Media Coverage

Singapore CRE expected to remain strong over the medium term

Despite the current drop in values, Singapore's CRE sector continues to be supported by both strong demand and supply-side fundamentals

Steven Cranwell, Managing Director and Head of Commercial Banking, HSBC Singapore

(This article was first published on 4 August 2016 by The Business Times)

Singapore has not been immune to the slowing economic conditions that have permeated globally over the past year, with a softening across many of its sectors – including commercial real estate (CRE).

The CRE sector here has been a strong growth sector for several years. Indeed, the government's Property Price Index (PPI) of office space has seen a general appreciation since 2010.

This changed in the second quarter of 2015, when cloudy global economic conditions along with a large supply pipeline led to a softening in rents in most CRE sectors, particularly offices.

The current subdued economic activity has prompted market commentators and analysts to predict a continued downward slide for the sector. In 2016, rents of office spaces in prime districts have been forecast to decline, and capital values are also expected to start to more closely track rents and moderate further in time.

Whilst a cyclical dip is undeniable, the sector appears nonetheless supported by strong demand fundamentals in the longer-term, including a steady and continued stream of businesses looking to set up offices in Singapore as well as the growing diversity and flow of inbound investment.

While HSBC expects the large impending supply of office spaces to continue to put downward pressure on CRE prices further into 2016, the decline is forecast to be at a moderate 5 per cent.

In June, sovereign wealth fund Qatar Investment Authority breathed a sign of life into a market gripped by worries of oversupply and rising vacancies by forging Singapore's largest office transaction and also Asia Pacific's largest single-tower real estate deal with the purchase of Asia Square Tower 1. In the same month, the proposed purchase of Straits Trading Building by an Indonesian tycoon would set a new record for the per square foot price, pointing to prices being kept buoyant by continued international interest.

Indeed, HSBC's forecast is line with the Singapore Economic Development Board which predicts Fixed Asset Investment – which refers to corporate investment in facilities, equipment and machinery — for 2016 to come in between S$8 billion and S$10 billion, slightly down from S$11.5 billion in 2015.

Medium-term demand for CRE spaces likely to be maintained by projected inflow of businesses to Singapore

Following the Brexit vote, overseas property buyers reignited interest in London property after the shock decision for the UK to leave the EU, as the sharp fall in sterling is seen by investors around the world as

Registered Office and Head Office:
21, Collyer Quay, #13-01, HSBC Building, Singapore 049320
Web: www.hsbc.com.sg
Incorporated in the Hong Kong SAR with limited liability.

a buying opportunity. The impact on Singapore's commercial property space, with its reputation as a safe haven, remains to be seen.

Despite the current subdued conditions, prime office spaces are expected to remain in relatively strong demand over the medium to longer-term.

This is given the city state's ease of doing business, combined with its status as a global financial and regional business centre. Additionally, Singapore is also known as the ASEAN launch-pad for corporates – proven by the fact that it already serves as the Asian headquarters of 41% of some 319 global Fortune 500 companies today.

Demand for office space is expected to continue to grow over time as more businesses look to enter Singapore to leverage opportunities that will emanate from the opening up of the region, given policy accords like the ASEAN Economic Community which is expected to boost Singapore's gross domestic product by an additional 9.5% by 2030.

Furthermore, Singapore's growing status as an innovation hub is also expected to attract more technology-based companies, including those in aerospace, biomedical industries, R&D and training – all of which will boost demand for CRE office spaces.

On the supply side, the pipeline of prime office spaces is also expected to taper off after 2019. This will likely lend support to an up-tick in rents and capital values even as demand increases and the current oversupply in the market becomes absorbed.

Pent-up investment demand to add further boost

Singapore's robust demand for CRE development over the medium term is likely to be met by an equally steady flow of inbound investment stemming from pent-up demand.

In recent bidding rounds of the local Government Land Sales program, for example, foreign developers – mainly from China and Hong Kong – have been actively taking part in tenders, taking advantage of the subdued prices as a strategic entry point into the Singapore CRE market. From their perspective, the current price lulls present attractive and lower-risk investment opportunities for their outbound investment strategy, particularly into a market like Singapore which is recognized as safe, politically stable and highly transparent.

HSBC has also seen increased investment activity amongst family offices in Asia who view CRE as a strong hard asset alternative that provides a sizeable regular yield, is less volatile and serves as an inflation hedge to ride out the tide of rising asset prices.

Given Singapore's status as one of Asia's largest private wealth hubs – with over US$2.4 trillion assets under management – family offices are also emerging as a key force in the next wave of CRE investment. New players could look into making a foray to own direct stakes in this asset class while existing investors increase their investment allocations.

Singapore's capital markets fertile ground to raise funds for CRE projects

The growing breadth of financing options and ease of raising debt in Singapore's capital markets is likely to continue to lend support to property companies' transaction activity and asset pricing, as investors continue to seek yield in the current environment.

Indeed, over the past few years, more property firms have been tapping the Singapore bond market to raise funds since it allows them to diversify their investor base as well as lock in longer term funding rates at still attractive levels. As a whole, the real estate sector now is typically among the top two largest bond issuers in the Singapore market.

Singapore real estate bond issuance came in at S$6.66 billion in 2014, making up 28% of total bond issuance in the market that year. This rose to 31% in 2015, and HSBC expects this to remain relatively steady this year as interest rates have moderated and the USD/SGD exchange rate is showing more stability.

With this ability to tap the market to raise funds, property companies have increased cash-flow to fund more opportunistic asset acquisitions, thereby potentially boosting CRE demand and prices in the longer term.

Singapore CRE has strong long-term investment appeal

Despite the current fall in capital values and rents, Singapore’s CRE sector remains a compelling opportunity over the medium term, particularly as competition for space is expected to intensify.