MARKET IN MINUTES
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Sales & Investment

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Market conditions take a toll

As institutional investors waver in their investment decisions because of high borrowing costs, the market for big-ticket deals has fallen sharply.

- In the second quarter of 2023, transaction values of real estate investment sales in Singapore fell 50.7% quarter-on-quarter (QoQ) to S$3.29 billion.
- Investment sales in the residential segment came in at S$1.56 billion in Q2/2023, a decline of 9.8% from a quarter ago.
- The commercial segment recorded S$940.7 million in investment sales for Q2, a drop of 77.9% from the high base of S$4.25 billion in the previous quarter when some mega deals were recorded.
- The industrial segment bucked the trend for the quarter in review. In contrast to other property types, total investment sales value in this segment increased 14.6% QoQ to S$791.2 million in Q2.
- The outlook remains in line with our view provided in the Q1/2023 briefing. So long as interest rates remain elevated, big-ticket buildings on the low end of the yield spectrum, sans a one-off large deal, are likely to see few transactions. As we move down that spectrum, we may see more market activity amongst ultra-high net worths and family office buyers. For UHNW and family offices though, they are generally inured to low yields. Their popular investment playgrounds currently include strata titled offices and conservation shophouses.

> "Unless it is a trophy income producing asset, institutional investors are quiet, leaving residential developers and ultra-high net worth individuals to dominate the market."
>
> ALAN CHEONG, SAVILLS RESEARCH

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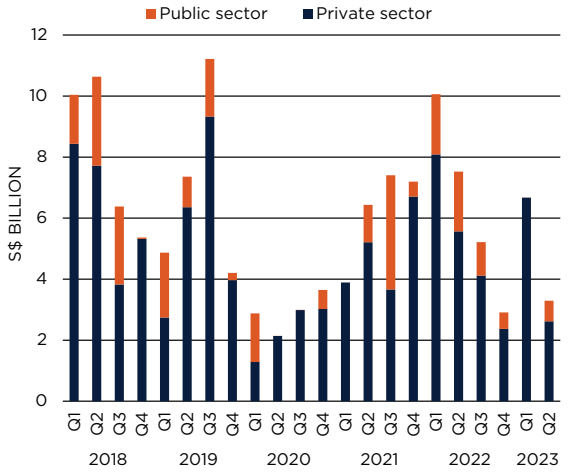
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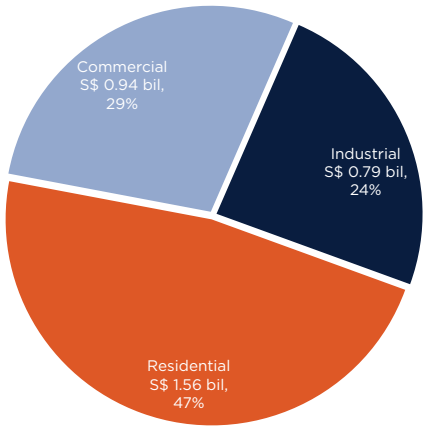
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GRAPH 1: Investment Sales Transaction Values, Q1/2018 to Q2/2023



Source Savills Research & Consultancy

GRAPH 2: Investment Sales Transaction Volumes by Property Type, Q2/2023



Source Savills Research & Consultancy

MARKET OVERVIEW

In the second quarter of 2023, the continuation of a high interest rate environment and macroeconomic uncertainties resulted in some investors turning cautious. Consequently, transaction values of real estate investment sales in Singapore fell 50.7% QoQ to S$3.29 billion. In addition, an unexpected hike in Additional Buyer's Stamp Duty (ABSD) for purchasing residential properties, which took effect from April 27, dampened foreign sentiment in the residential property sector.

Compared with an anaemic S$2.6 million recorded in the previous quarter, investment value in the public sector surged to S$672.7 million in Q2, arising from the sales of two residential sites and one industrial site. This constitutes 20.4% of the total market in the reviewed quarter.

On the other hand, investment activity in the private sector moderated in Q2. For this sector, investment sales volume declined 60.7% QoQ to S$2.62 billion with the number of deals falling 11.6% QoQ to 84 transactions. As institutional investors continued to sit on the side-lines watching and waiting how interest rates will pan out over time and assessing if there is any yield compression on the horizon, the market for big-ticket deals quietened. In contrast, transactions whose values were less than S$100 million each continued, with HNWIs and family offices dominating this sub-class of the market.

RESIDENTIAL

Investment sales in the residential segment stood at S$1.56 billion in Q2/2023, a decline of 9.8% from a quarter ago. In the overall pie, it still took the lion share of Q2's overall investment sales at 47.4%.

High interest rates and construction costs, another recalibration of cooling measures in April, the last being September 2022, together with a reduction in saleable area for non-landed residential projects due to harmonisation of floor areas, have reigned in developers' rush for land banking. As a result, developers have exercised prudence in acquiring land from both the Government Land Sales (GLS) Programme and the private collective sales market. For example, the GLS tender of a 99-year leasehold private housing site along Lentor Gardens attracted a sole bid from a joint venture of GuocoLand and Hong Leong Holdings at S$486.8 million. The unit land rate of S$984.8 per sq ft per plot ratio (psf ppr) was the lowest among the five sites in Lentor Hills Estate for which state tenders have been sequentially awarded since July 2021. In the private market, too, the reviewed quarter only witnessed a single successful en-bloc deal, which was the S$66.8 million sale of Kew Lodge, a small freehold landed residential site at Kheam Hock Road in District 11, to a subsidiary of Woh Hup.

Separately, it is worth highlighting that a private assisted-living development site at Parry Avenue, the first such site released by the government, was awarded to Perennial Holdings for a bid of nearly S$72.0 million in June. The tender which was launched by the Urban Redevelopment Authority (URA) and the Ministry of Health (MOH) was evaluated with a Concept and Price Revenue Tender approach. In Perennial's winning concept, the developer plans to build a new housing-cum-care model development comprising a 200-unit assisted living apartment block, a 100-bed nursing home, a wellness clubhouse and a geriatric care centre. The development will also integrate with a new 1.5-ha community park.

In the private sector, the sales of luxury homes (each priced S$10 million and above) summed to S$936.0 million in Q2/2023. Within this pool of transactions were 30 landed houses and 17 non-landed apartments which changed hands. The most notable deal in the reviewed quarter was the sale of three two-storey good class bungalows (GCBs) at Nassim Road for S$206.7 million in total.

TABLE 1: Top Land Sales in the Public Sector, Q2/2023

LOCATION	TYPE OF DEVELOPMENT ALLOWED	DATE OF AWARD	SUCCESSFUL TENDER PRICE (S$ MILLION)	SUCCESSFUL TENDERER
Lentor Gardens	Residential	Apr 2023	486.8	GuocoLand (Singapore) Pte Ltd and Intrepid Investments Pte Ltd
Plot 7 Tampines North Drive 4	Industrial	May 2023	113.9	Soon Hock Property Development Pte Ltd
Parry Avenue	Residential	Jun 2023	72.0	Pre 20 Pte Ltd

Source Savills Research & Consultancy

TABLE 2: Top Private Investment Sales, Q2/2023

PROPERTY	SECTOR	TRANSACTION DATE	PRICE (S$ MILLION)	BUYER
A portfolio of five assets	Industrial	Jun 2023	313.5	Intertrust (Singapore) Limited
The Shugart	Industrial	May 2023	218.2	CapitaLand Ascendas REIT
291 strata lots in Parkway Parade (10% stake)	Commercial	Jun 2023	138.0	Lendlease Global Commercial REIT
Solitaire on Cecil (Levels 10 and 14)	Commercial	Apr 2023	103.2	Three entities affiliated to the Thye Hua Kwan (THK) Group of Charities
Liberty House	Commercial	Apr 2023	92.2	Union Property Holding

Source Savills Research & Consultancy

The price works out to a record of S$4,500 psf based on land area. The buyers were reported to be three Singaporean members of the Fangiono family of First Resources. Although demand for luxury residential units continued to hold up, sales did soften in the reviewed quarter probably due to the limited sellable stock and school holidays. Meanwhile, foreigners and entities or trustees need to pay a doubling of ABSD rates on their first residential property to 60% and 65% from April 27. This could also be holding back purchases from this group of buyers.

COMMERCIAL

In Q2, the commercial segment recorded S$940.7 million in investment sales, a drop of 77.9% from the high base of S$4.25 billion in the previous quarter when some mega deals were recorded.

There are two block transactions in the reviewed quarter. In April, Singapore-incorporated Liberty Insurance sold Liberty House at 51 Club Street to Union Property Holding, a Singapore incorporated company wholly owned by a Chinese citizen. The price for this five-storey office building is S$92.2 million, or S$3,193 psf based on the building's gross floor area. Later in Jun, Lendlease Global Commercial REIT acquired 10% shares in Parkway Parade Partnership, which owns 291 strata lots in Parkway Parade - an integrated office and retail development in Marine Parade. The deal was based on a S$138.0 million (10% of S$1.38 billion) agreed market value of these strata lots.

Other investment sales in the commercial segment were all from the sale of strata-titled units and shophouses. In a bid to cool investment demand in the residential property market, the government announced to levy higher ABSD rates for purchasing residential properties from April 27. In view of hefty ABSD that must be paid even for the first residential property, more foreign UHNWIs and family offices had diverted their buying interests from residential to commercial properties, especially strata-titled units and shophouses. Consequently, this sub-segment of the commercial market managed to maintain its investments sales momentum in the reviewed quarter.

The sales of strata offices were resilient with eight transactions worth a total of S$298.5 million recorded in Q2. The most expensive deal in terms of price quantum was for Levels 10 and 14 in Solitaire on Cecil, which was sold for a combined S$103.2 million to three entities affiliated to the Thye Hua Kwan (THK) Group of Charities. This works out to S$4,140 psf based on strata area. As a traditional hot-selling project, Suntec City registered four transactions in the quarter. Among these, three deals were inked at psf prices of S$3,600, S$3,700 and S$3,725 respectively. From the list of caveats lodged for Suntec City, these transactions are amongst the most expensive ever, coming in from second to fourth in terms of unit price. The top one was S$3,850 psf done in last September.

As mentioned previously that UHNWIs and family offices were diverting their attention away from the residential sector to shophouses. We see that being manifested in Q2/2023 when 16 deals were concluded in the quarter (10 in Q1/2023) and the sales quantum increased by 43.1% QoQ to S$390.9 million in Q2/2023. However, after the announcement of the ABSD hikes, it was noted that more sellers have raised their asking prices or held back their properties from the market waiting for better prices. As a result, a slowdown of buying activities due to the widening bid-ask price gap has surfaced recently.

INDUSTRIAL

The industrial segment bucked the trend for the quarter in review. In contrast to other property types, the total investment sales value in this segment increased 14.6% QoQ to S$791.2 million in Q2.

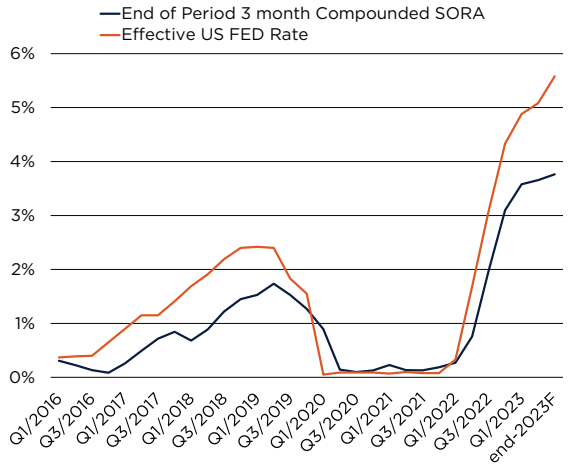
Under the Industrial GLS programme, a Business-2 industrial site at Tampines North Drive 4 (Plot 7) was awarded to Soon Hock Property Development that submitted a top bid of S$113.9 million.

In the private sector, it was the industrial REITs that fired up the market. ESR-LOGOS REIT has divested six non-core industrial assets in Singapore for a total of S$327.3 million, accounting for 48.3% of the investment sales tally generated from the private sector. Among these assets, a portfolio of four warehouses and one general industrial building was sold to Intertrust (Singapore) Limited, which is reported to be a well-known Chinese e-commerce player, at S$313.5 million, while an industrial property at 22 Chin Bee Drive was sold to Sanli Environmental for S$13.8 million. Separately, CapitaLand Ascendas REIT acquired The Shugart, a high-specification research and development facility and business park property in one-north from Seagate Singapore for $218.2 million.

OUTLOOK

The two-faced investment sales market continues into Q2/2023 and is likely to spillover to Q3/2023. So long as policy guidance towards interest rates is in the muddy middle, investors, particularly institutional ones, will remain on the sidelines. As far as they are concerned, the key is whether they see an impending end to interest rate hikes in the US. Although the US Fed did not raise rates in June, they did project that they may raise rates by

GRAPH 3: Effective US FED Funds Rate vs 3-month Compounded SORA, Q1/2016 to 2023F



Source US Federal Reserve, MAS, Savills Research & Consultancy

TABLE 3: Grade A CBD Office QoQ Rental Change

Q3/2022	Q4/2022	Q1/2023	Q2/2023
0.3%	0.6%	0.2%	0.5%

Source Savills Research & Consultancy

two quarter percentage points before the end of the year. If that goes through, it will bring the effective Fed rate to about 5.6%. From the quarterly derived correlation (Q1/2016 to Q2/2023) between the 3-month compounded SORA and the effective Fed funds rate, the former is expected to reach 3.76% by year's end. (Please refer to Graph 3.)

The question is: are the expected future interest rate rises something which investors should be concerned about? We believe that the impact is likely to be neutral insofar as Grade A offices are concerned. Table 3 shows that for Grade A CBD Offices, we have so far experienced a year-to-date increase of 0.73% for rents. That rents can rise in a challenging business environment is due to the narrative of a relative supply deficiency for premium grade offices rather than from demand expansion. With capital values holding, we can expect some yield expansion from the current 3.5%.

Although yields are not expected to rise significantly, it nevertheless lends comfort to landlords and reduces the likelihood of any fire sales at the top end of the market. Aside, we believe that if the asset quality is top notch, and even if yields look slightly stretched, a deal may still be struck.

The same goes for retail assets. Yields are generally better off than for offices and with the recovery in tourism, the general health of the retail and F&B sectors is likely to have improved. With yields at 4.25%+, the likelihood of closure is greater.

The sector with a positive carry would be industrial where yields for assets with the mid-20s to low-30s year leases left are north of 6.25%. However, the drawbacks are the conditions imposed on investors which must be checked against to affect a transaction. This is for properties built on JTC land. For those in private hands, most of them being freehold or on 999-year leases, the issue reverts to the yield factor as the high prices for such tenured assets depresses the yield considerably.

For residential properties, we believe that with the increased GLS Programme, unless a mega office deal is concluded, this sector is expected to continue to dominate by share of the investment sales pie in quarterly reviews. However, with the recent recalibration of the cooling measures and the harmonisation of strata area (saleable space) with gross floor area, the increased supply may restrain land prices and any increase in investment sales volume in this sector would be mainly from the increased GLS supply this year. From the 15 sites on the confirmed list, some 9,250 units can be developed, the highest recorded on the confirmed list since 2013.

If we move out of the yield driven asset classes, conservation shophouses and strata offices may still register healthy transaction volumes from UHNWIs and family offices. Unfortunately, the propensity of such buyers lodging caveats makes it difficult to get a good grip on the size of the market. We are maintaining our forecast for this year's investment sales volume at around the S$24.7 billion recorded in 2022.