NUS-Real Estate

REAL ESTATE SENTIMENT INDEX

2nd Quarter 2020

About Real Estate Sentiment Index (RESI)

With effect from 1Q 2020, National University of Singapore (NUS) Real Estate (NUS+RE), which collectively represents Department of Real Estate (DRE) and Institute of Real Estate and Urban Studies (IREUS) at NUS, will independently publish the Real Estate Sentiment Index (RESI) to provide an alternative measure of the private real estate market performance. The data collection, analysis and reporting will be independently conducted by NUS+RE. [*Note: The index jointly developed by NUS Real Estate and the Real Estate Developers' Association of Singapore (REDAS) was first introduced in 2010.*]

The quarterly structured questionnaire survey is based on the sentiments of senior executives of real estate firms. RESI measures the perceptions and expectations of real estate development and market conditions in Singapore. RESI comprises a Current Sentiment Index and a Future Sentiment Index, tracking changes in sentiments over the past and the next 6 months respectively, and a Composite Sentiment Index which is the derived indicator for the current overall market sentiment. RESI scores range from 0 to 10, reflecting the extent of pessimism or optimism of the survey respondents. A "net balance percentage" approach is adopted to derive the scores for key determinants of the real estate market sentiment.

National University of Singapore
Institute of Real Estate and Urban Studies / Department of Real Estate
20 Heng Mui Keng Terrace
Singapore 119613
URL: https://ireus.nus.edu.sg/
Tel: 6516 8288 | Fax: 6774 1003

2nd Quarter 2020

NUS – Real Estate

REAL ESTATE SENTIMENT INDEX

2nd Quarter 2020

The sentiment has improved slightly in 2Q2020. More private housing sales were also reported in the month of June after the easing of the circuit breaker.
The use of virtual show flats and other technologies have been helpful while the social distancing is in place. However, buyers may need time to adjust and accustom to these technologies.

Professor Sing Tien Foo

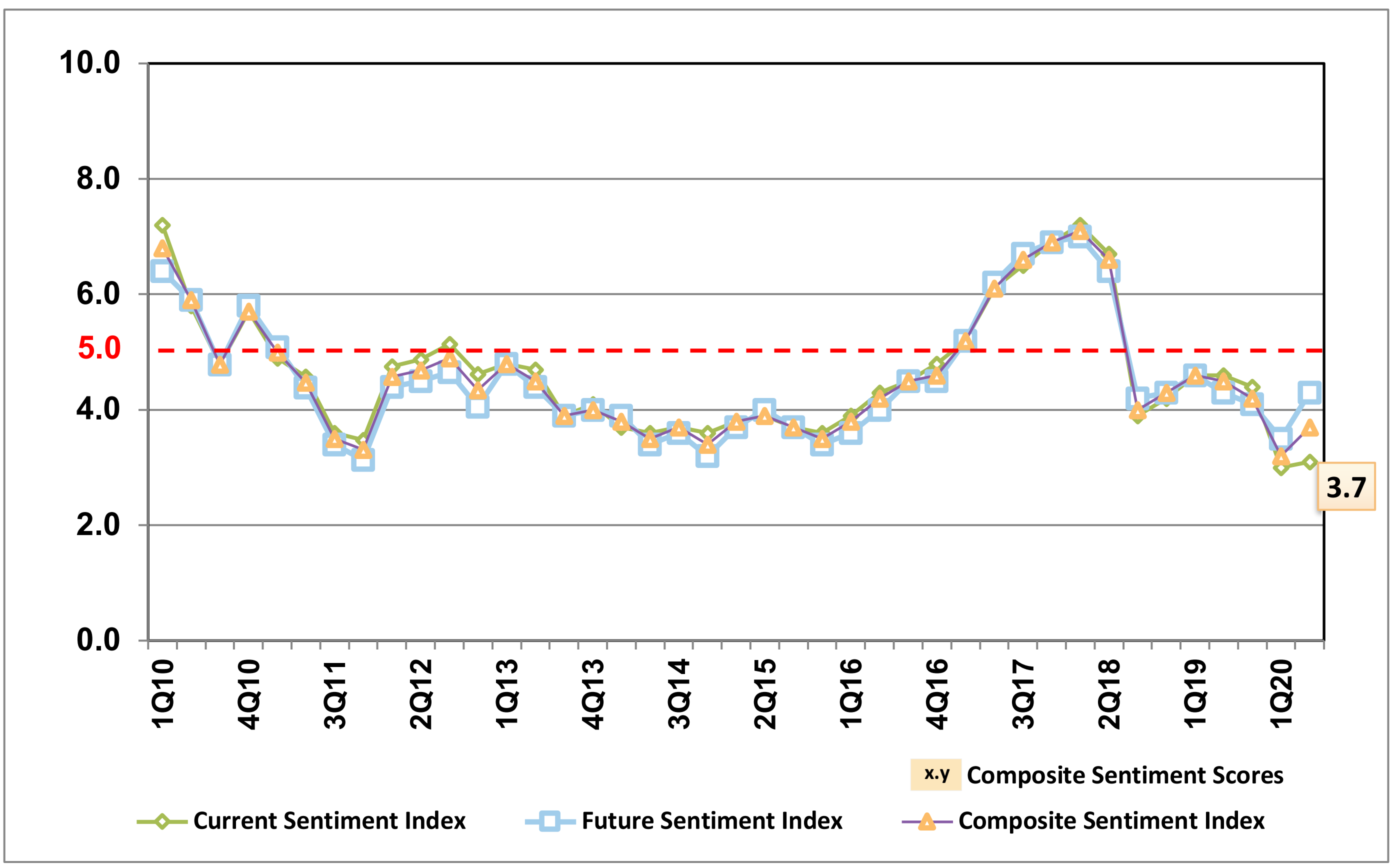
How would you compare the conditions of the overall Singapore real estate market (commercial, residential, hospitality etc.) over the time periods indicated?

Current Sentiment Index#:
The Current Sentiment Index improved slightly from 3.0 in 1Q2020 to 3.1 in 2Q2020.

Future Sentiment Index#:
The future sentiment index increased from 3.5 in 1Q2020 to 4.3 in 2Q2020.

Composite Sentiment Index#:
The overall market sentiment for the real estate market in Singapore were more positive compared to the previous quarter. The composite sentiment score improved from 3.2 in 1Q2020 to 3.7 in 2Q2020. The composite index remained below five, which indicates deteriorating conditions.

Exhibit 1: Real Estate Sentiment Index (1Q 2010 – 2Q 2020)



Source: NUS Real Estate

How would you rate the general performance (rental, price, occupancy, purchases etc.) of the sectors over the time periods shown?

Based on the composite measure of current and future net balance, only the industrial/logistics sector exhibited positive net balances in 2Q2020.

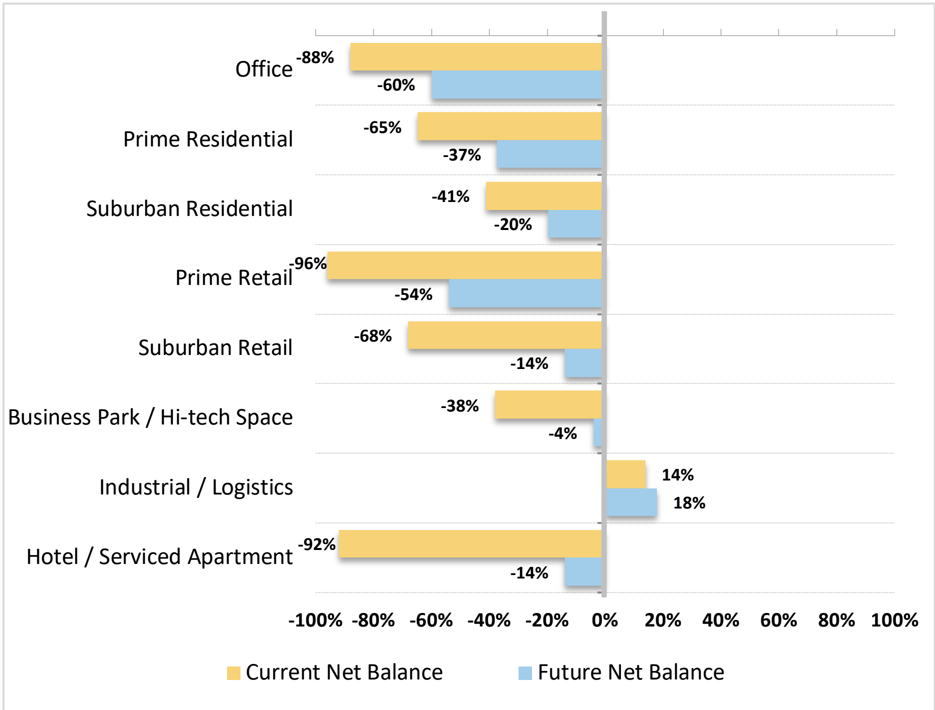
Current net balance

The Industrial/logistics sector was the only sector that has a positive current net balance of +14% in 2Q2020. In contrast, the prime retail, hotel/serviced apartment and office sectors remain among the worst performing sectors with the current net balance at -96%, -92% and -88% respectively.

Future net balance

The industrial/logistics sector is a bright spot in the next six months with its future net balance at +18%. The outlook of the other sectors remained subdued with negative future net balances. The office and prime retail sectors have the lowest future net balances of -60% and -54% respectively.

Exhibit 2: Real Estate Market Performance



Source: NUS Real Estate

Current Sentiment

"Overall, the general performance of the real estate sectors will be worse compared to 6 months ago due to the uncertainty of the pandemic in terms of the arrival of a vaccine and the varying restrictions on businesses across the world such as aviation and tourism industry."

"Despite the low interest rate environment, banks will continue to closely monitor the loan quantum provided."

"The movement controls during the circuit breaker period has severely affected the office and retail market. Furthermore, residential buyers were not allowed to visit show flats and view resale units during the circuit breaker. As we move into the phase 2 and beyond, the gradual lift of certain restrictions may lead to a sudden increase in housing purchases."

Future Sentiment

"With the availability of online shopping for a variety of purchases, the covid-19 situation has accelerated the growth of the e-commerce sector. As a result, the logistics sector continues to have a positive outlook as it provides storage facilities for online businesses."

"Market sentiments continue to improve but with varying results across real estate sectors and projects."

Comments from Survey Respondents

"Industry players are currently waiting for the new regulations and policies to be implemented on the construction industry. These new implementations could increase the development cost of real estate."

"Major economies around the globe are being badly affected by the covid-19 situation and with Singapore in a technical recession, the real estate industry will continue to be affected while it adapts to the new normal. "

Comments from Survey Respondents

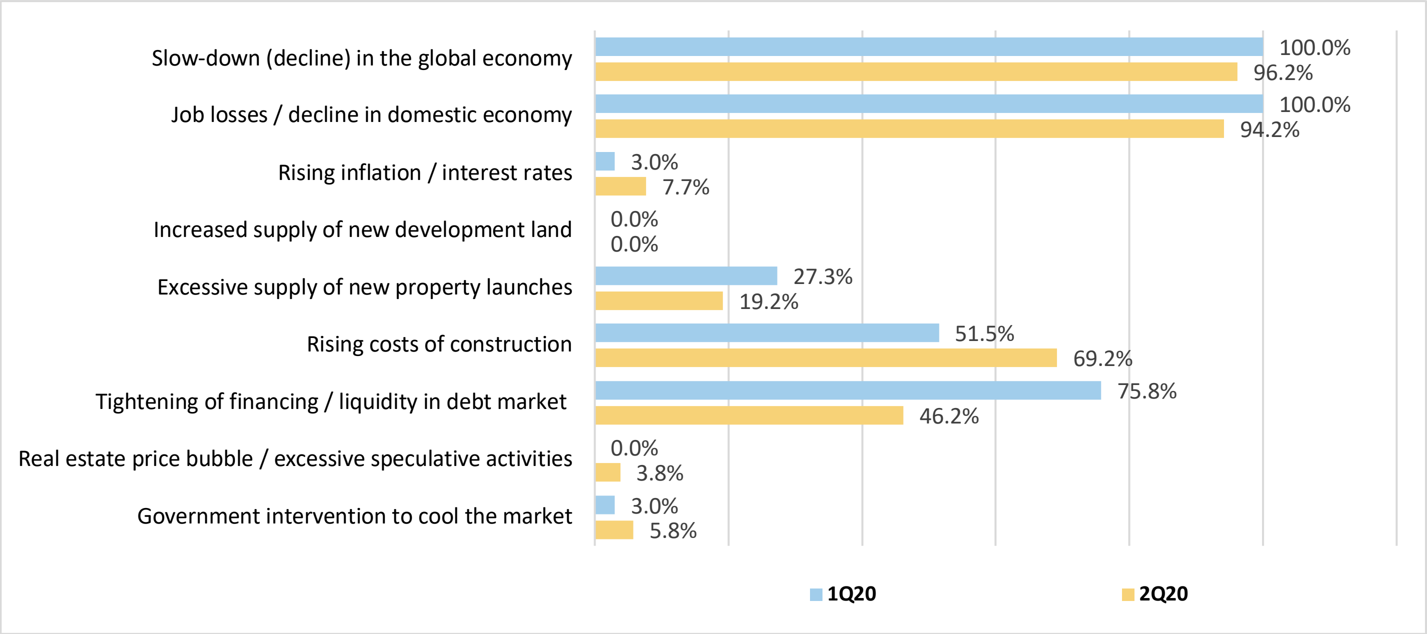
Do you foresee any potential risks that may adversely impact on market sentiment in the next 6 months?

The slowdown in global economy and job losses / decline in domestic economy are the top two potential risk factors in the next 6 months. Nearly all the respondents indicated both factors as potential risks.

The rising costs of construction has become a bigger concern among the respondents with the proportion of respondents highlighting construction costs as a risk increasing from 51.5% in 1Q2020 to 69.2% in 2Q2020.

In contrast, the proportion of respondents highlighting the potential risk of tightening of financing/ liquidity in debt market decreased from 75.8% in 1Q2020 to 46.2% in 2Q2020.

Exhibit 3: Potential Risks



Source: NUS Real Estate

"Development projects that intended to launch pre-covid-19 may consider to launch it at the initial reopening phase (phase 2) to capture that window of opportunity where sentiments are more positively looking and before any potential chance of a second circuit breaker."

"The extended ABSD deadline will allow some developers some time to assess the situation before launching their projects. Some developers will adopt a wait-and-see approach to assess other launches which could determine the health of the market."

"The Covid-19 situation continues to pose challenges to the economy which also affects job security and ultimately the income of individuals. Hopefully there can be some adjustments to the existing cooling measures to help ensure a sustainable property market during this period."

"As the global economy remains weak, a L-shaped recovery may be expected instead. This could affect consumer confidence, resulting in a fall in housing demand."

"Developers will continue to try and hold current prices or allow minor discounts to start the sales momentum and to help regain market confidence."

"With the weaken job market, it is unlikely that prices will trend higher."

Comments from Survey Respondents

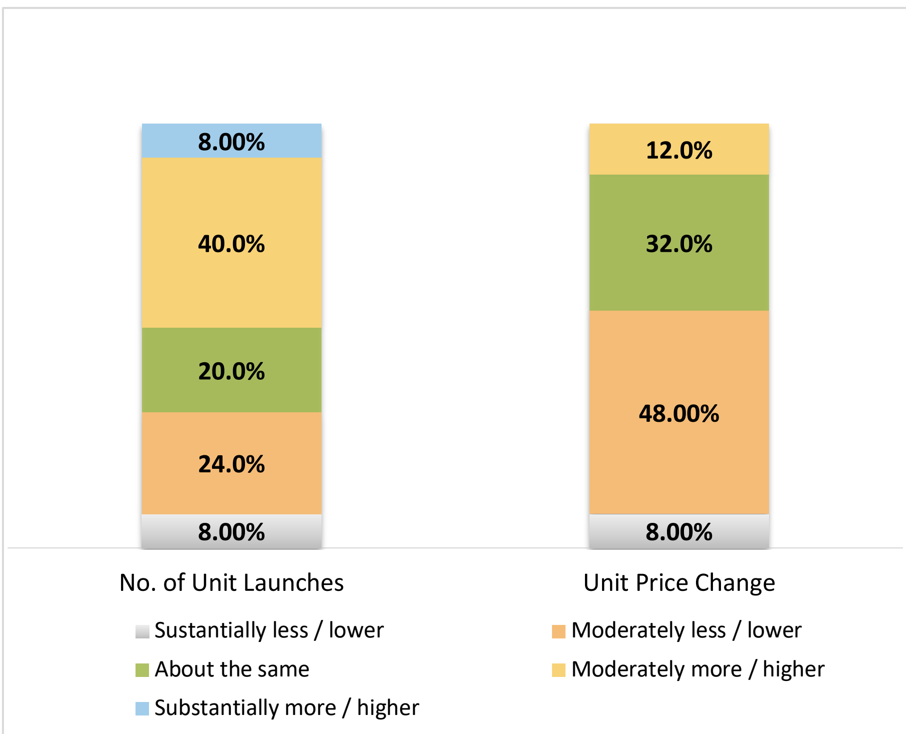
What are your expectations regarding the number of new residential units to be launched in the next six months?

In 2Q2020, about 48% of the respondents (developers only) surveyed expected the number of units launched in the next six months to be substantially or moderately more, while 20% of them expected that the number of units launched will remain about the same in the next six months.

What are your expectations on the pricing of new residential launches in the next six months?

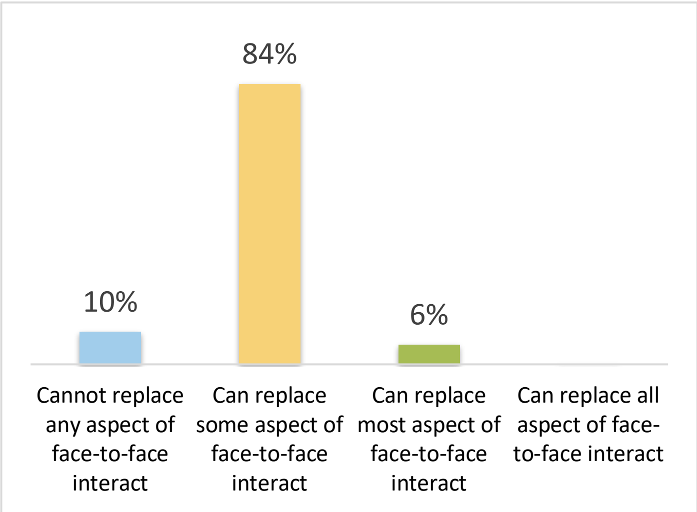
In 2Q2020, about 56% of the respondents (developers only) surveyed expected to substantially or moderately lower prices for new launches in the next six months, while 32% of them expected prices to remain the same.

Exhibit 4: Residential Launches & Prices



Source: NUS Real Estate

Exhibit 5: Virtual platforms ability to replace face-to-face interactions



Source: NUS Real Estate

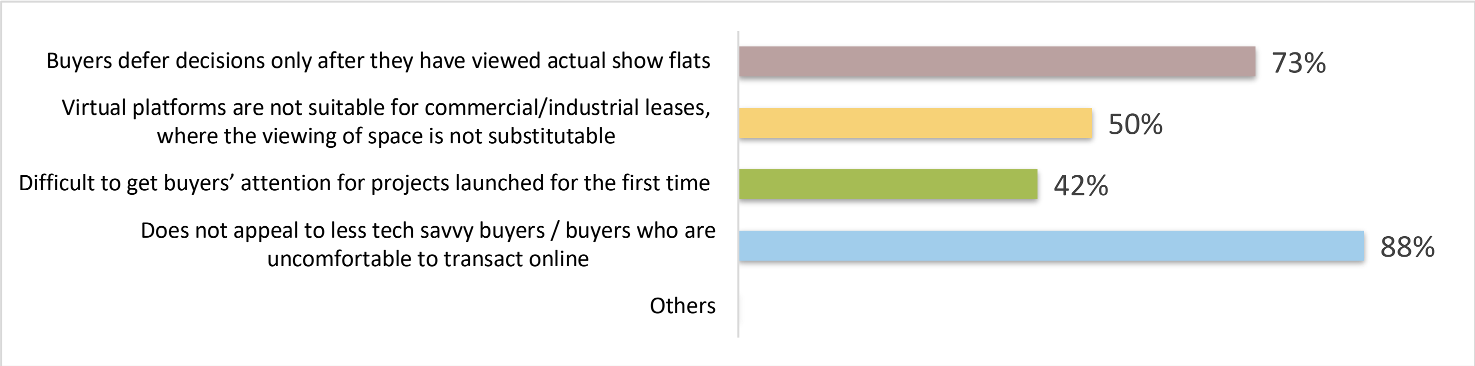
To what extent can virtual platforms replace sales galleries and face-to-face interactions?

About 84% of the respondents felt that virtual platforms could replace some aspect of face-to-face interaction while none of the respondents felt that the platforms are capable of fully replacing face-to-face interactions at this point.

What are the challenges in relying on only the virtual platforms to market and transact?

Among the list of challenges stated, 88% of the respondents felt that the virtual platform does not appeal to less tech savvy buyers/buyers who are uncomfortable to transact online. 73% of the respondents agree that buyers would defer decisions to only after they have viewed the actual show flats.

Exhibit 6: Challenges faced when relying on virtual platforms



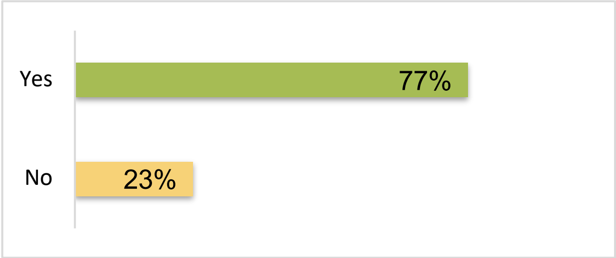
Source: NUS Real Estate

As part of its effort to reduce density and improve the resilience of migrant worker dormitories against the pandemic risks, the Government will build new dormitories and improve living standards of migrant workers. Under the new specifications announced by the Ministry of Manpower, each worker should be given at least 6.5 square meters of living space, and no more than 10 single-deck beds spaced at least 1 meter apart in each room. The new specifications will increase both building and operating costs of migrant worker dormitories.

Do you think increased costs of new worker dormitories will be passed on to buyers in terms of higher prices in residential development projects?

77% of the respondents agree that increased costs of new dormitories will be passed on to buyers in terms of higher prices in residential development projects.

Exhibit 7: Costs of new dormitories passed on to buyers

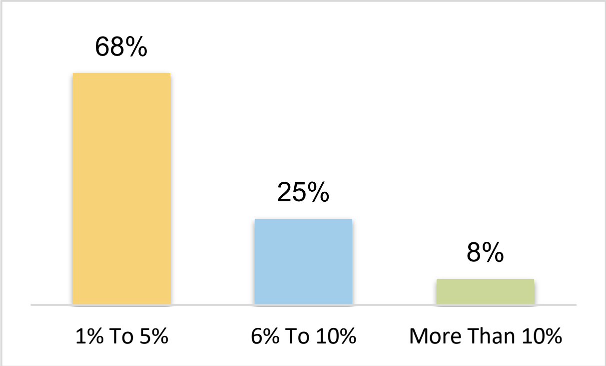


Source: NUS Real Estate

If yes, how much do you expect prices of residential development projects to increase by?

About 68% of the respondents expect prices to increase by between 1% and 5%. 33% of the respondents felt that it will be higher than 6%.

Exhibit 8: Expected increase in residential development prices after the cost is passed on to buyers



Source: NUS Real Estate

"The enhanced safety and social distancing measures implemented in the new workers dormitory layout, transportation and construction site will result in the change of labour cost. The next 6 months will be a trial for contractors to assess their labour cost and adjust it once they are permitted to work on site."

Comments from Survey Respondents

For enquiries, please contact:

Dominic Neo
Research Assistant
irsnjrd@nus.edu.sg

Eileen Kuan
Research Assistant
irskwe@nus.edu.sg

Dr Lee Nai Jia
Deputy Director
leenj@nus.edu.sg

Sing Tien Foo
Professor
rststf@nus.edu.sg
6516 4553

Explanatory Note

The RESI is an objective and comprehensive measurement specifically gauging the confidence of senior executives in the Singapore real estate and development industry. The survey measures respondents' perceptions and expectations of current and future real estate market conditions. Respondents assess relative market conditions between now and in the past six months, as well as their expectations for the next six months. A standard format questionnaire is mailed out electronically to industry experts. Respondents include developers, consultants, financial institutions, professional firms and service providers. The survey is thus representative of the overall Singapore real estate industry. The survey is conducted quarterly, in March, June, September and December.

A "net balance percentage" is used to indicate the overall direction of change in sentiment. This is the difference between the proportion of respondents who have selected the positive options ("better" and "increase") and the proportion of respondents who have selected the negative options ("worse" and "decease"). A "+" sign in the scores denotes a net positive sentiment (optimism) and a "-"sign indicates a net negative sentiment (pessimism). The derived net balance scores are not weighted by the size of the respondents' business.

About NUS Real Estate (NUS+RE)

The NUS Real Estate (NUS+RE) collectively represents Department of Real Estate (DRE) and Institute of Real Estate and Urban Studies (IREUS), at NUS.

Department of Real Estate (DRE) established in 1969 is part of the School of Design and Environment. With the mission to develop leaders and advance knowledge for the global real estate industry. DRE offers broad-based real estate education covering the areas of real estate investment and finance, urban planning and urban economics DRE has strong links with the local real estate industry and public agencies, and it has been in the business of producing industry leaders for the real estate industry in Singapore and beyond for more than 50 years.

'Institute of Real Estate Studies (IRES)' was established on 1 June 2006 as a university-level research institute with the mission to advance multidisciplinary research in real estate and urban fields. The Institute has been renamed as the ***Institute of Real Estate and Urban Studies (IREUS)*** with effect from 9 March 2018. The adding of '*Urban*' to the institute's name appropriately reflects the realities of the Institute's multi-disciplinary nature. It underscores the importance of staying relevant to our changing urban environment. The Institute promotes multidisciplinary collaboration and high-impact research on broad real estate issues in relation to, amongst others, finance, economics, urban development, wealth accumulation, demography, and environmental policies.