






## Slowing real estate momentum amid headwinds

### Q2 2023 AT A GLANCE

			Qoq	Yoy
<b>INVESTMENT</b>		Total Sales: <b>S\$2.8 billion</b>	▼ -34.0%	▼ -68.0%
		Top 5 Private Deals: <b>S\$789 million</b>	▼ -66.0%	▼ -72.0%
<b>OFFICE</b>		CBD Grade A Rents: <b>S\$9.80 psf</b>	▬ 0.0%	▲ 2.5%
		Supply Pipeline Q2 2023 NLA: <b>3.9 million sq ft</b> (2023-2026)	▬ 0.0%	▼ -16.0%
<b>INDUSTRIAL</b>		First-Storey Multiple-User Factory Rents: <b>S\$2.00 psf</b>	▲ 1.5%	▲ 7.3%
		Supply Pipeline Q2 2023 NLA: <b>29.1 million sq ft</b> (2023-2027)	▼ -2.7%	▼ -26.5%
<b>RETAIL</b>		Orchard/Scotts Road First-Storey Rents: <b>S\$39.80</b>	▲ 1.5%	▲ 6.6%
		Supply Pipeline Q2 2023 NLA: <b>1.4 million sq ft</b> (2023-2026)	▼ -6.0%	▼ -9.1%
<b>RESIDENTIAL</b>		Price Index: <b>194.0</b>	▼ -0.4%	▲ 7.2%
		Volume of Rental Transactions: <b>6,465 units/month</b>	▼ -3.4%	▼ -7.9%

### KEY HIGHLIGHTS



#### Investment

Q2 2023 saw investment activity with REIT acquisitions, shophouse and Good Class Bungalow (GCB) transactions. The investors are showing continued interest in lower-quantum sites. However, investment sales for 2023 is still expected to moderate amid cautious investor sentiments.



#### Office

Rental growth moderated in Q2 2023 despite the increase in occupancy. Firms will continue to remain cost-cautious but may commit to taking up larger spaces due to the limited supply pipeline of office spaces over the next few years.



#### Industrial

On the back of a slower economic outlook and as more completions come onstream this year, rental growth is anticipated to moderate in 2023. Expect sustained demand

for growth sectors such as advanced manufacturing and cold-chain logistics.



#### Retail

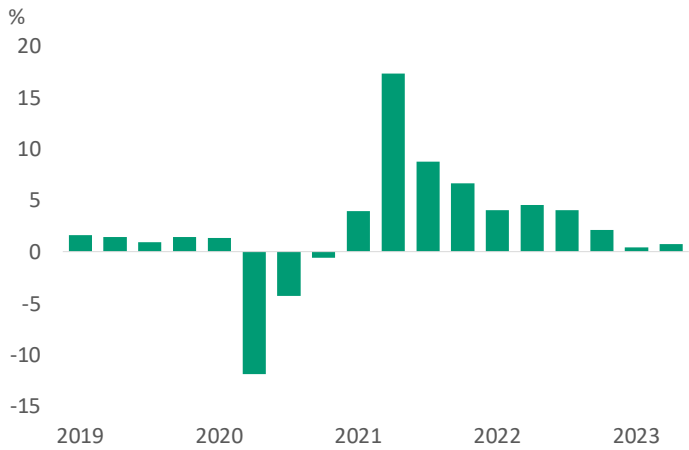
Despite a subdued retail climate, the sector is continually experiencing a period of revitalisation with the entrance of new-to-market retailers and luxury brands incorporating F&B components and pop-up stores.



#### Residential

Cooling measures and elevated borrowing costs are expected to temper homebuying demand. Property prices could trade sideways in the second half of this year. Nevertheless, the overall fundamentals of the property market are likely to remain intact, underpinned by sustained organic demand and a relatively tight labour market.

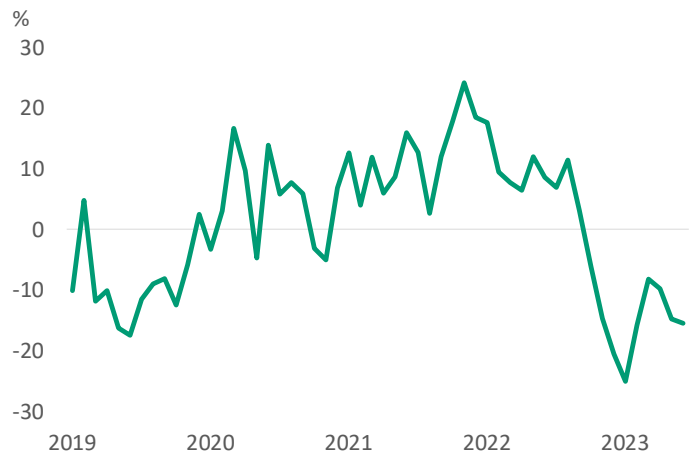
## GDP Growth



Source: SingStat, EDMUND TIE Research

Growth picked up slightly to 0.7% yoy in Q2 2023 from 0.4% in Q1 2023. The MTI projects growth of 0.5% to 2.5% for 2023. Given the slowdown in growth this year from last year's 3.6%, firms are likely to remain cautious towards investments and expansions.

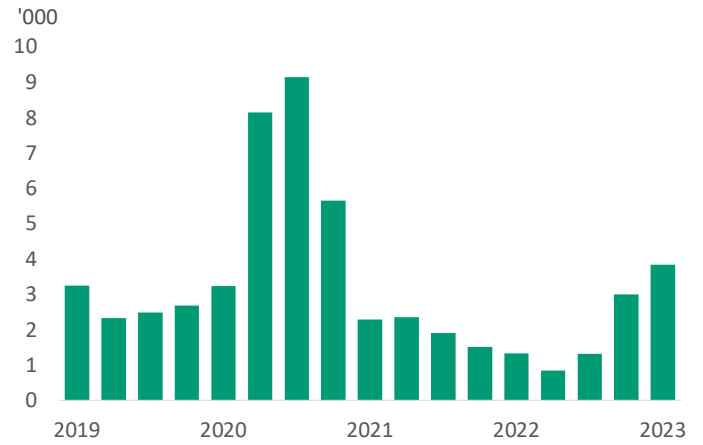
## Non-oil Domestic Exports



Source: SingStat, EDMUND TIE Research

Amid global economic headwinds, export growth has been falling in negative territory. EnterpriseSG has downgraded the NODX growth forecast for 2023 to "-10% to -8%", which will further cool sentiment in the manufacturing sector.

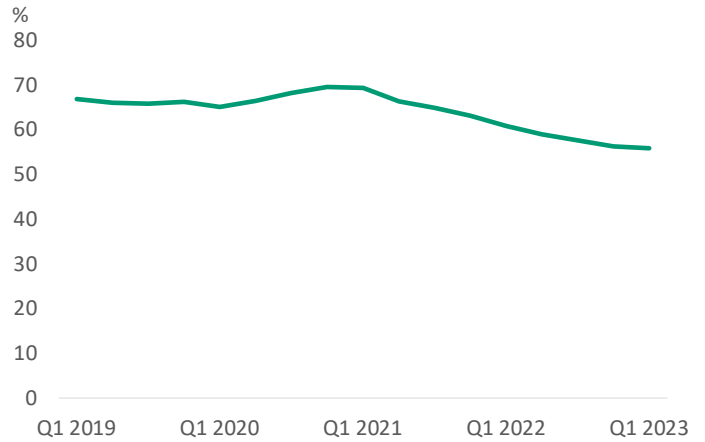
## Retrenchments



Source: SingStat, EDMUND TIE Research

Retrenchments have risen for the third consecutive quarter in Q1 2023 to its highest level in over two years. The rising spate of job layoffs will continue to curtail the strength of retail spending.

## Household Debt



Source: SingStat, MAS, EDMUND TIE Research

Net worth of households has continued to rise, while household debt has declined. Households are not over leveraged and widespread distressed property sales are unlikely.

## ■

Investment sales decreased in Q2 2023 by 34% to S\$2.8 billion from S\$4.2 billion in Q1 2023. Activity in the quarter was supported by REIT acquisitions, the IGLS tender award of the Plot 7 Tampines North Drive site, shophouse and GCB sales. Transacted deals are still leaning towards lower quantum deals below S\$100 million as investors remain cautious given the uncertain economic climate. REIT acquisitions in the quarter included Capitaland Ascendas REIT's acquisition of Seagate's The Shugart as well as Lendlease REIT's acquisition of an effective 7.709% stake of Parkway Parade. The collective sales market saw a decrease in transactions, with Kew Lodge being the only successful sale in Q2 2023, as compared to Q1 2023 with five sites transacted.

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The public investment sales market recorded around S\$72 million with the award of the Parry Avenue site for the development of private assisted living. Overall, bidding activity moderated due to recent cooling measures.

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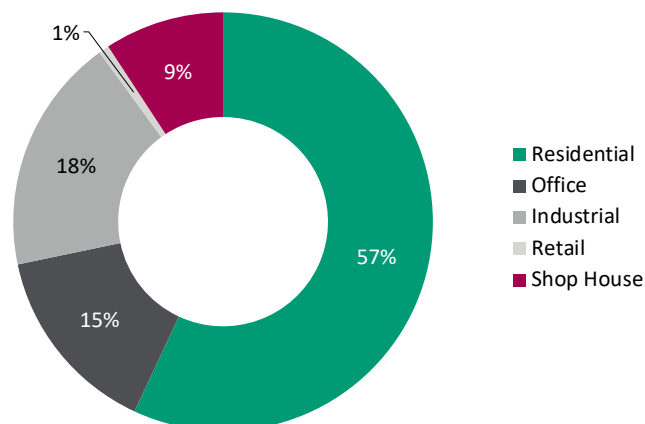
The collective sales market saw the relaunch of a site at Hoe Chiang Road and Lim Teck Kim Road in Q2 2023 at an unchanged reserve price. Other projects with lower quantum reserve prices, like Casa Feliz, were launched for sale in Q2 2023. In early July, projects like Lakeside Towers, Kingsley Mansion and Katong Shopping Centre relaunched at unchanged reserve prices.

## Outlook

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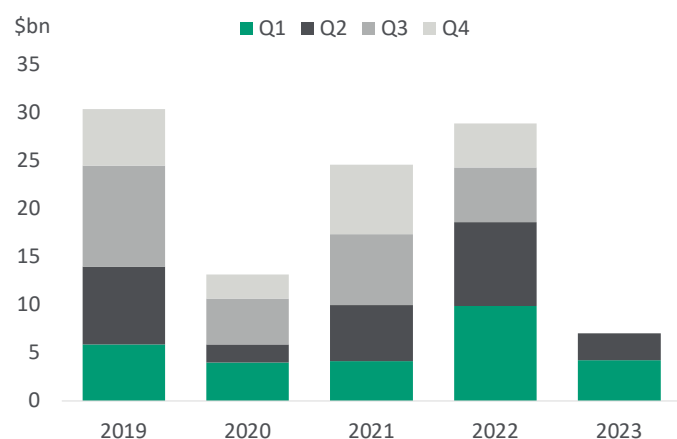
Overall, given the uncertain economic climate, investors are likely to lean towards lower quantum deals as well as niche assets in real estate sectors that will reflect the evolving market and business needs or trends. The residential sector will continue to be supported by the upcoming GLS tender closings in July and September. The tender for the site at Marina Gardens Lane also closed at the end of Q2 2023 with the top bid price of S\$1.03 billion and is currently pending award. We expect investment sales to moderate to S\$18 billion to S\$20 billion this year from S\$28 billion last year.

Figure 1: Investment Sales Sectoral Contribution (%)



Source: EDMUND TIE Research

Figure 2: Investment Sales (\$\$ billion)



Source: EDMUND TIE Research

Table 1: Top 5 Private Investment Sales (\$\$ million)

Development	Purchase price \$ million	\$ psf	Purchaser	Seller
<b>Industrial</b>				
The Shugart	218	495	CapitaLand Ascendas REIT (CLAR)	Seagate Singapore
<b>Residential</b>				
Portfolio of three GCBs at Nassim Road	207	4,500	Fangiono family behind First Resources	Cuscaden Peak
<b>Office</b>				
Liberty House	92	3,193	Chinese investor Zhang Nie	Liberty Insurance Singapore
Solitaire on Cecil (Level 17, 18 and 20)	163	4,300	Undisclosed local company	TE Capital Partners and LaSalle Investment Management
<b>Mixed-Use</b>				
7.709% stake in Parkway Parade	106	-	Lendlease Global Commercial REIT (LREIT)	Lendlease Asia Investments

Source: EDMUND TIE Research

EDMUND TIE Research statistics show overall net absorption islandwide decreased from 691,000 sq ft in Q1 2023 to 136,000 sq ft in Q2 2023. Office rents largely remained flat, except for Marina Centre Grade A rents which saw a 0.5% growth from Q1 2023.

In Q2 2023, occupancy rates for Premium office spaces in Marina Bay decreased by 0.5 percentage points, while Premium office spaces in Raffles Place recorded a 0.7 percentage points increase. The overall occupancy rate in the CBD remained at 94.3 percentage points, non-CBD and decentralised areas saw a decrease of 0.2 percentage points and an increase by 0.2 percentage points respectively in Q2 2023.

Leasing activity in Q2 2023 included Publicis Groupe's lease of approximately 55,000 sq ft at Guoco Midtown, the largest office relocation deal in the CBD in the quarter. Additionally, Morgan Stanley reportedly secured 100,000 sq ft of office space at Central Boulevard Towers and will relocate from Capital Square.

According to Handshakes, a data analysis firm, in 2023, 182 family offices opened between 1 January and 24 April, following 690 and 672 openings in 2022 and 2021, respectively. The rise in family offices in Singapore has supported strata office sales, and the market will continue to see a healthy take-up of strata office spaces given robust demand and limited supply.

## Outlook

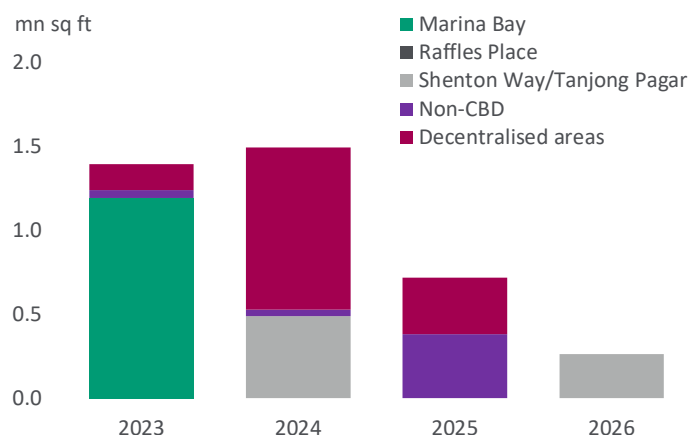
Firms remain cautious about taking larger office spaces due to the hybrid work trend and cost management. However, given the limited incoming supply of office developments, larger multinational firms will maintain interest in leasing larger space.

Despite the high occupancy and relatively tight supply, our 2023 growth forecast for Premium and Grade A office rents in the CBD is revised from 1-3% to 0.3-0.5%, given the subdued business climate and overall cautious market sentiment.

**Figure 3: CBD Premium and Grade A Office Net Absorption**



**Figure 4: Office Supply Pipeline**



	Selected Major Upcoming Developments	NLA '000 sq ft	Total
2023	Central Boulevard Towers	1,260	1,364
	Surbana Jurong Campus	104	
2024	Labrador Tower	646	1,146
	Keppel Towers redevelopment	500	
		2,510	

Source: EDMUND TIE Research

**Table 2: Average Office Rents and Occupancy Rates**

	Q1 2023	Q2 2023	Qoq	Q2 2023 Occupancy Rate
Marina Bay (Premium)	S\$12.90 psf	S\$12.90 psf	0.0%	96.2%
Raffles Place (Grade A)	S\$10.55 psf	S\$10.55 psf	0.0%	95.4%
Shenton Way/Robinson Road/Tanjong Pagar (Grade A)	S\$9.00 psf	S\$9.00 psf	0.0%	95.2%

Source: EDMUND TIE Research

## ■

The islandwide occupancy rate dipped by 0.6% pts qoq to 89.8% in Q1 2023\*. Notably, all industrial segments experienced a decline in occupancy rate, as a new supply of industrial properties exceeded demand in the quarter.

## ■

The manufacturing PMI inched up by 0.2 points to 49.7 in June 2023, but remained contractionary for the fourth consecutive month. The subdued manufacturing climate is likely to persist in the second half of 2023 as global growth softens. Nonetheless, the continuous growth of e-commerce, coupled with the need of companies to build supply chain resilience, would help sustain demand for warehouse spaces.

## ■

Rental growth for multiple-user factories, warehouses and business park spaces softened in Q2 2023, amid a slowdown in the manufacturing sector as factory output shrank. In May 2023, the Index of Industrial Production, an indicator for manufacturing output, declined by 10.8% yoy, with contractions registered across all sectors except for transport engineering and biomedical manufacturing. The rental growth rate for the hi-tech segment remained unchanged from the previous quarter at 1.8% qoq.

## ■

On the back of elevated interest rates and macroeconomic headwinds, industrialists are likely to be more cautious about their expansion plans. Nonetheless, growth sectors, such as advanced manufacturing and cold-chain logistics, will continue to support demand for industrial spaces.

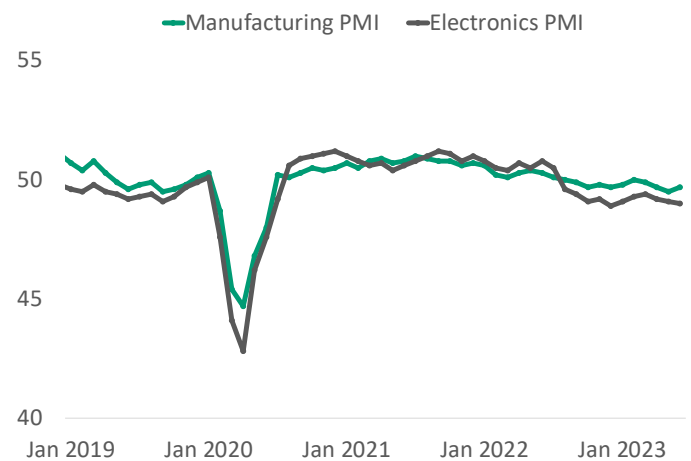
## Outlook

## ■

Rental growth for industrial and logistics spaces is expected to moderate for 2023, as the ramp up in supply is expected to outstrip demand this year. Nevertheless, with the increase in ABSD rates for residential properties in April, some investors looking to diversify their portfolio may consider investing in asset classes not affected by ABSD such as industrial properties.

\* According to JTC's Q1 2023 stats.

**Figure 5: Manufacturing & Electronics PMI**



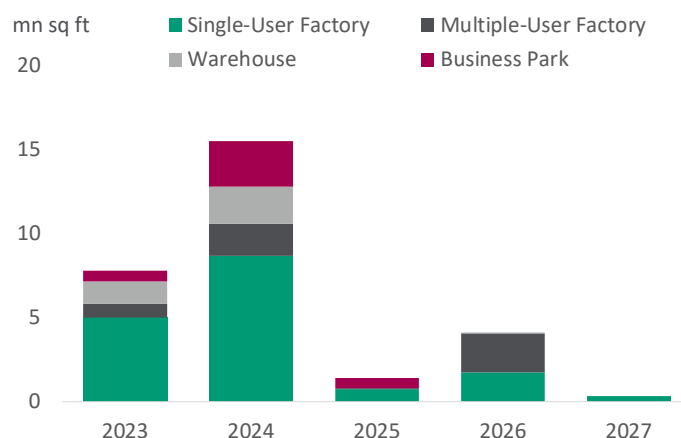
Source: SIPMM, EDMUND TIE Research

**Table 3: Industrial Rents**

	Q1 2023	Q2 2023	Qoq
First-storey multiple-user factory	S\$1.97 psf	S\$2.00 psf	1.5%
Hi-tech industrial space	S\$3.27 psf	S\$3.33 psf	1.8%
Warehouse/Logistics	S\$1.76 psf	S\$1.79 psf	2.0%
Business park (Central Region)	S\$5.36 psf	S\$5.36 psf	0.0%

Source: JTC, EDMUND TIE Research

**Figure 6: Industrial Supply Pipeline**



Source: JTC, EDMUND TIE Research

■ The retail stock grew in Q2 2023 with the completion of The Woodleigh Mall (206,000 sq ft) and Boulevard 88 (32,000 sq ft) as well as the reopening of Shaw Plaza (68,000 sq ft).

■ Retail sales in May recorded a 1.8% yoy growth, experiencing a decline from the 4.7% yoy growth in Q1 2023. The declining growth is attributed to the economic slowdown, on-going inflationary pressures and an increase in the number of Singaporeans travelling overseas.

■ Despite China reopening and international flights gradually resuming, visitor arrivals have plateaued in recent months and declined slightly to 1.11 million in May 2023. The slight dip may be attributed to resistance from budget-conscious travellers facing higher airfares to Singapore, pricier hotel rooms and a strong Singapore Dollar.

■ Prime first-storey rental rates increased by 1.5% and 1.0% to S\$39.80 psf and S\$33.40 psf, respectively at Orchard/Scotts Road and fringe/suburban areas, while First-storey rents in Other City Areas recorded a 0.5% increase in rents to S\$19.20 psf. Upper-storey rents across all areas recorded increases between 0.0% and 0.5%.

■ The retail industry is continually revitalised by recent new-to-market retailers like the highly anticipated doughnut chain, Mister Donut, and Chinese Coffee Chain, Luckin Coffee. Other new-to-market F&B retailers include Korea's Compose Coffee, US Jamba Juice and Australia's Chaffic bubble tea.

■ In addition, high-end fashion retailers are incorporating F&B retail components, creating café concept stores to offer immersive retail experiences. Coach launched their first Coach Café at Neil Road this April, while Ralph Lauren is set to open Ralph's Coffee at Marina Bay Sands this July. Marimekko has plans to open its first store with a café concept in ION Orchard this September.

■ The trend of pop-up stores also remains significant among retailers such as the HermèsFit gym on Orchard Road and Victoria's Secret café at Mandarin Gallery.

## Outlook

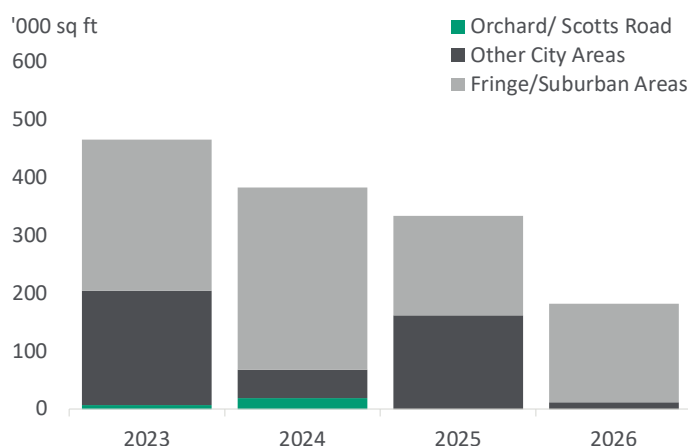
■ Orchard (prime first storey) could lead rental growth, with a forecast of between 4% and 5% in 2023, underpinned by the gradual tourism recovery and a limited supply pipeline. Retail rents in Other City Areas are expected to increase by 1% to 2% in 2023, supported by the workforce return. Fringe/Suburban Areas retail rents could post growth of 2% to 3% for the year.

**Table 4: Retail Rents**

Region	Floor	Q1 2023	Q2 2023	Qoq
Orchard/Scotts Road (OSR)	First storey	39.20	39.80	1.5%
	Upper storey	15.00	15.10	0.5%
Other City Areas	First storey	19.10	19.20	0.5%
	Upper storey	8.60	8.60	0.0%
Fringe/Suburban Areas	First storey	33.10	33.40	1.0%
	Upper storey	17.90	18.00	0.5%

Source: EDMUND TIE Research

**Figure 7: Retail Supply Pipeline**



Source: URA, EDMUND TIE Research

	Selected Major Upcoming Developments	NLA '000 sq ft	Total
2023	Guoco Midtown	50	236
	One Holland Village shops	117	
	West Scape @ Bukit Batok	69	
2024	Pasir Ris Mall	288	288

Source: URA, EDMUND TIE Research



## ■

In Q2 2023, based on URA's flash estimate, the overall Property Price Index (PPI) dipped by 0.4% qoq, a reversal from the 3.3% growth in the previous quarter, and was the first decline in about three years since Q1 2020.

## ■

Total sales transaction volumes climbed by 28% qoq in Q2 2023. The increase was led by a 75% jump in transaction volumes in the primary market driven by four major new project launches. Sales volume in the secondary market rose by 8% qoq in Q2 2023.

## ■

Given the punitive hike in ABSD for foreign buyers, the homebuying share of foreign demand slipped from 3.7% in May to 2.7% in June. Comparatively, the homebuying share of foreign demand in Q1 2023 was 6.9%. The relatively lower ABSD rates for SPR and PR will continue to sustain demand for private home purchases.

## ■

Average monthly private home rental transactions in Q2 2023 fell by 3.4% qoq to 6,465 units. Rental pressures are expected to ease in the second half of this year as more completions are coming onstream.

## Outlook

## ■

The price trajectory is now fluid as the persistent construction costs are likely to put a floor on price, while the tighter financing environment would weigh on housing affordability. Property prices could trade sideways in the second half of this year. Overall price growth is expected to moderate and rise at a more sustainable level of 3-5% in 2023, following 2022's 8.6% growth.

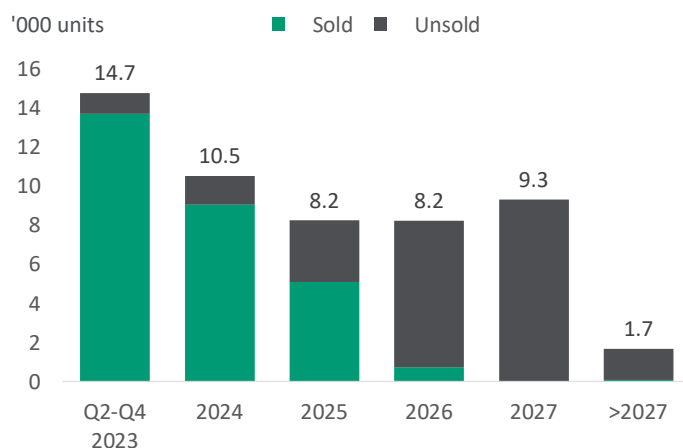
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Against the backdrop of the cooling measures and macroeconomic headwinds, secondary sales volume could moderate to 8,000-10,000 units this year, down from 2022's 14,791 units.

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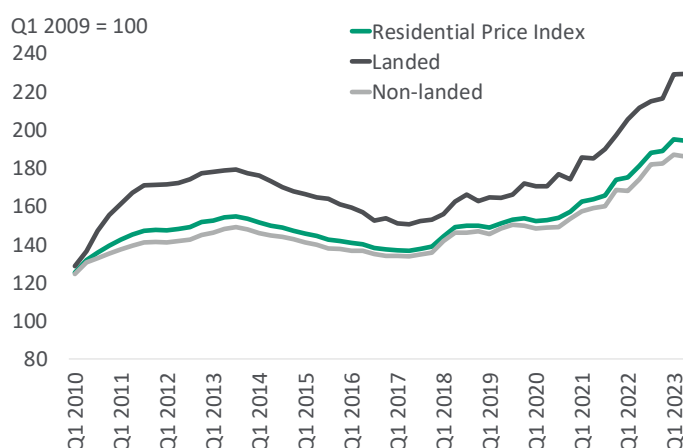
As developers pick up the pace of launches in the second half of 2023, coupled with a relatively tight labour market and sustained organic demand, new home sales are poised to reach 7,000-8,000 units for 2023, up from 2022's 7,099 units.

**Figure 8: Residential Supply Pipeline**



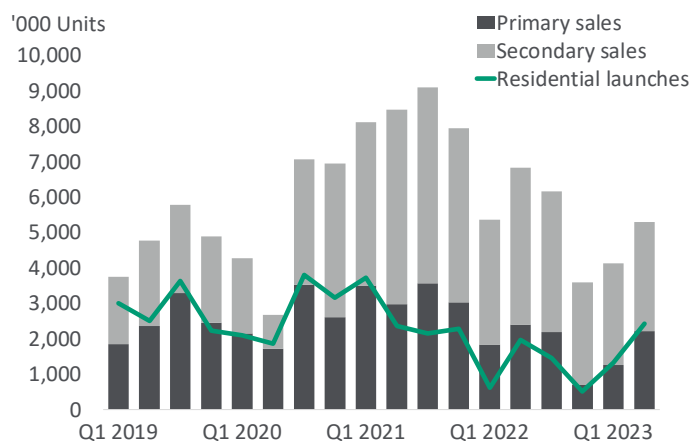
Source: URA, EDMUND TIE Research

**Figure 9: Property Price Index**



Source: URA, EDMUND TIE Research

**Figure 10: Residential Sales and Launch Volume**



Source: URA, EDMUND TIE Research

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