

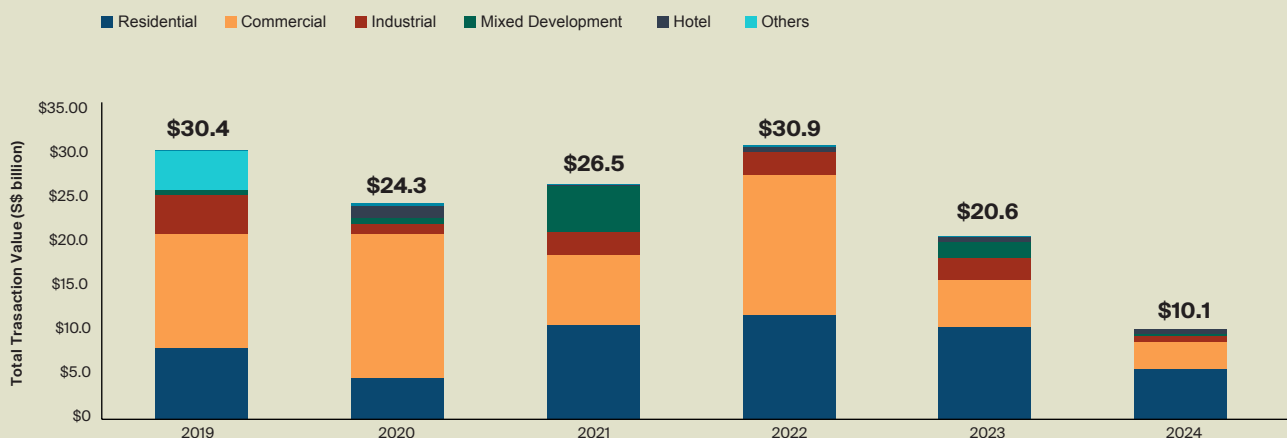


A Knight Frank Event on 17 July 2024

## PIVOTING REAL ESTATE INVESTMENT FOR OPTIMISATION BY ALICE TAN, HEAD OF CONSULTANCY

Since a strong post pandemic real estate investment recovery in 2022, the Singapore market now contends with renewed macro-market uncertainties. Finding that sweet spot in an investment mandate has been difficult. Although there was a pandemic era record \$31 billion in investment sales in 2022 with post-COVID-19 economic recovery characterised by strong interest for residential and commercial properties, investment activities were curtailed thereafter by geopolitical tensions, higher energy prices and materials arising from Russia's invasion of Ukraine, and elevated interest rates. In H1 2024, nearly half of 2023's investment sales value was achieved with over \$10 billion.

**Exhibit 1: Real Estate Investment Sales in Singapore shrunk from 2022 due to increased interest rates and global uncertainty**

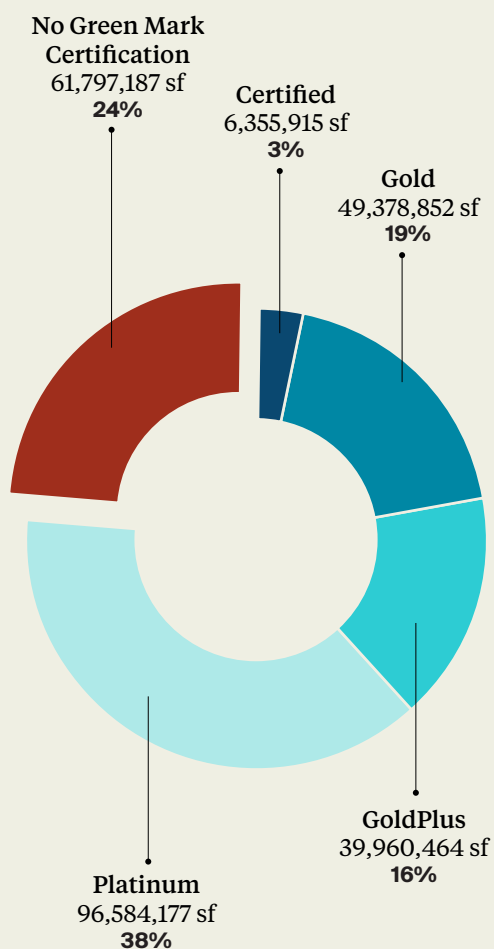


Source: Various sources, Knight Frank Research, data as at Jun 2024, with 2024 volume up till 18 Jun 2024

Greenfield developments from land sites via government tenders, collective sales and private sales were the preferred choice in 2022. However, these declined in 2023, due to elevated interest rates and development costs, as well as the prevailing gap in price expectations between sellers and buyers in the collective sales market. Investors have turned their attention towards existing buildings, with the proportion rising 42% in H1 2024, up from 37% last year. New buildings constituted more than 75% of overall transaction value of completed building sales in the last two years, and this further increased to over 80% for H1 2024.

The preference for new buildings can be due to the better specifications that include a Greenmark Certification of sustainability. At present, it is estimated that 76% of buildings by gross floor area (GFA) have Greenmark certification (office, retail, hotel, industrial and other niched types tracked by the Building and Construction Authority (BCA)) in Singapore. The focus on sustainability extends beyond government-backed certifications; ultra-high-net-worth individuals are also increasingly adopting environmental, social, and governance (ESG) strategies in their commercial property investments, according to the Attitudes Survey results of Knight Frank's Wealth Report 2024.

**Exhibit 2: Total Commercial Building Footprint in Singapore with Green Mark Certification (based on GFA)**



Source: BCA data as at 2022, Knight Frank Research

In the context of the changing real estate environment above, different investment mandates have evolved to adopt future-ready strategies that can ride on trending demand and regulatory requirements.



## THE SCENE

Singapore is highly developed and urbanised. But despite all the successes in urban development and living standards, there are challenges and difficulties. In view of current global uncertainty, high interest rates that make it almost impossible to find any kind of positive carry when scouting around for investable assets, widespread inflation pushing up the cost of construction and development, the need for sustainable buildings, and ESG requirements as well as government measures, how can one possibly invest and make a decent return on the investment? Are there still pockets of opportunity?

## THE EXPERTS



**Leonard Tay** – Head of Research, Knight Frank Singapore

**Andrew Lee** – Director, BlackRock

**Eugene Lim** – Founder and CEO, The Assembly Place

**Austen Chan** – Founder and Principal Architect, Studioshen

**Jackie Cheung** – Director of ESG, Knight Frank APAC and Singapore

**Alice Tan** – Head of Consultancy, Knight Frank Singapore

## THE TAKEAWAYS – THE CHALLENGES AND UNLOCKING THE OPPORTUNITIES

### Existing Buildings and Enhancement

In Singapore, real estate remains very much on the radar of institutional investors. Although some players have had a change in mandates, there is a very rare opportunity currently (circa 2024 and in the months ahead) to acquire very high-quality assets, even irreplaceable ones. Not at discounts, but reasonable prices. These are assets that can be held for the next 10 years, with options to reposition, adopt change of use, and/or build something of higher quality.

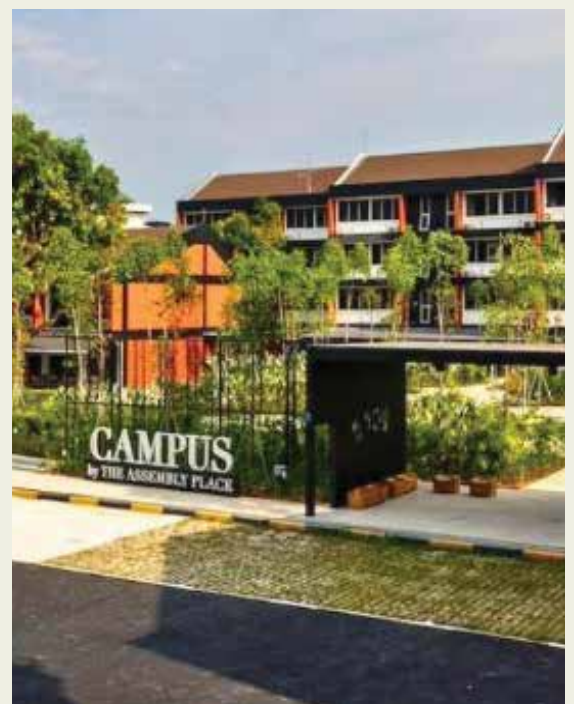
In the current market, the living sectors such as residential, serviced apartments and hospitality assets remain attractive. Accommodation rents increased quite aggressively in 2022 and early 2023. When put together with cooling measures, i.e. non-Singaporeans generally would not buy homes, this creates a very sticky pool of tenants supporting rents. Similarly with serviced apartments, there are around 70 serviced apartments in Singapore — or about 8,500 units — with 80% of them owned and operated by the top 10 operators. Historically, there is no real need to regularly upgrade these assets given limited supply and robust demand. Today, customers are more discerning and seeking modern



### Development and Redevelopment

Moreover, there is a growing belief that if it is not broken, why tear it down? Co-living operator The Assembly Place has a development management arm with a preference for ageing assets. The older the property is, the better — to find that proverbial needle in a haystack. The aim is to spend the least, turn the property around and try to rebuild, especially in the elevated interest rate environment.

Campus by The Assembly Place (at Telok Kurau) is such an example. It took four months to complete a major renovation without any changes to the structure. In the face of high interest costs, minimising unnecessary wasted time was critical. Marketing also began during the four months, so that revenue could start flowing in as soon as renovations were completed. Having been operational for around half a year, the asset went on to enjoy more than 100% occupancy due to overbooking, and some of the students were relocated to other co-living spaces. The success formula seems to be a mix of achieving maximum occupancy, making minimum but strategic surgical enhancements, and recouping operating costs in the shortest time.





Another example is the shophouse scene. In the past, perhaps the ground floor space could have been rented out at \$5 psf per month to a hardware shop, and levels 2 and 3 might only be able to draw foreign workers as tenants. The incoming rent might not be able to support the mortgage. But there are opportunities by putting co-living spaces on upper levels, after which it becomes easier to attract better tenants on the ground level. This can potentially double the rental income because of the better complementary tenant mix. When enough of this is thoughtfully planned and executed, it can lead to the revitalising of neighbourhoods. Kampong Glam, Little India, Jalan Besar and the Owen Road area are some examples.

In other more conventional mass market real estate sectors, some developers design very good products that strike the right note by balancing layout, sizing and amenities for the needs of the changing demographic profiles of homebuyers. And what if in the future, younger residents are not into buying properties? Build-to-rent options should also be studied. And then there are the seniors. The government announced a S\$3 million budget for senior living research and this is timely, before this becomes a national problem.

### **The Challenges**

But which is better? In an age of sustainability, is the Singapore real estate market inclined towards repurposing to extend the usable life of buildings? It seems that the majority of developers as business owners remain most concerned with maximising GFA, speeding up the regulatory process, and exploring possible options to best monetise an asset. And the regulatory landscape is challenging... everyone feels it, especially with regards to the technical agencies.

When modernising older buildings and maximising their GFA, a lot of capital is needed. Perhaps it would be good for the authorities to consider a full lease top-up for adaptive reuse to encourage more investment into this space, instead of razing old buildings to the ground and rebuilding. Would it not be in the best interest of everyone and the planet that adaptive reuse not be restricted to just conservation shophouses, but also to bigger projects? Can discounted or free years in the top-up of tenure be used to incentivise adaptive reuse and long-term real estate sustainability, as well as to lower emissions... shouldn't this be where the rubber meets the road?

### **Sustainability**

Real world practicalities, often economic in nature, continue to dominate real estate development in Singapore. Most times, development decisions are driven by cost, time, functionality and practicality. Even so, repurposing can also provide ESG value creation from two main benefits.

The first is to create opportunities by adapting changes in the wider and dynamic environment. During the pandemic in Hong Kong, a struggling Grade C commercial building in a primarily residential and school-filled neighbourhood was given a new lease on life. By repurposing the space to house lifestyle trades for the community, the building's occupancy rate improved to 90%. This transformation demonstrates the power of adaptive reuse, not only for revitalizing underutilised spaces but also for aligning commercial properties with the needs of their surrounding communities. This example highlights the potential of repurposing to create social value.



Secondly, this could prevent stranding risk and unlock the asset potential for acquisition by global investors who need to comply with Sustainable Finance Disclosure Regulation (SFDR), EU taxonomy, or decarbonization targets. When comparing retrofitting/repurposing existing buildings to demolishing and rebuilding, fewer carbon emissions will be generated, especially in terms of the embodied carbon from construction materials. Operational cost savings from a more efficient design is another added value.

Other suggestions on fostering vibrancy alongside sustainability include having the government set up a framework beyond the current regulations for conservation, repurposing or adaptive reuse — one where incentives are packaged together with the rules. Such incentives can include, but are not limited to, a discount factor for land betterment charge (LBC) rates for environmentally friendly adaptive reuse and change of use, and subsidised and/or bonus years in land tenure top-ups.

On a macro-overarching basis, population growth appears to be a fundamental factor for continued evolution and transformation in the real estate space. Especially if Singaporeans are unable to replace themselves due to the type of low birthrates that are symptomatic of developed economies, perhaps carefully measured immigration will ensure long-term dynamic growth.

Therefore, measures like the 60% Additional Buyer's Stamp Duty rate for foreign homebuyers would have to be reviewed to project a more welcoming posture. The foreign buyer ABSD rate also need not return to the previous 30% prior to April 2023. Any reduction, even with qualifying conditions (such as being limited to the CCR and for large stipulated lumpsum purchase amounts), could serve as an olive branch that reiterates how Singapore continues to remain open to wealth and investment from all over the world, and welcomes those with the talent and resources to grow and live together with us.

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