MARKET IN MINUTES

Savills Research

Sales & Investment

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A strong start to the market in 2022

By changing tack and adopting an endemic approach towards the SARS-CoV-2 pandemic, economic activity has been gaining momentum and this has boosted the investment market over the first three months of 2022.

- The investment market has remained resilient despite the uncertainties brought on by the flaring up of geopolitical tensions. In the quarter under review, investment sales value expanded 29.5% quarter-on-quarter (QoQ) to S$9.32 billion. On a year-on-year (YoY) basis, investment sales value more than doubled from S$3.89 billion in Q1/2021.

- Owing to further recalibration of the cooling measures at the end of 2021, investor attention was diverted to the commercial sector which became the largest contributor to investment sales in Q1/2022. This can be seen from the numbers as commercial sales value surged by 165.9% QoQ to S$5.81 billion, the highest since the data was first compiled in Q1/2008.

- On the other hand, the investment sales value of the residential sector fell for a second consecutive quarter by 9.1% to S$3.11 billion. This was largely attributed to the cooling measures aimed at the sector.

- Industrial investment sales declined by 67.9% QoQ from S$454.3 million in Q4/2021 to S$145.7 million in Q1/2022. This was attributed to transaction deals that were very much smaller in price quantum.

- For 2022, we expect total investment sales to range from S$26 billion to S$29 billion (the 2021 total was S$24.93 billion) with the private sector expected to outperform last year's figure of S$19.47 billion.

> "Although interest rates are set to rise significantly, yield spreads are still much better than they were in 2019."
>
> ALAN CHEONG, SAVILLS RESEARCH

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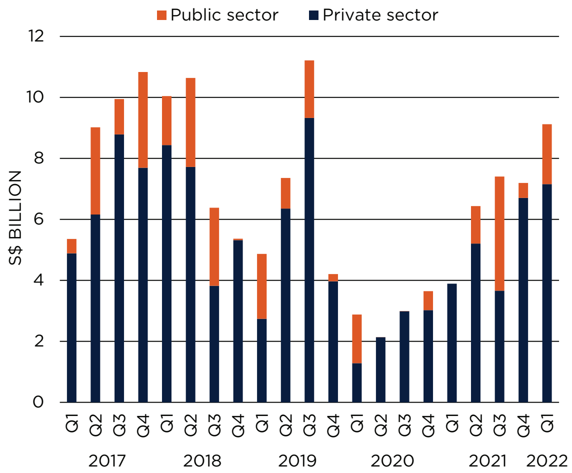
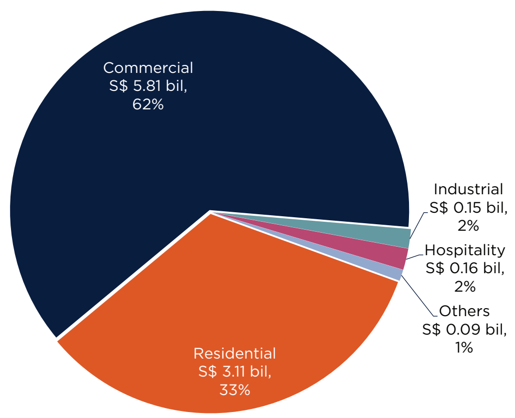
GRAPH 1: Investment Sales Transaction Values, Q1/2017 to Q1/2022



Source Savills Research & Consultancy

GRAPH 2: Investment Sales Transaction Volumes By Property Type, Q1/2022



Source Savills Research & Consultancy

MARKET OVERVIEW

Amid the economic uncertainties created by the geopolitical tensions and the latest recalibration of the private residential property cooling measures, the investment market managed to remain resilient, with sales value increasing 29.5% QoQ to S$9.32 billion in Q1/2022. This was a rebound after a decline in Q4/2021. Compared with the same period in 2021, investment sales value more than doubled from the S$3.89 billion in Q1/2021. In addition, the sales volume in the quarter was the highest since the outbreak of the COVID-19 pandemic, with the previous last peak registering a sales value of S$11.22 billion in Q3/2019. The strong investment sales came with the gradual reopening of borders and Singapore taking an endemic approach to COVID-19.

While private investment sales rose by 9.6% in the quarter, the increase in investment sales value was largely attributed to the surge in public investment sales which registered a strong rebound after a slump in Q4/2021. Investment sales in the public sector amounted to close to S$2.00 billion in Q1/2022, nearly four times the S$488.1 million recorded in the previous quarter. Although the number of transacted sites was relatively similar, the sales prices of the sites were much higher.

A breakdown of the investment sales numbers showed that the commercial sector supplanted the residential sector as the top in value terms in Q1/2022, making up 62.4% of total investment sales value. This was a significant jump from the 30.4% in Q4/2021, as investors turned to other real estate types due to a new round of cooling measures aimed at the private residential sector in December 2021. As a result, the proportion of residential investment sales declined from 47.6% in Q4/2021 to 33.4% in Q1/2022. Investment sales values for the other property types (such as hospitality, industrial and others) remained low, with slightly higher proportions for the hospitality and industrial sectors.

RESIDENTIAL

The investment sales value for the sector declined for a second consecutive quarter by 9.1% to S$3.11 billion in Q1/2022 and this was mainly due to the drop in activity in the private sector. Private investment sales fell 61.1% QoQ from S$2.94 billion in Q4/2021 to S$1.14 billion in Q1/2022, the lowest since Q3/2020 when private investment sales amounted to S$982.1 million. In the private sector, four sites, which included three collective sales, were sold and the price quantum of each site was relatively low with each below S$100 million. In contrast, five residential sites were transacted in Q4/2021 and of those, three sites were each sold for over S$100 million, the highest being S$815.0 million. The largest private land parcel transacted in the quarter was Gloria Mansion at Pasir Panjang Road which was sold for S$70.3 million. While this site was transacted above its reserve price, the two other collective sales in the quarter were sold at the guide price itself. As a result of the recalibration of the cooling measures in December 2021, developers have become more cautious in acquiring larger land parcels with smaller plots of land more favoured for the time being.

Owing to the cooling measures where foreign buyers are more adversely affected by even higher Additional Buyer's Stamp Duty (ABSD) rates, the sales of individual units that were priced above S$10 million slowed down significantly from S$1.36 billion in Q4/2021 to S$949.7 million in Q1/2022. This was the lowest since the

TABLE 1: Top Land Sales In The Public Sector, Q1/2022

LOCATION	TYPE OF DEVELOPMENT ALLOWED	DATE OF AWARD	SUCCESSFUL TENDER PRICE (S$ MILLION)	SUCCESSFUL TENDERER
Jalan Tembusu	Residential	Jan 2022	768.0	CDL Triton Pte. Ltd.
Lentor Hills Road (Parcel A)	Residential	Jan 2022	586.6	Intrepid Investments Pte. Ltd., GuocoLand (Singapore) Pte. Ltd. and TID Residential Pte. Ltd.
Dairy Farm Walk	Residential	Mar 2022	347.0	Sim Lian Land Pte Ltd and Sim Lian Development Pte Ltd.
Bukit Batok West Avenue 8 (EC)	Residential	Mar 2022	266.0	CNQC-OS (2) Pte. Ltd. and SNC Realty Pte. Ltd.

Source Savills Research & Consultancy

TABLE 2: Top Private Investment Sales, Q1/2022

PROPERTY	SECTOR	TRANSACTION DATE	PRICE (S$ MILLION)	BUYER
Jem (68.2% stake)	Office	Feb 2022	1,417.9	Lendlease Global Commercial Reit
79 Robinson Road	Office	Mar 2022	1,260.0	CapitaLand Integrated Commercial Trust and CapitaLand Open End Real Estate Fund
Tanglin Shopping Centre	Retail	Feb 2022	868.0	Hillthorpe Investments
Cross Street Exchange	Office	Jan 2022	810.8	SCC Straits Pte Ltd
Jcube	Retail	Jan 2022	340.0	Tanglin R.E. Holdings

Source Savills Research & Consultancy

S$872.5 million recorded in Q4/2020. Although the transaction volume of both landed and non-landed units declined in the quarter, it was not uniform with non-landed home numbers more than halving from 41 units in Q4/2021 to 14 units in Q1/2022. For landed homes, the sales volume also fell, but a lower magnitude of 20.0% QoQ to 36 units. Landed home transactions, in particular Good Class Bungalows (GCBs), were more resilient due to the scarcity of such properties and the ultra-high net worth individuals deem them to be a hedge against inflation. In the quarter, the largest residential transaction of an individual unit was a GCB on Chancery Lane which was acquired by the daughter-in-law of Filipino tycoon Andrew Tan for S$66.06 million, or S$1,937 per sq ft on land area.

On the other hand, investment sales in the public sector via the Government Land Sales (GLS) Programme were much stronger, with investment sales value surging from S$482.5 million in Q4/2021 to S$1.97 billion in Q1/2022. Four residential sites were sold under the GLS Programme in the quarter and price quantums of these sites were significantly higher and record high bid prices were recorded for some of the sites. In Q4/2021, there were only two residential sites sold under the GLS Programme and the largest site was transacted for S$320.1 million. On the other hand, the largest site sold in Q1/2022 was for the site at Jalan Tembusu for S$768.0 million to CDL. Despite the implementation of the new cooling measures, it was still able to attract eight bidders and the top bid was nearly 7.8% higher than the second highest bid. These strong responses for the sites came amid the ongoing geopolitical tensions borne out of the Ukrainian conflict as well as the introduction of the new round of cooling measures. The high bid prices attained for the land parcels signalled developers' confidence in the market due to limited new supply of development land in the pipeline.

COMMERCIAL

The sharp upward recalibration of stamp duties in the private residential market rechannelled investment demand to the commercial sector. Consequently, commercial investment sales surged from S$2.19 billion in Q4/2021 to S$5.81 billion in Q1/2022, the largest since we first collated the data from Q1/2008. While investment sales in both the office and retail sectors increased in the quarter, the latter sector registered a larger growth, with investment sales coming in at S$1.69 billion, more than five times the S$306.1 million in the previous quarter. This was largely attributable to four block transactions in Q1/2022. Apart from the sale of three shopping malls in the suburban areas, the quarter also saw the collective sale of Tanglin Shopping Centre. The freehold shopping mall was successfully sold to Pacific Eagle Real Estate in its fourth collective sale attempt for S$868.0 million (S$2,769 per sq ft ppr assuming full commercial usage), 10% above the reserve price.

Similarly, office investment sales expanded for a third consecutive quarter, rising 119.5% QoQ to nearly S$4.13 billion in the quarter. The sector remained attractive amongst investors due to the limited supply in the pipeline. With the office leasing market improving and a gradual renormalisation of economic activity, buying interest in the office sector is expected to remain in favour with investors favouring quality assets in prime CBD locations. This was evident from the block transactions transacted in Q1/2022. Of the five block transactions in the quarter, four are located in the CBD. These buildings are 79 Robinson Road and Cross Street Exchange, which were sold for S$1.26 billion and S$810.8 million respectively. The largest deal in the quarter was the acquisition by Lendlease Global Commercial REIT of the remaining 68.2% stake in Jem for about S$1.42 billion.

INDUSTRIAL

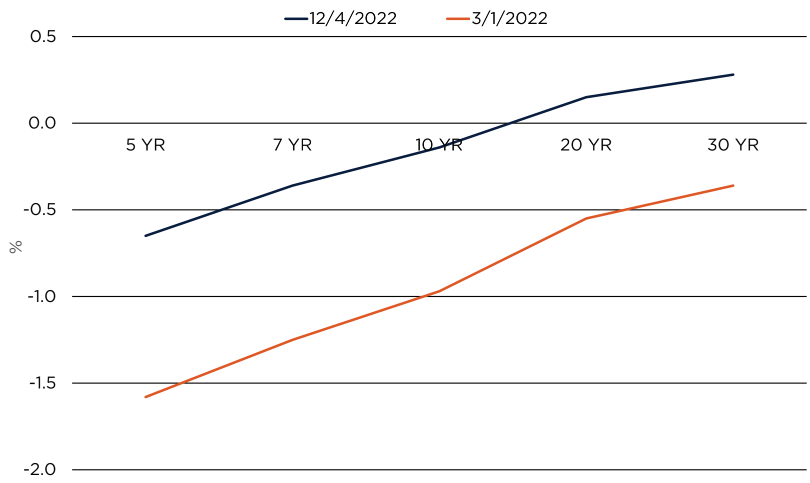
Contrary to the surge in investment sales in the commercial sector, investment sales in the industrial sector plunged by 67.9% QoQ from S$454.3 million in Q4/2021 to S$145.7 million. The transaction volume of large ticket assets was relatively muted, with the number of deals almost halving from 11 to seven in the quarter. However, this is not to say that interest is waning in the sector. Many of the deals done in Q1/2022 were also of a much lower price quantum of less than S$10 million. These are mostly food factory spaces of a couple of thousand square feet each.

The most significant industrial deal was Apple's acquisition of UE Bizhub Central at 12 Ang Mo Kio Street 64 for S$55.0 million from United Engineers. Apple is currently taking up a few floors in the building, which accounted for 30% of the gross floor area, and has exercised the right of first refusal to purchase the property. Another significant deal was the sale of the headquarters of Swiber Holdings at 12 International Business Park for S$30.8 million. The offshore and marine group has entered into a non-binding memorandum of understanding with an independent third-party purchaser to dispose of its 5-storey leasehold business park development.

OUTLOOK

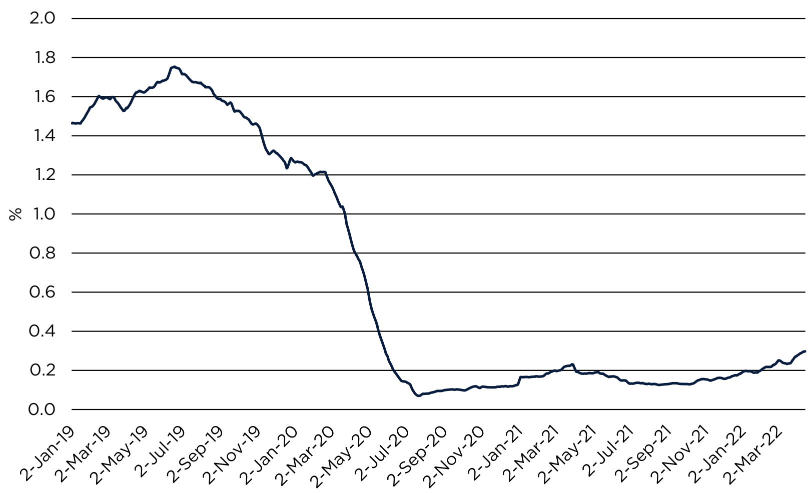
With inflation running on overdrive and global uncertainty levels remaining high, capital flight in search of safe harbour or inflation hedges remains strong. However, of late, additional concerns have entered the picture and this surrounds interest rates. The fear is that interest rate increases may turn the tide against the real estate investment market. Graph 3 does attest to the fact that the real yield curve of US Treasuries has been rising since the start of the year. However, we should also take note that while rates have gone up, in real terms rates are still negative up to the 10-year

GRAPH 3: Daily Treasury Par Real Yield Curve Rates



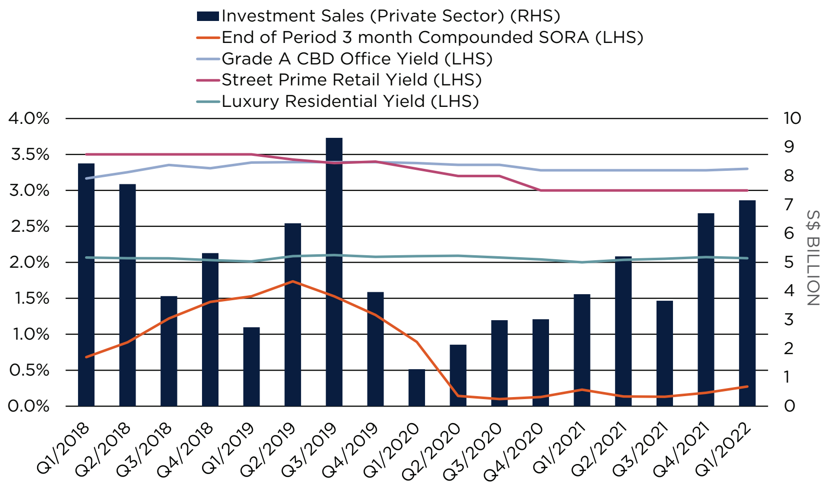
Source US Department of Treasury, Savills Research & Consultancy

GRAPH 4: 3-Month Compounded SORA



Source MAS, Savills Research & Consultancy

GRAPH 5: Major Real Estate Classes Yields vs 3-month Compounded SORA and Investment Sales



Source MAS, Savills Research & Consultancy

tenure. Generally, this would still not hurt physical real estate investments or crimp the flow of money into real estate private equity.

Graph 4 shows the 3-month compounded SORA, the benchmark rates which corporate loans are based on since the beginning of January 2019. As investors often leverage up on their acquisitions, we also find that though borrowing rates have in the past three months gone up significantly since Q3 and Q4/2021, in absolute terms and taken in perspective, they are still just a quarter from where they were in January 2020 and just one-sixth of their previous peak in Q2/2019.

Will this increase choke investment sales? Unlikely. Graph 5 shows that the yield spread between Grade A CBD Offices, Street Prime Retail and Luxury Non-landed Residential properties and the 3-month Compounded SORA is still wide. And looking back to 2018 and 2019 when the spread was on average much narrower than today, we find that investment sales (private sector only) in those years totalled S$25.3 billion and S$22.4 billion respectively. In 2021, although the spread was wider, total private sector investment sales came in at S$19.47 billion. This suggests that compressing yield spreads alone are not enough to argue conclusively that investments into Singapore real estate would falter if the former were to come off.

For 2022, the value of investments may be tampered more by the volume of funds raised in 2021 by private equity firms but deal flow will continue, offset by private money searching for a safe harbour. Other than a few large ticket commercial buildings which are on the market, the private residential sector may see muted activity due to the cooling measures that came into effect on 16th December 2021. In terms of deal counts, these may be concentrated on conservation shophouses where the players are either family offices or ultra-high net worth individuals. The reopening of borders to tourists should spur greater interest in hospitality and related assets where investment activity has been low since the pandemic begun. For the full year, total (private and public) investment values are expected to range from S$26 billion to S$29 billion (the 2021 total was S$24.93 billion) with the private sector expected to outperform last year's figure of S$19.47 billion.