Singapore – January 2023

MARKET IN MINUTES

Savills Research

Sales & Investment

Challenging investment sales climate ahead

Notwithstanding slowing market conditions and declining investment sales in Q4, investment sales only fell marginally by 1.0% year-on-year in 2022.

- The value of investment sales recorded a third consecutive quarter of decline, falling 36.1% quarter-on-quarter (QoQ) to S$2.81 billion in Q4/2022. This was the lowest since Q2/2020 when the investment sales value was S$2.14 billion. For the whole of 2022, investment sales value totalled S$24.7 billion, 1.0% lower year-on-year (YoY).

- For a third consecutive quarter, residential investment sales accounted for the largest proportion of sales value, making up 49.9% of total investment sales. Investment sales in the residential sector halved to S$1.40 billion or a QoQ decline of 50.5%. This was the second consecutive quarter of decline.

- After two straight quarters of contraction, commercial investment sales rebounded in Q4/2022, expanding 28.4% QoQ to S$1.02 billion. This was largely attributable to the growth in office investment sales which more than doubled from S$251.4 million in Q3/2022 to S$668.9 million in the quarter. On the other hand, retail investment sales fell by 34.9% QoQ to S$355.7 million, in contrast to the 35.9% QoQ increase in the third quarter. This was led by a decline in retail strata sales and also lower transaction values of shophouses.

- On the other hand, industrial investment sales contracted 48.1% QoQ to S$382.7 million in Q4/2022 after two consecutive quarters of growth. While public investment sales rose on a quarterly basis, this was outweighed by the slump in private investment sales which almost halved in Q4/2022.

- Ultimately, there is still dogged determination for investment sales to rise but because of the economic and interest rate headwinds, this may be damped somewhat this year. We are forecasting total investment sales value to come in at S$24 to S$25 billion, similar to 2022 levels.

> "Despite an unfavourable economic and interest rate climate, the openness of the economy and a positive perception of Singapore will continue to support the total investment sales value in 2023."
>
> ALAN CHEONG, SAVILLS RESEARCH

Savills team

Please contact us for further information

SINGAPORE

Jeremy Lake
Managing Director
Investment Sales & Capital Markets
+65 6415 3633
jeremy.lake@savills.com.sg

Galven Tan
Deputy Managing Director
Investment Sales & Capital Markets
+65 6415 3627
galven.tan@savills.com.sg

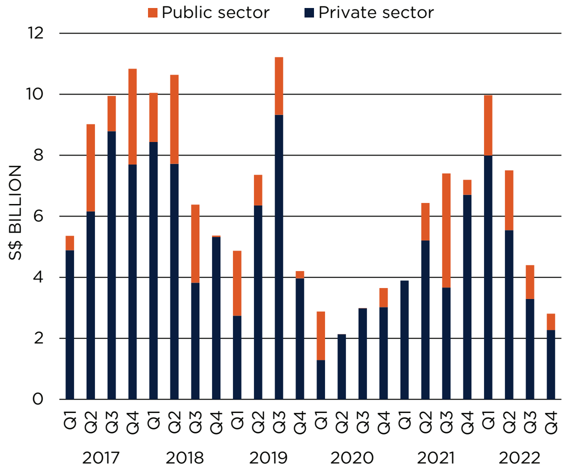
RESEARCH

Alan Cheong
Executive Director
Singapore
+65 6415 3641
alan.cheong@savills.com.sg

Simon Smith
Regional Head of Research & Consultancy Asia Pacific
+852 2842 4573
ssmith@savills.com.hk

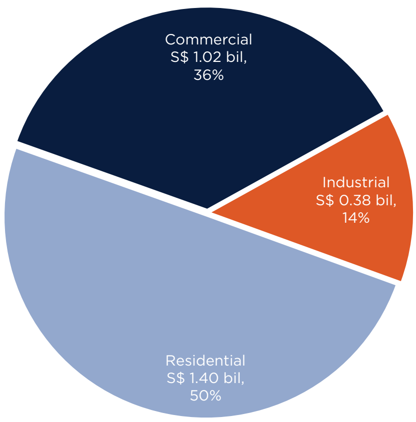
MCI (P) No. 016/08/2021
Company Reg No. 198703410D

GRAPH 1: Investment Sales Transaction Values, Q1/2017 to Q4/2022



Source Savills Research & Consultancy

GRAPH 2: Investment Sales Transaction Volumes by Property Type, Q4/2022



Source Savills Research & Consultancy

MARKET OVERVIEW

As Singapore exited from COVID-19 pandemic restrictions, the economy recovered strongly at the start of 2022. However, as the year wore on, investment sales lost momentum and declined QoQ from their peak in Q1/2022. The strong Q1/2022 performance was almost able to offset the weakness seen in the subsequent quarters. As a result, the full year investment sales value of S$24.7 billion was just 1% down from the S$24.9 billion recorded in 2021. The higher interest rate regime enacted to combat inflation has led to a transition in demand from institutional funds to ultra-high net worth individuals. However, although activity in the latter group had been high throughout the year, the total investment value could not match that of institutional and corporate buyers because their typical deal size was much lower. In Q4/2022, investment sales volume plunged to S$2.81 billion from S$4.40 billion in Q3/2022. This was the third consecutive quarter of decrease and was the lowest since Q2/2020 when investment sales value amounted to S$2.14 billion. All sectors apart from the commercial sector recorded QoQ declines in investment sales.

For the quarter in review, the bulk (80.9%) of the sales came from the private sector with the remaining 19.1% from the public sector. Both public and private investment sales decreased significantly in the quarter. Public investment sales, however, saw a larger QoQ contraction of 51.6% due to the smaller number of sites awarded under the Government Land Sales (GLS) Programme. Similarly, in the quarter, private investment sales declined by 30.9% QoQ to S$2.27 billion.

Across the segments, investment sales in the residential sector continued to make up the largest proportion and this had been the case for three consecutive quarters. The residential sector accounted for 49.9% of total investment sales value. Value wise, there was a 50.5% QoQ decline. There was also a decline in the proportion of industrial investment sales, falling from 16.8% in Q3/2022 to 13.6% in Q4/2022. On the other hand, the share of investment sales in the commercial sector rose by 18.4 percentage points to 36.5% in the quarter.

RESIDENTIAL

As both public and private investment sales contracted in the quarter, the total sales value slumped by 50.5% QoQ to S$1.40 billion in Q4/2022. This was the lowest since Q3/2020 when investment sales volume in the residential sector amounted to S$982.1 million. For the whole of 2022, residential investment sales value totalled S$10.72 billion, 27.4% lower than the S$14.77 billion in 2021.

Public investment sales contracted significantly by 52.7% to S$520.8 million due to a lower number of GLS sites being awarded in the quarter. In comparison to the four residential sites awarded in Q3, there were only two sites awarded in the last quarter of 2022. As tenders of these two sites were the first after the latest recalibration of the cooling measures, bidding activity was not as robust as before with relatively muted participation from the developers. In addition, developers are also turning more cautious as they see global economic headwinds ahead. The smaller site, Bukit Timah Link, with an area of 49,633 sq ft, saw five developers vying for the land parcel. It was eventually awarded to Bukit One, a subsidiary of Bukit Sembawang Estates for S$200.0 million, or S$1,343 psf ppr. Similarly, the 111,893 sq ft site at Hillview Rise attracted a total of four bids and the winning bid of S$320.8 million, or S$1,024 psf ppr, was submitted by Far East Civil Engineering and Sekisui House. According to the developer, the site will be developed into a residential project consisting of two blocks of 27 storeys with around 330 units.

TABLE 1: Top Land Sales In The Public Sector, Q4/2022

LOCATION	TYPE OF DEVELOPMENT ALLOWED	DATE OF AWARD	SUCCESSFUL TENDER PRICE (S$ MILLION)	SUCCESSFUL TENDERER
Hillview Rise	Residential	Nov 2022	320.8	Far East Civil Engineering (Pte.) Limited and Sekisui House Ltd.
Bukit Timah Link	Residential	Nov 2022	200.0	Bukit One Pte. Ltd.

Source Savills Research & Consultancy

TABLE 2: Top Private Investment Sales, Q4/2022

PROPERTY	SECTOR	TRANSACTION DATE	PRICE (S$ MILLION)	BUYER
Lazada One (50% stake)	Commercial	Oct 2022	362.3	Kenedix
Ming Arcade	Retail	Dec 2022	172.0	Royal Group of Companies
Enterprise Logistics Centre	Industrial	Nov 2022	120.6	Intex Singapore
10, 12 Mandai Estate	Industrial	Dec 2022	100.0	N.A.

Source Savills Research & Consultancy

In similar vein, private investment sales declined 49.1% QoQ from S$1.73 billion in Q3/2022 to S$881.5 million in Q4/2022, largely led by a lack of significant collective sales concluded in the quarter. While there were two collective sales which completed in Q3/2022 (we left out Chuan Park because this collective sale was issued a stop order from the Strata Titles Board in December 2022), there was only the sale of a freehold redevelopment site at 303 and 305 Pasir Panjang Road to Silver Edge Investment Holdings for S$18.5 million. There are plans to redevelop the site into niche landed homes.

Muted activity was also observed in the individual transactions of residential properties that were priced S$10 million and above. In the quarter, there were only 46 such transactions with a total sales value of S$863.0 million. This was lower than the 65 transactions amounting to S$1.25 billion in Q3/2022. The largest individual transaction concluded in Q4/2022 was a 11,227 sq ft penthouse at Les Maisons Nassim that sold for S$68 million or S$6,057 psf. The unit price of S$6,057 psf was second to the S$6,073 psf for another unit at the same development in May 2022.

COMMERCIAL

Commercial investment sales rebounded in the last quarter of 2022, increasing 28.4% QoQ from S$798.1 million in Q3/2022 to S$1.02 billion. This came after two consecutive quarters of decline. For 2022, this sector remained robust with investment sales increasing 54.1% YoY to S$10.5 billion. This was largely attributed to its strong showing in Q1/2022.

The increase in office investment sales outweighed the contraction in retail investment sales, resulting in an expansion of commercial investment sales value in the quarter. Investment sales in the retail sector fell 34.9% QoQ to S$355.7 million in Q4/2022 after a 35.9% QoQ increase in the third quarter. In the quarter, there was the collective sale of Ming Arcade, which was sold to the Royal Group of Companies for S$172 million. This works out to S$3,125 psf ppr, a new benchmark price that surpassed the previous record of S$2,910 psf ppr when Shun Tak Holdings acquired Park House for S$375.5 million in 2018. The transacted price was also 34% over the reserve price and 14.8% higher what Tanglin Shopping Centre went for when it was sold for S$868 million, or S$2,769 psf ppr in February 2022. For the shophouse sector, although there were more transactions in Q4/2022, the transaction value of the shophouses were lower, resulting in decreased investment sales from this sector. Despite a quarterly decline in the last quarter of 2022, the strong front, particularly in Q1, led to a YoY increase of 80.0% in retail investment sales to S$3.01 billion in 2022.

On the office front, investment sales more than doubled from the S$251.4 million in Q3/2022 to S$668.9 million in Q4/2022. This was a reversal after two consecutive quarters of decline. Similar to the previous quarter, there was one block transaction in the last quarter of 2022. This was for the sale of 50% stake in Lazada One from ARA Asset Management to Japanese fund manager Kenedix for S$362.3 million. The joint venture between ARA Asset Management and Chelsfield had put up the property for sale in end-2021. Chelsfield is still holding onto its 50% stake in the property. Apart from the Lazada One deal, the increase in investment sales was also contributed by growth in the office strata sales for the third consecutive quarter. While the number of transactions was relatively similar, the transaction value of the transactions were generally larger, leading to an increase in office investment sales. The largest office strata deal in the quarter was two office floors on levels 28 and 29 of Springleaf Tower. This was sold by Union (2009) (former Overseas Union Insurance) to Esteel Enterprise for S$53.9 million, or S$2,510 psf based on the combined strata area of 21,485 sq ft. Both levels are linked by an internal staircase. There was another significant office strata transaction, which was for the fourth level of 15 Scotts Road. It was sold by Singapore Institute of Management to Cortina Holdings. According to Cortina Holdings, the acquired property is slated to be its own use, as the group is currently operating from leased premises. For the whole of 2022, investment sales in the office sector amounted to S$7.52 billion, which was largely attributed to the strong start in Q1. This was 45.8% higher than the S$5.16 billion in 2021.

INDUSTRIAL

After two consecutive quarters of increase, investment sales in Q4/2022 for the industrial sector contracted 48.1% QoQ to S$382.7 million. Compared to the same period a year ago, it was a decline of 15.7%. Investment sales from the GLS programme more than doubled from S$7.51 million in Q3/2022 to S$16.10 million in the quarter, with two industrial sites being awarded. On the other hand, private industrial investment sales almost halved on a QoQ basis to S$366.7 million in Q4/2022. There were two significant transactions that were of S$100 million and above in the quarter. The larger of the two was for Enterprise Logistics Centre that Intex Singapore bought for S$120.6 million. The 2-storey warehouse was sold by Far East Organization, which was developed on a larger site acquired by Far East in 1995. The other transaction was the S$100 million sale of 10 and 12 Mandai Estate after the public tender exercise closed in October 2022. The Business-2 plots are of freehold tenure with total site area of 65,165 sq ft.

OUTLOOK

Although the market had undergone sequential quarterly declines in investment sales, the total for 2022 came out rather well with just a 1% fall. However, for 2023, we may see the baseline quarterly transactional values averaging the quarterly transactional value from the second to fourth quarter of 2022. The Q1/2022 value of S$9.97 billion does not appear to be sustainable in the current climate of high interest rates and slower economic growth. For Q2 to Q4/2022, that number averaged S$4.91 billion per quarter. To forecast 2023, we will use this average as the quarterly baseline and that would bring this year's baseline to S$19.6 billion. Any uplift from the average would arise from the sale of large ticket items where the tender closes in that particular quarter. Thus, for 2023, the greater number of GLS sites on offer is likely to add to that baseline average. Also, we would expect the registration of the S$2.16 billion sale by NTUC Enterprise Co-operative of Jurong Point and the strata units at Thomson Plaza to Link REIT in Q1/2023.

Over the years, investors' motivations in buying Singapore real estate have been constantly changing. For institutions, it may be slightly easier to forecast their activities. For example, in a higher interest rate environment, institutions may be restrained from making acquisitions. For high-net-worth individuals, they may not be that easily amenable to analysis. Much depends on the exigencies of the moment which is impacting the circumstances surrounding these individuals. Market observers have been opining that the opening up of China to outbound travel would bring about increased real estate acquisitions here. However, the ultimate effect may not be that great because strict capital controls may cloud the outcome. Nevertheless, because of the openness of the economy and the positive perception high-net-worth individuals have of Singapore, continued expressions of interest are expected in 2023. While institutions may be hamstrung by higher borrowing costs, there still exist the possibility of a big ticket or a series of medium sized transactions going through this year.

Ultimately, there is still dogged determination for investment sales here to rise but because of the economic and interest rate headwinds, this may be damped somewhat this year. We are forecasting total investment sales value to come in at S$24 to S$25 billion, close to what transpired in 2022.