INSIGHT PAPER

MARCH 2022

CAPITAL MARKETS OUTLOOK 2022

EDMUND TIE

Time for a commercial break?

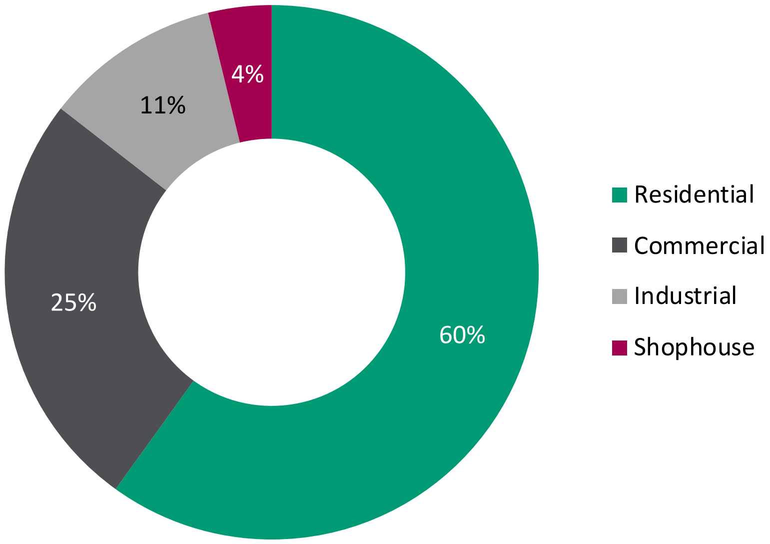
On March 15, the Urban Redevelopment Authority announced that it will no longer allow the strata subdivision of the commercial component in properties located in the Central Business District and Orchard Road corridors, among other designated areas, into individual units.

This is on the back of a stellar year when investment volume in Singapore rose to nearly $24.6bn in 2021, an 87% rebound from the previous year but still 19% lower than pre-pandemic levels in 2019.

While deals last year were largely driven by the residential (60%), commercial deals accounted for 25% totalling at $6.2bn, an increase of 9% year on year. Overseas capital sources largely drove the commercial market recovery, whose acquisitions are largely made up of office assets.

The million-dollar question will be on the impact of the latest announcements mentioned on the investment sentiments in the commercial market.

2021 Investment Sales by sector



Source: EDMUND TIE Research

Singapore as a safe haven

Singapore seems to emerge as an attractive safe haven for the capital markets. While most economies witnessed a rebound in 2021, spurring investor confidence; Singapore's economy grew by 7.6% per cent last year, surpassing initial forecasts and marked a strong rebound from the 4.1% contraction recorded in 2020.

According to RCA, commercial real estate investment in APAC surpassed the US$200bn mark for the first time in 2021 and volume grew by a fifth year on year. As at writing, the first three months of the year have witnessed over $9.2bn worth of deals transacted, extending the $7.2bn recorded in the final quarter of last year. The commercial sector alone chalked up $6.2bn worth of deals, which constituted a notable 67% of the deals this year, including the proposed acquisition of Jem (68.2% remaining interest) for $2.08bn, sale of 79 Robinson Road ($1.26bn), collective sale of Tanglin Shopping Centre ($868mn), Cross Street Exchange ($810.8mn), PIL Building ($323.8mn) and 55 Market Street ($287mn).

The profile of these new asset owners are established institutional investors who have made their investments either with a Core Plus strategy or for redevelopment. Notably, these transactions will be exempt from the recently revised Additional Buyer Stamp Duty or ABSD.

ABSD is a four-letter word

As of Dec 16 2021, the Singapore government increased the ABSD for Singaporean citizens, Permanent Residents, and foreigners buying residential properties in Singapore. To cite, the ABSD for a foreigner purchasing a residential property in Singapore has been revised from 20% to 30%.

This imposition of the revised ABSD has led to a renewed commercial real estate investment interest. The higher ABSD rates are likely to trim developers' interest for larger residential sites where the risk of not selling all units is higher and the associated penalties are now more punitive. Developers' interest are thus likely to spill over to non-residential investments like the commercial sector. With the popularity of mixed-use developments, commercial-zoned sites are garnering more attention from investors for the fact that the residential components of such sites are not subjected to ABSD or Qualifying Certificate (QC) rules.

Undivided Regulation

The fragmented ownership of commercial developments have hindered obtaining consensus for decisions surrounding maintenance and upkeep, as well as curating a good tenant mix. The authorities have imposed restrictions on strata subdivision to commercial component in properties as well as redevelopment proposals under the CBD Incentive and Strategic Development Incentive (SDI) schemes.

This may impede on certain developers with such redevelopment plans in the pipeline. However, any drastic impact to market sentiments is not expected, as the profile of the investors of commercial developments in recent times still remain mainly institutional with a mid- to long-term investment horizon. Commercial redevelopment sites of a generous site coverage will prove to have a slight advantage as it allows these investors to design sizeable floor plate footprints coupled with quality specifications.

Resilient Demand, Limited Pipeline

The key drivers of office demand in the last two years have been the technology and finance sectors. While technology demand growth could slow temporarily in the months ahead on the back of supply chain constraints/disruptions and the Chinese regulatory clampdown, we remain optimistic on the finance sector, especially the wealth management industry. Singapore's strong wealth hub appeal has seen the number of family offices established in Singapore double to 400 in 2020 from the previous year .

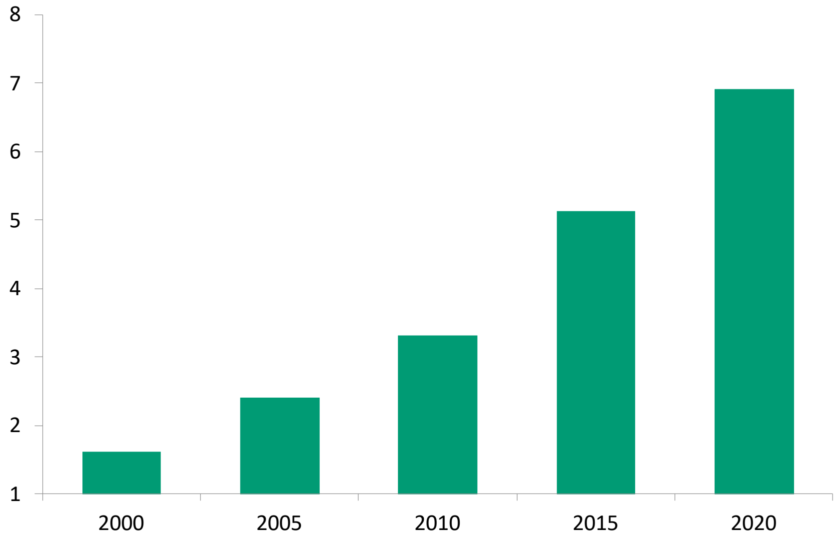
The recovery in prime office rents has begun to take hold, assuaging investors of positive rental reversions and buffers for underwriting. The economic recovery last year, improving business sentiment, coupled with a tight supply pipeline and flight to quality by occupiers have led prime office rents to bottom out by the third quarter of last year.

At the same time, the redevelopment of older office buildings in the CBD has resulted in displaced tenants looking for alternative spaces in the near term and supported leasing activities. We see limited supply pressure in the downtown; commitment levels are high for CapitaSpring while longer-term pressure is mitigated as redevelopment projects like AXA Tower, Maxwell House and Fuji Xerox have residential or hospitality components under the CBD Incentive Scheme.

Outlook

In conclusion, Edmund Tie and Company remains optimistic that investment activities will continue to hold up in 2022. The higher ABSD rates in the residential sector are likely to generate greater interest in the commercial sector. In particular, the downtown commercial sector will benefit from the entrenched rental recovery and growing demand for wealth management services from family offices and the growing regional HNWI population.

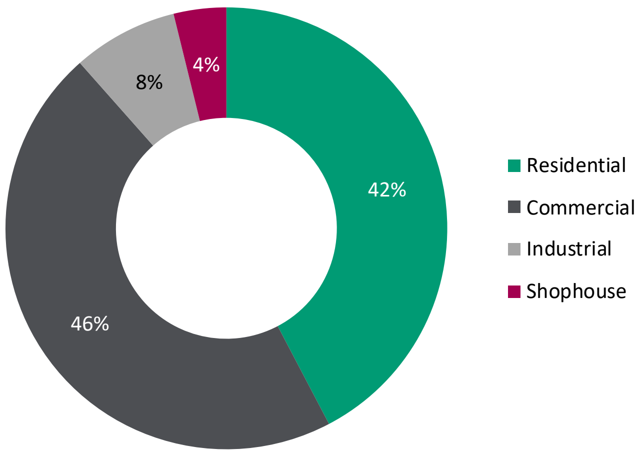
APAC HNWI Population (million)



Source: Capgemini

The redevelopment of the older office assets into mixed-use projects in the CBD will allow various real estate uses to complement one another and enhance the overall living, working and socialising environment for users, which is especially pertinent in this new pandemic age. There could also be more sale-and-leaseback opportunities arising from corporates looking to lighten their balance sheets. Overall investment sales volume in Singapore is thus anticipated to exceed over $26bn this year from 2021's $24.6bn, and we expect commercial investments, especially in the downtown, to surprise on the upside and likely to feature more than the residential as the top investment asset class.

2022 Investment Sales by sector (Forecast)



Source: EDMUND TIE Research

Table 1: Top investment deals in 2021 (by sector)

Development	Remaining tenure, yrs	Purchase price $ mn	Purchase price $ psf	Purchaser	Seller
Residential					
Marina View GLS	99	1,508	1,379 land area	IOI Properties	URA
Jalan Anak Bukit GLS	99	1,028	989 land area	Far East Organization and Sino Group	URA
Thiam Siew Avenue land parcels	Freehold	815	1,440 land area	Hoi Hup Realty and Sunway Developments JV	Collective sale
Lentor Central GLS	99	784	1,204 land area	GuocoLand	URA
Watten Estate Condominium	Freehold	551	1,723 land area	UOL Group and SingLand JV	Collective sale
Commercial					
One George Street	81	1,281	2,875 NLA	JPMorgan Global Alternatives and Nuveen Real Estate JV	CapitaLand Integrated Commercial Trust and FWD Group
Peace Centre and Peace Mansion	97	650	1,388 land area	Chip Eng Seng, SingHaiyi Crystal, and Ultra Infinity JV	Collective sale
OUE Bayfront (50% stake)	86	634	3,170 NLA	Allianz Real Estate	OUE Commercial Real Estate Investment Trust
61 Robinson	74.5	422	2,973 NLA	Rivulets Investments	ARA Private Funds
Jem (31.8% interest)	88	337	363 NLA	Lendlease Global Reit	Lendlease
Industrial					
Galaxis (75% stake)	51	534	815 NLA	Ascendas Reit	CapitaLand
20 - 23 Rochester Park	25	145	1,046 land area	Unknown	Unknown
351 On Braddell	26	121	1,157 land area	Boustead Industrial Fund	Boustead Projects
BreadTalk IHQ	19 + 30	118	474 GFA	Lian Beng Group, Apricot Capital, & 32RE Investments	BreadTalk Group Pte Ltd
Global Trade Logistics Centre	30 + 14	112	214 GFA	ESR Reit	Montview Investments

Table 2: Key investment deals in Q1 2022 (by sector)

Development	Remaining tenure, yrs	Purchase price $ mn	Purchase price $ psf	Purchaser	Seller
Residential					
Jalan Tembusu GLS	99	768.0	1,302 land area	City Developments (CDL) unit	URA
Lentor Hills Road (Parcel A) GLS	99	586.6	1,060 land area	Intrepid Investments, GuocoLand and TID Residential	URA
Dairy Farm Walk GLS	99	347.0	980 land area	Sim Lian Land and Sim Lian Development	URA
Commercial					
Jem (68.2% remaining interest)	87	2,079.0	2,329 NLA	Lendlease Global Commercial Reit (LReit)	Lendlease Asian Retail Investment Fund 3 Limited (ARIF3), and Lendlease Jem Partners Fund Limited (LLJP)
79 Robinson Road	45	$1,260	$2,423 NLA	CapitaLand Integrated Commercial Trust (CICT) and CapitaLand Open End Real Estate Fund (COREF)	CapitaLand, Mitsui & Co, Tokyo Tatemono Co
Tanglin Shopping Centre	Freehold	868.0	2,769 land area	Pacific Eagle Real Estate	Collective sale
Cross Street Exchange	74	810.8	2,652 NLA	Undisclosed third party	Frasers Logistics and Commercial Trust (FLCT)
Jcube	68	340.0	1,619 NLA	Tanglin R.E. Holdings	Capitaland Integrated Commercial Trust (CICT)

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