872	2,917	124	89	72%	2,494	4.79	2.30%
SEVEN PALMS SENTOSA COVE	2009	3,303	3,091	3,605	41	10	24%	3,303 [3]	-	-
SEASCAPE	2010	2,690	2,585	3,146	151	48	32%	2,537	4.65	2.20%
THE RESIDENCES AT W SINGAPORE SENTOSA COVE	2010	2,805	2,521	2,968	228	22	10%	2,726	4.88	2.15%
CAPE ROYAL	-	-	-	-	302	-	-	-	4.56	-

Source: URA, Square Foot Research

[1] # of units sold are based on monthly sales figures submitted to URA by developers [2] Based on transactions in the past 6 months. [3] Median transaction price since launch as there were no recent transactions. [4] Rental yield is derived based on average price and average rent.

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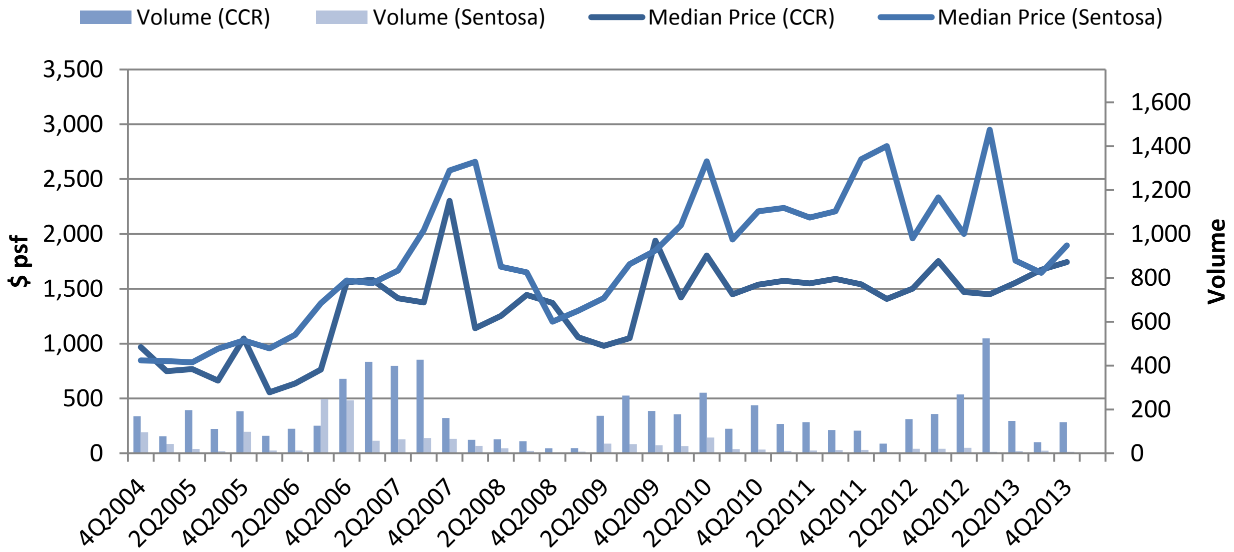
Figure 3: Median Price and Sales Volume of 99-year Non-Landed Homes in Sentosa versus CCR (ex Sentosa Cove)



Source: URA, Square Foot Research

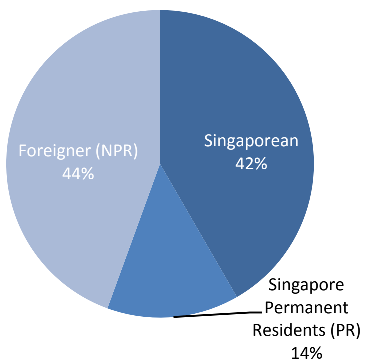
Looking at the secondary market, the glut of supply seems to take its toll on prices as owners pit against each another furiously to attract buyers. Prospective sellers are all geared up for the fierce battle with some preparing to sell their properties below valuation or at a loss in a bid to offload their units. According to data from property listing sites, there are several units at Turquoise listed in the secondary market for prices below valuation as well as below the estimated developer's selling price of $2,700 psf for its remaining unsold units.

Price Gap versus CCR

The price gap between properties in Sentosa Cove and CCR (Figure 3) has narrowed down to just 8.7% in 4Q13 as compared to 103.5% in 1Q13 where median price in Sentosa Cove shot up to a historical high of $2,950 psf.

Prospective buyers who are keen to own a prestigious non-landed unit in Sentosa Cove may be delighted to find out that current conditions seem favourable – with prices dipping relatively higher than its counterparts in CCR and that there are many units out for sale in the secondary

Figure 4: Purchaser Nationality Status of Non-Landed Residential Properties in Sentosa Cove (2013)



Source: URA, Square Foot Research

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market below valuation. However, unlike its counterparts, prices in Sentosa Cove have always been more volatile as prices fluctuate drastically with low volume of transactions.

The cooling measures have also affected sales in the high-end market, especially Sentosa Cove where developer selling prices rose significantly after 2006/2007. Given that a good proportion of the buyers are non-citizens (Figure 4), residential properties in Sentosa Cove may be adversely affected by the additional buyer's stamp duty imposed on foreigners (ranging from 5% to 15%), which will further dampen interest in the southern island.

However, landed properties in Sentosa Cove on the other hand speaks a different story. Being the only area where non-citizens can lay their hands on a piece of precious land in Singapore, the scarcity of such developments means that the landed segment there will always have its market. Although there are only 394 landed residential units available in Sentosa Cove, compared to 1,766 units of non-landed residential units, the number of transactions for landed residential properties in Sentosa Cove makes up more than a third of the total transactions in 2013, suggesting that the landed segment there is seeing relatively higher buyer interest.

Conclusion

Despite the seemingly attractive deals in Sentosa Cove, especially in the non-landed residential segment, the future prospect of the island is heavily dependent on foreign buyers. Unlike landed properties, foreigners are free to purchase any non-landed residential properties in the mainland of Singapore, where amenities are abundant and there is no inconvenience of having to commute on a daily basis. In addition, Sentosa Cove properties will decline in value with respect to its remaining lease as it seeps away with time whereas freehold options are available in the mainland. Foreign investors may also prefer to choose other areas in the mainland with better rental yields, some exceeding 5% and yet with higher remaining tenure. All in all, it is undeniable that our little aloof island in the south is currently experiencing an oversupply of non-landed homes, this was evident even before cooling measures kicked in but is now worse not just due to the cooling measures but also because of the last few projects completing and entering the rental market. This oversupply situation is unlikely to improve in the short term, given the lack of growth catalysts in Sentosa Cove, unless the authority decides to step in to help by introducing exceptions, such as waiving the additional buyer's stamp duty for property purchases in Sentosa Cove, or developer cutting prices for their unsold inventory, or when CCR prices catch up to a level where Sentosa Cove's price premiun can be justified.

APPENDIX

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