

# Sales & Investment



## Resilient market amid uncertainties

The Q1/2023 data suggests that the real estate investment market in Singapore remains stable despite global economic volatility arising from stubbornly high inflation, elevated interest rates and banking sector turmoil.

- Real estate investment sales value reversed three straight quarters' decline with a bounce to S\$5.63 billion in the first quarter of 2023. This was a 100.4% increase compared to the S\$2.81 billion recorded a quarter ago.
  - Investment value for residential sites and properties amounted to S\$1.58 billion in Q1/2023, accounting for 28.0% of overall investment sales. Despite no GLS sites being awarded in the quarter, the residential sector recorded a quarterly growth of 12.5% from S\$1.40 billion in Q4/2022.
  - After a relatively quiet fourth quarter in 2022, the collective sales market awoke with three private residential sites transacted for a total of about S\$583.8 million in the first quarter of 2023.
  - In Q1/2023, the commercial property sector raked in a total of S\$3.38 billion in investment sales, rising 229.6% from a quarter earlier. The growth is attributed mainly to the sales of Jurong Point, Swing By @ Thomson Plaza and a 50% stake in NEX.
  - The sales value in the industrial sector amounted to S\$676.4 million, or 12.0% of Q1's total investment sales. This is a 76.7% quarterly increase from the S\$382.7 million recorded in Q4/2022.
- The recent banking turmoil and expectations that further turbulence may be ahead for the sector is likely to encourage UHNWI's to buy real estate. However, this group of buyers has a lower propensity to lodge caveats, therefore, while we may end the year with publicly available data showing investment sales in line with 2022's S\$24.7 billion, the possibility of it actually being larger is an increasing tail risk.

“Ultra-High Net Worth Individuals are becoming a driving force in investment sales as the turmoil in the global banking industry encourages them to turn towards real estate.”

ALAN CHEONG, SAVILLS RESEARCH

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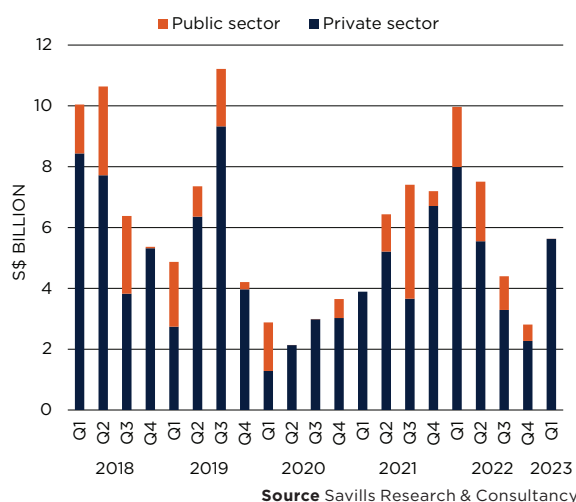
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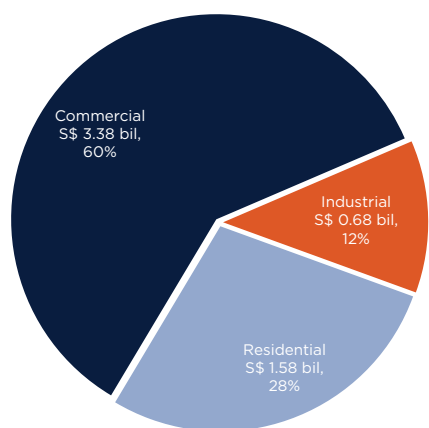
Savills plc  
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**GRAPH 1: Investment Sales Transaction Values, Q1/2018 to Q1/2023**



**GRAPH 2: Investment Sales Transaction Volumes by Property Type, Q1/2023**



**MARKET OVERVIEW**

Real estate investment sales value reversed three straight quarters’ decline and bounced back to S\$5.63 billion in the first quarter of 2023, rising 100.4% from the S\$2.81 billion recorded a quarter ago. Growth was boosted by the closure of some big-ticket transactions, such as Link REIT’s S\$2.16 billion acquisition of Jurong Point and Swing By @ Thomson Plaza. However, even if this mega transaction was excluded, investment sales still increased by some 23.5% QoQ. Furthermore, all property sectors, including residential, commercial and industrial, showed strong QoQ increases in investment sales ranging from 12.5% to 229.6%.

In the public sector, there was only one transaction recorded in Q1/2023. It is the award of a 20-year leasehold Business 2 (B2) industrial site at 25 Gul Drive under the Industrial Government Land Sales (IGLS) Programme for a bid of close to S\$2.6 million. Other than this, almost all the investment sales in the reviewed quarter were from the private sector where transaction values rose by 147.7% QoQ. In terms of transaction volume, Savills captured a total of 86 deals in the private sector, up 10.3% from a quarter ago.

These encouraging figures for Q1/2023 may indicate that in spite of global economic challenges, the real estate investment market in Singapore remains stable. Although institutional investors chose to stay on the side-lines, their absence was partially filled by corporate buyers and UHNWIs. The latter groups have continued to make purchases given that prices are within their hefty budgets. In addition, the bank fallout in the United States and the weakening US dollar could also have triggered a partial flight by UHNWIs to physical assets in safe-havens, such as luxury apartments, strata offices and shophouses.

**RESIDENTIAL**

Investment value for residential sites and properties amounted to S\$1.58 billion in Q1/2023, making up 28.0% of the overall investment sales. Despite the fact that no

GLS sites were awarded in the quarter, the residential sector recorded a quarterly growth of 12.5% from S\$1.40 billion in Q4/2022.

After a relatively quiet fourth quarter in 2022, the collective sales market gained momentum with three private residential sites transacted for a total of about S\$583.8 million in Q1/2023. Among these, the biggest transaction was for Meyer Park in District 15. This collective sale development was acquired by a joint venture between UOL Group and Singapore Land Group for S\$392.2 million, or S\$1,668 per sq ft per plot ratio (psf ppr) including 7% bonus floor area, while the other two smaller sites were Bagnall Court in District 16 which was sold to a Roxy-Pacific-led consortium for S\$115.3 million (S\$1,184 psf ppr) and Holland Tower in District 10 which was taken by Wing Tai Holdings for S\$76.3 million (S\$1,746 psf ppr). Developers continued to adopt a cautious stance and focus on small to medium-sized sites in prime locations. This was observed by the fact that the prices offered by the successful developers were well below or only marginally higher than what the owners had set as the reserve prices. For example, Bagnall Court’s final price was 7.8% lower than its guide price of S\$125 million. Meyer Park’s highest bid price was just a notch higher than its guide price of \$390 million, however, it was 6.6% down from the S\$420 million in its first attempt at sale in July last year. These prices are sending a message to sellers that realistic pricing is key to a successful collective sale. Developers are now more price sensitive in view of economic challenges and potential cooling measures. Moving forwards, the price gap between owners and developers will determine the direction of the collective sales market.

Buying activity for residential properties priced at S\$10 million and above also improved. There were 55 such transactions with a total sales value of S\$994.0 million in the reviewed quarter, compared with 46

**TABLE 1: Top Land Sales in the Public Sector, Q1/2023**

LOCATION	TYPE OF DEVELOPMENT ALLOWED	DATE OF AWARD	SUCCESSFUL TENDER PRICE (S\$ MILLION)	SUCCESSFUL TENDERER
25 Gul Drive	Industrial	Feb 2023	2.6	P-One (Tuas) Pte Ltd

Source: Savills Research & Consultancy

TABLE 2: Top Private Investment Sales, Q1/2023

PROPERTY	SECTOR	TRANSACTION DATE	PRICE (S\$ MILLION)	BUYER
Jurong Point	Retail	Mar 2023	1,988.9	Link REIT
NEX (50% stake)	Retail	Jan 2023	652.5	Frasers Centrepoint Trust and Frasers Property Limited
Meyer Park	Residential	Feb 2023	392.2	United Venture Development (No. 6) Pte Ltd
Swing By @ Thomson Plaza	Retail	Mar 2023	172.5	Link REIT
239 & 241 Alexandra Road	Industrial	Feb 2023	142.0	M&G Real Estate

Source Savills Research &amp; Consultancy

transactions worth S\$863.0 million in Q4/2022. The increase of transaction volume was mainly attributable to landed houses which rose from 26 units in Q4/2022 to 39 units transacted in Q1/2023. After a trough in Q4/2022, the buying activity for individual landed houses in Q1/2023 returned to the 30+ levels seen in the first three quarters of 2022. The most notable deal in the quarter is the sale of three adjoining freehold bungalows in Chancery Hill Road and Dyson Road. The three bungalows, which have a total site area of about 32,148 sq ft, were sold to a subsidiary of Sustained Land for nearly S\$61.1 million through a tender exercise.

### COMMERCIAL

In Q1/2023, the commercial property sector raked in a total of S\$3.38 billion in investment sales, rising 229.6% from a quarter earlier. The growth is attributed mainly to the conclusion of the sales of Jurong Point, Swing By @ Thomson Plaza and a 50% stake in NEX. Total transaction value for these three shopping malls was S\$2.81 billion, accounting for 83.3% of Q1's investment sales tally in this sector.

In the first three months, a total transaction value of S\$290.0 million for strata-titled office units was recorded. Although the transaction value inched down 5.4% QoQ from S\$306.6 million in Q4/2022, the buying momentum for strata office space continued into 2023. It was evident from the strong take-up seen in the upcoming 20-storey freehold office project Solitaire on Cecil. As a rare new supply of strata-titled offices in the CBD, the project has received keen buying interest since its launch. The building's sixth and 12th floors were reported to be sold for S\$48.2 million (S\$3,867 psf based on strata area) and S\$52.3 million (S\$4,196 psf) respectively.

On the other hand, office block transactions remained muted. Same as the previous two quarters, there was only one transaction in Q1/2023. It was the collective sale of GSM Building to an indirect wholly owned subsidiary of LHN for S\$80.0 million. This commercial building on Middle Road now has two retail units on the first floor and 31 office units on the upper floors. According to news, LHN will retain the existing commercial usage of the first and second floors and convert the third to sixth levels into serviced apartments.

On the shophouse front, investment sales increased 11.2% from the S\$173.7 million in Q4/2022 to S\$193.2 million in Q1/2023. The largest deal in terms of quantum price was a block of six freehold shophouses along Serangoon Road. A union affiliated with Singapore's National Trades Union Congress (NTUC) has purchased these two-storey properties near Farrer Park MRT Station for S\$62.5 million. Another significant transaction is the sale of a six-storey shophouse at 52 Boat Quay for \$37.0 million.

In the retail sector, there were three block transactions recorded in the quarter. In January, Frasers Property and Frasers Centrepoint Trust acquired a 50% stake in NEX, a suburban shopping centre in Serangoon, from Mercatus Co-Operative for S\$652.5 million. Separately, in March, Hong Kong's Link REIT completed its acquisition of a pair of suburban shopping malls, Jurong Point and Swing By @ Thomson Plaza, from Mercatus for a total consideration of S\$2.16 billion. This deal is Link REIT's first foray into Singapore and also the biggest real estate transaction of recent years. Although interest rates remain high, prime assets such as suburban malls with close proximity to residential areas and transportation hubs are still within investors' sights. These malls have been attracting steady

footfall and demand for essential retail goods and services. All the three malls mentioned above were close to full occupancy when transacted.

### INDUSTRIAL

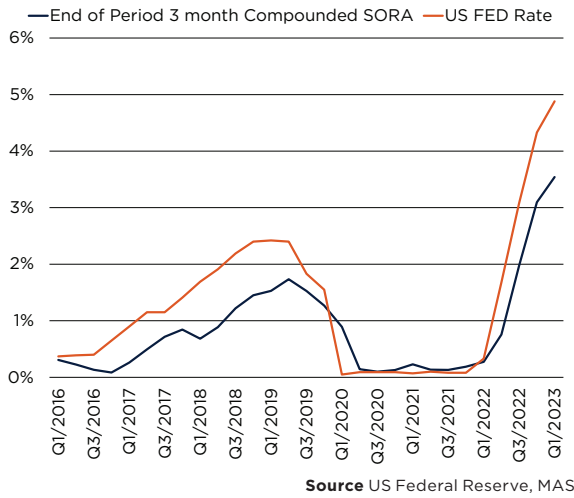
The sales value in the industrial sector amounted to S\$676.4 million, or 12.0% of Q1's total investment sales. This is a 76.7% quarterly increase from the S\$382.7 million recorded in Q4/2022.

Under the IGLS programme, there was only one B2 site at 25 Gul Drive awarded. The tender drew a total of three bids, with the highest bidder P-One (Tuas) Pte Ltd coming in at S\$2.6 million. On the other hand, private industrial investment sales recorded a quarterly growth of 83.8% to S\$673.8 million in Q1/2023, supported by some notable transactions. These included M&G Real Estate's acquisition of four car showrooms from auto distributor Jardine Cycle & Carriage (JC&C) for a total of S\$333.0 million, the S\$115 million sale of HB Centre I and HB Centre II on Tannery Road and Tannery Lane by Ho Bee Land, and the S\$98.8 million sale of J'FORTE, an eight storey industrial property located at Tai Seng Street to a joint venture of Metro Holdings, Boustead Projects and an independent institutional third-party.

### OUTLOOK

While high interest rates are leading institutional investors and those who require a positive carry to underwrite an investment to remain on the side-lines, investment sales remain active with other buyers arriving to compensate. Institutional acquisitions and divestments have often been for larger ticket assets and how active they had been in a particular quarter often determines whether we see investment sales value rise or fall QoQ. Although market implied expectations (Goldman Sachs - 17 April 2023) of the US FED Funds Rate is indicating an inflexion point in July this year, the

**GRAPH 3: US FED's Funds Rate vs 3-month Compounded SORA, Q1/2016 to Q1/2023**



Source US Federal Reserve, MAS

**GRAPH 4: Rightward Shift in Demand Curve for 2-Bedroom Type (Tembusu Grand)**



Source MSCI Real Capital Analytics, Savills Research & Consultancy

3-month compounded Singapore Overnight Rate (SORA) is likely to either lag or react with lower elasticity to US rate changes (Please refer to Graph 3).

Thus, it may take a little longer for Singapore borrowers to get the respite from the expected decline in rates in the US. Institutions and corporate buyers may dither longer before taking the plunge. Investment sales activity would then be concentrated on the UHNW segment. However, in the past year, feedback from the market seems to suggest that an increasing number of UHNW buyers do not lodge caveats for their acquisitions. While the average investment quantum that each UHNW makes may be small compared to institutional and corporate purchases, transactional numbers for the former are much higher and when summed over a quarter, they could be equivalent to the value of a mid-sized CBD commercial building here. When caveats are not lodged, the likelihood of these buyers not taking up a mortgage is high. With no borrowings, interest expenses will be zero. This means that the conventional need to have a high enough income yield to generate positive carry is relegated in importance.

For the rest of 2023, we believe that the size of the investment sales market where caveats are not lodged (which means the public would not be able to easily keep track of them) is expected to continue to grow.

On the collective sales front, we continue to see moderate undercurrents in the residential sector. Whilst most mid to large sized developers are eager to reinvest after having successfully sold all or most of their inventory from their 2018 to 2019 vintage of development sites, they are nevertheless

exercising restraint because of the current economic challenges, especially on the interest front. Nevertheless, Government Land Sales sites will remain popular and for collective sales sites, those with reserve prices below S\$400 million and with a fair reserve price, may remain the standard fare for developers over the rest of the year.

Although land prices are high, we believe that there is still room for developers to optimise their unit mix to optimise their total sales revenue. The three major launches in 2023 have shown the popularity for smaller units, especially those in 1- and 2-bedroom types. Graph 4 shows that for Tembusu Grand, a 638-unit development in District 15 (mid-tier segment), the 2 and 3-bedroom units saw sales at levels significantly above expectations. (Please refer to Graph 4 where the pre-launch demand curve (in blue) is contrasted with the post-launch curve (in orange)). The rightward shift in the demand curve is significant and opens the door for developers to rethink the need to build to the maximum permissible floor area for new projects.

In conclusion, the recent banking turmoil and expectations that further turbulence may be ahead for the sector is likely to encourage UHNWIs to buy real estate. However, as mentioned, this group of buyers have a lower propensity to lodge caveats. Therefore, while we may end the year with publicly available investment sales numbers coming in roughly in line with 2022's S\$24.7 billion, the possibility of it being actually much larger is an increasing tail risk.