



Pricing crucial for collective sales

TAN HONG BOON and **ONG TECK HUI** advise owners to price their sites realistically from the start to ensure early success

THE year 2007 will always be remembered as the bull run for collective sales, which achieved a record transaction volume worth \$11.4 billion. It was underpinned by a robust residential market which saw prices soaring 31 per cent and 14,800 units sold by developers that year. Driven by a need to replenish their land banks, developers' voracious appetite for fresh sites led to 86 collective sale sites being sold, mostly at optimistic prices.

Encouraged by the strong demand for sites and the favourable prices being fetched, owners looking to sell their homes en bloc would adopt a "forward pricing" strategy to secure the highest possible value for their sites. This involved projecting an optimistic reserve price towards a fu-

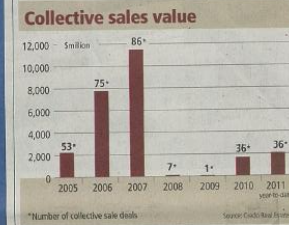
ture estimate, taking into account the strong upward movement in property prices under those market conditions. It was a pricing strategy that resulted in handsome gains for many owners in collective sales.

Post-crisis collective sales

2008 and 2009 were lacklustre years for collective sales due to the recession brought on by the global financial crisis. Residential property prices fell 25 per cent between mid-2008 and mid-2009, resulting in a soft market. As developers suffered poor unit sales, demand for sites weakened, leading to just \$127.5 million and \$100.5 million of collective sales deals being sealed in 2008 and 2009 respectively.

Economic recovery from the second half of 2009 restored buyer confidence and demand, with property prices trending upwards again. Compared to 2007, collective sales recovery last year was gradual, resulting in a humble transaction volume of \$1.77 billion. A modest pick-up was seen this year with \$2.07 billion worth of collective sales deals concluded (as at August 2011). However, it should be noted that there are significant differences between the market circumstances of 2007 and 2010/11. Firstly, the market for prime residential properties was buoyant in 2007, leading to keen interest for collective sale sites in prime as well as mid-prime locations. On the other hand, demand for prime properties was relatively slower in 2010/11 as seen in the overall take-up rate and sales progress.

Secondly, the Government Land Sales (GLS) programme was far less aggressive in 2007 compared to 2010/11. Since last year, the government has been preoccupied with averting a bubble in the property market and the sale of residential sites was ramped up significantly to ensure adequate supply, among other market-cooling



measures imposed. 2010/11 also saw heightened demand in the suburban market leading major developers to focus on bidding for GLS sites which are predominantly in the suburbs.

Smaller developers priced out from the large GLS sites became more active in the collective sale market. This is the reason why most of the collective sale sites sold in 2010/11 were generally below \$100 million each, within the financial means of the smaller developers (9 of 36 sites sold in 2011 to date were below \$100 million).

As the collective sales market recovered in 2010, owners looking to sell their homes en bloc were again optimistic in pricing their sites, seeing the 38.2 per cent surge in residential property prices in the first year of the market turnaround (mid-2009 to mid-2010). However, the "forward pricing" strategy that home owners used successfully in 2007 did not quite work out in the present market and in fact proved an impediment to the sales, causing delays in the sales process. (This is due to the differences in market circumstances between 2007 and 2010/11, as explained above.)

Current trends

It is understandable for owners looking to sell their homes en bloc to want to fetch the best price for their sites, but it is also important for them to recognise the current market circumstances and be realistic in setting the reserve price. An unrealistic reserve price will put off prospective buyers and result in an unsuccessful sale.

In one recent experience, we embarked on gathering the minimum 80 per cent mandate for a collective sale at a particular recommended reserve price. However, some owners were reluctant to give their consent unless a higher reserve price was set. This led to an upward revision in the reserve price so that the 80 per cent mandate could be attained, after some delay.

The site was put up for tender, but it received lukewarm response because developers felt the asking price was too high. The reserve price was then reviewed and adjusted downwards and much time was spent obtaining the 80 per cent consensus for the revised pricing.

A buyer for this site was eventually found at a final price that was close to the original reserve price. It is estimated that this particular site took an extra five months to sell, and with added frustration, due to the initial unrealistic pricing. This has also been the experience for some other collective sale sites.

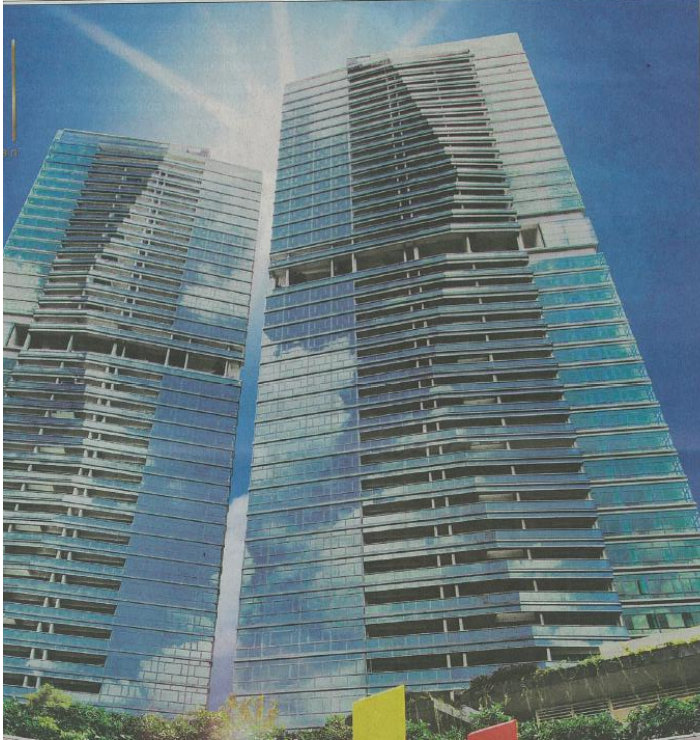
Outlook

Residential property price increases are flattening out, possibly signalling the upper end of the market cycle. In Q2 2011, prices for the prime, fringe and suburban non-landed markets rose only 1.1 per cent to 1.7 per cent. The supply of new private residential projects is building up following aggressive government land sales since 2010. The HDB is also ramping up the supply of new public housing and has revised the household ceiling for HDB flats from \$8,000 to \$10,000.

Lately, the global economy has worsened and the economic outlook for Singapore in the near future looks more uncertain. In view of these factors, developers are expected to be more selective in considering development sites.

There is already a trend of unsuccessful collective sale sites reviewing their asking prices and relaunching to secure buyers. As the collective sales market is expected to become even more challenging due to unfavourable market events, it is imperative for owners to price their sites realistically from the onset to ensure early success and avoid a relaunch under more difficult market conditions.

Mr Tan is deputy managing director and Mr Ong is executive director of Credio Real Estate (Singapore).



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