

MARKETBEAT SINGAPORE

Capital Markets Q3 2023



\$6.91B
Q3 Investment Volume (SGD)

12-Mo.
Forecast



\$3,165
Office Capital Value (SGD/sf)



3.30%
Office Net Yield



ECONOMIC INDICATORS Q2 2023

0.5%
Real GDP Growth

12-Mo.
Forecast



5.1%
Inflation Growth



1.9%
Unemployment Rate



2.9%
10-Yr Government Bond Yield



Source: Ministry of Trade & Industry (MTI), Moody's Analytics

Growth Slows but No Recession Expected in 2023

In Q2 2023, Singapore's economy grew by 0.5% yoy, extending from previous quarter's 0.4% yoy growth, bringing H1 2023 growth to 0.4%. Singapore's official growth forecast for 2023 has been narrowed to 0.5%-1.5% amid a weak external demand outlook.

The interest rate cycle may be approaching its peak, though interest rates may stay higher for longer. In its latest move, the US Federal Reserve kept interest rates unchanged. The pace of increase of the 3-month compounded Singapore Overnight Rate Average (SORA) has slowed considerably to 3.71% as of end-September from 3.00% at the start of this year. This compares to 2022, when the SORA rose to 1.97% as of end-September from 0.19% at the start of 2022.

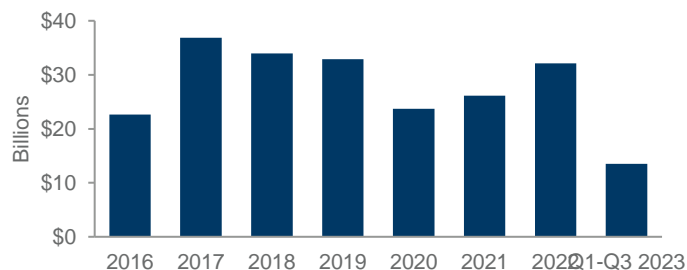
Pick-up in Retail and Hospitality Transactions

Total investment volumes rose to \$6.9 billion (b) in Q3 2023, more than double of previous quarter's \$3.2b volume, reversing past two consecutive quarters of decline. The bulk of transactions was driven by the residential (\$3.4b) sector, followed by mixed/others (\$2.3b) sector and hospitality (\$0.5b) sectors.

Residential sales volume was led by the public investment sales market. A total of five residential Government Land Sales (GLS) sites were awarded in Q3 2023. Amidst still-low levels of unsold inventory, developers continued to show site acquisition interest. However, they have turned increasingly cautious and selective in the face of elevated financing costs and uncertain buyer demand due to recent cooling measures. Developers are placing their bets strategically, with a preference towards smaller to medium sized sites and/or sites with low future market competition.

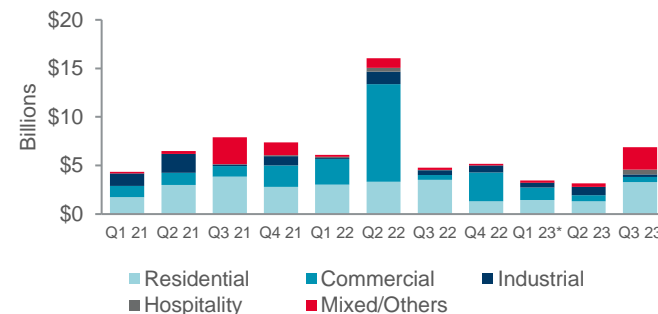
As the interest rate hike cycle approaches a peak, investor appetite to acquire retail and hospitality assets have increased. The quarter witnessed an uptick in retail and hospitality transactions. For the hospitality sector, transaction volumes was driven by the sale of Parkroyal Kitchener Hotel for \$525 million (m) in July. Notable retail investment deals included the sales of Changi City Point for \$338m and 15 Scotts ground floor units for \$31m. In an encouraging sign for the enbloc market, Far East Shopping Centre, a mixed-use project with retail and office components, was sold via collective sale for around \$910m (subject to approval) in September.

INVESTMENT SALES VOLUME



Note: Q1 23's volumes have been revised to exclude Holland Tower sale

INVESTMENT SALES VOLUME BY SECTOR



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Investment Sales To Slowly Gain Momentum in 2024

For the first nine months of this year, total investment volume recorded \$13.5b, or 42.2% of last year's \$32.1b volume. The residential sector, driven by the public investment sales market, is expected to lead 2023's investment volumes. In 2023 YTD, the residential public investment market has recorded around \$3.5b in volume, or 57.4% of total residential volume. For the rest of the year, sales would be driven by the upcoming tender closing of GLS sites such as Clementi Avenue 1, Pine Grove (Parcel B) and Lorong 1 Toa Payoh. The gap in buyer-seller expectations will continue to be a challenge for the residential en bloc market.

Investor interest in the retail and hospitality sectors is expected to increase as due to their higher net yields and growth prospects. The steady recovery of Singapore's tourism market and increasing visitor arrivals should bode well for prime retail and hotel assets.

The office sector remains challenging, with a wide gap between buyer and seller expectations, and recorded 78.5% qoq decline in transaction volume in Q3 2023. Office net yields remain significantly below borrowing costs. Investments into core assets are likely to remain muted at current interest rate levels. Though we have noticed interest for assets that have value-add and opportunistic potential, with a view to subdivide for strata sales or reposition to alternative uses such as hotels.

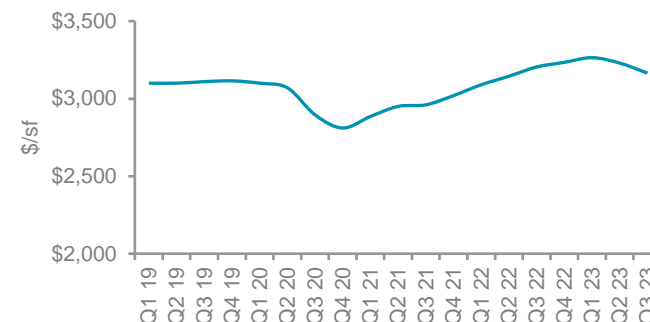
Due to its palatable quantum, shophouses remain attractive to investors, though the shophouse market was noticeably quieter in the quarter, comprising of smaller deals of around \$10m-\$20m. Islandwide shophouse total transaction volume fell 39% qoq to \$263.8m, though it is 15.2% higher than the pre-pandemic quarterly average of \$229.0m (2019 average).

The industrial market continued to draw investors. Recent industrial investment deals in the quarter include Sime Darby Business Centre (\$68m), Reebonz Building (\$39m) and KKR's 20% stake in Singtel's regional data centre business. In particular, the investment appeal of data centres has been accentuated amid tight local supply and digitalization trends.

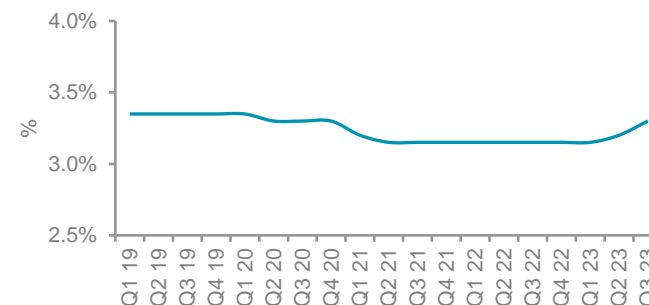
We anticipate stronger investment sales volumes in 2024, compared to 2023, though it may still fall below 2022's tally. Barring a hard landing for the global economy, we anticipate higher investor interest as the interest rate outlook stabilise. However, interest will continue to be non-homogeneous across sectors, depending on their growth prospects and property yields over borrowing costs.

Another factor that is coming into play is the increasing focus on building accreditation and sustainability, as Singapore works towards her smart and green building objectives. More assets could be put on the market as more corporates adopt asset recycling strategies and monetize their assets to streamline their business operations and meet their sustainability targets. This could help fuel investment sales volumes in 2024.

GRADE A CBD OFFICE CAPITAL VALUE



GRADE A CBD OFFICE NET YIELD



Outlook

- Investment sales volume to increase in 2024 as interest rates peak and more companies look towards asset monetization
- Residential sector to dominate investment sales volumes
- Emerging interest for retail and hospitality sectors
- Office sector remains challenging, though investors remain keen to acquire office assets, especially those with yield-enhancing or repositioning potential

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INVESTMENT ACTIVITY

PROPERTY TYPE	PUBLIC VOLUME (SGD MILLIONS)	PRIVATE VOLUME (SGD MILLIONS)	TOTAL VOLUME (SGD MILLIONS)	Q-O-Q CHANGE (%)
Residential	2,941.8	404.0	3,345.8	156%
Commercial	0.0	508.4	508.4	-21%
Industrial	7.0	252.2	259.2	-69%
Hospitality	0.0	525.0	525.0	-
Mixed/Others	1,206.4	1,065.0	2,271.3	521%
TOTAL	4,155.2	2,754.5	6,909.7	119.1%

Note: Figures may not tally precisely due to rounding

SIGNIFICANT SALES

PROPERTY NAME	TYPE	BUYER	SELLER	PURCHASE PRICE (S\$ MILLION)	SUBMARKET
Far East Shopping Centre*	Mixed	Glory Property Developments	Strata Owners	910.0	Orchard
Parkroyal on Kitchener Road	Hospitality	Midtown Properties	Pan Pacific Hotels Group	525.0	Kallang
Changi City Point	Retail	Undisclosed	Fraser's Centrepoint Trust	338.0	Tampines
Sime Darby Business Centre	Industrial	Eagle Land (Credit)	Blackstone, Sime Darby Property	68.0	Bukit Merah
Solitaire on Cecil (7FL)	Office	Undisclosed	TE Capital Partners, LaSalle	50.5	Downtown Core

Source: Real Capital Analytics, Cushman & Wakefield Research

Significant transactions over \$10 million

*Subject to approval

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