Singapore Real Estate Market View

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Office

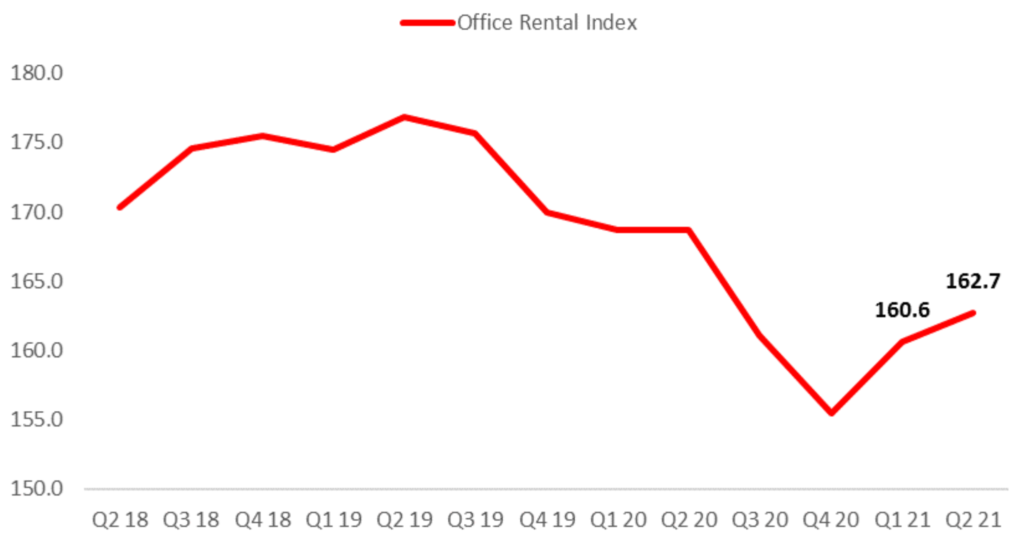
In this office real estate market overview, we will first provide a market update on recent developments and performance indicators, and then discuss the market outlook.

OFFICE REAL ESTATE MARKET UPDATE

Office rentals softened in Q2 2021

According to data from the Urban Redevelopment Authority (URA), office rentals in the Central Region rose by 1.3% quarter-on-quarter (q-o-q), as reflected by an increase in the Office Rental Index to 162.7 from 160.6, as shown in **Exhibit 1**.

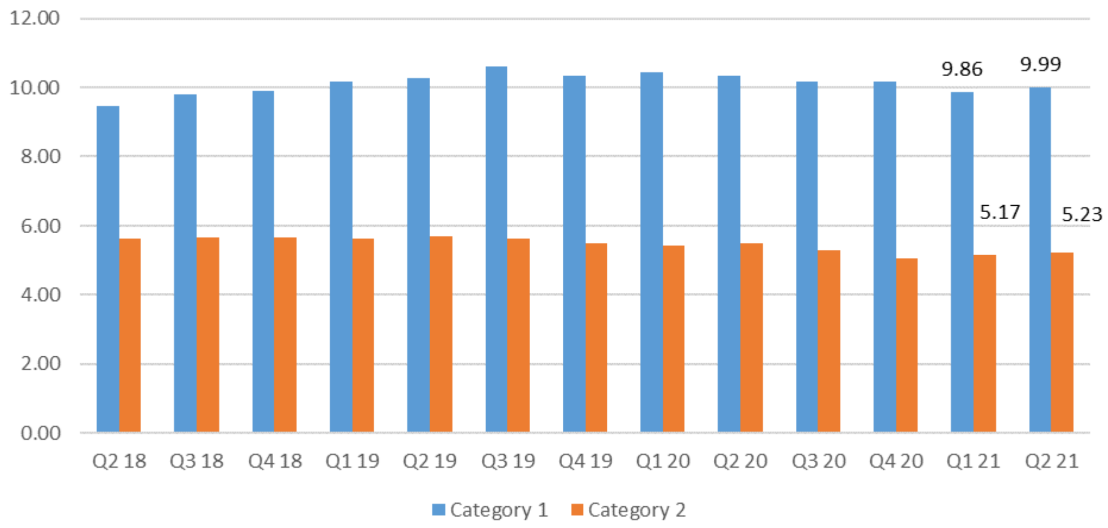
Exhibit 1: Property rental index of office space in the Central Region



Source: Compiled data from URA

In Q2 2021, median office rentals (based on lease commencement) in the Downtown Core and Orchard Planning Area rose by 1.3% to S$9.99 per square foot per month (psf pm) from S$9.89 psf pm in Q1 2021, as reflected by data from URA in **Exhibit 2** on the next page. Similarly, median office rentals for remaining areas excluding the Downtown Core and Orchard Planning Area rose by 1.2% to S$5.23 psf pm over the second quarter. (Please refer to **Appendix I** on page 19 for a map representation that details the boundaries of the Downtown Core and Orchard Planning Area). Overall, median office rentals in 2021 have been weaker compared to the levels seen in 2019 and 2020.

Exhibit 2: Median rentals of office space based on lease commencement (in S$ psf pm)



Category 1 refers to office space in buildings located in core business areas in Downtown Core and Orchard Planning Area which are relatively modern or recently refurbished, command relatively high rentals and have large floor plate size and gross floor area.
Category 2 refers to the remaining office space in Singapore which are not included in "Category 1".
Source: Compiled data from URA

Looking at specific market segments, we note from recent reports by commercial real estate services companies, like CBRE, Cushman & Wakefield (C&W) and Jones Lang LaSalle (JLL) that CBD Grade A office rents rose in Q2 2021. Data provided by these companies suggest rental growth of 0.5% to 1.2% for Grade A CBD in Q2 2021, as shown in **Exhibit 3**.

Exhibit 3: Q2 2021 Grade A CBD office rents

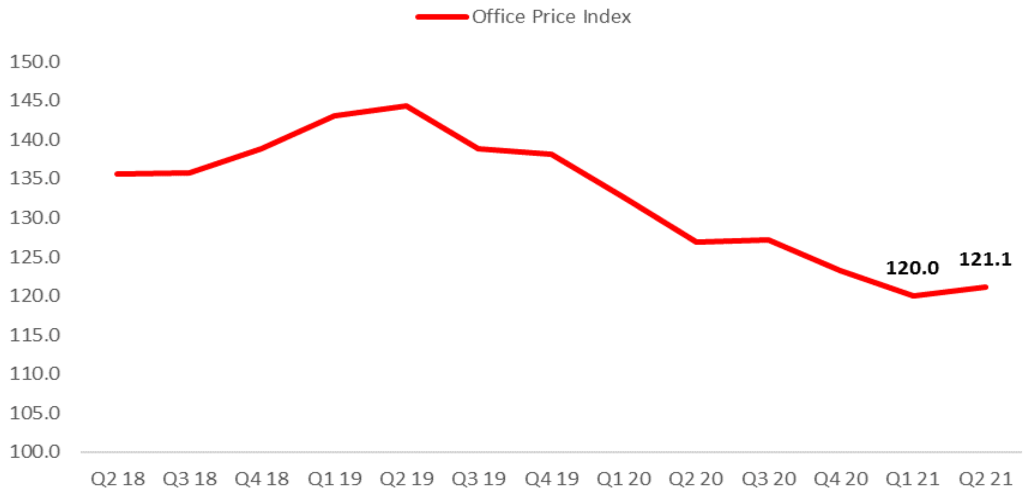
Company	CBD Grade A office rents (S$ psf pm) [(1)]	
	Q2 2021	q-o-q change
CBRE	10.50	1.0%
Cushman & Wakefield	9.60	0.5%
Jones Lang LaSalle	9.90	1.2%

(1) According to respective companies' categorisation of CBD Grade A office
Source: respective companies

Office capital value rose in Q2 2021

According to URA, the Office Price Index for the Central Region rose by 0.9% to 121.1 in Q2 2021 from a 2-year low of 120.0 in Q1 2020, as shown in **Exhibit 4**.

Exhibit 4: Property price index of office space in the Central Region



Source: Compiled data from URA

We note from JLL's latest Singapore Property Market Monitor report that CBD Investment Grade office capital value rose by 1.3% q-o-q. JLL highlighted that capital values of en bloc offices climbed at the fastest pace in 8 quarters amid renewed investor confidence alongside the bottoming-out of rents. Meanwhile, CBRE highlighted in its latest Singapore MarketView Q2 2021 report that prime office capital value remained stable in Q2 2021 from Q1 2021 at S$2,850.

During Q2 2021, there were several major sales transactions relating to office properties. The top transaction involved Suntec Real Estate Investment Trust's (REIT) sale of a 30% stake in *9 Penang Road* to Haiyi Holdings for approximately S$296 million on June 16.

On June 29, Suntec REIT further announced the sale of a portfolio of strata office units at Suntec City to unrelated third-party purchasers – Sunbright Investment Pte Ltd, Sunsolar Investment Pte Ltd, Suncore Investment Pte Ltd, Sungreen Investment Pte Ltd, Sunglow Investment Pte Ltd and Sunray Investment Pte Ltd – for approximately S$197 million.

On June 30, Low Keng Huat announced the completed sale of its interests in *Westgate Tower* to Sun Venture Homes for S$97.1 million.

Earlier in April, private equity firm Sin Capital Group had sold *108 Robinson Road* at Shenton Way to PGIM Real Estate for US$107 million, or approximately S$146 million based on exchange rate of US$1 = S$1.360.

A summary of the above-mentioned transactions is shown in **Exhibit 5** on the next page.

Exhibit 5: Major office sales transactions in Q2 2021

Property	Submarket	Seller	Buyer	Price (S$ million)
9 Penang Road	Orchard	Suntec REIT	Haiyi Holdings	296
Portfolio of strata offices at Suntec City (1)	City Hall / Marina Centre	Suntec REIT	Third-party purchasers (2)	197
108 Robinson Road	Shenton Way	Sin Capital Group	PGIM Real Estate	146
Westgate Tower (40% interest) (3)	Suburban	Low Keng Huat	Sun Venture Homes	97

(1) Comprises of 3 office strata units located across Suntec Tower One and 7office strata units located across Suntec Tower Two.

(2) Comprises Sunbright Investment Pte Ltd, Sunsolar Investment Pte Ltd, Suncore Investment Pte Ltd, Sungreen Investment Pte Ltd, Sunglow Investment Pte Ltd and Sunray Investment Pte Ltd.

(3) Comprises a 40% stake in each of Westgate Tower Pte Ltd (WTPL) and Westgate Commercial Pte Ltd (WCPL).

Source: respective company announcements, C&W, FPA Financial

Increased vacancy as supply absorption weakened in Q2 2021

In Q2 2021, total supply of office space increased by 0.4% q-o-q to 8.16 million square metres (sqm), according to URA data. Meanwhile, supply absorption weakened as the total amount of occupied office space fell by 0.3% q-o-q to 7.13 million sqm. Consequently, the vacancy rate rose by 0.6% point to 12.6% in Q2 2021 from 11.9% in Q1 2021, as shown in **Exhibit 6**.

Exhibit 6: Stock and vacancy in the office market as at end of Q1 2021 and Q2 2021

Completed office space	As at Q1 2021	As at Q2 2021	Absolute change	% change
Available ('000 sqm)	8,129	8,163	34	0.4%
Occupied ('000 sqm)	7,158	7,135	-23	-0.3%
Vacant ('000 sqm)	971	1,028	57	5.9%
Vacancy rate (%)	11.9%	12.6%	0.6% point	n/a

Source: URA

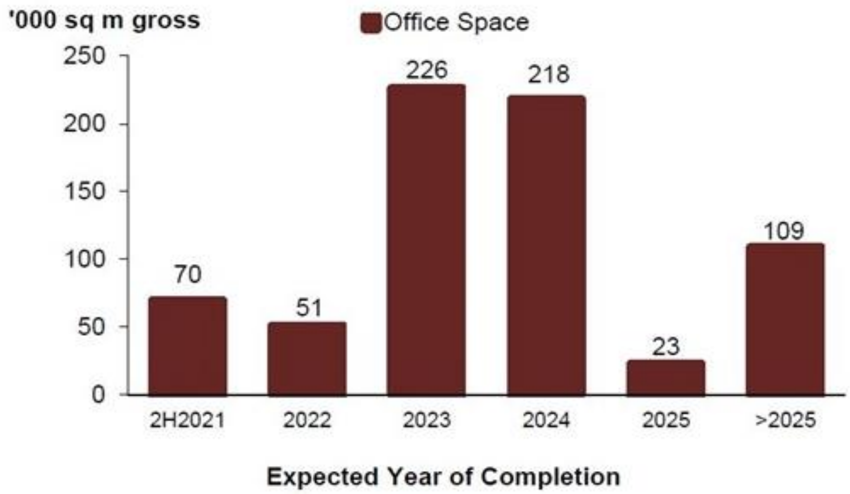
According to CBRE, new and expansionary demand was limited in Q2 2021, with most of the leasing transactions comprising renewals and relocations. Key demand drivers were confined to the technology and financial services sectors, and to a lesser degree, transport & storage, and energy & commodities firms. Meanwhile, we note from Savills that while Chinese tech firms continue to support overall occupier demand for good quality offices in highly sought-after locations, the new take-up mostly involved smaller offices compared with the usual larger scale office space required by former tenants.

Limited pipeline supply in the near term

The total supply of office space coming from to-be-completed projects, based on new development and redevelopment projects with planning approvals (i.e. Provisional Permission, Written Permission), as at the end of Q2 2021 was 697,000 sqm in gross floor area (GFA), according to URA data. Of which, only 70,000 sqm and 51,000 of additional supply is expected for completion in 2H 2021 and 2022 respectively. The bulk of new supply is expected to come in 2023 and 2024, when 226,000 sqm and 218,000 sqm would be added respectively. The remaining 132,000 sqm of supply is expected to be added in 2025 and beyond.

The breakdown of expected office supply in the coming years is summarized in **Exhibit 7** on the next page.

Exhibit 7: Pipeline supply of office space



Source: URA

Looking at upcoming supply in the Central Business District (CBD), we note from Knight Frank Research's latest Q2 2021 office market report that 180,400 square foot (sq ft) (16,760 sqm) would be contributed by *Afro-Asia I-Mark* at Robinson Road and another 755,820 sq ft (70,218 sqm) would come from *CapitaSpring* at Market Street. Overall, the total key supply in 2021 is expected to be 1.37 million sq ft, or approximately 127,031 sqm.

For 2022, data from Knight Frank Research suggest a total key supply of 1.20 million sq ft (111,821 sqm) to be added. This would be contributed by 154,300 sq ft (14,335 sqm) from *Hub Synergy Point* at Anson Road; 275,890 sq ft (25,631 sqm) from *21 Collyer Quay*; and 773,440 sq ft (71,855 sqm) from *Guoco Midtown* at Beach Road. In 2023, a total key supply of 1.49 million sq ft (138,730 sqm) is expected to come from *Central Boulevard Towers*.

A summary of the upcoming office supply in the CBD for 2021 to 2023 is shown in **Exhibit 8**.

Exhibit 8: Selected upcoming office supply in the CBD

Project name	Street name	Planning area	Total office space GFA (sqm)	Developer
Afro-Asia I-Mark	Robinson Road	Downtown Core	16,760	Robinson Development Pte Ltd
CapitaSpring	Market Street	Downtown Core	70,218	CL Office Trustee Pte Ltd/ Glory SR Trustee Pte Ltd
Total key supply 2021	**-**	**-**	**127,031**	**-**
Hub Synergy Point	Anson Road	Downtown Core	14,335	Hub Synergy (S) Pte Ltd
21 Collyer Quay	Collyer Quay	Downtown Core	25,631	CapitaLand Commercial Trust
Guoco Midtown	Beach Road	Downtown Core	71,855	GLL Prosper Pte Ltd/ GLL Thrive Pte Ltd
Total key supply 2022	**-**	**-**	**111,821**	**-**
Central Boulevard Towers	Central Boulevard	Downtown Core	138,730	Wealthy Link Pte Ltd (IOI)
Total key supply 2023	**-**	**-**	**138,730**	**-**

Source: Knight Frank Research, FPA Financial

OFFICE REAL ESTATE MARKET OUTLOOK

On the outlook for the Singapore office market, we note that commercial real estate firms are expecting tightening supply to support a recovery in rents. According to CBRE, potential risks on the demand side remain, but the tapering supply pipeline bodes well for the market. In CBRE's view, the medium-term outlook for the Grade A market looks positive, but the recovery in the Grade B market is likely to lag the Grade A market as landlords grapple with rising vacancy rates. Similarly, C&W believes that in view of tight supply and rising demand amidst an economic recovery, grade A office rents could embark on a gradual rebound and are projected to chalk up a rental growth of 1% to 3% in 2H 2021.

JLL also highlighted tightening supply amid limited new completions and possible supply withdrawals due to the redevelopment of ageing office assets as potential factors which could contribute to a firming up of rents and capital values in 2H 2021.

Knight Frank Research believes that while landlords could remain flexible on rates to secure occupancy, the tempering effect on rates could be in the immediate term, and rents should firm up as office inventory dwindles. The firm expects office rents to level out and potentially improve moderately by 1% to 2% moving into the later half of 2021. In terms of upcoming CBD office supply, Knight Frank Research expects a total key supply of 127,031 sqm in 2021; 111,821 sqm in 2022; and 138,730 sqm in 2023.

Meanwhile, another key beneficial factor highlighted was increased demand from foreign companies. Knight Frank Research noted that Singapore's globally accommodative policies and reputation for stability continued to draw multi-national corporations using the country as a base to tap the potential of the South-East Asian region. In the same vein, C&W highlighted that technology and investment firms have leased or are looking to lease much if the CBD grade A spaces cut back by banks, and other firms will continue to be drawn by Singapore's status as a preferred investment destination in Asia.

Against the above backdrop, the outlook for the Singapore office market has seemingly improved. With the national vaccination rate on track to achieve the target set by the Singapore government, there is a greater scope for further easing of workplace restrictions. As more people return to the workplace, there could be potential for stronger office leasing demand, and in turn a reduction in vacancy rates. Further, foreign companies, in particular Chinese tech firms, seeking to set up regional offices in Singapore could also continue to underpin office demand. The evolving dynamics of increased demand and tightening supply could provide greater stability in rents going forward.

Residential

In this residential real estate market overview, we will first provide a market update on recent developments and performance indicators, and then discuss the market outlook.

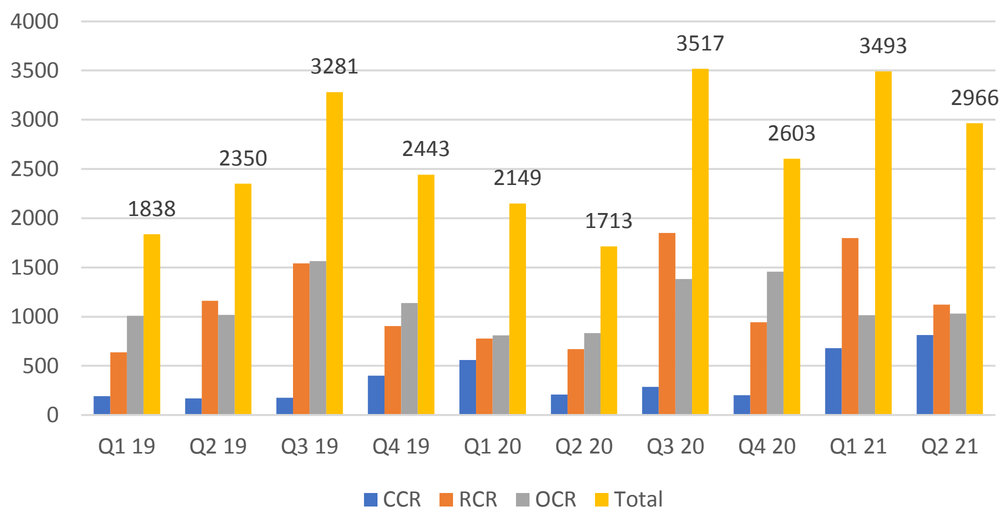
RESIDENTIAL REAL ESTATE MARKET UPDATE

Despite the challenging Covid-19 environment, the Singapore private residential market continues to see strong home buying sentiment on the back of low interest rates. This has translated into robust new home sales and rising residential prices, which reflect positive momentum in the market.

Strong new home sales albeit a moderation in Q2 2021

In Q2 2021, the take-up of private residential units in Singapore was weaker compared to the previous quarter. Data by the Urban Redevelopment Authority (URA) indicate that the total number of new sales private residential units transacted during the period was 2,966 units, a 15.1% drop from 3,493 in Q1 2021. By market segment, the Core Central Region (CCR) contributed 813 units; the Rest of Central Region (RCR) contributed 1,123 units; and the Outside Central Region (OCR) contributed 1,030 units. In particular, strongest sales activity was seen in the RCR, which was also the top contributor in Q1 2021. A breakdown of the number of new sales units transacted Q1 2019 to Q2 2021 is shown in **Exhibit 9.**

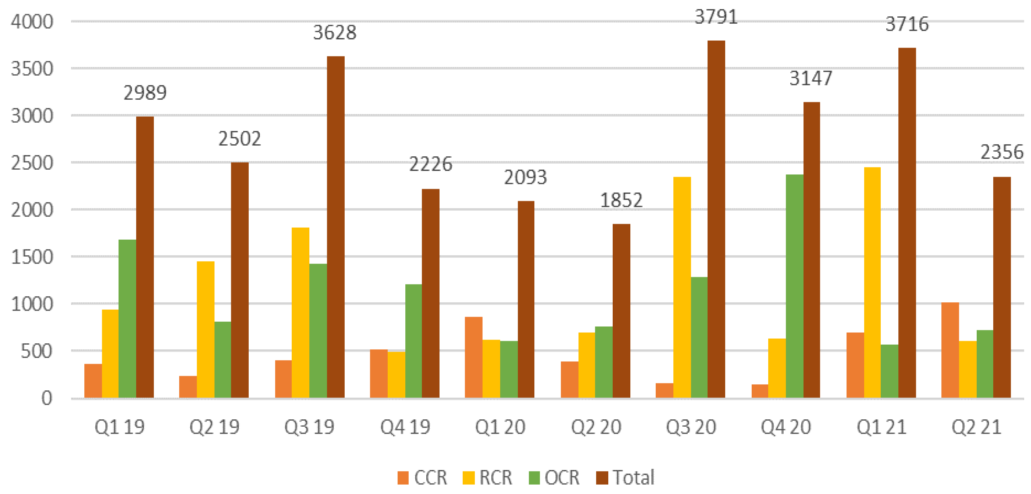
Exhibit 9: Number of new sale units transacted



Source: Compiled data from URA

While overall take-up has moderated in Q2 2021, this may not be a result of softer demand but rather insufficient supply, as the drop came amid a delay in launches owing to tightened Covid-19 restrictions in mid-May. During the quarter, the total number of uncompleted private residential units (excluding Executive Condominiums) launched by developers for sale was 2,356, lower compared to 3,493 units launched in Q1 2021. By market segments, 1,019 units were launched in the CCR, 610 in the RCR and 727 in the OCR. This may suggest that segments like the RCR which saw stronger buying activity were constrained by fewer supply. A breakdown of the number of number of uncompleted private residential units during each quarter from Q1 2019 to Q2 2021 is shown in **Exhibit 10** on the next page.

Exhibit 10: Number of uncompleted private residential units launched



Source: Compiled data from URA

Overall, total private new home sales in 1H 2021 reached 6,459 units, 67.2% higher than a year ago, and nearly two-thirds of the volume achieved for the whole of 2020. It is also worth noting that sales activity in the individual quarters of 2021 have been stronger compared to those in 2019 during pre-Covid times, except for Q2 2021's level being lower than Q3 2019.

In terms of individual projects, CBRE's latest July report highlighted strong sales performance for project launches in Q2 2021 like Irwell Hill Residences, Provence Residence and Normanton Park. Earlier in the year, GuocoLand's Midtown Modern project at Tan Quee Lan Street achieved more than 60% sales over its launch weekend starting 19 March 2021.

More recently, in July 2021, strong home buying, especially in the OCR, boosted new private home sales by 82% to 1,589, from the 872 units sold in the previous month, according to latest URA data. By region, the largest contribution came from the OCR, where 1,012 units or nearly two-thirds of the total volume were sold. The RCR accounted for 438 units or about 27.6% of total sales volume, while the remaining 139 units sold were in the CCR.

In particular, strong sales were recorded at Pasir Ris 8, a 487-unit condominium developed by Allgreen and Kerry Properties. The project sold 85% of total units over its launch weekend in late July 2021, at a price range of S$1,400 to S$2,000 per square foot (psf), according to a July article by the Business Times (BT).

In a more recent article in August, BT reported that developers are likely to push ahead with their launches to ride on the positive momentum, despite August being the lunar seventh month. The article cited forecasts by ERA Real Estate which suggest that developers would sell about 11,500 to 12,500 private homes in total in 2021, about 20% more than in 2020. This is slightly higher than July forecasts by CBRE for new home sales to fall within the region of 10,000 to 11,000 for 2021.

Private residential capital values rose in Q2 2021

The island-wide capital value of private residential properties in Singapore continued to rise in Q2 2021, albeit at a moderated pace compared to the previous quarter. During the period, prices of private residential properties rose by 0.8% quarter-on-quarter (q-o-q) as reflected by an increase in the URA Property Price Index (PPI) to 163.5 from 163.2, as shown in **Exhibit 11**. This was a moderation from the 3.3% q-o-q growth in Q1 2021.

Exhibit 11: Breakdown of URA Property Price Index for Q1 2021 and Q2 2021

Category	Price Index		q-o-q change	
	Q1 2021	Q2 2021	Q1 2021	Q2 2021
All Residential (Q1 2009=100)	162.2	163.5	3.3%	0.8%
Landed property	185.4	184.8	6.7%	-0.3%
Non-landed property	157.1	158.8	2.5%	1.1%
CCR (1)	134.3	135.8	0.5%	1.1%
RCR (2)	170.4	170.6	6.1%	0.1%
OCR (3)	185.6	189.1	1.1%	1.9%

(1) Core Central Region (CCR) comprises Postal Districts 9, 10, 11 Downtown Core Planning Area and Sentosa
(2) Rest of Central Region (RCR) comprises area within Central Region that is outside those covered by CCR
(3) Outside Central Region (OCR)
Source: URA

Within the non-landed segment, prices rose on a q-o-q basis by 1.1%, 0.1% and 1.9% in the Core Central Region (CCR), Rest of Central Region (RCR) and Outside Central Region (OCR) respectively, as shown in **Exhibit 9** above. Stronger price growth was seen in the CCR and OCR, while the pace of gains moderated for the RCR. According to CBRE, slower price growth could be attributed to a slower pace of launches owing to restrictions in the first half of May, thus pushing buyers to the resale market. Further, the trend for larger homes may have resulted in lower psf prices for some projects.

Given the moderation in price growth, CBRE highlighted that this may have lowered the risks of cooling measures being implemented. In the same vein, Savills believes the case for another round of cooling measures is weak, given that the rise in URA PPI has lagged nominal GDP and household income growth.

In terms of price expectations, CBRE highlighted that while the Singapore government is expecting a GDP growth forecast of 4-6%, the launch of some upcoming projects at higher psf may continue to push the URA PPI higher to exceed this forecast. Similarly, Savills believes that given the correlation between the URA PPI and nominal GDP growth rates, private residential prices are expected to rise by 5.5% y-o-y if nominal GDP grows by 9% in 2021. Recent projections by Knight Frank Research suggest even stronger price growth, with overall residential prices set to increase within the range of around 7-9% in 2021.

Rising residential land prices amid strong tender interest

We note from a recent BT report that rising residential land prices suggest that developers are optimistic on the outlook on private home prices. Recently, strong land bids were recorded at the tenders for a land plot at Lentor Central and Executive Condominium site at Tampines Street 62. The highest bidder for the Lentor Central site was GuocoLand, which secured the tender for S$784.1 million, or S$1,204 psf per plot ratio (psf ppr). The tender for the Tampines plot was won by a consortium comprising of Qingjian Realty and Octava Pte Ltd joint venture, and Santarli Realty, at a bid price of S$422 million or S$659 psf ppr. BT highlighted that the keen tender participation and optimistic top bids are indicative of strong demand for residential sites by developers to replenish their land banks.

RESIDENTIAL REAL ESTATE MARKET OUTLOOK

Looking ahead, we note that real estate firms are expecting resilient sales momentum amid strong home buying sentiment. CBRE believes strong new home sales momentum is likely to continue as developers are encouraged to proceed with launches given the relaxation of safe distancing measures at show galleries. Barring any unforeseen circumstances, CBRE expects new home sales to range within 10,000 to 11,000 units for 2021. In the longer term, potential reopening of borders will also bring about the return of foreign investors and buying interest into the luxury segment. In addition, Knight Frank Research believes the market continues to be bolstered by genuine demand from buyers in sectors such as technology and pharmaceuticals that have benefitted economically from the Covid-19 climate. HDB upgraders or former collective sale owners will also contribute to the demand. Similarly, Savills believes that market feedback returns show that potential buyers are still holding onto strong positive attitudes to owning private residential properties, which could underpin demand.

In terms of residential capital values, real estate firms anticipate residential prices to rise further. CBRE highlighted that while the Singapore government is expecting a GDP growth forecast of 4-6%, the launch of some upcoming projects at higher psf may continue to push the URA PPI higher to exceed this forecast. Savills expects private residential prices to rise by 5.5% y-o-y if nominal GDP grows by 9% in 2021. Meanwhile, Knight Frank Research's recent projections suggest even stronger price growth, with overall residential prices set to increase within the range of around 7-9% in 2021.

Meanwhile, another factor reflecting positively on the health of the Singapore residential market would be the rise in residential land prices. Developers have expressed strong interest in recent land tenders which have logged record bid prices. This suggest developers' keen interest in replenishing their land banks, likely driven by an optimistic outlook on residential demand and prices.

Retail

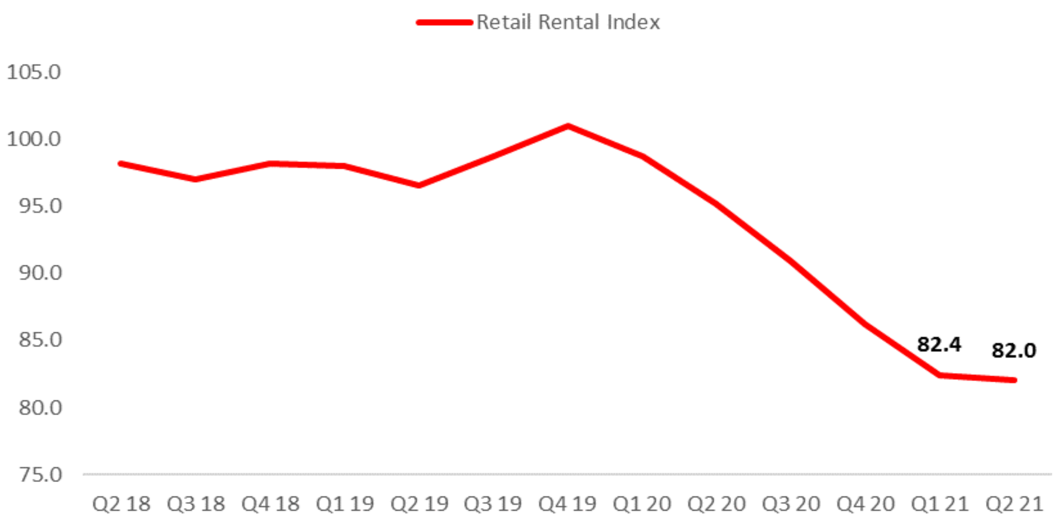
In this retail real estate market overview, we will first provide a market update on recent developments and performance indicators, and then discuss the market outlook.

RETAIL REAL ESTATE MARKET UPDATE

Retail rentals fell in Q2 2021

According to URA, retail rentals in the Central Region fell by 0.5% q-o-q in Q2 2021, as reflected by a fall in the Retail Rental Index to a 2-year low of 82.0 from 82.4 in Q1 2021, as shown in **Exhibit 12**.

Exhibit 12: Rental index of retail space in Central Region

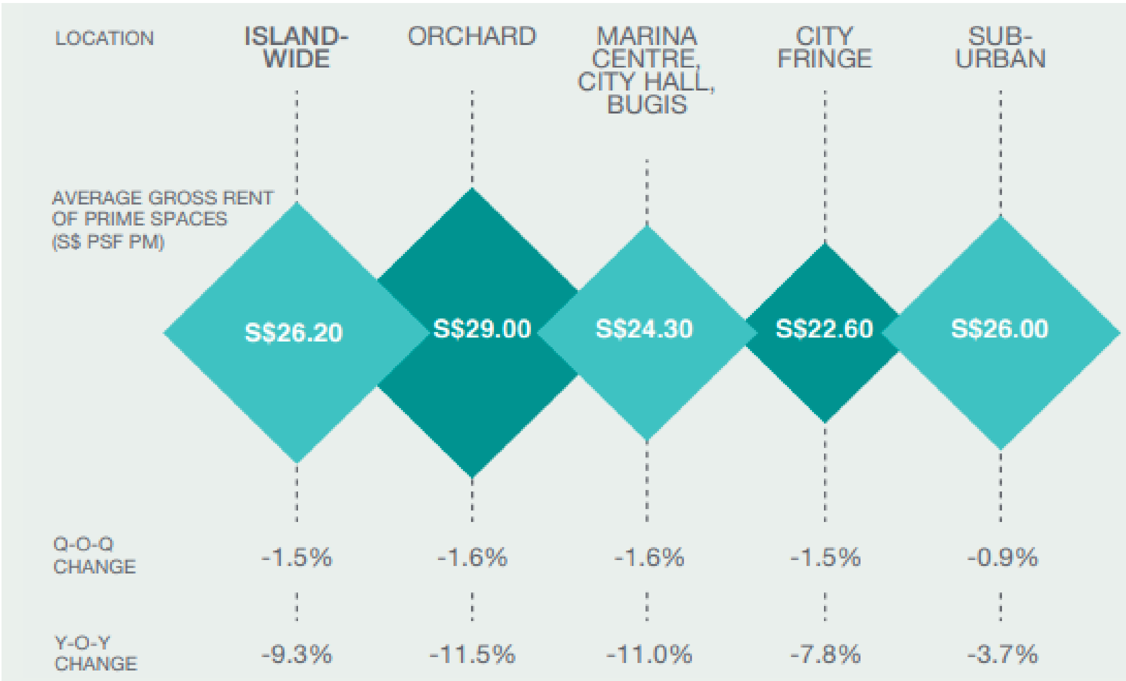


Source: Compiled data from URA

We note from Knight Frank Research's Singapore Retail Market Update Q2 2021 report that island-wide prime retail rents fell by 9.3% y-o-y to average S$26.20 psf pm in Q2 2021, as shown in **Exhibit 13** on the next page. Knight Frank Research highlighted that the continued deceleration was largely driven by the fall in the average gross rents of prime spaces within the central region by some 11.0% to 11.5% y-o-y as tourist footfall remained non-existent with travel bans still widely in place.

Meanwhile, smaller declines were seen in the suburban regions compared to the central areas, as working-from-home arrangements under the Heightened Alert measures contributed to healthy shopper traffic in heartland malls. During the quarter, suburban prime retail rents fell by 3.7% y-o-y to average S$26.00 psf pm, while orchard prime retail rents declined more severely by 11.5% y-o-y to average S$29.00 psf pm, as shown in **Exhibit 13** on the next page.

Exhibit 13: Average gross rents of prime retail spaces* in Q2 2021



**Prime spaces refer to rental-yielding units between 350 and 1,500 sq ft with the best frontage, connectivity, footfall and accessibility in a mall, typically located on the ground level of a retail mall and/or basement level of a retail mall that is linked to an MRT station or bus interchange.*
Source: Knight Frank

Similarly, we also note from latest reports by CBRE and C&W that prime retail rents declined in Q2 2021. Latest CBRE data suggest an 8.7% q-o-q drop in island-wide prime retail rents in Q2 2021, a moderation from a 1.2% quarterly decline in Q1 2021, as shown in **Exhibit 14**. The smaller decline was mainly due to a 1.0% q-o-q (1.0% y-o-y) increase in the suburban market to S$29.80, where prime spaces registered healthy reversionary rents. In contrast, prime retail rents in the Orchard Road market fell by 1.0% q-o-q (-8.7% y-oy) to S$34.55.

Exhibit 14: Prime retail rents*

	Q2 21	Q-o-Q	Y-o-y
Orchard Road	$34.55	-1.0%	-8.7%
Suburban	$29.80	1.0%	1.0%

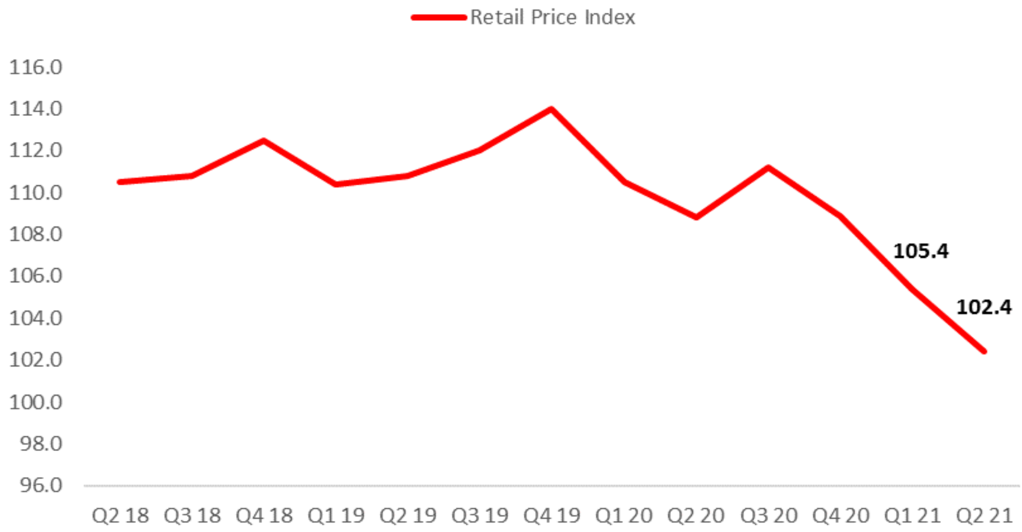
**Rental reversions due to revised rental baskets*
Source: CBRE

Meanwhile, C&W's latest report reflected that island-wide prime retail rents fell by 1.8% q-o-q to S$27.59 psf pm. Steeper rental declines of 3.1% q-o-q (to S$19.39 psf pm) and 2.0% qoq (to S$32.78 psf pm) were observed for the other city areas and Orchard segments respectively, where default work-from-home regulations had the greatest impact on footfall. Prime retail rents in the suburban region dropped by a smaller 0.8% q-o-q to S$30.61 psf pm amid dine-in restrictions under Phase 2 Heightened Alert.

Retail capital value declined further in Q2 2021

According to URA, the Retail Price Index for the Central Region fell by 2.8% q-o-q to 102.4 in Q2 2021, following a 3.2% quarterly decline in Q1 2021, as shown in **Exhibit 15**.

Exhibit 15: Property price index of retail space in the Central Region



Source: Compiled data from URA

We also note from JLL's latest Singapore Property Market Monitor report that retail capital value registered a drop of 0.5% in Q2 2021 for the prime sub sub-market, with capital value registering S$8,343 psf of net lettable area (NLA). Meanwhile, CBRE noted in its latest report a quarterly decline in prime retail capital value to S$7,200 in Q2 2021.

A major transaction in Q2 2021 was Low Keng Huat's acquisition of a 45% stake (which it does not already own) in Paya Lebar Square from Sun Venture Realty for S$90.5 million.

Vacancy remained stable in Q2 2021 from Q1 2021

In Q2 2021, the total supply of retail space rose by 0.3% to 6.17 million sqm from 6.16 million sqm in Q1 2021. Meanwhile, the total amount of occupied retail space fell by 1.6% to 5.64 million sqm as at the end of Q2 2020. Consequently, the vacancy rate for the retail market remained stable in Q2 2021 from Q1 2021 at 8.5%, as shown in **Exhibit 16**.

Exhibit 16: Stock and vacancy in the retail market as at end of Q2 2020

Completed retail space	As at Q1 2021	As at Q2 2021	Absolute change	% change
Available ('000 sqm)	6,150	6,168	18	0.3%
Occupied ('000 sqm)	5,627	5,641	14	0.2%
Vacant ('000 sqm)	523	527	4	0.8%
Vacancy rate (%)	8.5%	8.5%	0.0% point	n/a

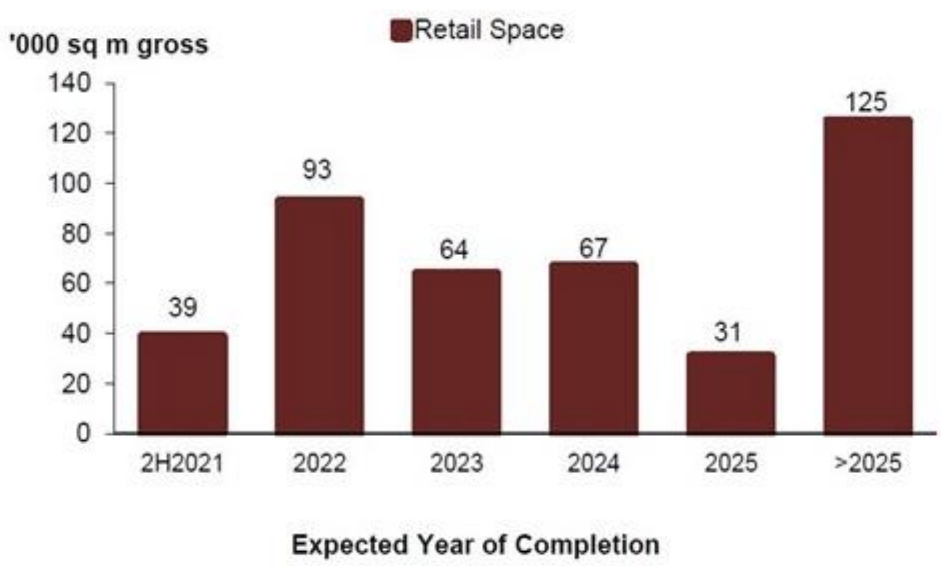
Source: URA

Moderate pipeline supply in coming years

As at the end of Q2 2021, there was a total supply of 419,000 sqm GFA of retail space from projects in the pipeline, according to URA. An additional supply of 39,000 sqm is expected for completion in 2H 2021. In the coming years, new supply of 93,000 sqm is expected in 2022; 64,000 sqm in 2023; 67,000 sqm in 2024; and 31,000 sqm in 2025. Beyond 2025, a larger of proportion of 125,000 sqm of new supply is expected.

The breakdown of expected retail supply in the coming years is summarized in **Exhibit 17**.

Exhibit 17: Pipeline supply of retail space



Source: URA

We note from C&W's latest retail report that significant retail projects which are expected to complete in 2021 include *Shaw Plaza* and renovation works at *I12 Katong*. Looking further ahead, One Holland Village is slated for completion in 2022; Punggol Digital District in 2023; and a new mall at Pasir Ris in 2024.

A summary of the significant retail projects from 2021 to 2024 is shown in **Exhibit 18**.

Exhibit 18: Significant retail projects – planned & under construction

Property	Submarket	Sqm	Completion date
Shaw Plaza	Suburban	5,732	2021
I12 Katong (AEI)	Suburban	16,788	2021
One Holland Village	Suburban	7,246	2022
Punggol Digital District	Suburban	15,580	2023
New mall at Pasir Ris	Suburban	23,226	2024
Total	**-**	**68,572**	**-**

Source: C&W, FPA Financial

Retail sales outlook remains weak

According to latest statistics by the Singapore Department of Statistics (Singstat), Singapore's retail sales rose by 25.8% y-o-y in June 2021, attributed to the low base a year ago when Phase 1 measures were in place and physical stores were closed until 18 June 2020. Most segments experienced y-o-y increase in sales, with notable gains in the Motor Vehicles (+80.6%), Department Stores (61.8%), and Wearing Apparel & Footwear (+60.0%) industries. In contrast, y-o-y decline in sales were recorded for industries including Cosmetics, Toiletries & Medical Goods (-0.2%), Supermarkets & Hypermarkets (-4.5%), and Mini-marts & Convenience Stores (-7.9%). The estimated total retail sales value in June 2021 was about S$3.3 billion, compared with S$2.6 billion a year ago. A summary of the y-o-y growth in retail sales based on industry is shown in **Exhibit 19**.

Exhibit 19: Retail sales y-o-y growth based on industry

	y-o-y change in sales	
Industry	May-21	Jun-21
Total	**79.7%**	**25.8%**
Department Stores	512.3%	61.8%
Supermarkets & Hypermarkets	-11.4%	-4.5%
Mini-marts & Convenience Stores	-8.8%	-7.9%
Food & Alcohol	45.1%	14.1%
Motor Vehicles	421.2%	80.6%
Petrol Service Stations	113.6%	43.8%
Cosmetics, Toiletries & Medical Goods	35.4%	-0.2%
Wearing Apparel & Footwear	446.8%	60.0%
Furniture & Household Equipment	160.7%	37.2%
Recreational Goods	215.1%	53.9%
Watches & Jewellery	2090.8%	78.4%
Computer & Telecommunications Equipment	66.8%	13.7%
Optical Goods & Books	293.7%	18.9%
Others	140.1%	24.6%

Source: Singstat

Despite the above, retail sales value continued to be below pre-COVID levels in July 2021, according to SingStat. In value terms, retails sales in 1H 2021 amounted to approximately S$20.5 billion, down by 10% during the same period in 2019. Amid the challenging business conditions, there have been many store closures by companies, of which include some well-known brands such as Abercrombie & Fitch, Isetan and Robinsons. Indeed, the new differentiated approach to allow a further resumption of activities for vaccinated individuals could support a recovery in retail mall footfall and spending in Q4 2021. However, the recovery could take some time and overall retail sales performance is likely to remain weak in 2021.

Meanwhile, on the tourism front, the outlook is more uncertain. Latest STB data showed that IVA in the first 7 months of 2021 was still down by 98.8% from a year ago, highlighting the continued severe impact on the tourism sector. Albeit the potential for travel bubbles as Singapore achieves a sufficiently high vaccination rate, we see that many parts of Asia and the US are currently dealing with rising Covid-19 cases relating to the spread of the Delta variant. This could limit the scope for successful travel bubble arrangements. Overall, border control measures are unlikely to be eased substantially in the coming months, and thus retail sales contribution from tourism could potentially remain subdued for the rest of the year.

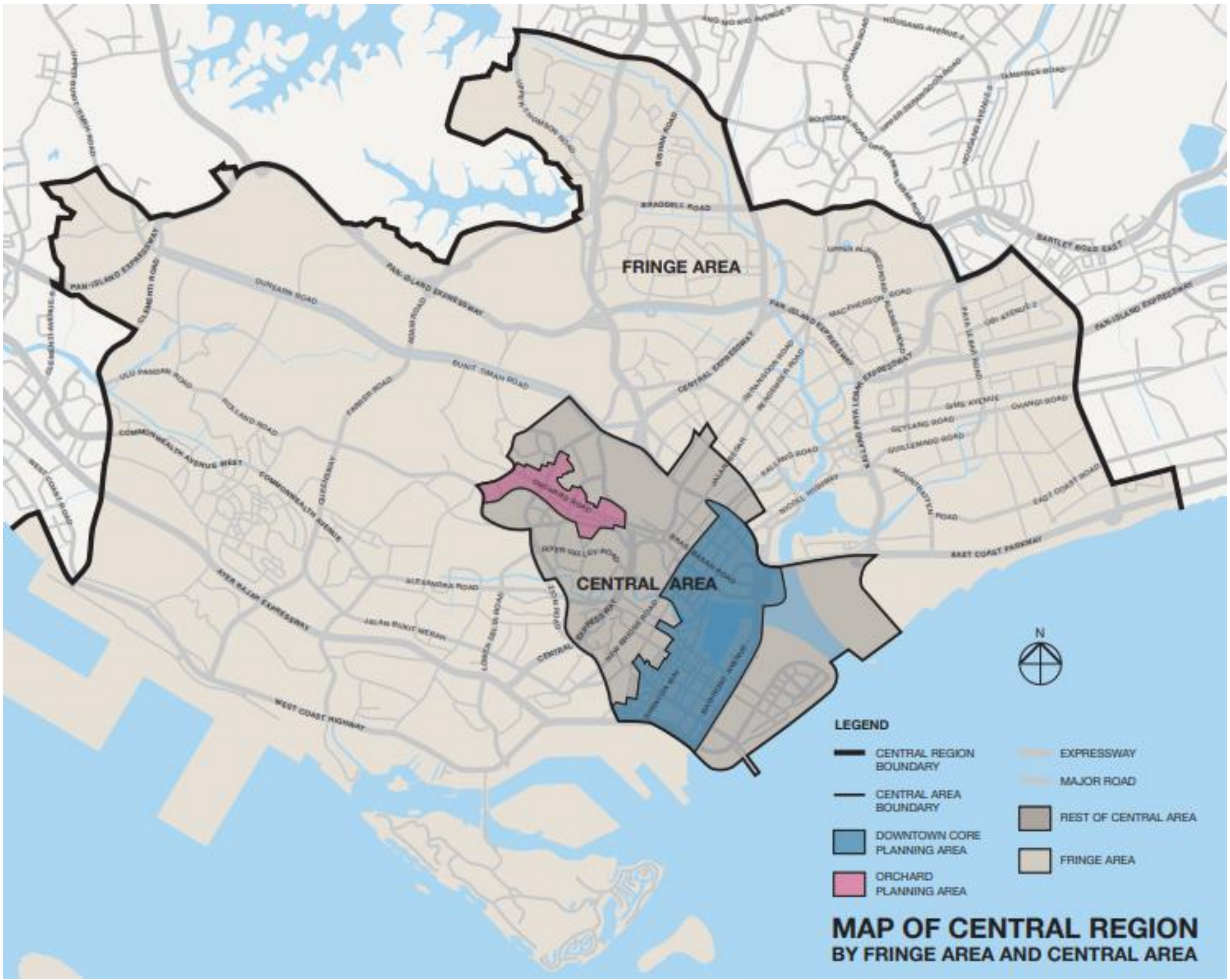
RETAIL REAL ESTATE MARKET OUTLOOK

As it stands, the retail sales outlook in Singapore remains challenged by ongoing Covid-19 related concerns. Domestically, we could see a pickup in retail mall footfall and spending given the easing of restrictions like dining-in for vaccinated individuals. However, it could take some time to see a meaningful impact of the recovery. Moreover, it could be likely that retail sales contribution from tourism will remain subdued for the rest of 2021, given the relatively weak international travel backdrop and that border control measures are unlikely to be eased substantially in the coming months.

Amid border restrictions and ongoing safe management measures, C&W expects a further drop in retail rents for 2021, though it believes prime retail rents will be supported by a limited new retail supply and strong demand for prime spaces in top tier malls. In anticipation of a further relaxation of safe management curbs in 2H 2021 and leisure travel to resume amid a high vaccination rate, C&W believes more new entrants and established brands are expected to demand for quality retail spaces in Singapore.

Meanwhile, Knight Frank Research believes that with rental declines easing, retail rents are envisaged to bottom out in Q3 2021, with hopeful signs of a possible marginal gain in certain locations in Q4 2021 as Singapore progresses to a state of normalcy. Similarly, JLL believes that vacancy rates could fall in the short-term and rent declines should ease further, given stronger retail sales and business expansion on further lifting of safe-distancing measures and gradual easing of travel restrictions as a high vaccination rate and effective virus containment is achieved.

Appendix I



Source: URA

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