

The SiSAM Connect

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MARKET COMMENTARY

Brexit – What Now?

Since our June newsletter, we have witnessed another seminal event – the milestone Brexit vote on 23 June 2016 by the United Kingdom (UK). Indeed, the decision to leave the EU took global financial markets by surprise, with initial reactions almost reminiscent of the Lehman Brothers collapse in 2008. Thankfully, the “market turmoil” this time was short-lived and global equity markets have since recovered.

While markets certainly have a short term memory, we believe that Brexit would no doubt cast a long shadow over the world economy, adding further uncertainty to the already precarious global situation (not forgetting the impending US Presidential Election at the end of this year).

The rally of global markets post-Brexit can be attributed to a mix of expectations of further quantitative easing (so-called QE infinity) and the recent healthy numbers posted by the US economy. We believe that central banks are fast reaching the limits of monetary policies to resuscitate growth, with some major central banks even advocating negative interest rates. Another financial crisis now could certainly be a knockout blow. Therefore, let us not rush into the UK property market just yet merely on the basis of a “cheap” pound and there is certainly no flight to safety here.



Ong Kang Lin
CEO

Singapore Property Sector – Possible Stabilisation or Illusion of Bottoming?

Back at home, the Singapore real estate market continues to remain sluggish. According to latest URA data, overall private home price index for 2Q2016 fell again by another 0.4% q-o-q, albeit the smallest decline for the last 11 quarters. We also note that the modest price index decline may belie recent deferred payment scheme sales and price discounting in the market.

More developers are also following the footsteps of OUE and have started offering deferred payment schemes in a bid to dispose their unsold units before the various QC and ABSD penalties set in. This is partly a bet on whether existing cooling measures will be fine-tuned, as most of a buyer's payment is typically required only later. Despite the early success of such schemes, it remains to be seen if the rest of property investors and homebuyers on the side-lines will buy into such a scheme. We also do not doubt that the authorities are closely monitoring such schemes.

SiS Real Estate Opportunity Fund – Ever Ready to Capitalise

In line with our original investment thesis, the shaky global economic outlook and soft real estate market outlook would continue to provide the kind of distressed real estate opportunities we have been awaiting. MAS also reiterated recently that it is still too early to lift cooling measures, which affirmed our views as well. The SiS Real Estate Opportunity Fund stands ready to capitalise on distressed opportunities as they arise.

According to CBRE, recent URA figures for 2Q2016 indicate continued pressure across all sectors of residential, office and retail, against the backdrop of a sustained period of uncertainty in the market and weakened global sentiment, exacerbated by existing government policies. This is reflected by further reports of premium condominium units transacted at notable losses.

Two condominium units in the Central Region were recently resold at a loss of more than \$300k despite a nine-year holding period (Source: The Edge Property). The bigger loss of \$350k was from the sale of a 775 sq ft unit at The Clift, where the seller had directly purchased the unit from the developer in January 2008 at \$2,194 psf and resold it at \$1,742 psf. The second property was a 1,561 sq ft unit at Reflections at Keppel Bay, which was resold at a loss of \$315k. The purchase price was \$2,124 psf and the sale price was \$1,922 psf. Such sales could well be a precursor of what is to come.

SiS Intrepid Venture – Our New Venture Fund

I would also like to take the opportunity to announce that SiSAM has launched its first venture fund – SiS Intrepid Venture to invest in MyRepublic Group Limited, a promising local broadband operator that is targeting to be the 4th telco in Singapore. The launch has been a success with a majority of the fund placed out to investors, and we are thankful to our clients and investors for their continued trust and support.

WHAT'S HAPPENING ON THE GROUND?

- Following our last newsletter issue, more property developers have been offering deferred payment schemes in a bid to move units after the success of OUE's Twin Peaks. The growing trend of utilising such schemes is an indication that unsold units are not being cleared easily in the market.
- According to JLL data, total sales value of properties that went under the hammer surged to S\$13.76m in 2Q2016, up 102.4% y-o-y. Sale of residential properties led the auction scene in 2Q2016 and big-ticket transactions include units at Silversea, One Amber and Turquoise.
- According to URA data, overall private home price index for 2Q2016 eased 0.4% q-o-q, the smallest decline for the last 11 quarters. Price index for CCR and RCR for 2Q2016 rose 0.2% and 0.3% respectively q-o-q while 52% of private non-landed home sales were in CCR and RCR.
- According to Real Estate Developers' Association of Singapore, as of May 2016:
 - ✓ There is a supply in the pipeline of 57,597 new private residential units and 12,077 executive condominiums. Unsold units stand at around 15,000, and the supply is still significant in view of the prevailing weak demand.
 - ✓ Some 1,100 to 1,200 unsold units across 17 developments will be affected by QC rules by end 2016 while about 5,300 unsold units in 47 developments will be hit by ABSD remission clawback from end 2016-2018.
- Ahead of the highly anticipated auction to determine the Republic's fourth mobile operator in the third quarter of the year, interested parties have asked if the spectrum allocation imposed on telcos can be raised, according to final auction rules published on 15th July by IDA. The spectrum auction will take place in two stages later this year and could start as early as October. (Source: Today Online)

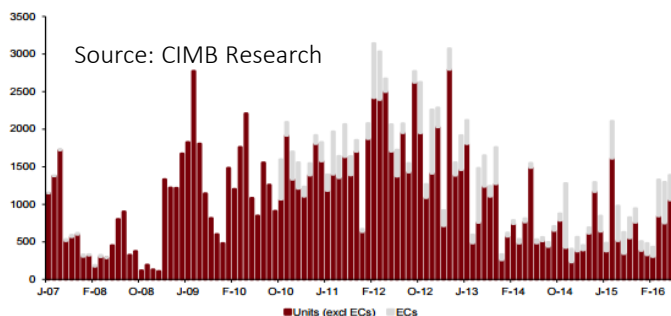
Unlikely emergence of a trough in home prices as CCR prices in 2Q2016 might have been supported by recent developer sales at OUE Twin Peaks and Ardmore Three. Economic uncertainty, physical oversupply and falling rentals still cast a cloud of cautiousness amongst buyers.

Table 1: Semi-annual changes in URA's private residential property price indices

Period	Overall Private Home Price Index (%)	Non-Landed (%)			Landed (%)
		CCR	RCR	OCR	
1H 2016	-1.1	0.5	0.3	-2.0	-2.4
2H 2015	-1.8	-1.5	-2.0	-1.6	-2.2
1H 2015	-1.9	-1.0	-2.3	-2.2	-1.9
2H 2014	-1.8	-1.7	-1.7	-1.2	-3.1
1H 2014	-2.3	-2.5	-3.6	-1.0	-2.4

Source: URA Realis / JLL Research

Chart 1: Monthly primary home sales



Current Funds by SiSAM

SiS Real Estate Opportunity Fund | SiS Intrepid Venture

To find out more, email enquiry@sisasset.com.