# SINGAPORE MARKET OUTLOOK H2 2022

## GROWTH IN A NEW ECONOMIC REALITY

CUSHMAN & WAKEFIELD

# Economy

## IN A POSITION OF STRENGTH

### Growth Even As Recession Risks Loom

Amidst a return to normalcy and economic reopening, Singapore's economy is forecast to grow by 3.8% y-o-y in 2022, higher than pre-pandemic average annual growth of 3.2%, according to Moody's Analytics data.

Economic growth so far remains on track. According to flash data, Singapore's economy grew by 4.8% y-o-y in Q2 2022. There is broad-based growth across all sectors, with growth led by the manufacturing, finance & insurance, professional services and information & communication sectors.

However, significant downside risks continue to mount. A cocktail of rising inflation and interest rates, due to the ongoing Ukraine-Russia conflict, China's zero-Covid policy and tightening monetary policies in advanced economies are driving uncertainties in global markets. Already, equity markets have turned bearish, and many companies have announced job cuts and hiring freezes globally.

That said, Singapore starts from a position of strength and economic indicators reflect growth and stability. Consumer spending remains robust as seen from the increase in retail sales and is expected to grow as inbound tourism recovers. The labour market stays healthy with low unemployment rates and wage growth heading back to pre-pandemic levels.

Singapore would also benefit from a flight to safety as capital gravitates towards "safe havens" for wealth preservation and diversification amidst global uncertainties. Her strategic geographical location, pro-business policies and stable political situation are key advantages that will continue to attract inbound investments. This is evidenced by the high levels of fixed asset investments into the city-state in 2020 and 2021.

Against this backdrop, we still see relatively stable growth for the overall Singapore property market in H2 2022, albeit at a slower pace, as investors seek out safe havens for wealth preservation and growth.

### SINGAPORE ECONOMIC INDICATORS

| Variables | Pre-pandemic Average (2015-2019) | 2020 | 2021 | 2022F | 2023F | 2024F | 2025F |
|---|---|---|---|---|---|---|---|
| Real GDP Growth (%) | 3.2 | -4.1 | 7.6 | 3.8 | 2.9 | 3.1 | 2.6 |
| Unemployment Rate (%) | 2.1 | 3.0 | 2.7 | 2.1 | 2.2 | 2.2 | 2.2 |
| Total Population Growth (%) | 0.9 | 0.8 | 0.8 | 0.8 | 0.8 | 0.7 | 0.7 |
| Wage Growth (%) | 3.9 | 1.6 | 2.1 | 3.8 | 2.1 | 1.8 | 1.8 |
| Retail Sales Volume ($ Billion) | 46.8 | 38.0 | 42.5 | 44.6 | 47.4 | 49.0 | 49.1 |
| Inflation (%) | 0.1 | -0.2 | 2.3 | 5.3 | 2.5 | 1.7 | 1.8 |
| 10-Year Government Yield (%) | 2.2 | 1.1 | 1.5 | 2.6 | 2.8 | 2.8 | 3.0 |

Source: Moody's Analytics, updated on 15 July 2022

# Singapore Property Market

## ADJUSTING TO A NEW ECONOMIC REALITY

### Higher Interest Rates and Slower Growth

Global growth in 2023 is expected to slow given a rapid front-loading of US interest rates hikes, tightening monetary policies in several advanced economies, and an expected lag between monetary policy and economic activity. Singapore, being highly connected to the global economy, will inevitably be affected.

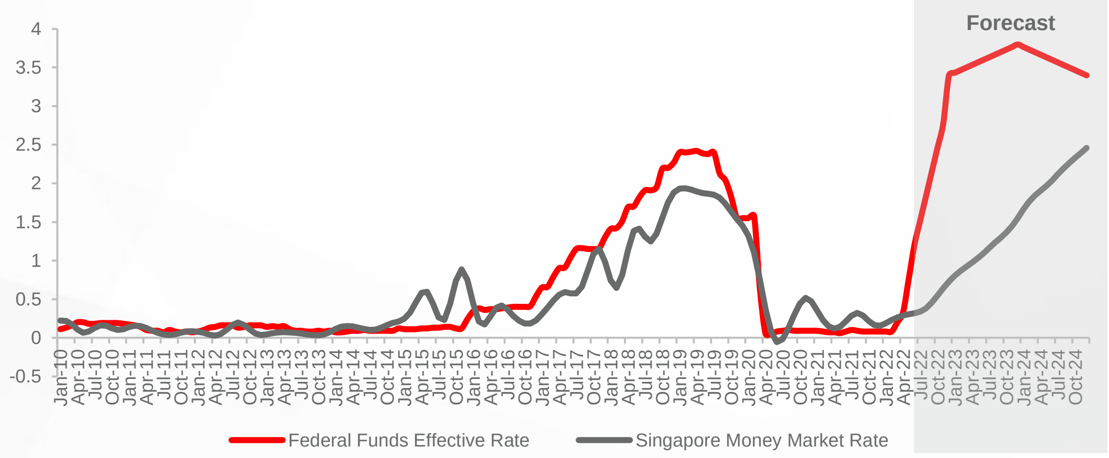
Assuming interest rates remain high into 2023, overall property demand is expected to slow as companies adjust to the impact of heightened interest rates. A property downturn (falling prices and rents) is still not our base case, but rental and price growth is expected to slow significantly in 2023 as companies tighten their belts and consumers become more cautious. According to Moody's analytics data, inflation is expected to ease by 2023, albeit remaining markedly higher compared to pre-pandemic levels. However, 10-year government bond yields is expected to remain elevated over the next few years. That said, historically interest rates tend to move in cycles. As such, this could surprise on the upside for the property market if interest rates were to fall due to a recession.

We remain sanguine that the property market in Singapore could see resilience despite higher interest rates and slower growth, given current tight supply conditions across the board. Property rents and prices for grade A offices and prime logistics are still expected to see inflation-driven growth due to tight supply and a long-term demand for quality assets.

Repricing opportunities, especially for prime office and logistics assets, could be limited even with rising interest rates as asset owner's holding power remains strong and rents are largely expected to grow and support capital values. This was apparent in the last interest rate hike cycle of 2016 to 2019, when property yields continued to largely compress whilst interest rates rose.

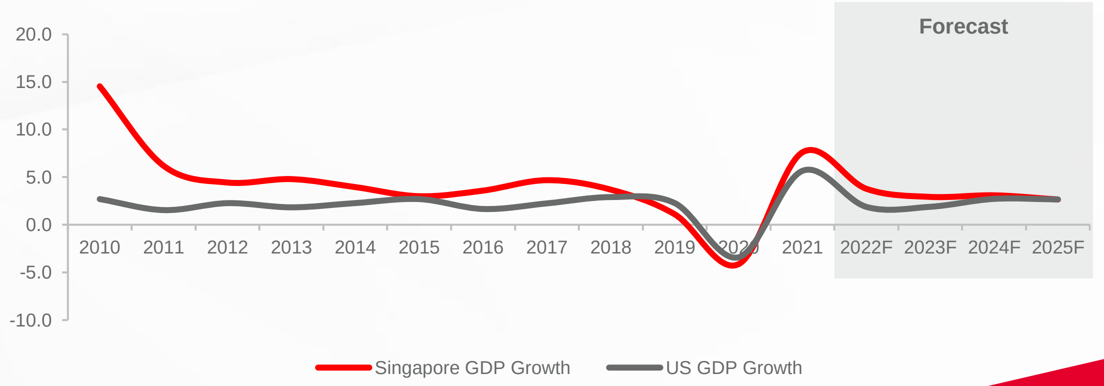
Nonetheless, if interest rates remain high into 2023, transaction volumes could cool as the expectation gap between buyers and sellers widens.

### US AND SINGAPORE INTEREST RATES




Source: FRED, Moody's Analytics, updated on 15 July 2022

### US AND SINGAPORE GDP GROWTH




Source: FRED, Moody's Analytics, updated 15 July 2022

# Office

## WHAT'S NEXT

### Flight to Quality to Sustain Upward Rental Trend

Singapore office market is poised to trend higher in H2 2022, extending CBD Grade A and Grade B office rental growth of 3.7% and 0.9% respectively in H1 2022 YTD. Supported by the return-to-office momentum and pick-up in business activities, CBD Grade A and Grade B office rents is forecast grow by 5.4% and 2.7% y-o-y for the whole of this year amidst a tight supply situation. A flight to quality with increased focus on sustainability and workspace experience continues to drive demand for Grade A offices. CBD Grade A office rental growth may slow in 2023 (rent growth about 3% yoy), as occupiers take the more cautious approach in a heightened interest rate environment.

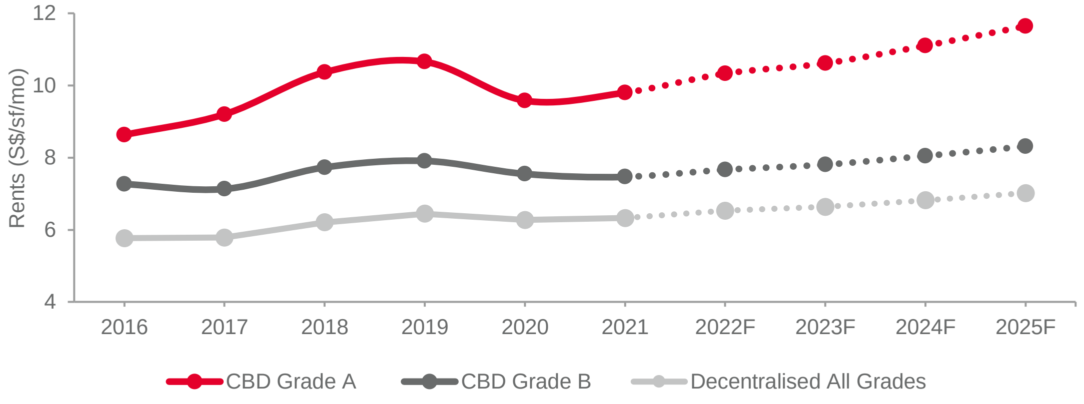
Decentralised office markets that enjoy lower rents may see more demand going forward, as occupiers become more cost-conscious, though this would be led by Grade A offices. Rising rents and redevelopments in the CBD could gravitate demand towards the lower-priced decentralised markets. Decentralised office rents have risen by 1.5% in H1 2022 YTD and are poised to grow 3.2% y-o-y for 2022 and about 2% y-o-y for 2023.

### Redevelopments to Tighten Supply and Bolster Demand

Overall office demand remains positive with CBD Grade A office vacancy rates expected to tighten towards 4.5% by end-2022 as net demand to remain positive. Vacancy rates is expected to rise in 2023, with increased supply due to the expected completion of Central Boulevard Towers.

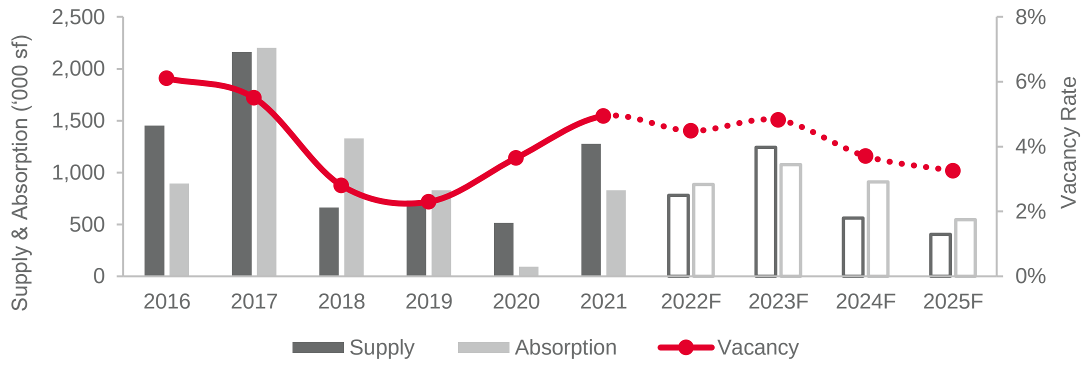
Future supply remains tight. The CBD Grade A office supply pipeline is limited with 0.7 million sf (msf) of new stock per annum from 2022 to 2025, as compared to the ten-year annual average of about 1 msf. Office supply in the CBD could also tighten over the mid-term as the flight to quality and programmes like the CBD incentive scheme prompt redevelopments. Also, the expiry of transitional office sites that might happen progressively over 2022 to 2026 may spur displacement demand of up to 0.8 msf. The push for redevelopment would drive more displacement demand over the short to mid-term, supporting office occupancy rates.

### CBD GRADE A AND GRADE B OFFICE RENTAL TREND




Source: Cushman & Wakefield Research

### CBD GRADE A SUPPLY, DEMAND AND VACANCY




Source: Cushman & Wakefield Research

# Office

## DRIVERS

### Finance and Tech Demand to Remain Dominant

Financial and technology firms continue to dominate office demand. They contributed to near two-third or 64% of total lease transactions in the CBD for H1 2022.

Financial firms continue to have appetite for office spaces in the CBD, driven by the wealth management sector as they look to set up offices in Singapore and tap on rising wealth and opportunities in Asia Pacific. Based on MAS estimates, there are about 400 single family offices operating in Singapore as at end-2020, doubling from the year before.

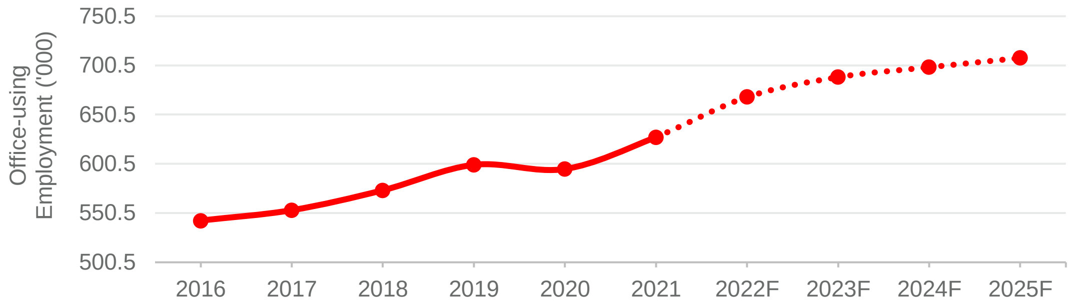
Regional geopolitical tensions have also benefited Singapore, leading to more firms looking to establish their regional headquarters in Singapore. Professional service firms are also expanding their presence to cater to the influx of new firms in Singapore. Office-using employment is expected to rise over the next few years. Given limited CBD Grade A supply, this could lead to pockets of office spaces being able to transact at high rental levels.

In a tech-fueled economy, the tech sector plays a key and expanding role in the office market. For example, Amazon is said to have signed a lease for 369,000 sf at IOI Central Boulevard Towers. Bytedance is also expected to take up additional office space.

Nonetheless, tech demand could slow temporarily. The sharp rise in interest rates has roiled equity markets and saw a steep devaluation of tech companies, especially in the crypto space. Already, job cuts have been announced globally, as tech firms opt to contain costs and maintain profitability.

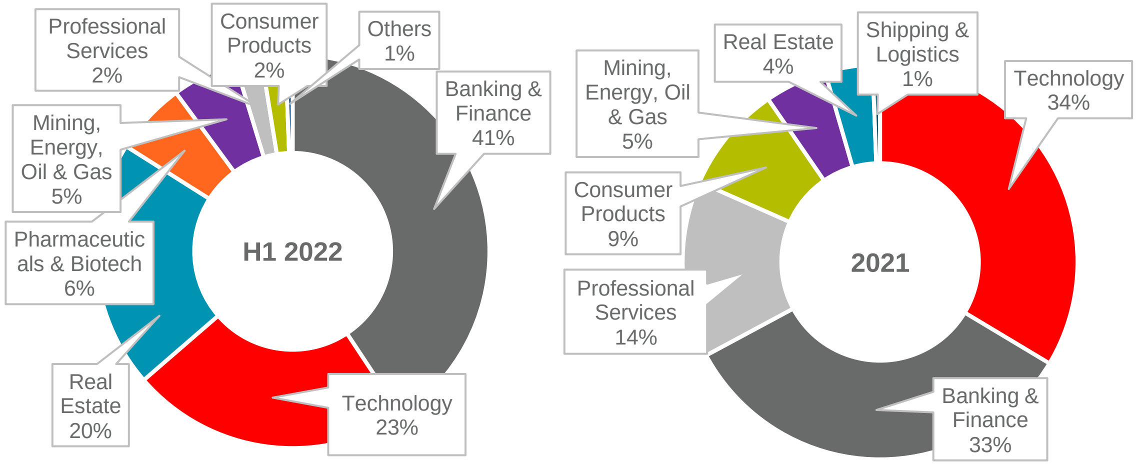
With tech valuations getting depressed, we could see a slowdown in office demand which is driven significantly by the tech sector. Some tech companies may look for lower-cost solutions such as business parks or decentralised offices to reduce operating costs. While others may decide to increase remote work and right-size their real estate footprints.

### OFFICE-USING EMPLOYEMENT TREND




Source: Moody's Analytics Forecasted, Singapore Department of Statistics, Cushman & Wakefield Research, updated on 15 July 2022

### H1 2022 VERSUS 2021 LEASING PROFILE IN THE CBD




Source: Cushman & Wakefield Research

# Office

## TRENDS

### Hybrid Work to Stay

While a universal desire to work more flexibly post-pandemic will continue to shape office design and demand, there are geographical variances. The demand to return to the office in APAC remains strong, as seen by a higher proportion of workers wanting to come back to the office frequently (79%) as compared to the United States (49%), according to survey data from Cushman & Wakefield's Experience per Square Foot. While hybrid work would lower structural demand for offices, the overall impact is expected to be limited with more de-densification taking place to expand collaborative and amenity spaces. However, hybrid work has also steepened the flight to quality and may increase leasing risks in a downturn as it is now easier to downsize spaces when people can work remotely.

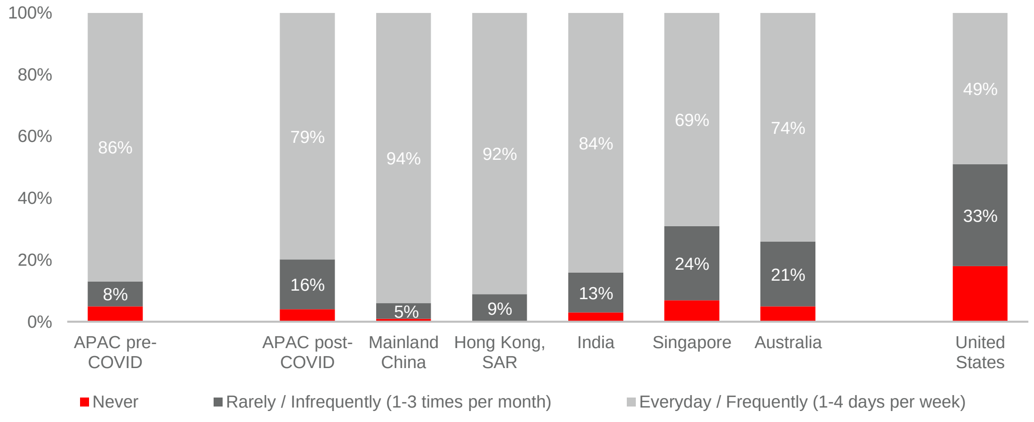
### Demand for Flex

Flexible or co-working spaces have become a cornerstone of the office market as firms operate in an increasingly fast-changing business environment and prefer lower capital expenditure. To manage risks, co-working operators are gravitating towards management contracts that shares risks with the landlord. However, given rising rents, some landlords may hold out for a direct lease or choose to start their own coworking space. Given current tight vacancy for Grade A offices in the CBD, co-working spaces could move towards decentralised locations and Grade B office stock where vacancy is higher.

### Increasing Sustainability Standards

As values orientate to emphasize wellness and sustainability becomes a corporate priority, more firms are considering green leases and exercising more scrutiny in selecting offices based their ESG performance. Over 5,200 firms globally have made net-zero commitments in the lead-up to the 2021 UN Climate Change Conference. For landlords, they need to future-proof their asset from being "stranded" amidst rising energy costs and a higher demand for sustainable buildings that could command green premium. A study commissioned by BCA has shown that office tenants are willing to pay an average of 3.5% premium in lease for an office in a Green Mark certified building.

### DESIRED OFFICE ATTENDANCE POST-COVID

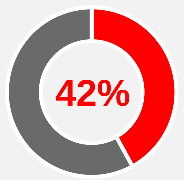



Source: Experience per Square Foot™, Cushman & Wakefield Research

### MORE COMPANIES SETTING NET-ZERO TARGETS

**5,200+**

An unprecedented number of companies made net-zero commitments in the lead-up to 2021 UN Climate Change Conference (COP26), bringing the total to over 5,200 at last count.




Some 42% of respondents reported that the companies for which they serve as directors have made net-zero pledges.

Source: The BCG-INSEAD Board ESG Pulse Check survey March 2022, Cushman & Wakefield Research

# Office

## BE WHAT'S NEXT

| LANDLORDS | OCCUPIERS |
|---|---|
| **Consider flexible lease terms and tenant allowances**<br>• Offer unique selling propositions such as like flexible lease terms or tenant allowances to attract tenants who are facing tighter budget | **Consider 'core and flex' model**<br>• Consider flexible office space to supplement the core office space or as swing space in between relocations<br>• Provide employees with choice, flexibility and autonomy to decide how they work best through the mix of core-and-flex spaces |
| **Capture flight to quality**<br>• Consider asset enhancement or redevelopment for older buildings to improve corporate image, sustainability performance and wellbeing of building occupants. | **Revamp the workspace**<br>• Rethink and redesign the workspace to align with the firm's defined role of the office and new ways of work<br>• Involve employees in the workplace design to create meaningful spaces and ease change management as employees adjust to new ways of work |
| **Invest in smart FM systems**<br>• Invest in smart facilities management systems to leverage data analytics to raise productivity, lessen response times and reduce labour costs | **Explore alternative options**<br>• Consider alternative options across the CBD and decentralised markets as CBD Grade A rents are poised to rise amidst tight supply<br>• Consider recently refurbished grade B or grade A offices in decentralised markets |

# Industrial

## WHAT'S NEXT

### Broad-based Rental Growth Amidst Economic Reopening

Rental growth is expected to continue across the industrial market in 2022 as Singapore's economic reopening and stable growth continues to drive demand. Overall industrial vacancy rates have tightened to around 10.2% in Q1 2022 as compared to 10.8% in Q4 2019.

Overall supply in the market will jump in 2022 due to construction delays accrued over the last two years and this would lead upward pressure on vacancy rates especially for multi-user factories and business parks. Single-user factories are mostly pre-committed and new warehouses have healthy pre-commitment rates.

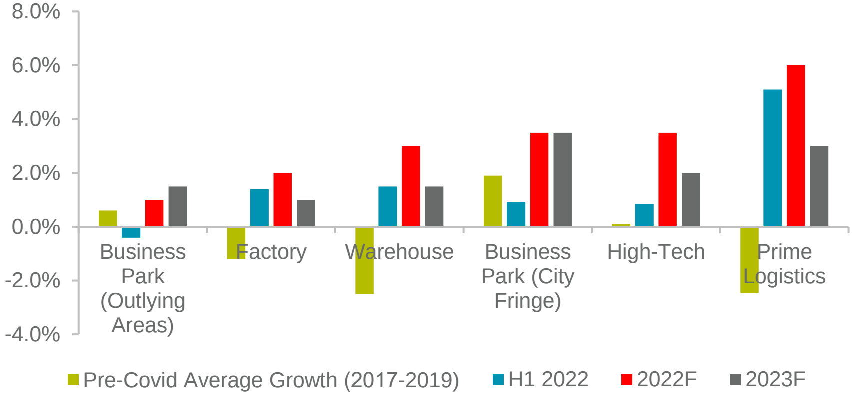
### New Economy Assets to Outperform

Fit-for-purpose assets which can capture demand from prevailing megatrends such as e-commerce, business digitalisation and life science growth would see higher demand and rental growth. Indeed, prime logistics, city-fringe business parks, high-tech factories and warehouses, saw their rents increasing in H1 2022 and are poised to continue rising into H2 2022 and 2023. Given current supply chain disruptions, stockpiling demand will persist though this might fade slightly towards 2023 as supply chains adjust and consumer spending diverts from goods to services amidst economic reopening.

Conventional factories and outlying business parks which are facing significant increases in supply in 2022, would see slower rental growth. This is especially for ageing stock in conventional factories and outlying business parks markets which have faced muted demand as occupiers continue to seek newer developments with better specs and amenities.

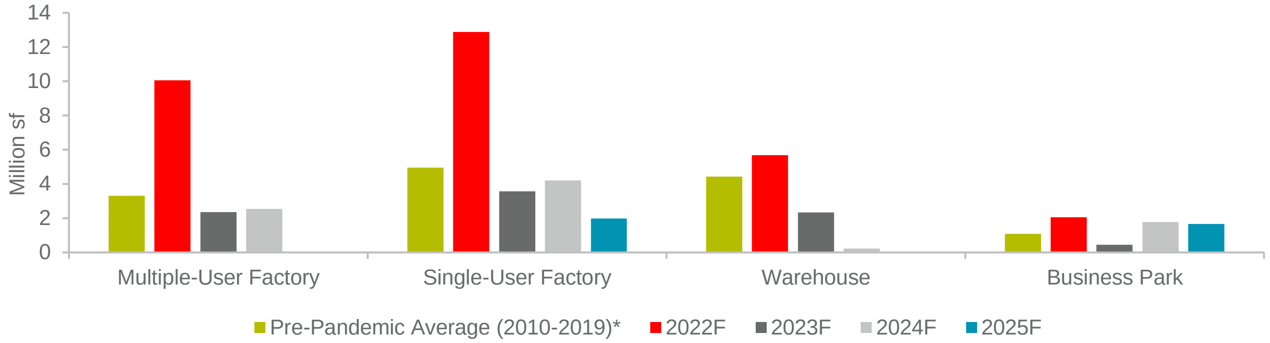
Against this backdrop, we anticipate average annual industrial rental growth rates of about 3.2% and 2.1% y-o-y respectively for 2022 and 2023, with stronger growth prospects for assets which caters to the new economy.

## ANNUAL RENTAL GROWTH ACROSS ASSET CLASSES




Source: Cushman & Wakefield Research

## SUPPLY IN THE PIPELINE




Source: JTC, Cushman & Wakefield Research
* Supply included demolition of stock

## VACANCY RATES

| Segment | Pre-Pandemic (Q4 2019) | Q1 2022 |
|---|---|---|
| Multiple-User Factory | 12.5% | 11.2% |
| Single-User Factory | 9.2% | 9.6% |
| Business Park | 13.8% | 14.4% |
| Warehouse | 12.0% | 9.7% |
| **Overall** | **10.8%** | **10.2%** |

# Industrial

## DRIVERS

### High-value Manufacturing to Drive Long-term Demand

The importance of the manufacturing industry is affirmed by the government's aim to grow its manufacturing sector by 50% by 2030. Good progress has been made, with the manufacturing sector outperforming, expanding by 7.9% and 8.0% y-o-y in Q1 and Q2 2022 respectively. It was also the key driver of economic growth during Covid-19 (2020-2021), growing 7.5% and 13.2% y-o-y, respectively. The electronics and electronics-related clusters are bright spots backed by strong semiconductor demand from global digitalisation and automation, rising need for cloud services and emerging 5G market. The biomedical science industry will be another source of growth given an ageing population in Asia and higher consumer demand for better healthcare. This would spur demand for high-tech factories and business parks.

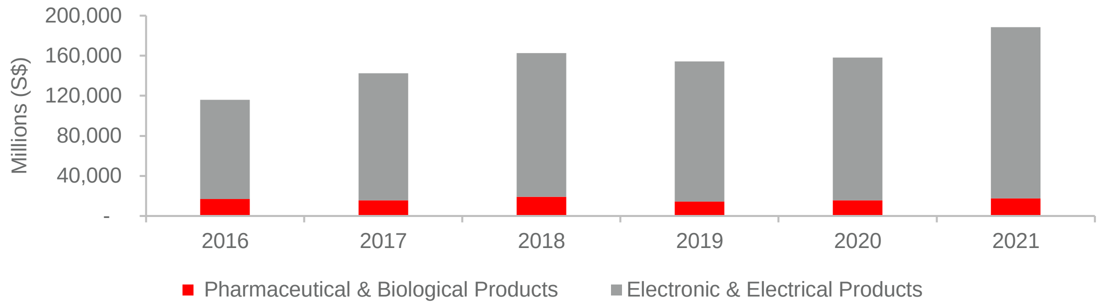
### E-commerce Adoption to Rise

The pandemic had accelerated e-commerce adoption. Total online sales in Singapore reached S$5.8b in 2021, increasing by almost 30% y-o-y from S$4.5b registered in 2020. Over the long term, Singapore's e-commerce market will continue to grow. Third-party logistics and e-commerce companies have gradually expanded in Singapore, given its strategic geographic location as a leading regional logistics hub, growth potential in South-east Asia. Indeed, tenants from E-commerce / Logistics industry were especially active, leasing around 30% of new leases signed between 2020 and 2022 YTD based on C&W's inhouse data. E-commerce growth and expansion of firms in the logistics sector are expected to support long term demand for warehouse / prime logistics spaces.

### Growing Demand for Self-Storage Space

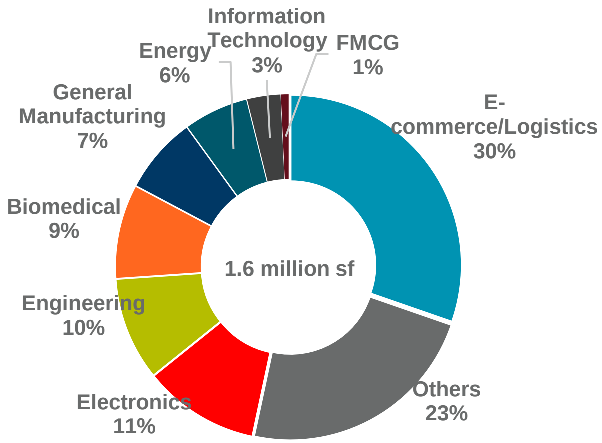
Self-storage providers are witnessing rising demand given more people look for additional space as they are spending more time at home due to hybrid work. Singapore's relatively small home sizes have also supported this trend. Amid positive outlook, self-storage operators have expanded their footprint. We anticipate opportunities for private industrial properties near to large residential catchment areas.

### BIOMEDICAL AND ELECTRONIC/ELECTRICAL OUTPUT

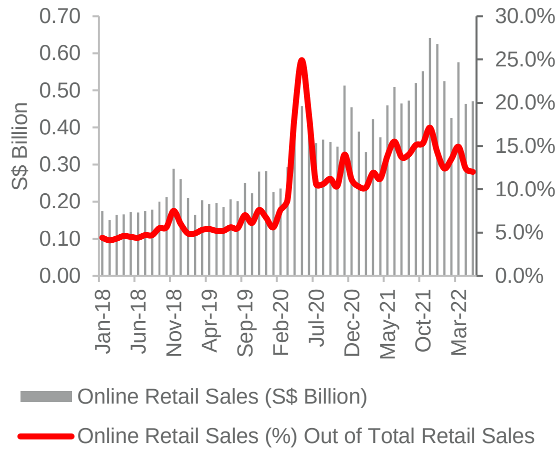



Source: DOS, Cushman & Wakefield Research

### ACTIVE OCCUPIERS' PROFILE*




### ONLINE RETAIL SALES




Source: Cushman & Wakefield Research, * New Leases (not holistic) between 2020 and 2022 YTD by Trade based on in-house data.

# Industrial

## TRENDS

### Supply Chain Resilience and Diversification

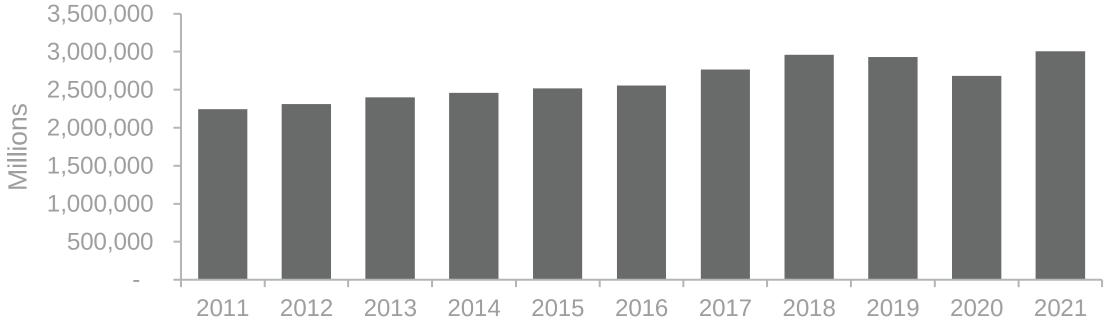
An increasing fragmented geopolitical landscape and pandemic experience has driven demand for supply chain resilience and regionalization. Global supply chains is expected to shift towards a resilience-first model rather than a lowest-cost model, albeit the process would be gradual. Southeast Asia, given her proximity to China is expected to be a key beneficiary for this trend and this will drive industrial demand and regional trade in Southeast Asia. Regional trade is expected to grow as the Regional Comprehensive Economic Partnership (RCEP) agreement takes effect in 2022. The RCEP is expected to increase world trade and world incomes by nearly US$500 billion and US$263 billion annually, respectively.

Given these developments, Singapore's industrial market would benefit given her position as a leading logistics hub. Over the long term, this would be accentuated by two upcoming key infrastructure projects, namely Tuas Mega Port and the development of Changi East. We anticipate stronger demand for logistics assets close to transport infrastructure / commercial nodes to reduce delivery time amid the trend of redesigning supply chain networks, prioritizing proximity to customers and mitigating supply risk.

### Wave of CAPEX to Ensue Over the Next Decade

Given the need to modernize supply chain, e-commerce players are investing in automation or moving into smart warehouses to improve operational efficiency and time to market, spurring demand for such properties. Also, as demand gravitates towards newer and better spec industrial properties with strong green credentials in views of emphasis on sustainable and energy-efficient developments, especially amid significant increase in carbon tax and increasing energy costs, a flight to quality trend might lead to a wave of revamp or redevelopment of existing assets. Technology-embedded properties that can drive productivity will be a key differentiator in the future. Sites / developments with longer tenure are preferred given significant capital expenditure required for redevelopment / refurbishment.

### SOUTHEAST ASIA* TOTAL TRADE




Source: World Bank, Moody's Analytics, Cushman & Wakefield Research
* Exclude Lao and Vietnam

### SOUTHEAST ASIA TO BENEFIT

- Samsung Electronics decided to shift much of its display production from China to its plant in southern Vietnam

- Konica Minolta decided to shift more multifunction printer production to Malaysia to reduce dependence on China.

- Murata Manufacturing - the world's largest capacitor maker and an iPhone parts supplied planned to open a new plant in Thailand in October 2023 to reduce their dependence on China

- At least three Japanese companies (Panasonic, Denso and Sagami) decided to relocate their factories from China to Indonesia

- As countries cut their dependence on Chinese manufacturing, Singapore is well-positioned to serve as a regional supply chain hub.

# Industrial

## BE WHATS NEXT

| LANDLORDS | OCCUPIERS / END-USERS |
|---|---|
| **Spruce up the premise**<br>• Consider asset enhancement initiatives to improve amenities and image, and attract better tenants that are willing to pay higher rents | **Sale and leaseback to unlock capital**<br>• Consider sale and leaseback arrangements to leverage on positive industrial sentiments and free up capital for business expansion and operation<br>• Partner with developers with a view for asset enhancement can be considered |
| **Invest in sustainability**<br>• Refurbish or rejuvenate ageing buildings into “green” developments to potentially achieve higher rents, mitigate rising operating costs and capture demand from environmentally-conscious tenants | **Promote sustainability and manage costs**<br>• Achieve lower energy costs by moving to energy-efficient buildings<br>• Consider fitting out with energy efficient features such as LED lightings and occupancy sensors<br>• Advance towards ESG transformation by promoting sustainability awareness among employees |
| **Cater to new economy industries**<br>• Re-purpose spaces or conduct asset enhancement to cater to new economy industries; for example, certain units can be fitted out to be wet-lab ready for biomedical research | **Relook and optimise supply chains**<br>• Design a resilient supply chain as inflation rises and possibly prolong supply chain disruptions |

# Retail

## WHAT'S NEXT

### Return to Pre-Covid Normalcy to Support Rental Growth

Prime retail rents have started recovering in 2022, driven by improving sentiments coming out of the pandemic and reopening of borders. Indeed, total retail sales were up by 9.3% as of May 2022 YTD. Consumer spending still mainly takes place in brick-and-mortar stores, with online retail sales contributing 14.9% of total retail sales in May 2022 YTD, and this will continue to support demand for retail spaces. Although tourism recovery would support the retail market, it is expected to be dragged on by lower Chinese visitor arrivals due to China's zero-Covid policy. Pre-Covid, Chinese tourists contributed about 19% visitor arrivals in 2019.

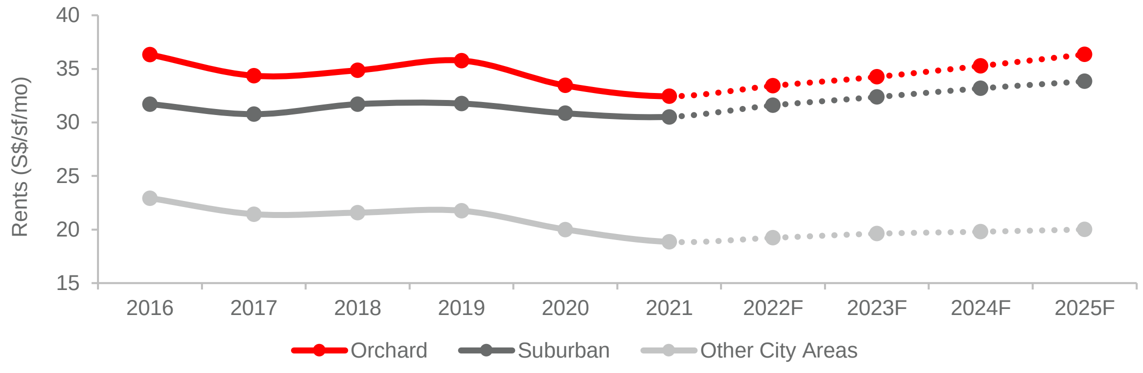
Against this backdrop, prime retail rents are expected to climb 2%-4% y-o-y in 2022, led by the Suburban and Orchard retail markets. Thus far, prime retail rents in Orchard and Suburban have both increased by 2.2% each in H1 2022 YTD. Other City Areas rents are growing as well, albeit gradually, as more people return to the office. However, CBD footfalls remain lower compared to pre-Covid levels due to hybrid work and limited new office supply.

Nonetheless, limited new retail supply would help support rents. New islandwide retail supply will only come up to 0.3 million sf per annum from 2022 to 2026, less than half the 0.9 million sf per annum from 2017 to 2021.

### Retail Operating Conditions Remain Challenging

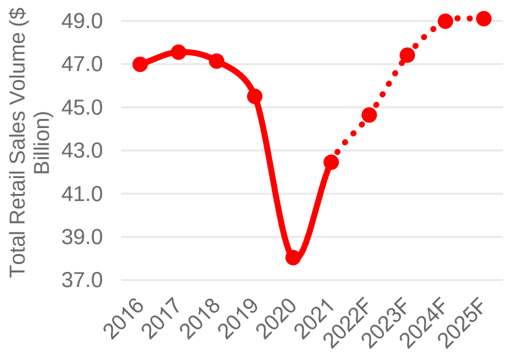
Despite recovering footfalls, retailers still face challenging operating conditions and higher operating costs due to manpower shortages, persistent inflationary pressures and food supply disruptions. This will be felt acutely for the F&B sector, a key demand driver for the retail market. Some retailers may face slower sales, as consumers become more price-sensitive and face lower disposable income amidst higher costs and mortgage rates. The reopening of borders would divert some consumer spending overseas, offsetting some of the gains due to higher inbound tourism. Discretionary retail trades such as fashion could see a larger impact.

## RETAIL RENTAL TREND BY SUBMARKETS

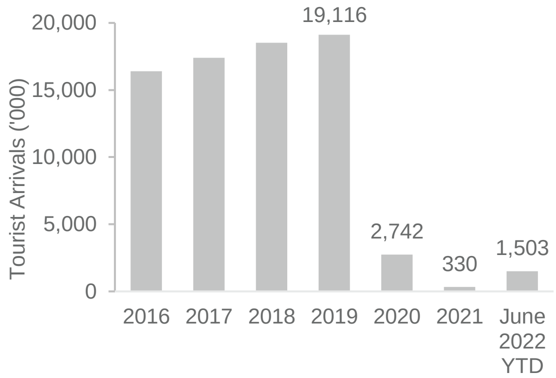



Source: Cushman & Wakefield Research

## RETAIL SALES VOLUME FORECAST




## TOURIST ARRIVALS




Source: Moody's Analytics, Singapore Department of Statistics, Cushman & Wakefield Research, updated on 15 July 2022

# Retail

## DRIVERS

### F&B to Drive Demand

Food & beverage (F&B) continue to be the key retail demand as e-commerce adoption accelerates. We estimate about 45% of store openings in prime malls of Singapore in H1 2022 were from F&B, while fashion retailers came in second with 12% of store openings. The contribution by F&B to the gross rental income of S-Reits is also rising, contrary to the diminishing contribution by fashion retailers. While F&B demand continues to dominate, expansion may slow with rising business costs and disruptions to supplies.

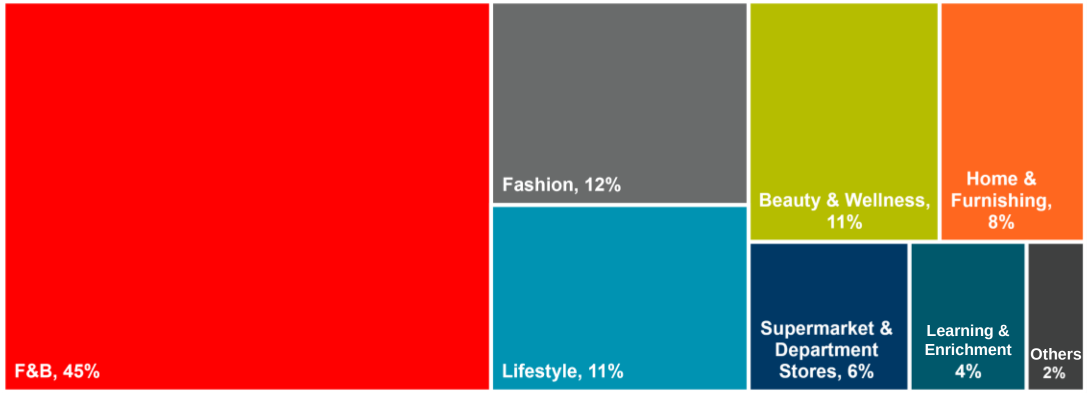
### Sustained Demand from New-to-Market and Athleisure Brands

Despite a challenging business landscape, prominent international brands have continued to enter the Singapore market. New brands include American electric vehicle company Tesla's first dedicated retail store in Southeast Asia at Millenia Walk, Italian fragrance brand Acqua Di Parma's first flagship boutique at Raffles City and Brooklyn pizza house Roberta's Pizza's debut at The Shoppes at Marina Bay Sands. Within the lifestyle segment, athleisure brands are actively expanding. Following Adidas' opening its first brand centre of four levels at Knightsbridge Mall in end-2021, Lululemon has opened its sixth store at Raffles City, Puma has launched a street-facing duplex flagship store at 313@Somerset, and South Korean official Major League Baseball licensed store MLB is observed to be unveiling at a prime space of Mandarin Gallery.

### Clicks to Bricks Businesses

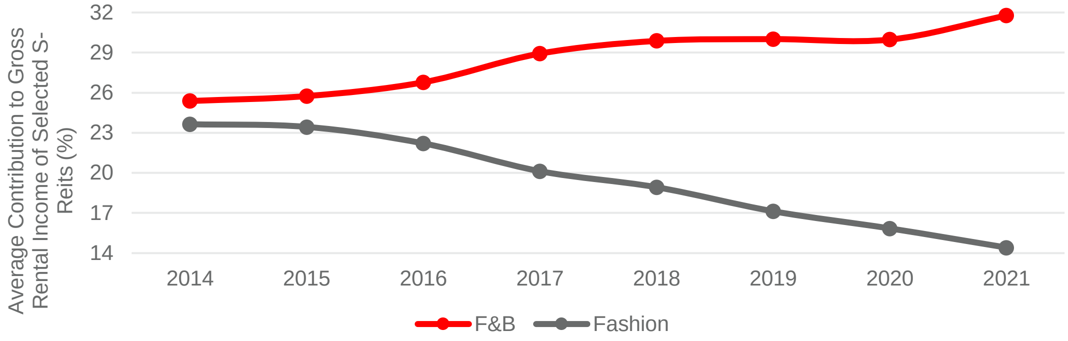
Digital native retailers are expanding in brick-and-mortar as they compete for exposure in an increasingly crowded online space. A physical store can create a more personalized experience and boost a brand's visibility. Digital-native retailers that opened physical stores in H1 2022 include gaming chair brand Martiangear that has launched a showroom at Suntec City Mall and sporting goods retailer Sports Factory that has opened at Century Square. Going forward this year, fashion e-Commerce brands, namely Claude, Young Hungry Free and Neonmello are all expected to be opening new physical stores in Singapore.

### ESTIMATED SHARE OF STORE OPENINGS IN PRIME MALLS (H1 2022)




Source: Cushman & Wakefield Research, 'Others' include entertainment & leisure and service-based retailers

### CONTRIBUTION TO S-REIT GROSS RENTAL INCOME BY SEGMENT




Source: Annual Reports of selected S-Reits with readily available data from 2014 to 2021, Cushman & Wakefield Research

# Retail

## TRENDS

### Increased Investment in Digitalisation

The pandemic has accelerated adoption of technologies to implement an omnichannel experience and draw consumers back to stores. A greater integration of offline and online shopping platforms, will help retailers with better data analytics and stronger sales. For example, department store BHG Singapore has reportedly seen a 17% increase in customer basket size after introducing digital elements like virtual try-on and mobile point-of-sale systems. Malls that can support deliveries and collections would be well sought-after. Digitalization may lead to smaller store sizes as retailers are able to right-size their offerings due to better data analytics. Going forward, this could be a win-win for both landlords and retail due to higher rents on a $PSF basis and more diverse tenant mix.

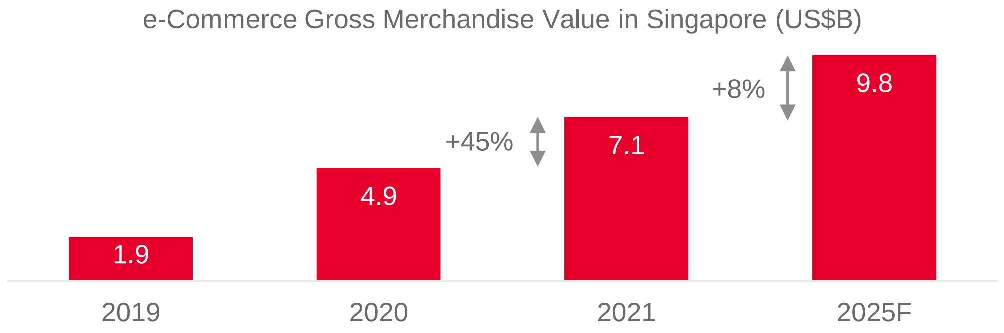
### Further Shifts in Experience Creation and Execution

New online entertainment options and shifts in consumer behaviour are impacting anchor tenants like cinema operators and department stores that take up large retail spaces. Large retail units continue to see demand from activity-based tenants or retailers establishing flagship stores. For example, Decathlon is opening an experience store in the northern part of Singapore, after the launch of an estimated 45,000 sf experience store at Northshore Plaza that has self-help machines, interactive self-assessment kiosks and innovation zones. Activity-based retailers like gyms have also become more sought-after with their destination appeal and potential to occupy large, less prime vacant spaces. Blended lifestyle concepts that combine in-store shopping with elements of dining, playing or working have also sprouted up.

### Going Green

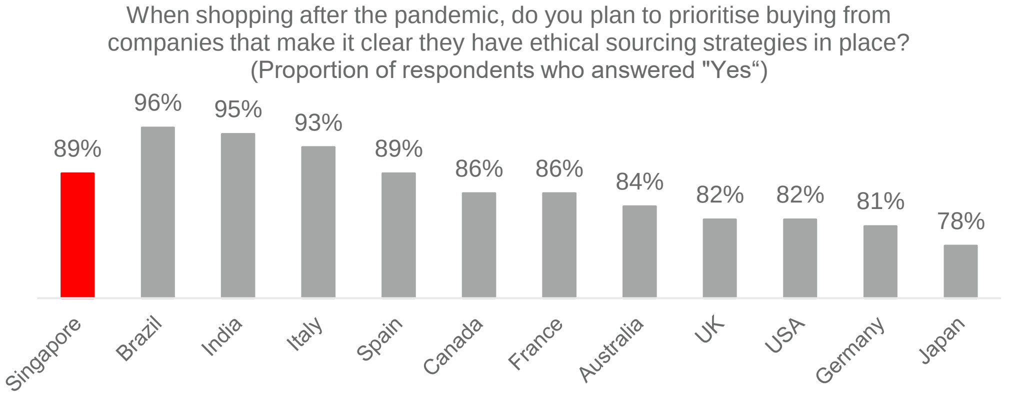
As consumers become more eco-conscious, “green” retailers are expanding. The growing demand for “green” retailers is evidenced by the expansion of retailers such as sustainable Australian wholefoods store Scoop Wholefoods that has seen its outlets multiply to 9 outlets in Singapore since 2019. A survey by OpenText has shown that over two-third of Singapore respondents would prioritise buying from companies that make it clear they have ethical sourcing strategies in place when shopping after the pandemic, higher than the proportion of respondents from countries like the US and Japan.

### E-COMMERCE GROSS MERCHANDISE VALUE IN SINGAPORE




Source: Bain & Company, Google, Temasek, The Straits Times, Cushman & Wakefield Research

### ETHICAL CONSUMERISM ON THE RISE




Source: OpenText, Cushman & Wakefield Research

# Retail

## BE WHATS NEXT

### LANDLORDS

#### Strengthen tenant partnership

- Align incentives such as higher gross-turnover portion of rents or more flexible lease terms with retailers to achieve a sustainable long-term relationship

#### Offer flexibility and turnkey retail solutions

- Provide more flexible lease options or tenant incentives for secondary retail spaces with weaker footfall and higher vacancy
- Offer turnkey retail solutions to new-to-market and digital native retailers that are looking to test their concepts in the local market

#### Refresh tenant mix or undergo asset enhancement

- Inject blended lifestyle retailers or new-to-market brands to bring about a more unique customer experience
- Reconfigure retail spaces to expand net leasable area or retrofit common spaces to enhance accessibility and attractiveness

### RETAILERS

#### Invest in digitalisation

- Increase investments in technology to provide greater engagement, personalisation, convenience to customers and lower operating costs over time
- Provide a seamless sales journey that caters to sales both online and offline sales

#### Collaborate to inject fresh concepts

- Collaborate with complementary brands to inject vibrancy; for example, leather goods brand Bynd Artisan has collaborated with dessert café Sunday Folks to open Bynd Artisan + Sunday Folks Experience Store at Ion Orchard
- Test concepts easily and quickly with ready-to-move-in spaces that have shorter-term leases; co-locate with complementary retailers and share resources

#### Opportunity to move into prime retail spaces

- Be quick to take up prime retail spaces as these spaces are in limited supply and increasingly valuable due to the two-tier market where the top-quality malls capture most footfalls

# Private Residential

## WHAT'S NEXT

### Sales Volumes Underpinned by Resilient Demand

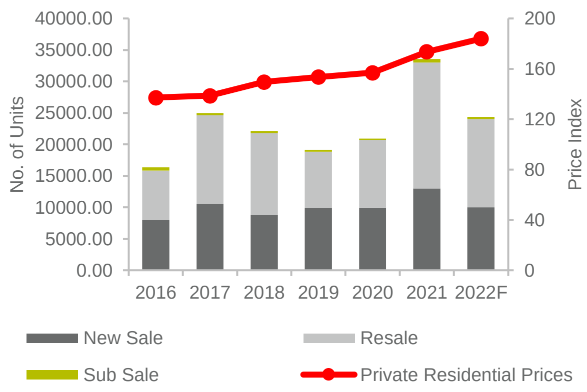
Private residential sale volumes slowed at the start of the year, as buyers adjusted to newly introduced cooling measures and a dearth of major launches. Only 5,343 private homes were sold in Q1 2022, down 32.6% q-o-q. However, the market has slowly adjusted to cooling measures and demand is returning. This is evidenced by strong market response to the new launches of 407-unit Piccadilly Grand and 298-unit LIV @ MB in May. Both projects sold more than 75% of their units on their launch day. Consequently, sales volumes picked up in Q2 2022 with 6,811 units transacted, 27.5% q-o-q higher than that in the preceding quarter. Resale volumes rose in tandem with stronger primary market activities and a robust rental market. Given a limited launch pipeline, new sales volumes for the whole of 2022 are forecast to reach 9,000-10,000 units while resale volumes can reach 13,000-14,000 units.

### Prices Grow Despite Headwinds

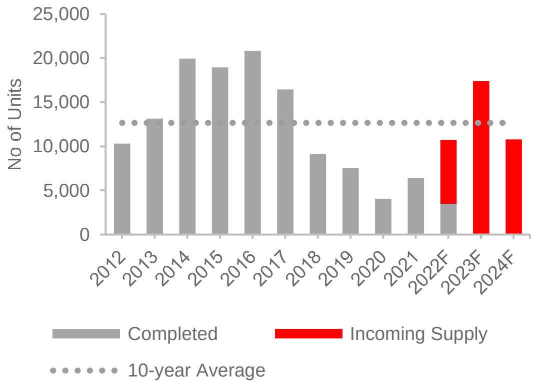
Private residential prices are trending higher despite the new cooling measures and economic headwinds. Factors driving price growth include a tight labour market, rising rents and a continued local preference for private property ownership as well as heightened construction costs and low unsold inventories. Private residential rents have surged by 11.2% in H1 2022 and could stabilise in 2023 as more new supply enter the market. A tight rental market would offset the impact of rising interest rates and underpin landlords holding power and prices.

For 2022, Outside Central Region (OCR) and Rest of Central Region (RCR) private residential prices are expected to increase by 5%-7%, supported by owner-occupier and HDB upgrader demand. Recent cooling measures and rising interest rates which reduce affordability, may price out some buyers and gravitate demand towards these markets where prices are lower. Core Central Region (CCR) prices could trend higher by about 2%-3%, fueled by foreign and local high-net-worth buyers looking to diversify and safeguard their wealth.

## SALES VOLUMES AND PRICES

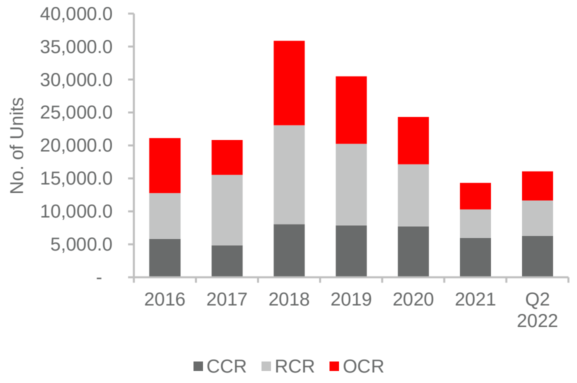



## FUTURE COMPLETION

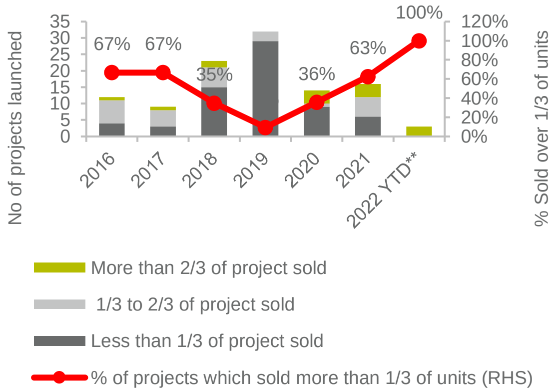



Source: URA, Cushman & Wakefield Research

## UNSOLD INVENTORY




## NEW LAUNCHES PERFORMANCE*




Source: URA, Cushman & Wakefield Research, *Major projects with more than 100 units, **Jan-Jun 2022



# Private Residential

## DRIVERS

### Local Demand Dominate But Foreign Demand may Gain Momentum

Local demand remains the key driver of private non-landed home purchases with 78.2% of sales driven by Singaporeans in H1 2022. Singapore Permanent Residents (PRs) took up 17.5% while foreigners' share amounted to 4.1% in H1 2022.

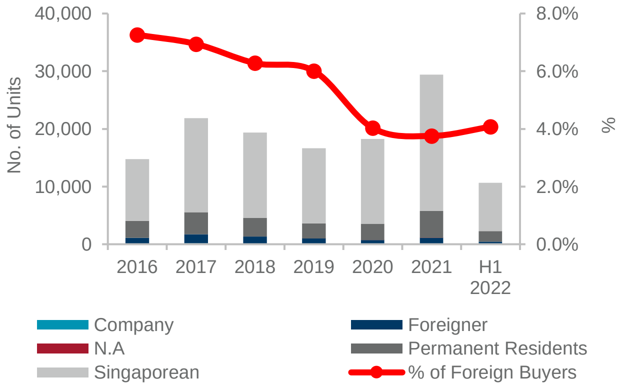
Despite current cooling measures, Singapore properties continue to appeal to high-net-worth non-Singaporean buyers who could support the CCR market. It was reported recently that a Chinese buyer from Fujian have bought 20 units at CanningHill Piers and one Indonesian family was in exclusive due diligence to buy 22 units at Draycott Eight. This indicates foreigners' continued interests in the Singapore property market given the country's sound economic fundamentals, stable currency and transparent legal framework. High-net-worth foreigners look to Singapore as a place for wealth preservation and diversification amidst current macro-uncertainty.

### HDB Upgrader Demand to Sustain

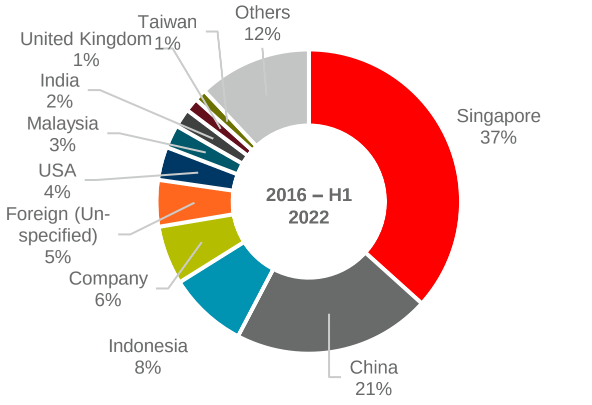
Strong demand for entry-level condos from HDB upgraders is supported by the robust performance of the HDB resale market with prices climbing a record 12.7% in 2021 - the highest annual increase since the 14.1% growth in 2010. There are strong local aspirations for private condo living as seen by the increase in the proportion of residents living in private non-landed homes.

Upgrading momentum is expected to continue. HDB resale prices have risen for the ninth consecutive quarter in Q2 2022, up by 2.8% q-o-q and could grow by 6%-9% y-o-y for the whole of 2022. This bodes well for the RCR and OCR markets.

### NON-LANDED TRANSACTIONS BY RESIDENTIAL STATUS

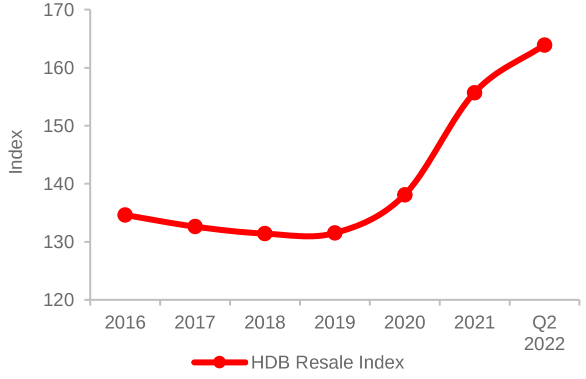



### NON-LANDED TRANSACTIONS (AT LEAST S$5 MILLION) BY NATIONALITY

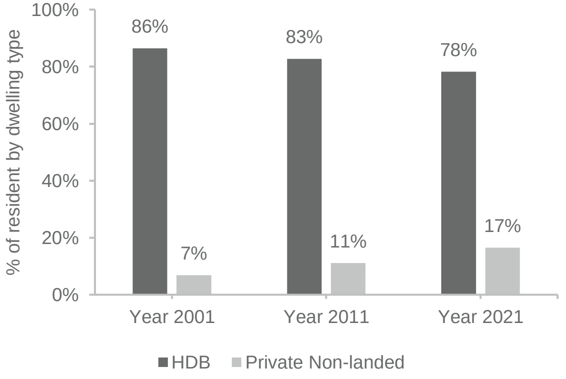



Source: URA, Cushman & Wakefield Research

### RISING HDB PRICES




### RISING PREFERENCE FOR PRIVATE




Source: HDB, Cushman & Wakefield Research

# Private Residential

## TRENDS

### Hybrid-working Model Boost Demand for Larger Homes

As hybrid work prevails, many homeowners or homebuyers must re-evaluate their space requirements as they integrate another aspect of life – work into their homes.

This trend has driven demand for bigger homes. The median size of new private homes transacted have been on the rise from 67 sqm in 2019 to 89 sqm during H1 2022. While current loan curbs and cooling measures would continue to keep buyer's quantum conscious, there should be higher demand for larger units such as 2-bedders which can support work from home.

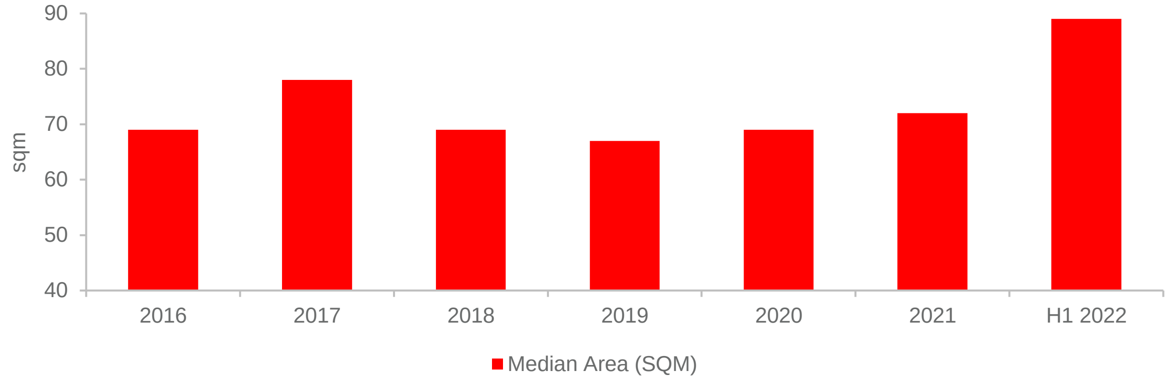
### Healthy Leverage Profile Supports Market Resilience

Despite rising interest rates, the private residential market is expected to remain resilient. Current cooling measures and loan curbs has eliminated most speculative activities and mitigated over-leverage risk. According to MAS, credit quality of housing loans has improved and stayed healthy at below pre-Covid levels in 2021 while the average LTV ratio of outstanding housing loans eased further to 44.1% in Q1 2022.

That said, a rise in interest rates would temper buying demand as financing costs increase and buyers' affordability gets crimped. Based on our assumptions, we opine that interest rates could still rise further. Demand may start to get impacted once medium-term interest rates were to rise to above 4%.

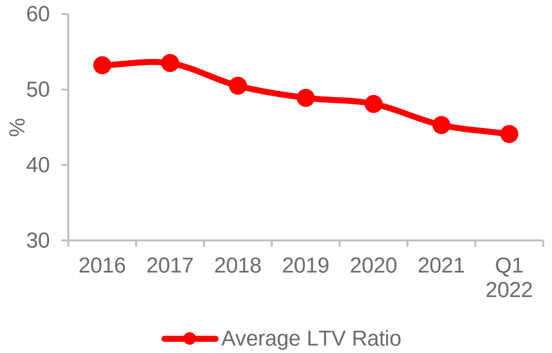
Barring additional cooling measures and an unforeseen deterioration in economic conditions, the risk of a severe downturn in prices seems limited. Despite rising interest rates, investors and own-occupiers are likely to hold on to their assets for the long term as there is general optimism about the long-term prospects of the Singapore market. Also, transaction costs such as Additional Buyer's Stamp Duties and Seller's Stamp Duties would limit speculative selling and reduce the risks of an uncontrolled market run.

### MEDIAN SIZE OF NEW PRIVATE HOMES SOLD

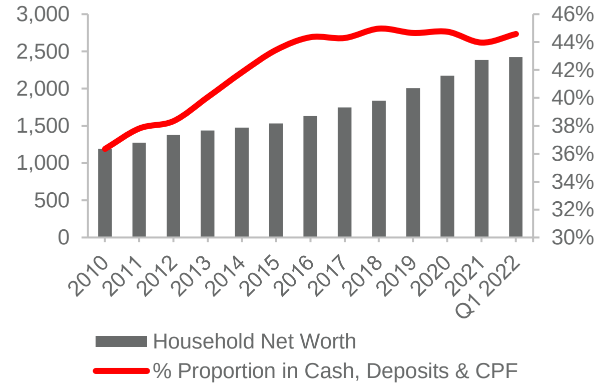



Source: URA, Cushman & Wakefield Research

### AVERAGE LTV RATIO




### AMPLE LOCAL LIQUIDITY




Source: MAS, Cushman & Wakefield Research

# Private Residential

## BE WHATS NEXT

| DEVELOPERS | HOMEOWNERS / INVESTORS |
|---|---|
| **Incorporate smart home technology**<br>• Incorporate smart home technology to cater to digitally-savvy millennials | **Widen the search for homes**<br>• Look towards the resale market where prices are relatively lower compared to new launches as investment in the resale market has become more attractive with rising rents |
| **Design for hybrid work**<br>• Consider flexible flat designs and provide workspaces within the development to accommodate changing needs of homebuyers and new ways of working as hybrid work is expected to stay | **Financial prudence is key**<br>• Exercise financial prudence and buy within your means as mortgage costs rise<br>• Keep in mind that holding power is important during market uncertainty because home prices have historically appreciated over the long term |
| **Incorporate sustainability**<br>• Provide an abundance of green and sustainability features which could boost marketing efforts and buying demand | **Watch the high-end market**<br>• High-end property prices that remain weighed down by cooling measures have started to look more attractive. The price gap between the high-end and mass markets has narrowed as affordability has gravitated demand towards mid-tier and mass market properties |

# Investment

## WHAT'S NEXT

### Investment Sales Volumes Could Reach a 3-year High

Despite economic uncertainties, capital continues to flow into Singapore real estate market. Total investment sales reached $19.1 billion during the first half of this year, closing in to 2021's investment tally of $26.2 billion. Barring a significant deterioration in the global economy, 2022's investment sales volumes is poised to reach a three-year high as investors seek to deploy capital amidst rising inflation.

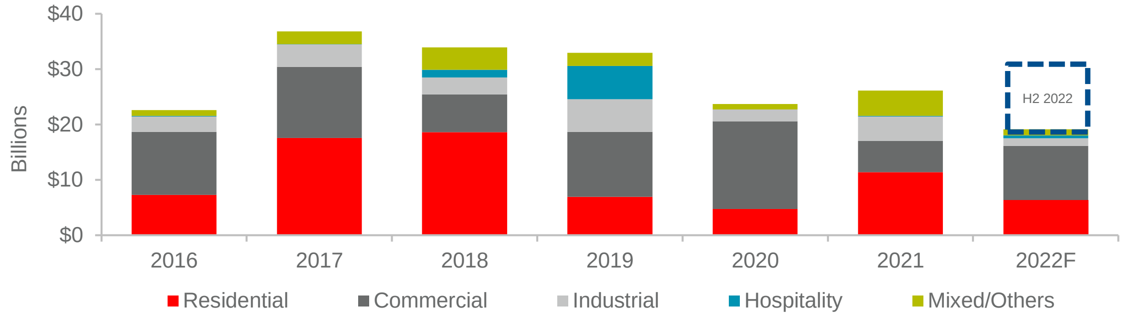
Given global uncertainty, capital is favouring safe-haven assets. Singapore's attractiveness and prominence as a regional business hub has been accentuated given the city's track record in handling the pandemic and increasing need to diversify geographical risk. This has led to higher levels of business investments and expansions in Singapore which would spur demand for real estate. Additionally, the Singapore property market faces a tight supply situation due to pandemic-related construction delays and redevelopments catering to flight-to-quality trend. This has created a compelling demand-supply dynamic for Singapore real estate over the short-mid term.

Office investment sales have returned to the spotlight and are dominating total investment volumes, driven by an optimistic market outlook. Investors remain keen on quality office assets that can deliver stable cashflows and well-located older offices with potential for rental uplift upon asset enhancement.

Within the private residential market, developers continue to show a healthy appetite for development sites given rising prices and rents. However, recent acquisitions have reflected a selective appetite towards small-medium sites or more prudent bids for large sites given increased development risks due to recent cooling measures implemented in December 2021. Larger sites could still be transacted though pricing needs to be right.

Industrial deals remain held back by limited institutional-grade industrial stock for sale and government regulations. We anticipate increasing industrial investment volumes as industrial market's value proposition of relatively higher yields as compared to offices and residential homes as well as its relevance in the new economy, would appeal to investors.

### SINGAPORE INVESTMENT VOLUMES*




Source: Cushman & Wakefield Research, * Deals of at least S$10 million

### NOTABLE TRANSACTIONS* IN 2022 YTD

| PROPERTY NAME | TYPE | BUYER | SELLER | PURCHASE PRICE (S$ Million) | Estimated Net Yield |
|---|---|---|---|---|---|
| Income At Raffles | Office | Bright Ruby Resources (controlled by Du family from China) | NTUC Income | Around 1,000.0 | Around 2.3% |
| Tanglin Shopping Centre | Retail | Pacific Eagle Real Estate | CDL and other strata owners | 868.0 | For redevelopment |
| Cross Street Exchange | Office | PAG | Frasers Logistics and Commercial Trust | 810.8 | Around 2.5% |
| Golden Mile Complex | Mixed | Perennial Holdings, Sino Land and Far East Organization | Strata Owners | 700.0 | For redevelopment |
| Westgate Tower | Office | AEW | Sun Venture | Around 680.0 | - |
| Twenty Anson | Office | KKR | AEW | Nearly 600.0 | - |
| 28 & 30 Bideford Road | Mixed | Roark Capital, Lim Cher Meng Realty and Boustead Singapore | Sin Capital Partners | 515.0 | - |
| 55 Market Street | Office | Kajima Corporation | AEW | 286.9 | - |
| Wisteria Mall | Retail | Schroders | Hexacon, BBR Holdings, AHPL, MUSE Capital and Santarli | 208.0 | - |

Source: Cushman & Wakefield Research, * Exclude related party transactions

# Investment

## DRIVERS AND TRENDS

### Limited Market Repricing Though Volumes Could Slow

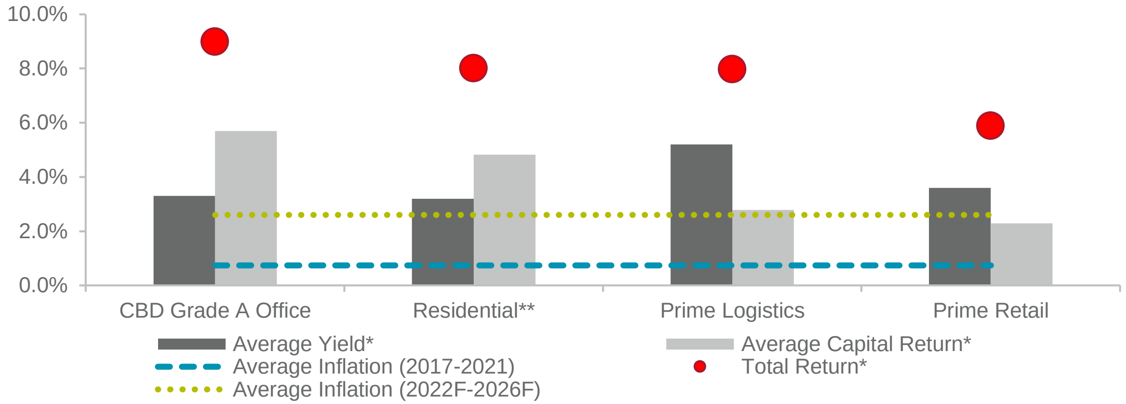
So far, there has been little evidence of asset repricing even as interest rates and inflation rise. Historically, real estate assets has been a strong inflation hedge as rental growth outpaced inflation. Over the last five years, estimated total property returns have been around 6-9% annually on average, outpacing average inflation of about 1%. While future inflation could increase to about 3% on average, property should still perform well as a good inflation hedge. That said, the inflation-adjusted-return of properties is expected to be lower due to higher inflation and slowing growth.

Theoretically, rising interest rates would put upward pressure on property yields as demand would be impacted due to tighter financing and better risk-adjusted returns required by investors. Nonetheless, capital value growth is supported by limited available assets for sale and markets are not under distress as the broad economy remains stable and property rents continue to rise. There is still ample liquidity in the market from capital raises in 2020 and 2021 when interest rates were low. Given heightened inflation, investors will be inclined to deploy their capital, and the weight of capital may keep real estate asset yields stable in H2 2022 even as interest rates increase. Overall transaction volumes could however slow in 2023 as price gap expectations widens between buyers and sellers.

### Moving Up the Risk Curve

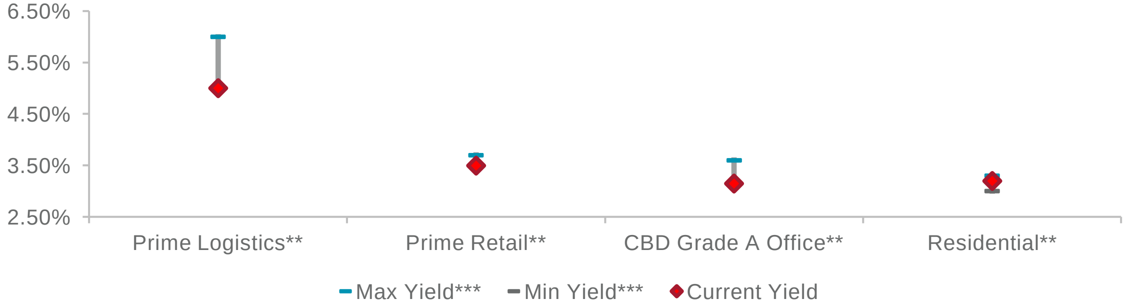
Singapore property yields have compressed over the last five years, given strong demand for limited assets. With limited repricing opportunities over the short-term horizon, investors with higher risk appetite and looking for higher returns should consider value-add or redevelopment opportunities. Building obsolescence risks are rising due to changing ways of work and the rise of new economy industries. Rising energy costs coupled with heightened focus on sustainability could exacerbate this trend. Given a limited supply of quality stock in the market, investors with available liquid funds and willing to take on development risk, could reap significant first-mover advantages in the future, especially when capital requirements for development are higher due to rising interest rates and inflation.

### ESTIMATED TOTAL RETURNS VERSUS INFLATION




Source: Cushman & Wakefield Research,
*Historical 5-year average return (2017-2021) with capital returns excluding transaction costs and taxes
**Gross yields are reflected for residential while the rest are net yields

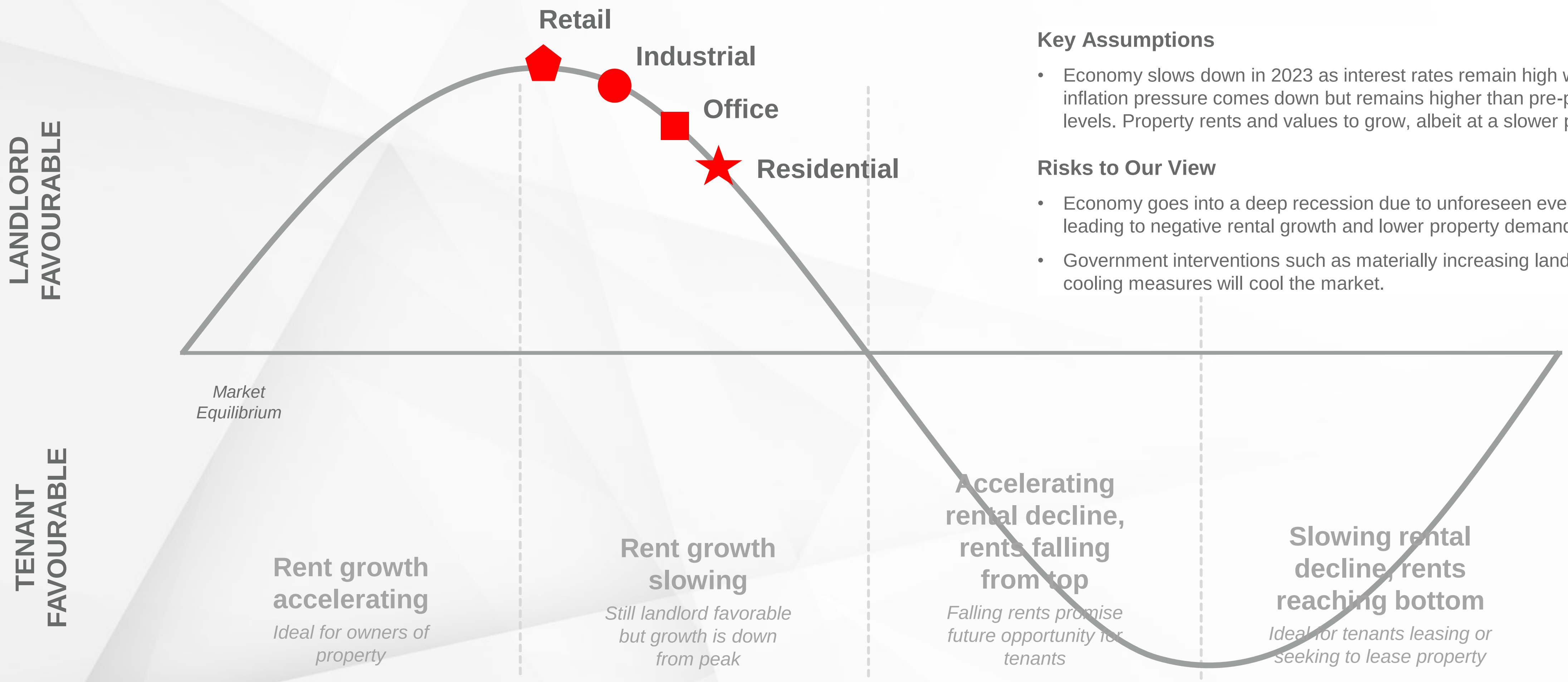
### PROPERTY YIELDS*




Source: Cushman & Wakefield Research,
*Gross yields are reflected for residential while the rest are net yields
**Refer to 99-year leasehold assets
***During the period between 2017 and H1 2022

# Investment

## MARKET CYCLE




### Key Assumptions

- Economy slows down in 2023 as interest rates remain high while inflation pressure comes down but remains higher than pre-pandemic levels. Property rents and values to grow, albeit at a slower pace.

### Risks to Our View

- Economy goes into a deep recession due to unforeseen events, leading to negative rental growth and lower property demand.
- Government interventions such as materially increasing land supply or cooling measures will cool the market.

# Investment

## BE WHATS NEXT

### INVESTORS

### Tuning for higher inflation and interest rates

- Invest in assets with strong pricing power such as grade A offices or new economy assets like prime logistics amid rising inflation and interest rates environment
- Consider CBD conservation shophouses or strata offices that are in limited supply for capital growth potential

### Reposition portfolio for the future

- Consider positioning portfolio towards niche sectors that cater to new economy sectors such as biomedical, data centers, e-commerce, self-storage, cold chain, co-living and so forth

### Move up the risk curve for higher returns

- Consider pursuing value-add or opportunistic investments such as underperforming assets with redevelopment or repurposing potential to enhance returns.
- Consider joint ventures with developers or construction firms to mitigate development costs / risks.

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