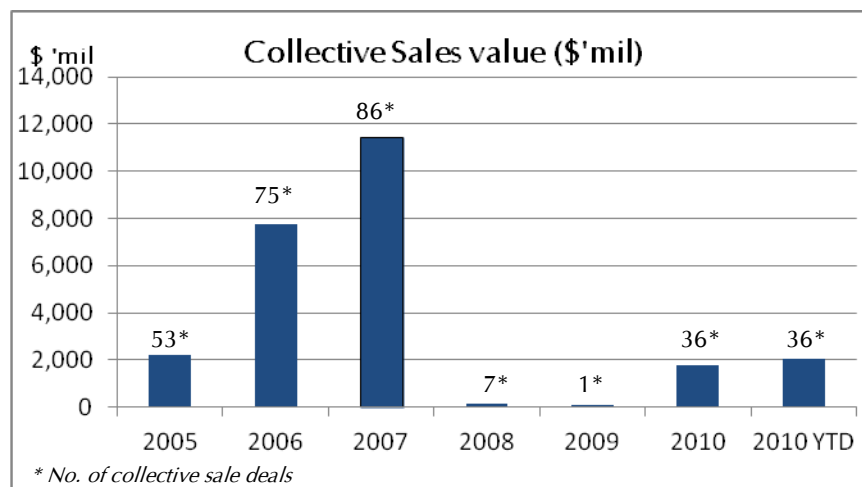


## COLLECTIVE SALES – PRICING IS CRUCIAL IN CHALLENGING MARKET

2007 will always be remembered as the bull-run for collective sales having achieved a record transaction volume worth \$11.4 billion. It was underpinned by a robust residential market which saw prices soaring 31% 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 favourable prices being fetched, en bloc owners would adopt a "forward pricing" strategy to secure the highest possible value for their sites. This involved projecting an optimistic reserve price towards a future 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 enbloc owners.

### Post-crisis collective sales

2008 and 2009 were lackluster years for collective sales due to the recession brought on by the global financial crisis. Residential property prices fell 25% 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 \$100.8 million of collective sales deals being sealed in 2008 and 2009 respectively. However economic recovery in the second half of 2009 restored buyer confidence and demand with property prices trending upwards again. Compared to 2007, collective sales recovery in 2010 was gradual, resulting in a humble transaction volume of \$1.77 billion. A modest pick-up was seen in 2011 with \$2.07 billion worth of collective sales deals concluded (as at August 2011).



Source: Credo Real Estate

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 pre-occupied with averting a bubble in the property market and the sale of residential sites was ramped up significantly to ensure adequate supply, amongst other market-cooling measures being 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.

With reduced demand from major developers, it was the smaller developers who were priced out from the large GLS sites that became more active in the collective sale market. This is the reason why most of the collective sale sites sold in 2010/11 is generally below \$100 million each ie within the financial means of the smaller developers (29 of 36 sites sold in 2011 to-date are below \$100 million)

As the collective sales market recovered in 2010, enbloc owners were again optimistic in pricing their sites, seeing the 38.2% surge in residential property prices in the first year of market turn-around (mid-2009 to mid-2010). However the “forward pricing” strategy that enbloc owners used successfully in 2007 did not quite work out in the present market and in fact proved an impediment to the sales, causing delay in the sales process. (The reasons are the differences in market circumstances between 2007 and 2010/11 as explained above)

### Current trends

It is understandable that enbloc owners desire to fetch the best price for their sites but it is also important for them to recognize 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% 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% mandate could be attained after some delay. The site was put up for tender but 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% 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 initial unrealistic pricing. This has also been the experience for some other collective sale sites as well.

### Outlook

Residential property price increases are flattening out, possibly signaling the upper end of the market cycle. In 2Q2011, prices for the prime, fringe and suburban non-landed markets rose only 1.1% to 1.7%. Supply of new private residential projects is building up following the 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 re-launching again 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 re-launch under more difficult market conditions.