REAL ESTATE SECTOR RESEARCH

Singapore Residential Real Estate Market View

Summary

The Singapore economy grew by 2.1% on a yoy basis in the fourth quarter of 2022, moderating from the 4.0% yoy growth in the previous quarter. For the whole of 2022, the economy grew by 3.6% yoy. GDP growth in 2022 was largely supported by the services sector following the reopening of Singapore's borders, with market indicators in 2022 exceeding pre-pandemic levels. MTI forecasts an economic expansion of 0.5%-2.5% in 2023, barring the materialization of downside risk from larger than expected rate hikes, a sharp repricing in financial assets and further escalation in geopolitical tensions.

Prices of residential properties increased by 3.2% qoq in 1st Quarter 2023, according to flash estimates. Meanwhile, rentals of private residential properties increased by 7.4% qoq in 4th Quarter 2022. The recovery in the residential sector was driven by a combination of strong demand and a limited supply. A strong launch pipeline and the resumption of Chinese purchases also served as additional sector catalysts. Due to an anticipated large influx of new supply and a weaker economic performance, rental growth may moderate in 2023. Price growth might also slow in 2023 as buyers exercise more caution as a result of rising interest rates and market uncertainty. Private home prices are projected to grow by 3% to 10% for the whole of 2023

We have summarized the latest performance indicators of the residential real estate market as shown in **Exhibit 1**.

Exhibit 1: Latest Performance Indicators

Key Indicators	Change	3Q2022	4Q2022
Price Index (1)	3.20%	188.6	194.6
Rental Index	7.40%	137.9	148.1
Pipeline Supply (2)	-6.80%	49,384	46,041
Vacancy Rate (2)	-0.2 percentage point	5.70%	5.50%

(1) Price index based on flash estimates for 4Q2022 (188.6) and 1Q2023 (194.6)

(2) Figures exclude Executive Condominum (ECs)

Source: URA

Contributor: Tan Jiong Wen
(+65 6323 1788)

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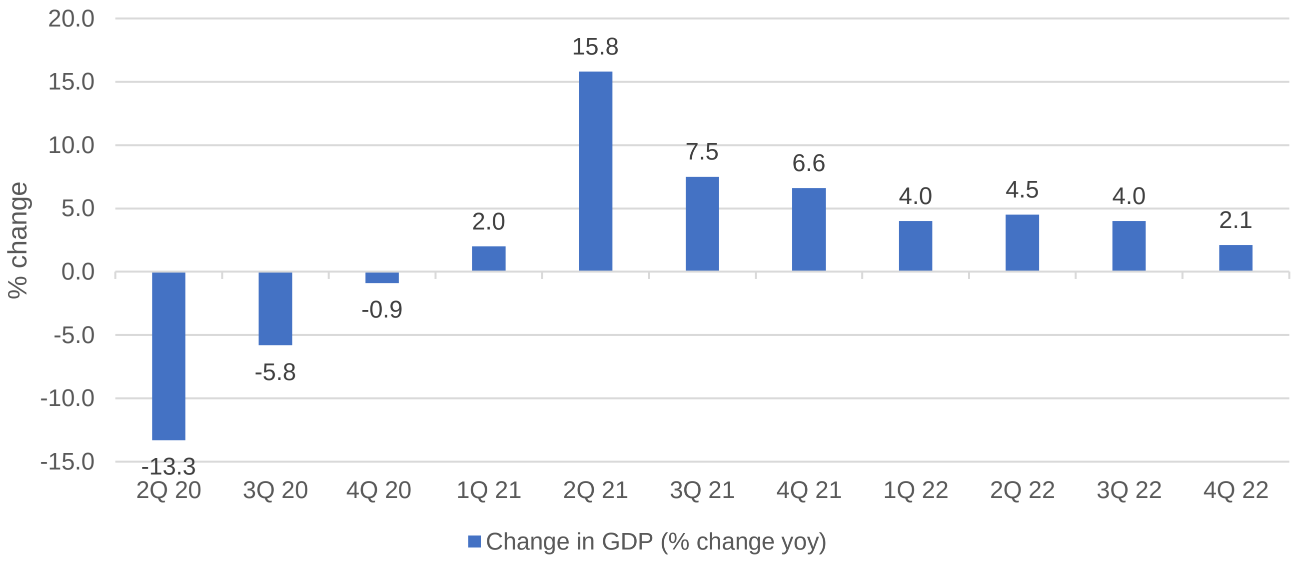
Singapore Residential Real Estate Market View

In this Singapore residential real estate market overview, we will first review Singapore's economic situation and then discuss the market outlook.

Singapore's Economic Outlook

The Ministry of Trade and Industry (MTI) reported that the Singapore economy grew by 2.1% on a yoy basis in the fourth quarter of 2022, moderating from the 4.0% yoy growth in the previous quarter as shown in **Exhibit 2**. For the whole of 2022, the economy grew by 3.6% yoy.

Exhibit 2: Change in Singapore quarterly GDP (%, yoy)



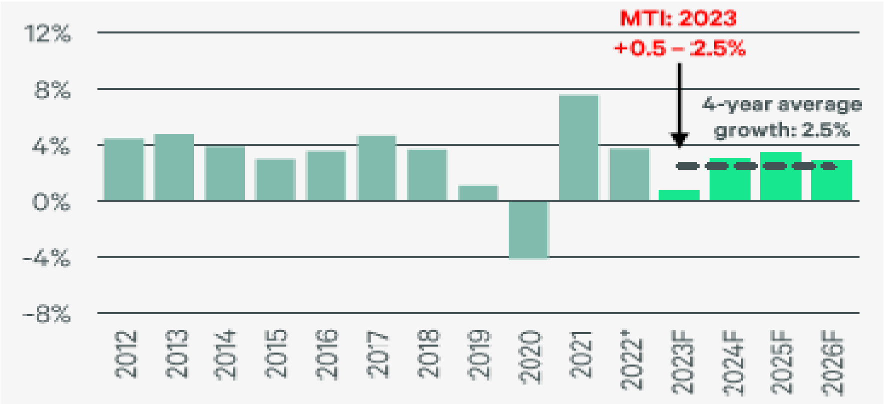
Source: Data compiled from MTI

For 2023, MTI expects GDP growth rates in most major economies to moderate further from 2022 levels, with sharp slowdowns projected in the US and Eurozone. Meanwhile, global supply disruptions are likely to continue into 2023 as the war in Ukraine drags on, even though the extent and frequency of disruptions are expected to ease. MTI also highlighted significant uncertainties and downside risks in the global economy. First, with many advanced economies raising interest rates simultaneously to combat high inflation, the impact of tightening financial conditions on global growth could be larger than expected. Second, financial stability risks could intensify if there are disorderly market adjustments to monetary policy tightening in the advanced economies. A sharp re-pricing of assets could trigger capital outflows from the region and increase debt servicing burdens, thereby dampening regional economies' growth outlook. Third, further escalations in the war in Ukraine and geopolitical tensions among major global powers could worsen supply disruptions, dampen consumer and business confidence, as well as weigh on global trade.

Considering the above, MTI expects the growth of outward-oriented sectors in Singapore to weaken in tandem with the deterioration in external demand conditions. However, the growth prospects of several sectors remain positive. In particular, the continued recovery in air travel and international visitor arrivals will support the expansion of aviation- and tourism-related sectors. Taking these factors into account, and barring the materialisation of downside risks, MTI expects the Singapore economy to grow by "0.5 to 2.5 per cent" in 2023.

CBRE noted that GDP growth in 2022 was largely supported by the services sector following the reopening of Singapore's borders, with retail and labour market indicators in 2022 exceeding pre-pandemic levels. This has helped to offset sluggish performance in the manufacturing sector. Significant headwinds lie ahead for Singapore's economy in 2023. A global economic slowdown is expected amid tighter financial conditions from repeated rate hikes in the US and Europe as central banks attempt to rein in inflation. This slump is likely to weigh further on Singapore outward-oriented manufacturing sector. However, growth prospects remain positive in several sectors with the reopening of China's borders and the continued recovery in international travel and tourism which could lend support to aviation & tourism-related sectors and cushion the overall slowdown. Beyond the MTI's 2023 GDP forecast of between 0.5% -2.5%, CBRE believes the Singapore's 4-year average growth would be 2.5% as shown in **Exhibit 3**.

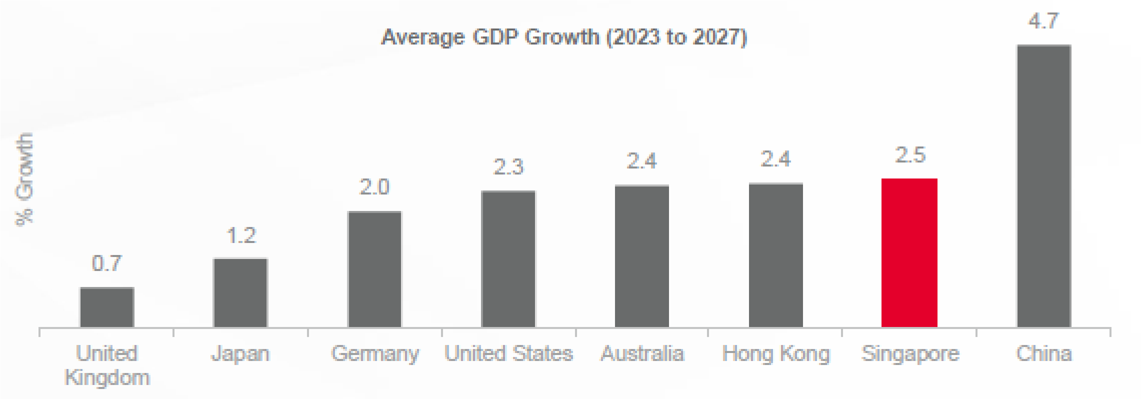
Exhibit 3: Singapore Projected Growth (CBRE) (% change yoy)



Source: CBRE

Similarly, Cushman & Wakefield (C&W) believes that Singapore remains supported from a flight to safety as capital gravitates towards "safe havens" for wealth preservation and diversification amidst global uncertainties. Singapore's strategic geographical location, pro business policies and stable political situation are key advantages that continue to attract inbound investments. Companies with a long-term South-east Asia or Asia Pacific strategy would be less inclined to drastically cut budgets in Singapore, supporting Singapore's resilience. Over the mid term, Singapore's GDP growth is expected to average about 2.5% per annum from 2023 to 2027, outperforming the US, Australia, Hong Kong, Japan, Germany and the UK as shown in **Exhibit 4**. This bodes well for property demand.

Exhibit 4: Singapore Projected Growth (C&W) (% change yoy)



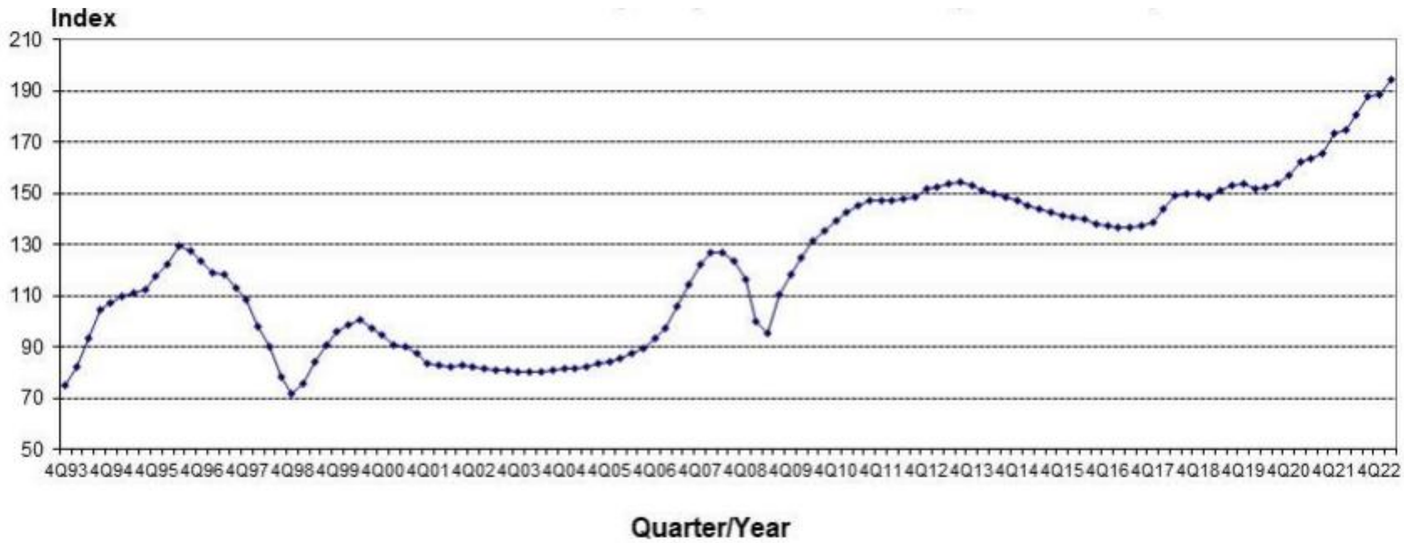
Source: C&W

Singapore Residential Real Estate Sector

(I) Overview

According to flash estimate data from URA, the private residential property index increased by 6.0 points from 188.6 points in 4th Quarter 2022 to 194.6 points in 1st Quarter 2023. This represents an increase of 3.2%, compared to the 0.4% increase in the previous quarter as shown in **Exhibit 5**.

Exhibit 5: Property Price Index for Residential Properties



Source: URA

Prices of landed properties increased by 5.7% qoq in 1st Quarter 2023, compared with the 0.6% qoq increase in the previous quarter. Prices of non-landed properties increased by 2.5% qoq in 1st Quarter 2023, compared with the 0.3% qoq increase in the previous quarter.

Prices of non-landed properties in Core Central Region (CCR) increased by 1.0% qoq in 1st Quarter 2023, compared with the 0.7% qoq increase in the previous quarter. Prices of non-landed properties in Rest of Central Region (RCR) increased by 4.0%, qoq in 1st Quarter 2023 compared with the 3.1% qoq increase in the previous quarter. Prices of non-landed properties in Outside Central Region (OCR) increased by 1.9% qoq in 1st Quarter 2023, compared with the 2.6% qoq decrease in the previous quarter, as shown in **Exhibit 6** on the next page.

Exhibit 6: Breakdown of URA Property Price Index for 4Q22 and 1Q23

	Price Index		% Change over Previous Quarter	
	4Q22	1Q23	4Q22	1Q23
Residential (1Q09 = 100)	188.6	194.6	0.4	3.2
Landed Property	216.0	228.3	0.6	5.7
Non-Landed Property	182.1	186.7	0.3	2.5
CCR[1]	145.4	146.9	0.7	1.0
RCR[2]	204.9	213.1	3.1	4.0
OCR[3]	218.2	222.3	-2.6	1.9

(1) Core Central Region (CCR) comprises Postal Districts 9, 10, 11 Downtown Core Planning Area and Sentosa

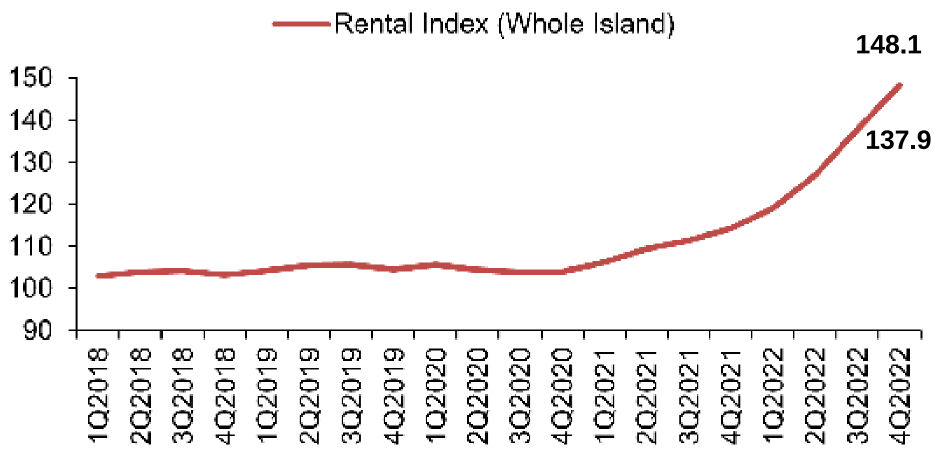
(2) Rest of Central Region (RCR) comprises area within Central Region that is outside those covered by CCR

(3) Outside Central Region (OCR)

Source: URA

Based on URA's data, rentals of private residential properties increased by 7.4% qoq in 4th Quarter 2022, compared with the 8.6% qoq increase in the previous quarter as reflected by an increase in the Rental Index to 148.1 from 137.9, as shown in **Exhibit 7**. For the whole of 2022, rentals of private residential properties increased by 29.7% compared with the 9.9% increase in 2021.

Exhibit 7: Rental Index Of Private Residential Properties



Source: URA

Rentals of landed properties increased by 6.3% qoq in 4th Quarter 2022, compared with the 10.9% qoq increase in the previous quarter. Rentals of non-landed properties increased by 7.5% qoq, compared with the 8.3% qoq increase in the previous quarter. For the whole of 2022, rentals of landed properties increased by 28.1% while rentals of non-landed properties increased by 29.8%.

Rentals of non-landed properties in CCR increased by 7.3% qoq in 4th Quarter 2022, compared with the 7.0% qoq increase in the previous quarter. Rentals in RCR increased by 7.3% qoq, compared with the 9.6% qoq increase in the previous quarter. Rentals in OCR increased by 8.2% qoq, compared with the 8.8% qoq increase in the previous quarter as shown in **Exhibit 8** on the next page. For the whole of 2022, rentals of non-landed properties in CCR, RCR and OCR increased by 28.2%, 30.3% and 31.8% respectively.

Exhibit 8: Breakdown of URA Property Rental Index for 3Q22 and 4Q22

	Rental Index		% Change over Previous Quarter	
	3Q22	4Q22	3Q22	4Q22
Residential (1Q09 = 100)	137.9	148.1	8.6	7.4
Landed Property	121.1	128.7	10.9	6.3
Non-Landed Property	139.5	150.0	8.3	7.5
CCR[1]	133.4	143.1	7.0	7.3
RCR[2]	145.4	156.0	9.6	7.3
OCR[3]	144.3	156.1	8.8	8.2

(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

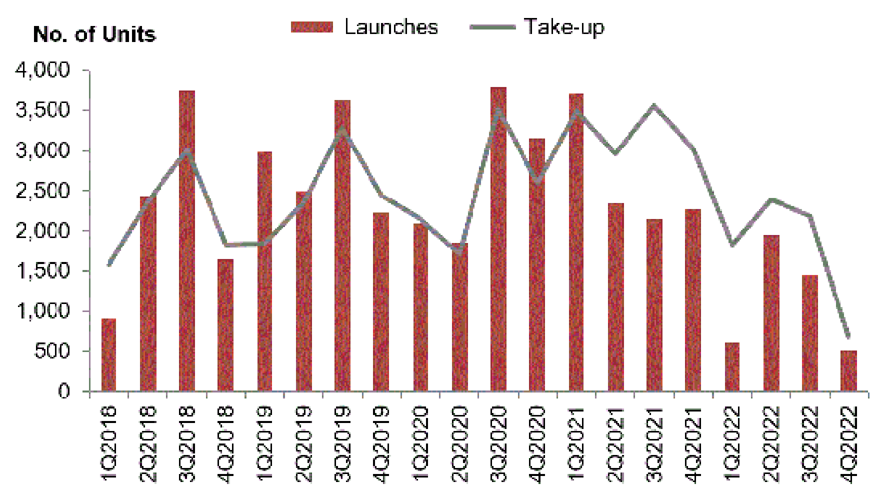
(3) Outside Central Region (OCR)

Source: URA

URA also noted that developers launched 504 uncompleted private residential units (excluding ECs) for sale in 4th Quarter 2022, compared with the 1,455 units in the previous quarter. For the whole of 2022, developers launched 4,528 uncompleted private residential properties for sale, compared with the 10,496 units in the previous year.

Developers sold 690 private residential units (excluding ECs) in 4th Quarter 2022, compared with the 2,187 units sold in the previous quarter. For the whole of 2022, developers sold 7,099 private residential units, compared with the 13,027 units in the previous year. The summary of the launches and take-up on residential property is shown in **Exhibit 9**.

Exhibit 9: Number Of Private Housing Units Launched And Sold By Developers (excluding ECs)



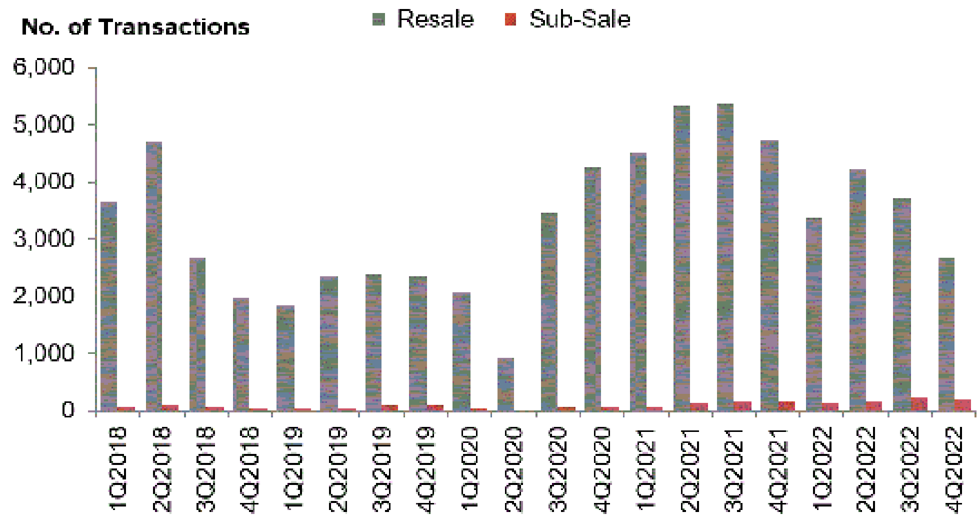
Source: URA

Developers launched 1,257 EC units for sale in 4th Quarter 2022 and sold 1,127 EC units in the quarter. For the whole of 2022, developers launched 1,873 EC units for sale and sold 1,479 EC units, compared with the 1,609 units launched and 2,119 units sold in 2021.

URA noted that there were 2,694 resale transactions in 4th Quarter 2022, compared with the 3,719 units transacted in the previous quarter. Resale transactions accounted for 75.1% of all sale transactions in 4th Quarter 2022, compared with 60.5% in the previous quarter. For the whole of 2022, there were 14,026 resale transactions, compared with the 19,962 resale transactions in 2021.

There were 204 sub-sale transactions in 4th Quarter 2022, compared with the 242 units transacted in the previous quarter. Sub-sales accounted for 5.7% of all sale transactions in 4th Quarter 2022, compared with 3.9% in the previous quarter. For the whole of 2022, there were 765 sub-sale transactions, compared with the 568 sub-sale transactions in 2021. the summary of the resale and sub-sales is shown in **Exhibit 10**.

Exhibit 10: Number Of Resale And Sub-sale Transactions For Private Residential Units (excluding ECs)

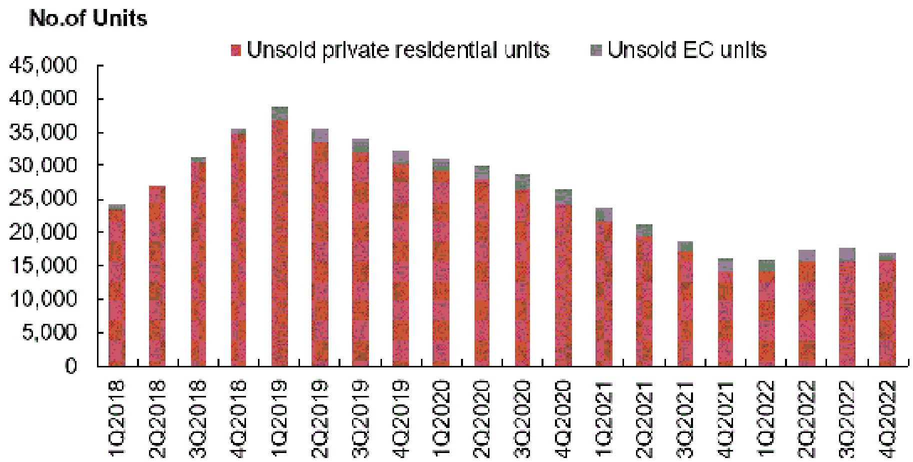


Source: URA

As at the end of 4th Quarter 2022, there was a total supply of 46,041 uncompleted private residential units (excluding ECs) in the pipeline with planning approvals, compared with the 49,384 units in the previous quarter. Of this number, 16,024 units remained unsold as at the end of 4th Quarter 2022, compared with the 15,677 units in the previous quarter.

After adding the supply of 5,706 EC units in the pipeline, there were 51,747 units in the pipeline with planning approvals. Of the EC units in the pipeline, 937 units remained unsold. In total, 16,961 units with planning approvals (including ECs) remained unsold, compared to 17,737 units in the previous quarter and 16,139 units a year ago as shown in **Exhibit 11** on the next page.

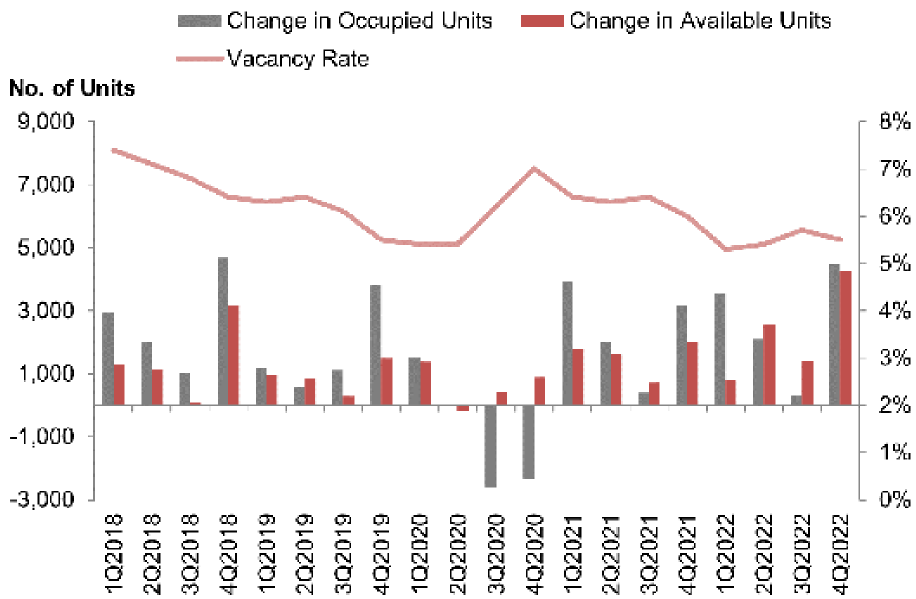
Exhibit 11: Total Number Of Unsold Private Residential Units In The Pipeline



Source: URA

The stock of completed private residential units (excluding ECs) increased by 4,245 units in 4th Quarter 2022, compared with the increase of 1,424 units in the previous quarter. The stock of occupied private residential units (excluding ECs) increased by 4,496 units in 4th Quarter 2022, compared with the increase of 291 units in the previous quarter. As a result, the vacancy rate of completed private residential units (excluding ECs) decreased to 5.5% as at the end of 4th Quarter 2022, from 5.7% in the previous quarter as shown in **Exhibit 12**.

Exhibit 12: Stock And Vacancy Of Private Residential Units (excluding ECs)



Source: URA

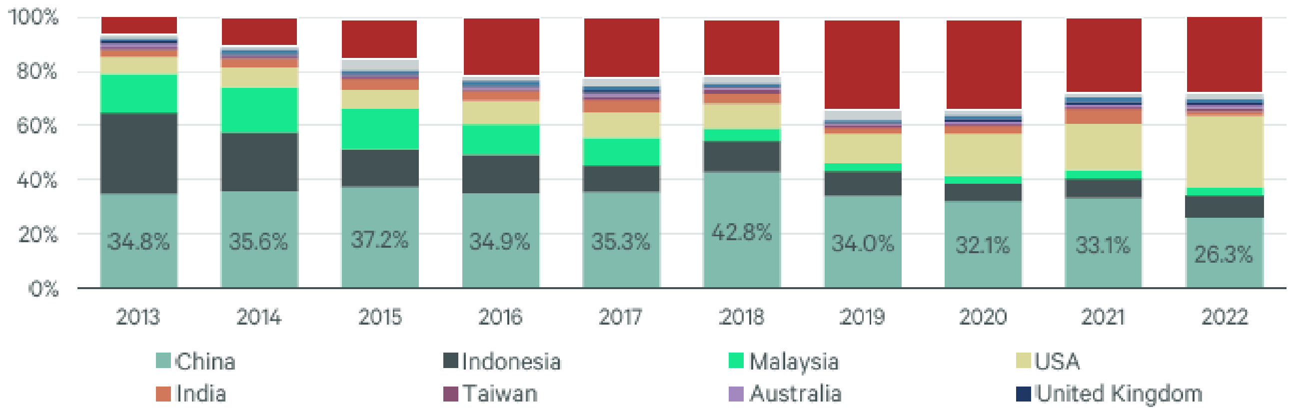
(II) Healthy Launch Pipeline to Support Sales

CBRE noted that new home sales in 2022 hit a 14-year low amid repeated rounds of cooling measures, a softening economic backdrop and sharp mortgage rate hikes. As noted on page 7, 7,099 new private homes changed hands in 2022, even lower than the 7,316 units in 2014, following 2013's cooling measures. Take-up was also held back by limited supply from new launches as developers stood on the sideline after December 2021's and September 2022's cooling measures, coupled with the souring global macroeconomic backdrop. CBRE believes that the take-up is likely to pick up significantly in 2023 as deadline for Additional Buyer's Stamp Duty (ABSD) remission draws nearer for numerous projections. An estimated 10,000 – 12,000 units could potentially be launched in 2023, with the bulk of supply in the RCR and OCR from Government Land Sales (GLS) and collective sale sites acquired in 2021 and 2022.

(III) Returning of Chinese Buyers

CBRE highlighted that foreign buying dwindled in 2022 despite the full reopening of Singapore's borders. This was largely attributed to less participation from Chinese buyers due to strict travel restrictions and lockdowns. Since 2013, Chinese investors have been the top foreign homebuyers in Singapore by nationality, typically accounting for about 32%-37% of foreigner private home sales as shown in **Exhibit 13.**

Exhibit 13: Percentage of Foreigner Sales By Nationality (2013-2022)



Source: CBRE

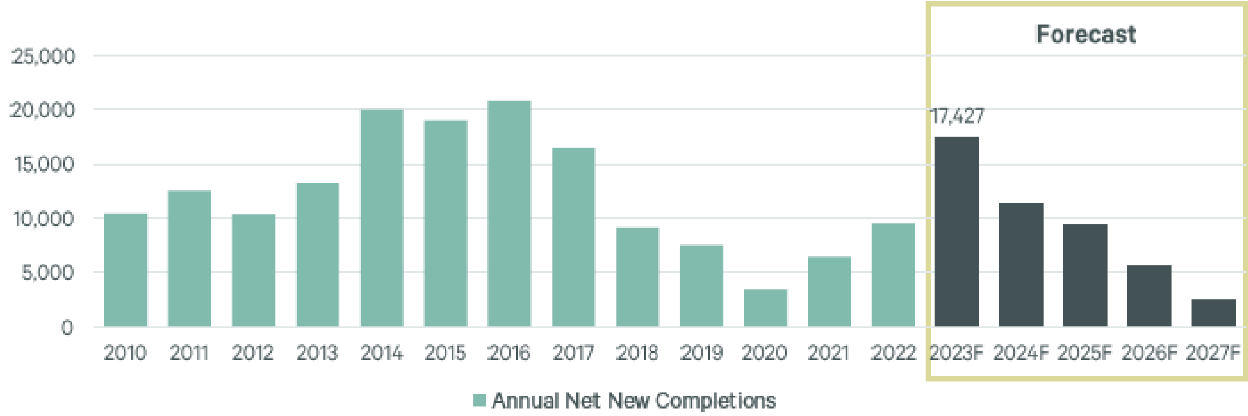
CBRE noted that the percentage of foreigner's sales declined significantly to 26.3% in 2022. Looking ahead, the earlier-than-expected reopening of China borders from 8 Jan 2023 is expected to bode well for foreigner sales. With increased activity and pent-up demand from mainlanders, CBRE believes the number of units sold to Chinese homebuyers in 2023 could normalize to 350 – 400 units, recovering from 2022's low level

(IV) Outlook

(a) Rental

CBRE noted that the rental market has been seeing a historic run-up, with the URA rental index of private residential properties posting a 29.7% yoy surge in 2022, as noted on page 6. The rapid rise in rents is being driven by a confluence of tight supply and robust demand. Singapore population grew by more than 180,000 in 2022, contributing to increased rental demand. Meanwhile, new supply from the clearing of construction backlog has yet to keep pace with the strong demand. Moving forward, the 17,427 private residential units projected to complete in 2023, as shown in **Exhibit 14**, would inject a significant amount of stock into the market and alleviate the tight supply situation. Correspondingly, rental growth momentum is expected to face resistance and moderate.

Exhibit 14: Historical and Future Private Home Completions (excl. Ecs) (CBRE)



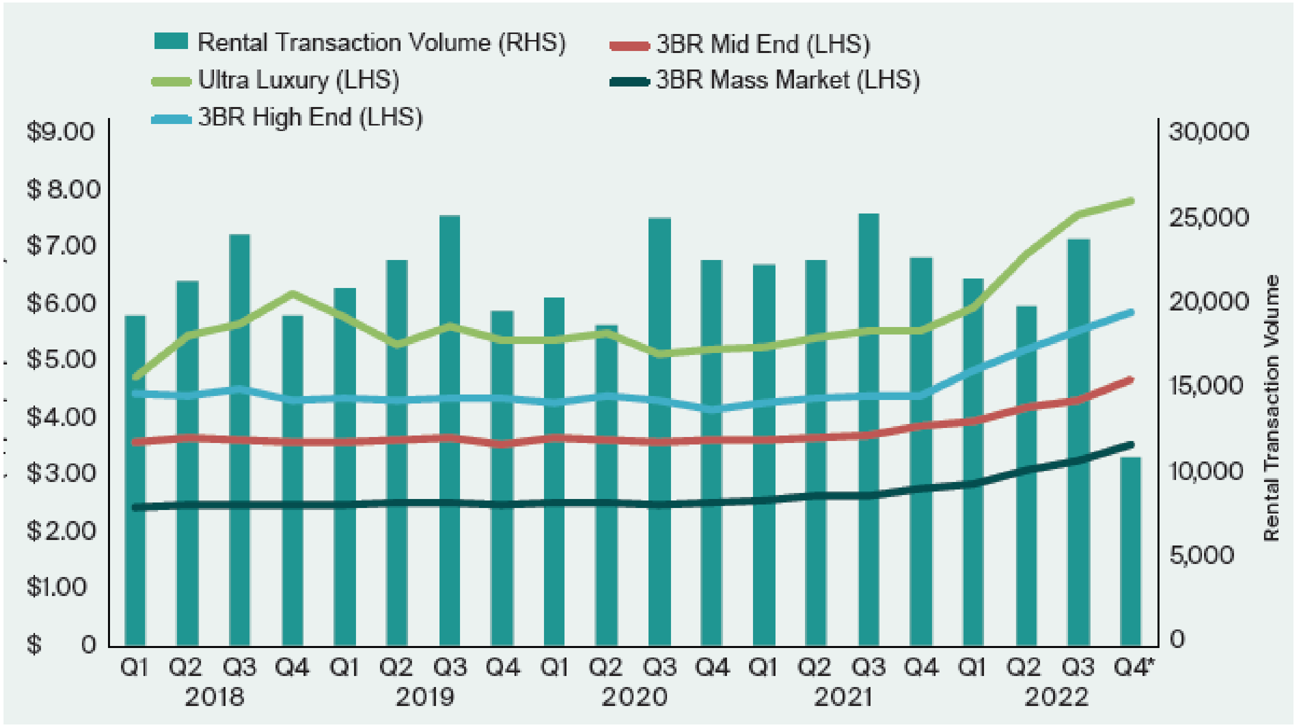
Source: CBRE

C&W noted that private residential rental market has been the star outperformer amongst all other property segments. The robust growth in rents was driven by limited supply, transient leasing demand due to construction delays of new homes in 2020 and 2021, and higher expat demand, which was accentuated by Singapore's increasing prominence as a regional business hub due to a swift economic reopening in 2022. Rent growth is expected to ease in 2023, as an influx of new supply enters the market. C&W believes private residential rents are expected to grow by up to 5% in 2023.

JLL noted that strong leasing demand amid limited stock available for lease drove rents up at a faster qoq pace for the fourth consecutive quarter. However, JLL believes that prime rents could grow at a slower pace in 2023 as a large influx of new supply is expected, coupled with a weaker economic performance, which could affect leasing demand and vacancy rates.

Knight Frank noted that island wide leasing contracts for non-landed private homes in 4Q2022 decreased significantly compared to 4Q2021 as shown in **Exhibit 15**. Despite the decrease in rental volume, demand pressures in the leasing market remained high as rents increased between 3% and 9% q-o-q across the different segments. With ongoing geopolitical tensions in various parts of Asia and the world, Singapore offered foreign professionals and executives a stable environment in which to live and work characterized by connectivity to quality schools, retail amenities and modern workplaces. In addition, locals waiting for their new homes to complete also added to the ongoing demand for rental accommodation.

Exhibit 15: Average Rents and Rental Transaction Volume of Non-Landed Private Residential Properties (excluding EC)

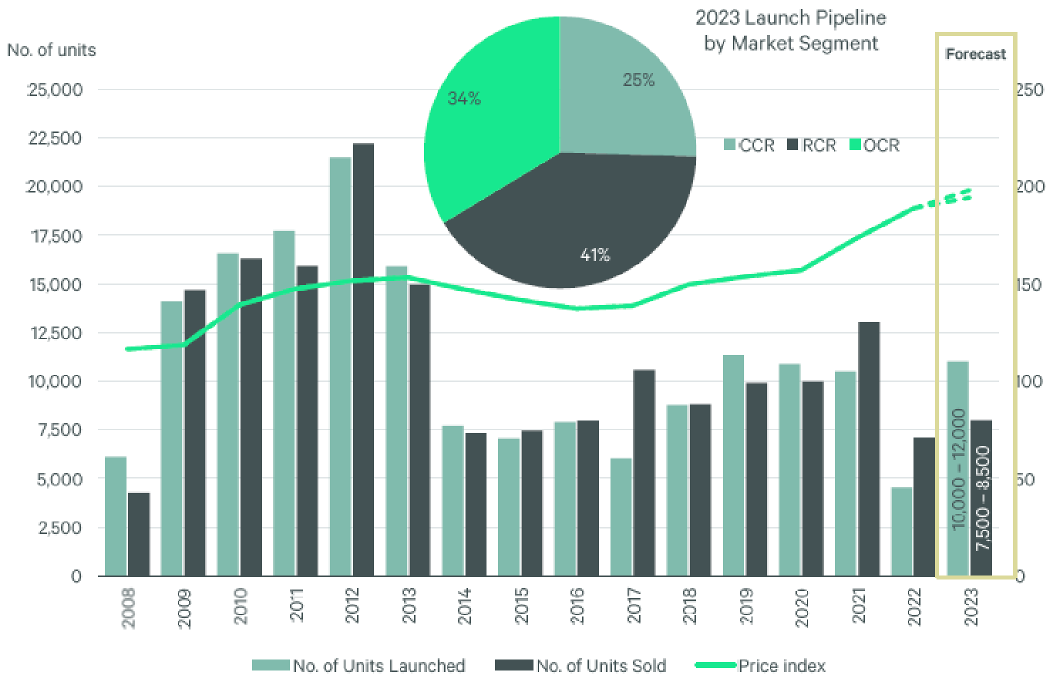


Source: Knight Frank

(b) Price

In view of the healthy pipeline of launches which could provide homebuyers with more options, CBRE expects new home sales to improve to 7,500 – 8,500 units in 2023 as shown in **Exhibit 16**. Correspondingly, barring widespread retrenchments and a sustained recession, private home prices which rose 8.6% in 2022 are projected to moderate to 3- 5% in 2023 due mainly to a weaker economic outlook.

Exhibit 16: CBRE New Home Launch and Sales Volume Forecast



Source: CBRE

C&W noted that while underlying private residential demand remains strong, a confluence of headwinds has dampened demand. This includes rising financing costs, an uncertain economic outlook and another round of cooling measures in September 2022. However, this is balanced by a robust rental market, low levels of unsold inventory and rising property replacement costs. As such, private residential prices could still inch higher, by up to 3% in 2023. On the other hand, volumes are expected to fall as some buyers might hold their purchases given a combination of higher borrowing costs, weaker economic growth and an expected slowdown in resale HDB prices. As such, total private residential volumes in 2023 could moderate to below 20,000 units.

In addition, Knight Frank noted that even though some 17,000 plus new private homes are slated for completion in 2023, the leasing market is unlikely to cool off immediately in 2023 due to the persistent leasing demand in the private residential market. Private home downgrades affected by the latest cooling measures would also put pressure on the leasing market. The lack of saleable inventory continues to crimp transaction activity with homeowners hesitant to sell their homes without securing a new one to occupy, even though price premiums were offered. However, come 2023, some 34 new projects could possibly launch island-wide consisting of around 12,000 units that will bring some relief to the undersupplied situation and provide homebuyers with more product choices in a buffet spread of locations. However, the greater volume and variety of new private stock comes at a time of economic uncertainty, employee layoffs in the technology sector, continued rising interest rates as well as the increased cost of consumption. Therefore in 2023, demand might turn more conservative with 7,000 to 8,000 new sales and an estimated overall private residential transaction volume ranging between 21,000 to 25,000 units. In view of the above, private home prices are projected to grow by a more moderate 5% to 7% for the whole of 2023.

For 2023, Savills believes that if mortgage rates move towards 5% and buyers hold the expectation that they will remain sticky, both new and resale demand may be softer than this year. However, as the successful land bid prices in the 2022 land tenders did not moderate, and with inflation still at heady levels, the total cost of production for new launches should be higher than this year. Higher new sale prices would then lend support to resale prices. Savills is forecasting overall prices to rise 7% yoy in 2023. If interest rates begin to fall by mid-2023, this would boost buyer confidence and may see prices rise by up to 10%.

(V) Summary

Considering the above, we note that the rental market has been experiencing an unprecedented rise; in fact, the URA rental index for private residential properties showed a yoy increase of 29.7% in 2022. The rapid rise in rents was being driven by a combination of limited supply and increased demand from expat, which was accentuated by Singapore's growing importance as a regional business hub as a result of the economic recovery in 2022. Looking ahead, we note that real estate houses believe that rental growth may slow down in 2023 due to an anticipated large influx of new supply and a weaker economic performance, both of which may have an impact on leasing demand and vacancy rates.

In terms of private home prices, while underlying private residential demand remains strong, a confluence of headwinds has dampened demand. Additionally, there are rising financing costs, a cloudy economic future, and additional cooling measures beginning in September 2022. Volumes are also expected to decline as some buyers decide to hold off on making purchases due to a combination of higher borrowing costs, slower economic growth, and anticipated price declines for resale HDB units. Various real estate houses believe that demand might turn more conservative and private home prices are projected to grow by a more moderate 3% to 10% for the whole of 2023 as shown in **Exhibit 17**.

Exhibit 17: Summary Of Real Estate Houses' 2023 Residential Rental and Price Growth Forecast

	2023 Growth Forecast	
	Rental	Price
CBRE	Face resistance and moderate	3%-5%
C&W	5%	3%
Knight Frank	-	5%-7%
Savills	-	7%-10%

Source: Respectively real estate houses

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