MARKET IN MINUTES
Savills Research

Singapore - 2023

2023 Savills Singapore Market Outlook Report

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Savills Market Outlook for 2023

Geopolitical tensions and rising interest rates had and will continue to diffract the real estate market in 2023, with rate sensitive investors laying low, but for those whose investment motives are less economic in nature, they continue to pile into the market, quite oblivious to higher borrowing costs.

INVESTMENT SALES

With three quarters of the year gone, investment sales volume has reached S$21.7 billion. With 2 small GLS sites likely to be awarded in the last quarter, we believe that a S$3 to S$4 billion range may be attained in Q4/2022, bringing the full year total to between S$24 billion to S$25 billion. This is slightly below our earlier forecast of S$26 billion to S$29 billion. How the market will develop in 2023 depends heavily on whether Central Banks pivot on their current stance of raising or keeping interest rates high. Presently, the all-in borrowing cost for non-recourse loans for commercial buildings is running at around 4.5% to 4.7%. With passing yields coming in at the low 3% levels, buyers will experience negative carry. With sellers still under no compunction to lower prices, the income producing investment sales market simmered down. If rates do inflect, we may see a resumption of acquisitive activity by large private equity investors for big ticket item sales.

However, if there is a pivot, albeit a gentle one, say a 50 to 100 basis point reduction, while the core funds may still abstain from acquiring the income producing assets, a decline of that magnitude could still bring about activity in the value-add space. This would be to acquire ageing commercial buildings and or either to develop them to be modern state of the art Green buildings or to repurpose them for residential use. The latter could have a chance of being played out in the CBD because of the CBD incentive scheme.

In the Government Land Sales (GLS) sector, interest will be mainly focused on the residential sites. Developers are still hungry to replenish their residential land banks after a successful 3 year run from 2020 to 2022 which saw them selling out practically all the units launched. For the 2023 GLS program, even if the number of sites on the confirmed list was offered remains at 11, the same as 2022, it may still not fully sate the appetite of developers who have a largesse of returning capital from projects fully sold and completing soon.

Tentatively, investment sales in 2023 may be similar to 2022 levels of $24 billion to $25 billion.

OFFICE RENTS (GRADE A CBD)

After consultation with our commercial leasing experts, we maintain our 2022 YoY growth for CBD Grade A (comprising AAA, AA and A sub-grades) gross rents at 3% and the 2023 forecast at +2% year-on-year (YOY). The increase in gross rents is driven by inflationary pressures on the service charge element and some partial ability of landlords to pass those increases on due to the relative low levels of new supply. However, we may not get to see consecutive quarter-on-quarter (QOQ) increases because the global economic malaise may impact the market on certain quarters, punctuating it with a quarter or two of very mild QoQ declines. Nevertheless, the trend is still positive, albeit

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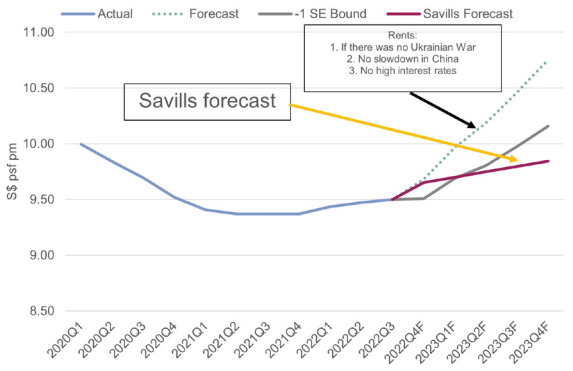
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Savills plc
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GRAPH 1: Savills forecast of Grade A CBD Rents for 2023



Source Savills Research & Consultancy

TABLE 1: Sales Forecast For Private Residential Properties

PERIOD	OVERALL PRIVATE PROPERTY PRICE CHANGE IF MORTGAGE RATES TEND TOWARDS 5% (YOY CHANGE)	OVERALL PRIVATE PROPERTY PRICE CHANGE IF MORTGAGE RATES INFLECT BY MID-2023 (YOY CHANGE)
2022F	+10%	+10%
2023F	+7%	+10%

Source Savills Research & Consultancy

TABLE 2: Rental Forecast For Private Residential Properties

PERIOD	OVERALL URA RENTAL PRICE INDEX CHANGE (YOY)	SAVILLS HIGH END NON-LANDED LUXURY RENTS (YOY)
2022F	+25%	+30%
2023F	+5% to +10%	+15%

Source Savills Research & Consultancy

slight. This will form the prior basis of our market forecast and we will update our beliefs as more information becomes available.

If there had been no geopolitical tensions and if interest rates remain at pre-pandemic levels, our forecast of the increase in CBD Grade A office gross rents for 2023 would have been +11.1% YoY (See Table 1). As 2023 progresses, especially towards the end of the year, we will begin to feel the pressure by multinational tenants of their need to be located only in Green rated buildings. This would favour those offices listed in our Savills basket of Grade A offices as most of them are Green rated (ranging from Platinum to Green Certified). Owing to the relative dearth of new supply, rents in the highest sub-grades would be able to stay firm as most of them have the highest Green mark rating here (Platinum).

RESIDENTIAL PRICES

We are forecasting overall prices to rise 7% YoY in 2023. In turn, this lends support to resale prices. The repeated bombardment of the private and public residential markets with interventions of greater intensities have created new insights of the elementary workings of market. For one, it has revealed a market where the depth of liquidity amongst potential buyers is deep and is upending established market beliefs. When the supply of new launches is limited, it can overcome the negative effects of rising interest rates.

This can be seen from the recent high sales rate in the maiden launch of Tenet Executive Condominium where the average selling price of S$1,360 psf set a record for this sub-class of residential properties. Empirical evidence from this launch counters anecdotal or focus group opinions that said EC buyers are extremely price sensitive. Therefore, if we map this interpretation to the rising mortgage rates hypothesis that demand will be affected, we become less sure of the latter. It is likely that any weakening of demand may be due to buyers' sentiments being affected or that they decide to wait it out, believing they can buy at lower prices later.

The convincing S$2,000 psf price cross over for projects like Piccadilly Grand, AMO Residences and Lentor Modern also provides empirical evidence that the mass market could take such prices. This brings to question whether the price psf measure is the line that potential buyers take when looking at affordability or what is deemed expensive (or cheap). It also questions the cap set on affordability levels for mass market and Executive condominiums.

Therefore, 2023 will be the year, where this new paradigm, which we entered in 2022, becomes fully played out where mass market condominiums will have a price psf baseline of greater than S$2,000 psf. However, if interest rates begin to fall by mid-2023, this would boost buyers' confidence and we may have prices rise by up to 10% (See Table 1).

The new launches next year in the private sector are expected to come in about 12,000 units from over 45 projects (versus 5,000 in 2022 from about 15 projects). New sales volume is expected at 9,000 units next year (same as 2022). Resale number would be around 13,000 units in 2023 (versus 11,000 to 12,000 units in 2022).

RESIDENTIAL RENTS

How rents got to such dizzying heights had a short but meandering history. This is a brief recount. On the supply side, the 2020 to 2021 years ushered in a Covid world and the initiation rites that followed brought about a delay in completion of residential units, both in the private and public domain. Also, some leasing stocks were taken out of the market by Singaporeans who returned from overseas to ride out the pandemic and retook possession of their homes for own use.

On the indigenous demand side, millennials began renting as they needed privacy to work from home. Also, Singaporeans needed to rent when the completions of their new HDB and private homes were delayed.

On the exogenous demand side, the sudden influx of Employment Pass (EP) holders contributed to much of the rental increase in 2022.

As the time of this writing, leasing enquires are coming in fast and furious. Many are still overseas when they are making the enquiries and with the time lag before they get their EP, it means the market would remain tight for at least another 3 months.

We believe that it may take another 18 months before the market starts to cool down or correct. This is when the stock of delayed completions caused by the 2020 and 2021 pandemic induced disruptions get cleared up. Even if there is any correction, it may be mild because short of a crisis, rents tend to be sticky

For 2022, we believe that the URA's private residential rental index may rise 25% YoY. For 2023, we are forecasting a 5% to 10th YoY increase. We are giving the forecast a wide berth because, although we are seeing a sharp contraction in tech employment opportunities but, taking cognizance of what agents are feeding back from the ground, namely, the number of EPs coming in are still great in numbers, the risk of underestimating its strength is high for now. For the high end non-landed segment, given the very low availability of leasing stocks in the CCR, rents for 2023 may rise 15% on a YoY basis (See Table 2).

TABLE 3: Rental Forecast For Retail Space

PERIOD	PRIME ORCHARD ROAD (YOY CHANGE)	PRIME SUBURBAN (YOY CHANGE)
2022F	+3%	+2%
2023F	+1% to 2%	+2% to 3%

Source Savills Research & Consultancy

TABLE 4: Rental Forecast For Multiple-User Factory And Warehouse & Logistics Segments

PERIOD	YOY % CHANGE IN MULTIPLE-USER FACTORY RENTS	YOY % CHANGE IN WAREHOUSE & LOGISTICS RENTS
2022F	10% to 12%	2% to 5%
2023F	4% to 6%	2% to 5%

Source Savills Research & Consultancy

RETAIL PRICES

Going forward, because of the pandemic induced reset, the travel and consumer sectors are expected to continue recovering. This is despite the slowing global economy. However, growth may slow for the rest of the year and also in 2023 due to headwinds from the economic and inflation fronts. In the face of rising inflation and interest rate hikes, consumer spending growth is expected to be inhibited. Although the continuing increase in visitor arrivals and resumption of business events could help to support retail sales levels, both local and foreign consumers are likely to cut back on discretionary spending amid the effects of increased inflation. Moreover, the possible effects of the GST increase from 2023 would also likely keep private consumption growth m`uted next year. Retail sales in Q4/2022 could, however, be lifted by consumers buying forward, ahead of the revised GST rate.

As landlords' rental expectations rise, tenants operating at thin margins amid escalating operating costs could either be forced to cease their business or relocate to less prime locations. The vacated space will be backfilled by well-performing retailers or new entrants who are willing to match up to the new rental expectations. This could potentially alter retail mix in the market as reshuffling of tenants continues, hence attracting different kind of tenants. Following the opening of the Mercedes-EQ showroom at Great World City earlier this year, Porsche will set up a new showroom next year at the upcoming Guoco Midtown. Instead of operating from its existing centre at Leng Kee Road which will close by this year, the luxury carmaker is moving to a more accessible and greater visibility city-centre location. In their new city showroom, it will also create a new experience with an integrated F&B, co-working and community exhibition spaces.

With the above-mentioned, we forecast Prime Orchard retail rents to increase up to 3% YoY and for Prime Suburban to go up by 2% YoY in 2022. For 2023, inflationary pressures will drive up retail sales revenue and raise conservancy and advertising costs. All this are expected to override the softer economic conditions and ultimately lift rents marginally (See Table 3).

INDUSTRIAL RENTS

Arising from first, the pandemic and then geopolitical tensions - both upsetting supply chains - this sector has been a pan Asian star performer for the past 2 years. Nevertheless, as the external environment grows more challenging, the Singapore economy is projected to see a slowdown. The tightening of global financial conditions and protracted pandemic restrictions in some countries are expected to weigh on the trade-related sectors in the coming quarters. As the latest economic indicators are collectively projecting a manufacturing slowdown, more industrialists might become more cautious in their expansion plans. The weakening global growth outlook and heightened headwinds are also expected to dampen industrial sentiments.

Nevertheless, demand for industrial spaces, especially modern high specification warehouses, as well as high-specs industrial and business parks with excellent connectivity and amenities will still be underpinned by growth industries such as the logistics, food, precision engineering and biomedical sectors. Coupled with the rise in service charges, rents are expected to continue an upward trend as landlords pass on higher business costs to tenants.

Notably, there is likely a dearth of supply for warehouse spaces after 2024 when no significant new supply is expected to come on stream. This could put further upward pressure on warehouse rents. Prior to that, rents for prime warehouse & logistics properties are expected to rise 5.0% YoY for each year in 2022 and 2023. Although the rental growth for prime multiple-user factory spaces is forecasted to moderate to 5% YoY in 2023, it is likely to see high growth for new food factories which are expected to complete next year (See Table 4).

SUMMARY

2022 was a year when the fallout from geopolitical tensions upset the normal functioning of the real estate market. However, by 2023, the market is anticipated to be more settled, allowing the emergence of nascent features of a real estate paradigm, one that exists in a world where baseline interest rates, are higher to form. In such an environment, we will begin to see income producing assets trend back to the days when asset prices were reflective of an environment when discount rates were significantly higher, and liquidity could no longer knead its excesses on asset prices.

Also, the clarion call to comply with ESG standards, especially the Environmental part for real estate, will take on greater weightage in the investment and redevelopment decisions of landlords and buyers. For the residential sector, the strong influx of foreign professionals is expected keep rents rising, albeit at a lower rate than in 2022.

Price wise, they are expected to continue rising because of cost push driven factors. Together with developers need to redeploy their returning capital from projects completing, the stage is set for land prices in general to rise to a new base and this would reset selling prices for launches in 2024 to 2025. Industrial properties would be expected to do well in 2023 as the need to build buffer continues unabated.

While the retail sector is lagging its counterparts in the office, residential and hotel sectors, it is coming from a low base. The loosening of Covid mobility restrictions in China is expected to ultimately lead to easier cross border travel for Chinese tourists. This should benefit the Singapore retail scene, especially those in the CBD.