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GROUND VIEW

SINGAPORE REAL ESTATE

BUILDING IMMUNITY TO THE PANDEMIC

PhillipCapital

GROUND VIEW Vol 1. Issue 1. 1 - 31 JANUARY 2021

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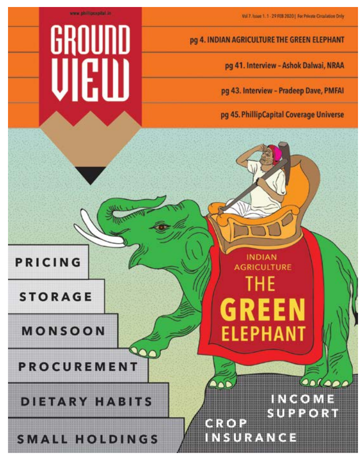

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Letter from the MD

2020 has been pretty surreal. Working from home, or more aptly, being stuck at home for months, has meant tasting every conceivable baking experiment by your spouse and perfecting going into the zen state even in the middle of the endless squabbling between your kids. However, the lockdown did have its upsides. Despite the adjustments we made for slipping into the new normal, we loved spending time so much time with our families – a once in a lifetime gift!. We have also launched our inaugural quarterly Ground View magazine by Phillip Securities Research. The objective of the magazine is to provide insights into key trends that affect listed companies in Singapore. We hope the information gathered in the magazine can help our clients make better-informed investment decisions.

We would like to thank our Phillip India Research team for all their kind support and guidance in producing this magazine. In our inaugural issue, we have focused on COVID-19's impact on Singapore's property sector.

The three key property segments analysed in this issue are – residential property, retail malls, and offices. Our analysts began by understanding the resilience of the residential market, despite Singapore entering the worst recession on record. We also explored the relevance of retail malls as online shopping becomes more pervasive. Another hot topic explored in this issue is the impact of working from home for the office sector in Singapore. The magazine also includes an interview with LHN Group, which is at the forefront of rolling out the latest real-estate products, such as co-sharing of offices and homes, and flexible storage and logistics spaces for e-commerce operators.

Cheers and Best Wishes, **Luke Lim**

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COVER STORY

BY PAUL CHEW & NATALIE ONG

SINGAPORE REAL ESTATE:

Building immunity to the pandemic

In this first issue of Ground View from Singapore, the aim was to delve deeper into the current trends and conditions of the country's real-estate market, to gain insights into the sector beyond headlines. To achieve this, we interviewed property agents and CEOs and conducted consumer surveys. Some surprises for us included the resilience of the residential market in Singapore due to stable prices and rising income levels, and a vibrant HDB market. TDSR is a key reason price volatility has been stamped out in Singapore. It erased speculative demand, which fuels boom-and-bust cycles. For the retail and office sectors, the conclusions were within our expectations. The retail space is not a melting ice-cube, but will skew towards higher-priced products, dining, and entertainment, which cannot be replicated online. There will be near-term transition pains. A strategy by the malls to fend off online competition is to build their own digital stores, tapping into their existing pool of customers. However, this is a long shot, and a tad late. Current online platforms have a larger scale of buyers and sellers, and deeper pockets to fend off competitors. The impact on office demand from hybrid work arrangements is more gradual. An offset will be new companies setting up operations or headquarters in Singapore.

The final portion of the magazine is an intriguing interview with LHN Group. We view the company as one of the most innovative and enterprising in terms of seizing emerging trends in real-estate demand. It ventured into the co-living, co-working and the self-storage space over the past few years to capture emerging trends in communal living and e-commerce. Recent financial results reveal that the strategy has worked well. Earnings more than doubled in FY19-20.

Resilience in a **pandemic**

Singapore's residential property market is unmistakably healthy, despite the economy

SURE, OR NOT?

2020 will go down as the worst year for Singapore's economy. Yet, its residential property market is palpably healthy. So much so, that one of this writer's astute relations questioned this prognosis in a typically Singaporean way, "you sure or not?". According to MTI's (Ministry of Trade and Industry) advanced estimates, Singapore's economy is expected to contract 5.8% this year. If so, this would be its worst year on record since 1964 (Figure 1. -5% for 2020). Against this backdrop, 3,487 new residential units were sold in 3Q20 – the highest in seven years (Figure 2). What should one make of this?

As Yoda would say, "Intrigued, we were" and PhillipCapital's property research team decided to speak to several property agents to suss out the reason. The discussions revolved around three topics. Firstly, who has been buying and why. Secondly, what is happening with the foreign buyers. Thirdly, is selling virtually effective during a lockdown*? Also, come on, who shops online for a million-dollar property? This is not Lazada!

*Singapore entered a circuit-breaker period on 7 April. Schools, and businesses not considered essential, were closed. The circuit breaker ended on 1 June, when more people were allowed to return to their workplaces. On 19 June, dubbed the Phase 2 reopening, most businesses were allowed to resume. Singapore entered Phase 3 on 28 December.

Figure 1: Steepest GDP drop on record

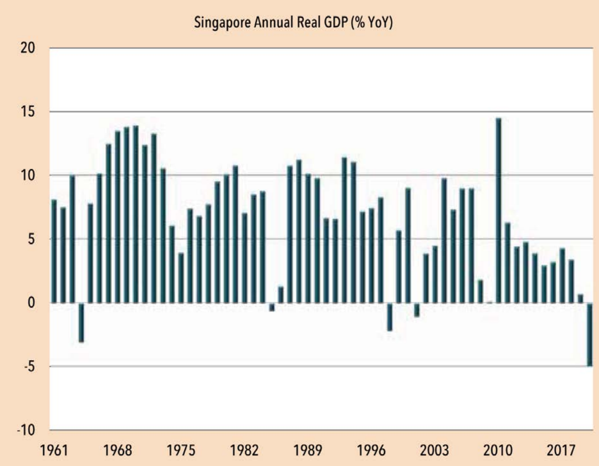
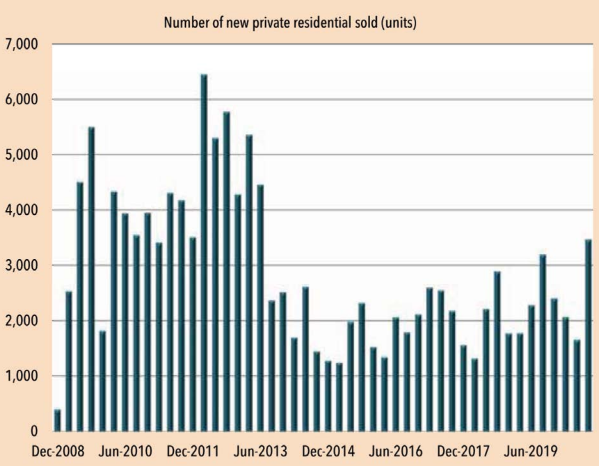


Figure 2: The most units sold in a quarter since 2Q13



Source: PSR, CEIC, MTI

WHO AND WHY?

Highest quarterly volume sales in seven years

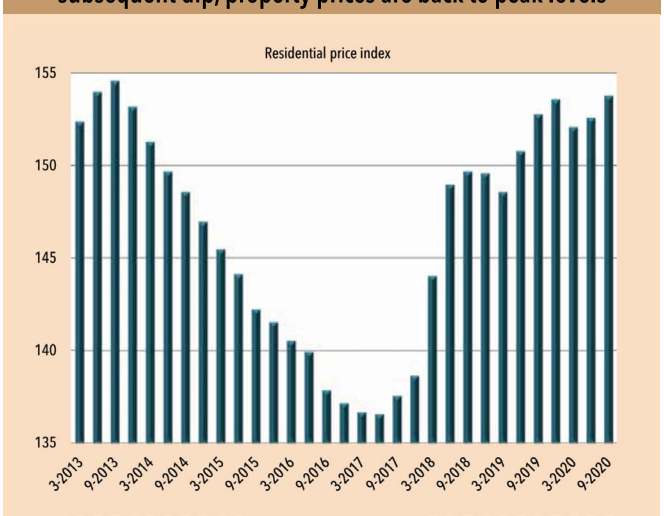
In the September quarter, 3,487 new homes - excluding executive condos - were sold. This was the highest on record since 2Q13 (Figure 2). Not just a seven-year high in quarterly transactions but the highest since the implementation of the "Stormbreaker (Thor's new hammer)" of all anti-speculation measures in Singapore, the dreaded Total Debt Servicing Ratio (TDSR). Repeat, TDSR! It is the most effective tool in capping an individual's ability to leverage and buy residential properties.

This year so far, total residential sales were down less than 1%, a remarkable feat. The bulk of the units sold were mass-market homes, found in the Outer Core Region (OCR)**.

*TDSR – Effective 29 June 2013, TDSR limits the amount of property loan available based on a borrower's income. It applies to individuals or sole proprietors. The monthly debt obligation on all loans - property, car, student, credit-card etc - is limited to 60% of the borrower's income. The property definition is all-encompassing and includes residential and non-residential in and outside Singapore. E.g. If monthly income is S$10,000, the maximum monthly property-loan instalment, including other types of loans, cannot exceed S$6,000.

**OCR – Context for non-nationals – if you are not in Orchard Road or the central business district - aka Raffles Place and Marina Bay, you are outside.

Figure 3: Following their high in 2013, and a subsequent dip, property prices are back to peak levels



Source: PSR, CEIC, MITI

Property prices unchanged after seven years

The explanation for healthy sales is reasonable prices. Following the implementation of TDSR in June 2013, the residential property index peaked in September 2013 at 154.6. In the seven years after that, prices are still down 0.5% (Figure 3). What TDSR did was to nip off much of the speculative demand in the market. Its stringent limit to borrowing narrowed the pool of buyers down to genuine purchasers who can afford the properties. Demand has become largely end-demand.

One cause for the reasonable pricing is developers keeping launch prices at marginal profit, or even breakeven levels. During the launch phase, developers are willing to drop their prices low enough to create sales momentum, or meet sales targets set by their banks. Many buyers find these launch prices affordable. The usual pricing strategy by developers is to raise post-launch prices, as units start to sell out. In some new projects, prices can increase by the mid-teens in two years, compared to the initial launch prices.

Another reason that developers are so kind in their pricing at launch is the additional buyer's stamp duty or ABSD*. Introduced in 2011, this is the kryptonite of all developers. The ABSD is a very costly 25% duty imposed on the purchase price of land even if a single unit is left unsold in their projects within five years. In the past, developers were not restricted in their timeline to launch a project after acquiring the land. Some with healthy balance sheets would rather purchase the land and hold it until higher prices arrive. Yes, poor people hoard rice, but rich men hoard land banks. Low interest rates make this practice even more tenable for developers. ABSD has virtually stopped such activities.

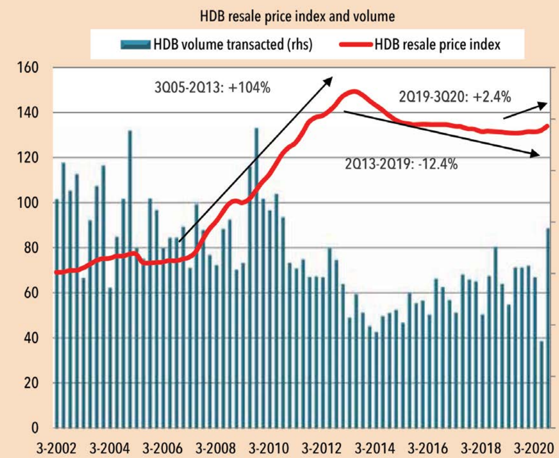
* ABSD – When developers purchase land for residential development, they have to sell all the units in their new projects within five years of purchasing land. Failure to do so is very punitive. Even if only a single unit is left unsold, the developer has to pay a 25% ABSD, with interest, on the land purchase price. ABSD was implemented on residential sites purchased on or after 8 December 2011. It has been raised twice. Initially imposed at 10%, it was raised to 15% on 12 January 2013, and to 25% on 6 July 2018.

Low interest rates help

As a rough gauge*, on a S$1mn standard 25-year loan, the difference between a 3.5% and 2.0% mortgage is an 18% higher monthly instalment - or S$9,000 p.a. more. The extra interest for the whole tenure of the loan is S$230,000. That is one nice and fat annuity income stream for the banks. Low interest rates do not affect the quality of the borrower. Remember that scary TDSR? Banks need to evaluate buyers on a 3.5% interest rate when computing their eligibility. Again, the omnipotent TDSR can prevent excessive leveraging due to record-low interest rates. Conversations with stakeholders revealed that there is still a large pool of liquidity available for property purchases. The average Singaporean is holding deposits close to S$100,000. Meanwhile, the average household has S$200,000 in household members' Central Provident Funds. While still unverified, these stats can be taken at face value for now.

*https://www.propertyguru.com.sg/singapore-property-resources/singapore-mortgage-calculators

Figure 4: HDB resale prices have begun creeping up



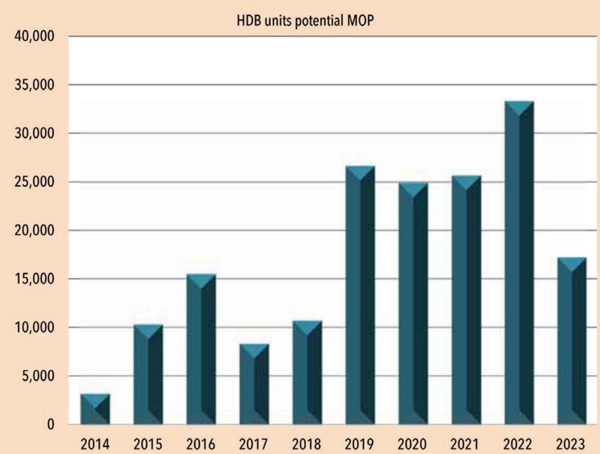
HDB (Housing & Development Board) upgraders – the major pool of buyers

Around 80% of OCR buyers are HDB upgraders, based on interactions with agents. The next statistic to crunch is that 80% of total residential purchasers are in OCR. This means around 64% of all new private home buyers are HDB upgraders. That was some tough computation, CFA training notwithstanding.

HDB owners will need to sell their existing units and gather sufficient equity to purchase a private residential unit. A vibrant resale market for HDB flats is, thus, critical to HDB upgraders. This was visible in a recent rebound in volumes and prices for HDB flats (Figure 4). There are generally two triggers for this. Firstly, housing grants* for HDB resale buyers were recently increased by S$40,000 to up to S$160,000, effective September 2019. The income ceiling for owners eligible for such grants was also raised from household income of S$5,000 to S$9,000.

Secondly, a huge number of HDB units have reached their minimum occupation period (MOP)* of five years. Their owners can now sell them on the open market. From Figure 4, you can see the surge in the number of units built five years ago, from 2019 onwards. The annual average number of units available for MOP from 2019 to 2023 will be a whopping 25,000, compared to 10,000 units in the prior three years. Not everyone will or can sell, but the data is indicative of the potential pool of upgraders that can turn into buyers of private residential properties.

Figure 5: From 2019 onwards, many HDB units have potentially completed their MOP



*HDB housing grant types for first-time families: a) resale flats – up to S$160,00 (S$50,000 CPF Housing Grant, S$80,000 Enhanced CPF Housing Grant, S$30,000 Proximity Housing Grant); b) new units – up to S$80,000 under Enhanced CPF Housing Grant; and c) first-time single buyers enjoy another set of grants.

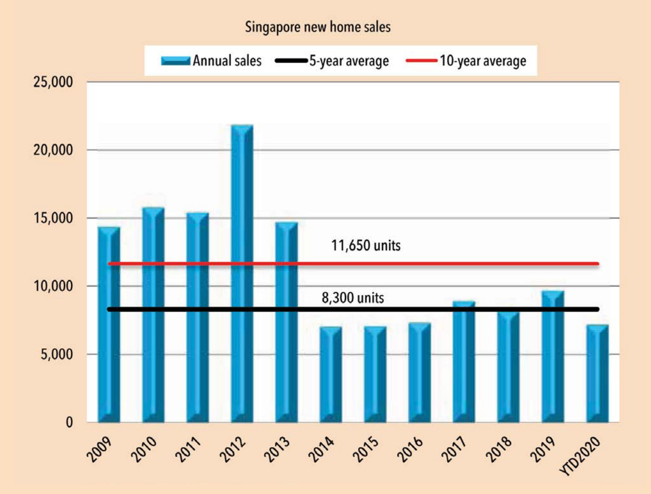
* MOP is five years from the point of taking possession of the units. It is to prevent owners from flipping their units for immediate gains. MOP includes flats bought from the HDB (e.g. BTO) and resale HDB flats bought with CPF housing grants. Only in limited circumstances can the units be sold before MOP, such as bankruptcy, divorce or inability to repay home loans.

Who can afford to buy expensive homes? Surprisingly many

The final discussion point – who could afford these million-dollar private residential homes in Singapore; don't look at the Phillip Research staff!. Over the past five years, the number of new private residential units sold averaged 8,300 units a year * (Figure 6). Assuming a S$1mn loan on a 25-year tenure and a 2.5% mortgage rate, the monthly instalment payment is S$4,000. Add another S$2,000 of credit-card and car loans to monthly commitments, the monthly debt obligation is S$6,000. To meet the 60% TDSR, a borrower's gross monthly income must be at least S$10,000. This group of earners has been growing in the last three years, growth that can comfortably support more S$1mn loans.

*In comparison, the 10-year annual average for units sold was 11,650. But this is unsustainable as it includes the speculative-demand years in 2009-2013, when average annual demand was around 16,500 units.

Figure 6: Residential sales average 8,300 p.a.



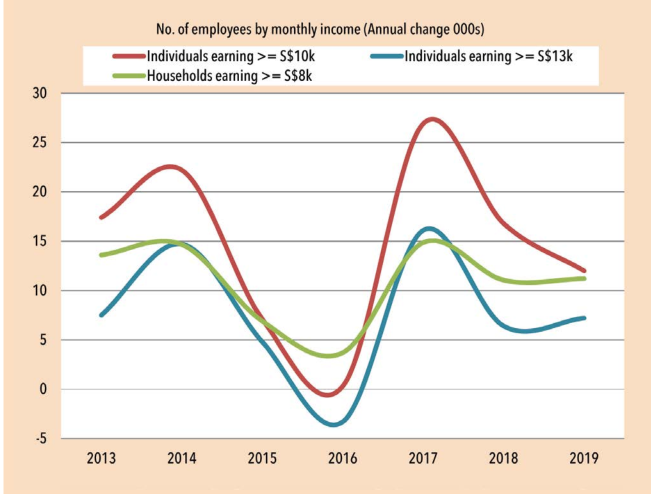
Source: PSR, CEIC, MITI

Scenario 1: Earning S$10k or more. The number of employed persons in Singapore with gross monthly income of $10,000 or more is around 12% of the workforce. It has been growing by around 18,570 per year over the past three years (Figure 7). This is more than sufficient to support the 8,300 demand.

Scenario 2: Earning S$13k or more. Before everyone starts attacking these assumptions, note that using S$1.3mn loan as the base, the monthly instalment is S$5,500. The gross monthly income needed will be S$12,500, rounded up to S$13,000. That group of workers has grown by an annual average 9,900 p.a. in the past three years.

Scenario 3: Household combined S$15k. Let's complicate it a bit more. Here, the assumption is that individuals in a household have a combined income of S$15,000. (Throwing in another S$2,000 since a typical household has extra monthly commitments such as tuition, ballet lessons, piano lessons, insurance premiums etc. Don't all Singaporeans know this!). The net increase in this group has been an average 12,000 households p.a. in the past three years. The actual number is 24,000, but divided by two here to account for a couple.

Figure 7: Jump in wage earners that can afford private property in the past three years



Source: PSR, CEIC, MITI

WHERE ARE THE FOREIGNERS?

Singapore is still a haven to foreigners

Demand for residential property by foreigners peaked in 2011, at 2,650 units, or 17% of total sales volume. Sales of new homes to non-nationals this year have been the lowest in more than a decade. For the past five years, foreigners accounted for 7% of new launches or 600 units p.a. The number has dropped to 4% this year or 290 units. Foreigners focus on Singapore's core central region due to their familiarity with well-known locations such as Orchard Road and Marina Bay. Agents who focus on high-net-worth buyers confirmed that they still view Singapore as an attractive market.

It is important for foreign investors that their assets in Singapore be protected. Singapore appeals precisely because of its political stability, currency resilience and safe environment. Its reputation has been further cemented by its handling of the pandemic and politics vis-a-vis countries in the region. However, demand has been weak as the pandemic limits the ability to market the products overseas. Mainland China is an important market and the easing of travel restrictions between China and Singapore will be helpful. Interest from Hong Kong buyers has been minimal. On the topic of financing, conversations were pretty short. For homes worth S$10-15mn, buyers do not borrow. Below S$5mn, borrowing is usually done at a maximum 70% LTV.

BUY PROPERTY ONLINE

Yes, people do buy virtually

During the circuit breaker, show flats were shuttered. A few properties changed hands without physical viewing. This was no big deal, as even when buyers buy from show flats, they are essentially still buying off development plans as the completed products can differ. For investors, the pricing of a property is more critical to the buying decisions. However, in general, owner-occupiers still prefer the look-and-feel of show flats before committing.

Also, high-end CCR projects are too pricey to buy virtually. Occasionally, some rare transactions are executed via the friends or relatives of overseas buyers. They view the units and relay what they find to the buyers virtually.

The takeaway from channel checks is, the private residential market in Singapore is resilient. Several factors contribute to this:

- Attractive prices that have been flat since peaking in 2013
- Developers pricing products at modest profits due to stamp-duty datelines
- A growing pool of buyers due to increased income levels
- Mass-market support from HDB upgraders
- And foreign demand due to Singapore's political and economic stability.

Near term, volumes might taper off from the pent-up sales in 3Q20, but as the economy heals, and foreigners return, 2021 looks set to be another resilient year for the private residential property market.

Source: channelnewsasia.com

Evolution, **not apocalypse**

Retail malls face leasing headwinds due to cost rationalisation efforts by retailers, enabled by the lower cost of selling online. However, retail malls remain a crucial part of the social fabric. Retail landlords will need to evolve and reposition the malls to capture e-commerce resilient segments, and draw shoppers through the introduction of new concepts and experiential elements

Retail was the second-hardest-hit casualty of the pandemic. Heightened e-commerce penetration weakened leasing demand and left malls defending their value propositions. Lingering operating restrictions, reduced sales and higher fulfilment costs have cast a long shadow over some retailers' ability to return to profitability. For struggling tenants, the pandemic was the final nail in the coffin.

E-commerce penetration and cost-rationalisation among retailers beg the question: is this the beginning of the end for malls? We begin uncovering answers by delving into consumer behaviour and how landlords have responded to the shifting retail landscape.

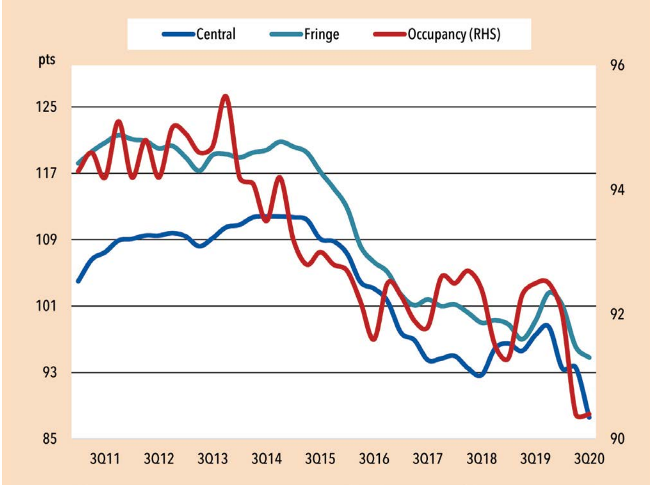
Singapore's two-tier retail market

Retail malls in Singapore can be broadly placed into two groups: downtown/central and suburban/fringe malls. Their location, positioning and rental rates influence the type of tenants that take up their space as well as the shoppers' profile.

Centrally-located malls are frequently chosen for flagship stores and by luxury brands. These malls enjoy patronage by locals and tourists alike, and are largely occupied by discretionary trade sectors. In contrast, suburban malls are located at transportation nodes near household catchment areas. As such, they cater to necessity purchases such as groceries, ready-to-eat foods and toiletries, with largely recurring demand.

A two-tier market has formed over the past two decades, with diverging trends in rents and valuations. Fringe rents and prices have outperformed their central counterparts (Figures 1-2). Suburban assets once again demonstrated their stability and resilience during the pandemic. Fringe assets have maintained their 2018 prices

Figure 1: Fringe rents held up better than suburban rents



Retail Rental Index Rebased 4Q1998 = 100	Industry	Central	Fringe	Occupancy (%)
3Q20	90.9	87.6	94.8	90.4
QoQ	-4.5%	-6.4%	-1.4%	0 ppts
YoY	-7.9%	-10.2%	-4.4%	-2.1 ppts

Source: URA (rebased 4Q1998), CEIC, PSR

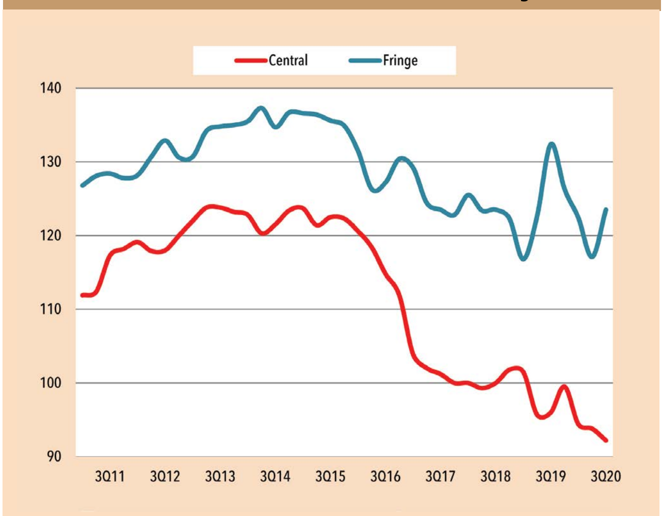
ION Orchard

while central prices have trended all the way down. Central rents tumbled by 6.4% QoQ and 10.2% YoY in 3Q20 while fringe rents dipped 1.4% QoQ and 4.4% YoY.

Singapore entered lockdown, known as its circuit breaker, on 7 April 2020. This was lifted on 1 June 2020. During the circuit breaker, the government mandated the closure of non-essential businesses. Telecommuting became the default mode of work. Only about 25% of mall tenants operated. These were in essential trade sectors such as supermarkets, the F&B industry and health and beauty retailing, including pharmacies. As tourists made up about 30% of their shopper footfalls, central malls suffered a double whammy from boarder closures and lockdown measures. Suburban malls, on the other hand, benefited from an increase in daytime populations in their predominantly household catchments.

Phase 1 of economic reopening commenced on 2 June 2020. The real effects only kicked in during Phase 2, which commenced on 19 June 2020. This was when most retail businesses were able to reopen their physical outlets. Certain trade segments, such as nightspots and entertainment venues, which tend to draw large gatherings, are still unable to resume operations. Some nightspot operators have resorted to changing their product offerings, converting their premises into restaurants, spin studios and even cinemas. All have to adhere to capacity restrictions. During this gradual reopening, suburban malls bounced back faster. Suburban tenant sales rebounded to -10% of pre-COVID levels while sales in central malls were at -30%.

Figure 2: Fringe assets preserved their valuations while centrals rents drifted all the way down



Retail Price Index Rebased 4Q1998 = 100	Central	Central	Fringe
3Q20	92.2	123.5	90.4
QoQ	-1.7%	5.5%	0 ppts
YoY	-4.0%	-6.7%	-2.1 ppts

Source: URA (rebased 4Q1998), CEIC, PSR

Understanding the threat **posed by e-commerce**

We did this by studying spending behaviour, including the motivations and considerations behind purchasing behaviour

Higher online spending but most purchases still happen offline

In 2018 and 2019, the online proportion of retail sales averaged 5.0% and 5.8% respectively (Figure 3). In both years, the percentage of e-commerce sales was higher during the last four months of the year, likely due to aggressive online sale campaigns (9.9, 10.10, 11.11, Black Friday and Cyber Monday) and the festive season in December.

SingStat releases online sales for the retail and food and beverage services categories. Within the retail trade category, SingStat discloses the online proportion of sales for three categories: supermarkets, computer & telecommunications equipment and furniture & household equipment (Figure 4). Averaging 25.8% in 2019, computer & telecommunications equipment recorded the highest

Figure 3: Historical trend of online sales

	2018	2019	2020
January	4.4	4.9	5.8
February	4.1	4.9	7.8
March	4.3	5.3	8.9
April	4.6	5.4	17.7
May	4.5	5.2	24.4
June	4.4	5.2	18.1
July	4.7	5.6	10.7
August	4.7	5.5	10.9
September	5.5	7.0	11.2
October	5.6	6.1	10.5
November	7.5	7.6	
December	6.0	6.7	
Average	**5.0**	**5.8**	**12.6**

Source: SingStat, PSR

Figure 4: Percentage of monthly online spending by trade category

	Supermarkets		Computer & Telecom Equipment		Furniture & Household Equipment		Food & Beverage Services	
	2019	2020	2019	2020	2019	2020	2019	2020
January	7.3	7.8	24.3	25.9	9.4	10.9	7.3	9.8
February	7.3	8.5	22.7	30.4	10.7	14.0	7.4	12.5
March	8.0	7.5	26.0	41.2	9.8	16.5	8.1	15.6
April	8.0	7.7	23.0	70.6	10.3	50.4	8.2	39.2
May	8.0	9.6	21.5	94.3	10.2	93.6	8.1	44.6
June	7.6	10.7	23.7	69.9	10.0	45.6	8.7	32.7
July	8.0	11.4	26.7	49.1	11.0	21.8	8.9	21.1
August	7.9	11.7	26.5	46.7	10.7	23.5	9.4	20.6
September	8.3	11.9	31.8	46.9	12.6	24.8	9.4	20.4
October	8.8	12.0	24.9	46.4	10.3	20.2	9.8	19.7
November	9.2		30.6		15.5		9.9	
December	8.5		27.8		12.3		10.2	
Average	**8.1**	**9.9**	**25.8**	**52.1**	**11.1**	**32.1**	**8.8**	**23.6**

Source: SingStat, PSR

percentage of online sales, more than double and triple the online spending on furniture & household equipment (11.1%) and supermarkets (8.1%).

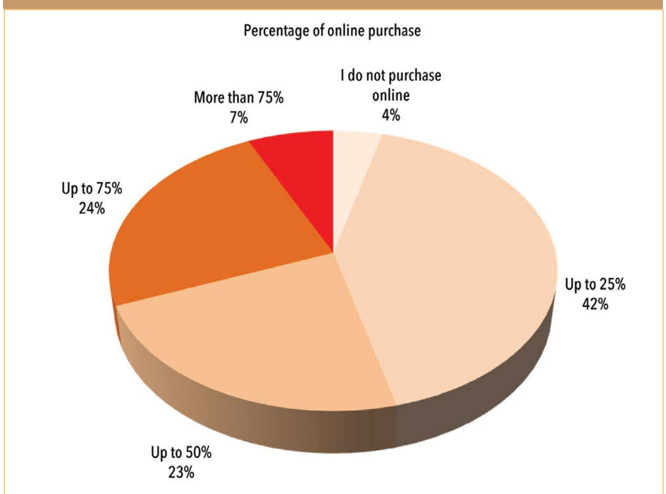
After spiking to 24.4% during the circuit breaker, the percentage of online sales fell to 11% in July 2020. It has since normalised at this level. This higher percentage of online spending was observed across all four categories from July to September (Figure 4). Higher e-commerce is attributed to the convenience and increased familiarity of purchasing online during the lockdown. Although the percentage of online sales has doubled to 11% post-pandemic, the bulk of retail sales is still transacted offline.

E-commerce most suitable for lower-value items

Our consumer spending survey in November indicates that 69% of the respondents make less than 50% of their transactions online (Figure 5). About 46% make less than 25% of their purchases online. While it appears that the frequency of online transactions is far greater than the 11% that online sales account for, the numbers do reconcile when we look at average spending per transaction. Our data shows that 72% of online transactions are below S$100 in value, with 48% of our respondents spending S$50-100 per transaction on average (Figure 6).

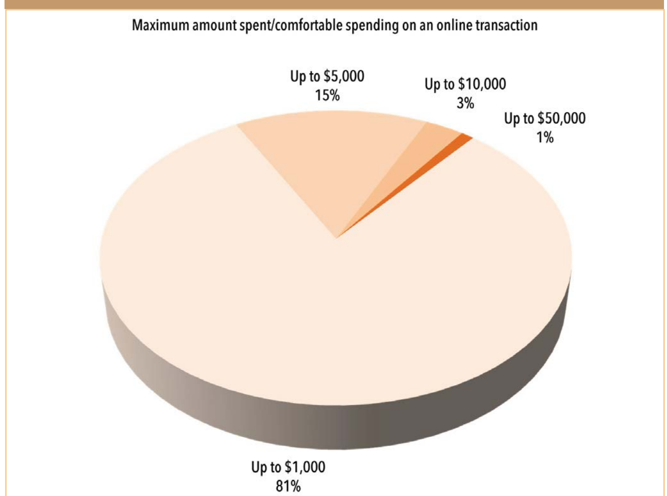
When asked the maximum amount they have spent or are willing to spend on an online transaction, 81% responded that they would not spend more than S$1,000. About 15%

Figure 5: 69% of respondents make less than 50% of their transactions online



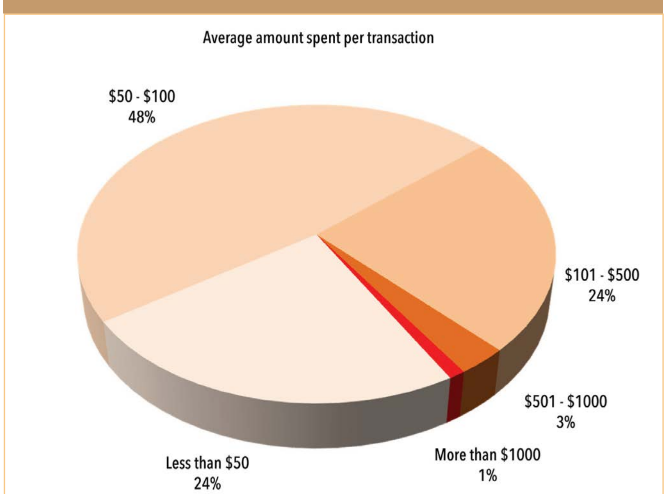
Source: PSR

Figure 7: 81% of respondents would not spend more than S$1,000 on an online transaction



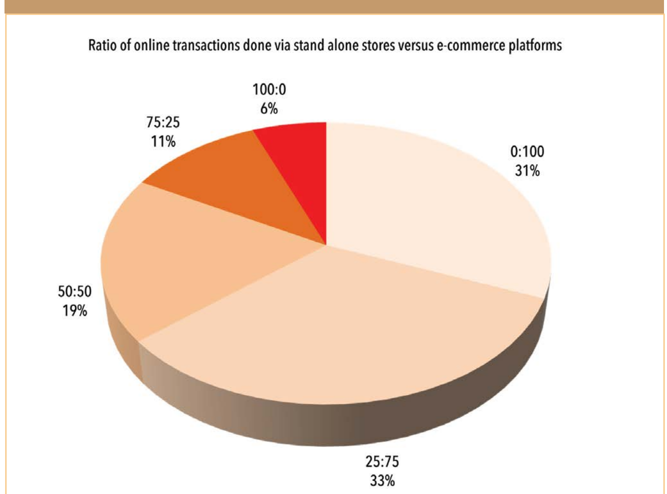
Source: PSR

Figure 6: 72% of participants spend below S$100 per transaction on average



Source: PSR

Figure 8: 64% of respondents buy online through e-commerce platforms



Source: PSR

would spend up to S$5,000 on an online transaction (Figure 7). While we expect consumer confidence to grow along with their accumulation of e-commerce experience and correspondingly the value of online transactions, present-day numbers indicate an offline purchasing preference for higher-value, big-ticket items such as household appliances and luxury items.

Survey participants were asked for the ratio of online transactions they make through standalone stores versus e-commerce platforms. About 64% said they buy mostly from e-commerce platforms, with 31% indicating they only shop on platforms (Figure 8).

Clothes, shoes and accessories were the most frequently

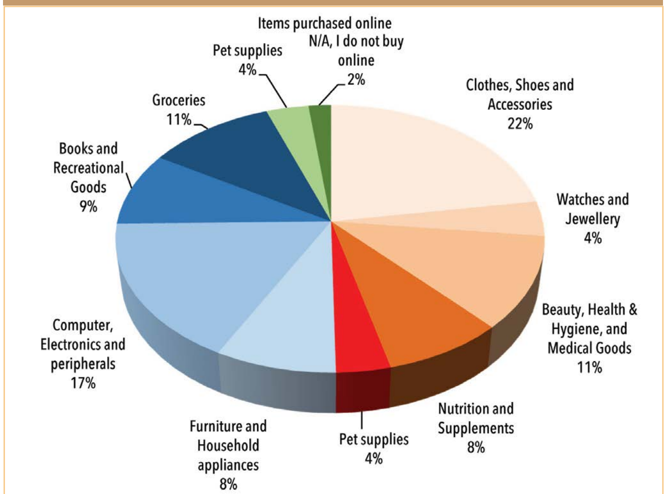
The Shoppes at Marina Bay Sands

purchased trade categories, making up 23% of the votes. Computers, electronics and peripherals came in second at 17%. Groceries and beauty, health and hygiene products tied for third place with 11% of the votes each (Figure 9).

When making buying decisions, survey participants were most concerned about price and product quality, consistency and assurance (Figure 10), both of which can be satisfied while buying online.

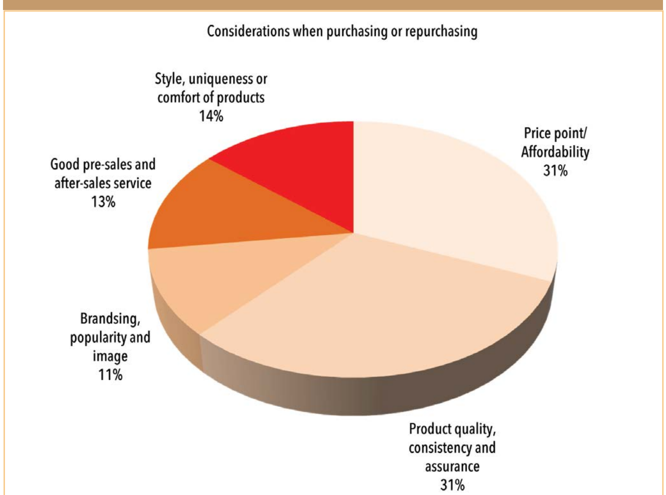
The drawbacks of purchasing online include consumers' inability to ascertain product authenticity, quality, comfort, fit, suitability and seller integrity. Brand owners and e-commerce platforms have alleviated their concerns by introducing review sections and encouraging (enticing) customers to give written, photo or video feedback on products and customer service. Seller credibility is established through reviews and the number of sales made. Stringent policing by e-commerce platforms also adds to customer assurance. Hassle-free returns, exchanges and guarantees help to sweeten the deal. These attributes provide peace of mind and hasten the carting-out process.

Figure 9: Items commonly purchased online



Source: PSR

Figure 10: Price and product quality are the most important considerations when purchasing



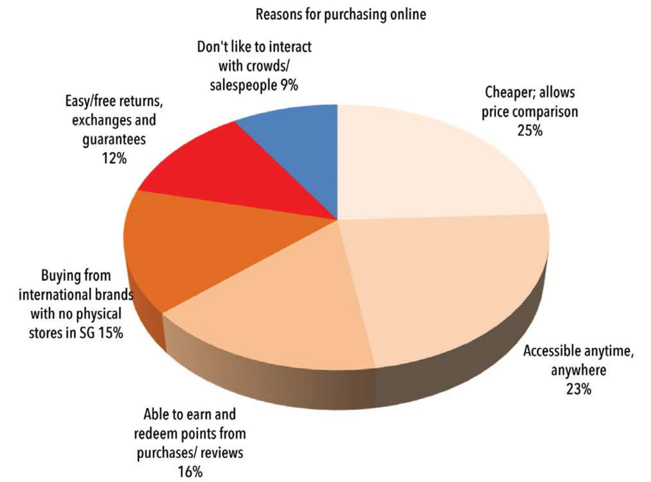
Source: PSR

E-commerce platforms have an edge over standalone brands

We asked participants to select the top three reasons for their preference for shopping online. Unsurprisingly, price and round-the-clock accessibility were the two most cited reasons, with 24% and 23% of the votes respectively (Figure 11). A proliferation of internet and device connectivity in recent years and the round-the-clock accessibility of e-commerce allow browsing and purchasing to happen virtually anytime, anywhere. Stiff competition among sellers and the ease of price comparisons also enable buyers to get the biggest bang for their buck.

About 16% of our respondents valued loyalty programmes offered by merchants and e-commerce platforms. These

Figure 11: Price and round-the-clock accessibility are top considerations



Source: PSR

products across many trade categories, allowing for a more meaningful accumulation of points and ultimately, greater savings.

While consumers have been making more of their purchases online, they mostly buy lower-value items. Most seem to prefer buying big-ticket items offline. Consumers are most concerned about price and product quality when purchasing online. This has benefitted e-commerce platforms which list products across many trade categories, encourage reviews and feedback, and allow shoppers to accumulate loyalty points for redemption.

Fast-tracking digitalisation

Several mall operators have been digitalising since the lockdown and have launched digital stores and food ordering platforms to help them capture online sales. These platforms ride existing loyalty programmes, allowing shoppers to collect points based on the amount spent. Customers can use the points to redeem vouchers or promotions at participating stores. The digital ecosystem drives tenant and customer stickiness, by: 1) encouraging shoppers to spend at malls under the loyalty umbrella; 2) driving tenant sales; and 3) enhancing shoppers' experience.

Maintaining a well-occupied mall is crucial for cashflows and attracting prospective tenants. The months of restricted trading have weakened retailers' financial position. Some have put expansion on hold while others are consolidating their operations or moving to a pure e-commerce model. In Singapore, leases are typically signed for three years, on a fixed plus variable rent structure. However, landlords are now more flexible in lease negotiations, given softer leasing demand and caution among the retailers. Landlords have offered shorter leases of six months to tenants who are still struggling. They are also offering 3-year leases with lower base rents and higher turnover rents in the first year, with the base rents escalating over the years. Such leases are expected to lower occupancy costs for tenants in the short term.

The pandemic was the final nail in the coffin for ailing concepts such as department stores. In October, Robinsons announced its exit from Singapore for good. Robinsons followed Top Shop's decision to pull out of Singapore in September. In light of the weaker leasing demand, REITs are evaluating their asset-enhancement initiatives, repositioning of their malls and recalibration of tenant mix.

Retail landlords are not sitting idle. Apart from offering rental support in the form of rental waivers, mall operators have been busy enhancing their digital offerings. They have introduced e-stores and food ordering platforms. They have also been maintaining open communication with tenants and finding compromises where possible in lease negotiations

A key thread in the fabric of society

Although the retail sector is facing leasing and e-commerce headwinds, retail malls should remain a critical piece of commercial infrastructure

Singapore's largest REIT, CapitaLand Integrated Commercial Trust (CICT), believes that "shopping malls remain a key thread in the fabric of society" and "remain essential amidst evolving customer preferences". This is because malls are strategically located and easily accessible via the public transportation network. They are not just shopping destinations, they provide venues for social meetings and networking as well as myriad options for entertainment and experiences.

This is consistent with our survey findings. When asked to select the top three activities they do to unwind, dining out with family and friends topped the polls, with 29% of the votes. Home gatherings and fitness and sports came in second and third with 22% and 19% of the votes respectively (Figure 12). Given the busy lifestyles of city folks, it is no surprise that dining out was the most selected activity as it provides a hassle-free, convenient and time-efficient method of socialising. Experiential and entertainment activities accounted for 14% of the votes, indicating that their representation in the tenant mix could remain smaller than the other trade mixes.

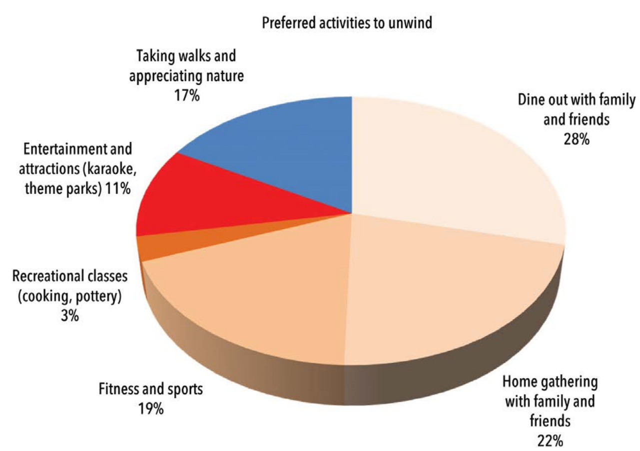
"In Singapore, shopping malls remain a key thread in the fabric of society and are well-integrated into the daily activities of the population, serving the needs of its catchment. The shopping mall culture is expected to be an integral part of everyday life and remain deeply entrenched in Singapore"

– Mr Tony Tan, CEO, CapitaLand Integrated Commercial Trust Management Limited

Relevance and value proposition of malls

It is relatively easy to list anything online on platforms like Lazada, Amazon and Shopee. But as e-commerce competition stiffens, having an omnichannel presence will give retailers an edge over pure e-commerce players. Brick-and-mortar stores' value-add has evolved from mere sales to more marketing and pre-sale/after-sale services. Brick-and-mortar stores allow for better branding by providing: 1)

Figure 12: Malls are a key thread of the social fabric



Source: PSR

Funan Shopping Mall

the experiential aspect, which reinforces brand identity; 2) visibility, which creates awareness; and 3) quality affirmation and in-person customer service. These factors will help drive brand loyalty and business sustainability, regardless of whether the transactions are concluded in-store or online. This should ultimately confirm the relevance of retail malls.

Omni-channel and mall-operator advantage

On 1 June 2020, Singapore's largest mall operator, CapitaLand, launched its e-commerce platform (eCapitaMall) and online food ordering platform (Capita3Eats) in Singapore. Back in 2011, CapitaLand had launched its loyalty programme, CapitaStar. This had amassed a captive base of more than 1mn members by September 2020. By diversifying its digital offerings to eCapitaMall and Capita3Eats, CapitaLand's loyalty members can now capture rewards from daily food delivery and online spending. This encourages the amalgamation of spending at same-brand malls.

Frasers Group, Singapore's second-largest mall operator, will launch an e-commerce marketplace, Frasers eStore, in 4Q20. Its F&B concierge service, Frasers Makan Master, was launched in 2019. It has been enhanced to include multi-brand delivery orders, allowing members to place orders from multiple F&B tenants within the same mall. Frasers eStore and Makan Master will be integrated with Fraser's loyalty programme, Frasers Experience (FRx). Launched in 2018, this is now 800,000-member strong. FRx members account for one in four transactions at the malls, proving the efficacy of the platform in driving tenant sales and shopper retention.

Although digital store platforms by mall operators are still in gestation, results from our survey suggest that these digital initiatives have a chance of success in creating customer stickiness. In our survey, 64% of the respondents buy mostly through e-commerce platforms (Figure 8). About 16% value the loyalty programmes offered by e-commerce platforms (Figure 11).

Recalibration of tenant mix

Mall operators frequently cite the "recalibration of mall offering" as a way to keep malls relevant and replace struggling tenants. However, potential retail concepts and offerings must be able to gain enough traction to keep the tenants financially viable as well as complement existing mall offerings. Setting up a physical store requires a substantial amount of capital to fund security deposits, renovate and furnish the space as well as working capital until the business breaks even. The F&B trade draws many aspiring entrants and accounts for 15-30% of mall offerings. But the F&B space is saturated and there can be many stalls offering the same product within a mall. Although there may be demand for space by a certain trade sector, mall operators have to maintain a balance to prevent cannibalisation within trade sectors and ensure a good mix of mall offerings.

Some malls are located near property projects that are being developed by affiliated companies. This allows mall managers to work with the developers to come up with complementing concepts and offerings. These malls have a unique advantage. For instance, CICT's Clarke Quay is adjacent to the Liang Court integrated development. Liang Court is being jointly developed by its sponsor CapitaLand and City Developments into a mixed-use asset with hotel, residential and commercial components. Lendlease Global Commercial REIT (LREIT) is redeveloping the Grange Road carpark site into an event space. As this is located beside its existing asset, Somerset 313, LREIT can do joint marketing and promotions. It can also recalibrate Somerset 313's mall offerings to capitalise on the crowd that the new event space will draw.

Certain trade sectors will remain mall staples

Our survey findings show that 72% of the respondents spend below S$100 per online transaction on average (Figure 6), with 81% indicating that they would not spend more than S$1,000 on an online transaction (Figure 7). This bodes well for retail stores selling larger- ticket items such as household appliances and luxury items, as consumers appear reluctant to make large purchases online. Shoppers may also prefer sampling certain trade items such as beauty products, cosmetics and fragrances before purchasing. While digital technology has resulted in the emergence of many on-demand service concierges which provide a variety of services that can be enjoyed from home, some businesses may still prefer the traditional permanent set-up of a hair or nail salon or massage parlour, rather than offer mobile services. This could possibly be attributed to time efficiency and higher customer turnover. Fitness and sporting and entertainment operations such as cinemas are also some trade sectors that will likely adhere to physical set-up.

Base rents will remain a component in most leases

Leases with a higher variable component will likely result in more variable earnings for REITs with retail assets and ultimately, for unitholders. While the move to a higher variable component may be necessary to retain and support tenants in the short term, such leases also align landlords' rental revenues with tenants' sales performance. Landlords will attempt to add value beyond the provision of space, by helping to drive tenant sales through marketing and promotions. Additionally, they will have to take a more active approach in tenant selection, offering leases with higher risk-sharing only to tenants with strong track records. Ultimately, landlords prefer rents with a higher portion of fixed rents as this provides earnings stability. They will likely revert to traditional lease structures as soon as the retail market regains its footing.

Veteran mall operator, CICT, believes that the base rent component will remain a permanent fixture in leases. This is because it reflects the value that mall operators bring to their tenants, beyond the mere provision of retail space. CICT's Mr Tan commented that "Beyond merely leasing a physical space to tenants, mall operators bring value to tenants' operations by attracting shopper traffic, providing the infrastructure to support tenants' management of their in-store and online sales, and ensuring a safe and secure operating environment. The base rent component reflects the value that shopping mall operators bring to their tenants and will likely remain a component in most rent leases in the foreseeable future".

"There is no doubt that neither pure online or pure physical shopping is the future for retail, hence retailers and mall owners have to win on both ends. The way to do it is to embrace omnichannel retail – the multichannel retail approach that provides frictionless shopping experience regardless the shopper is shopping online via a mobile phone, a computer or in the store. In addition to providing physical space and amenities for retail tenants to conduct business, it is also important to provide 'online space' to help tenants to extend their digital catchment. More importantly, the additional sales from the digital catchment will help to increase the sales productivity per square foot of the physical space the tenant is leasing"

- Mr Chen Fung Leng,
Vice President, Investor Relations,
Frasers Centrepoint Trust

Retail malls are expected to remain a crucial piece of commercial-property infrastructure, providing essential goods and services and a place for people to socialise. Although the lower cost of selling online and consolidation among retailers have dampened the demand for retail space, certain trade categories appear to face less e-commerce risks. Landlords are also getting creative with their mall offerings and concepts in their attempts to draw more tenants and shopper footfall.

A **new way** to work

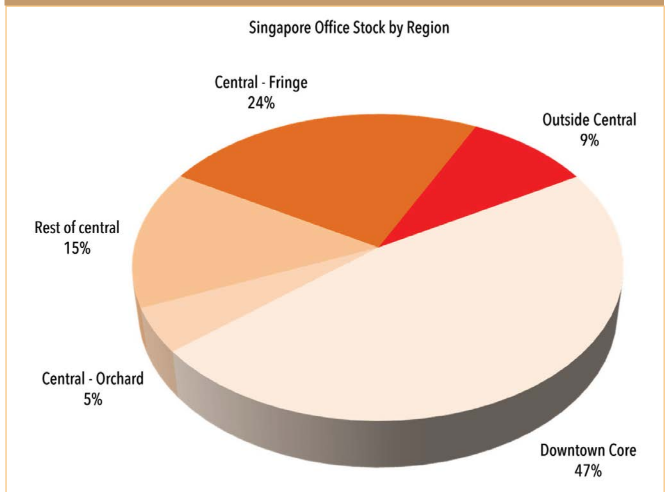
The way companies work and office space requirements have been forever changed by the increased adoption of digital technology. Permanent hybrid work arrangements will lead to near-term oversupply

Vibrant CBD and decentralised commercial clusters

Google "Singapore landscape" and your search will return panoramic pictures of skyscrapers and iconic landmarks in Singapore's central business district (CBD). Over the decades, Singapore has established itself as a financial hub and posterchild for stability and skilled labour in Asia. According to the Economic Development Board, over 7,000 multinational corporations have set up operations here. The majority locate their Asia-Pacific headquarters in this bustling city-state.

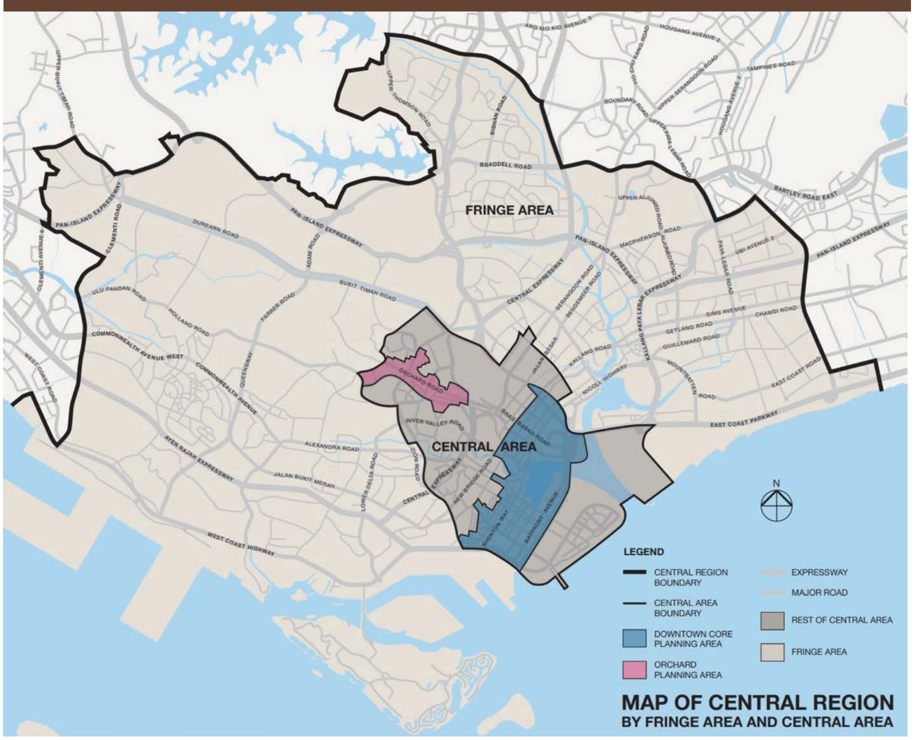
Two-thirds of Singapore's office stock can be found in the Central Area, which comprises Downtown Core, Orchard and Rest of Central Region (RCR) (Figures 1-2). Located within the Downtown Core boundary is the CBD. This is Singapore's business and financial district and home to leading international businesses and financial institutions.

Figure 2: Office stock by region



Source: URA, CEIC, PSR

Figure 1: Map of Central Region: Fringe Area and Central Area

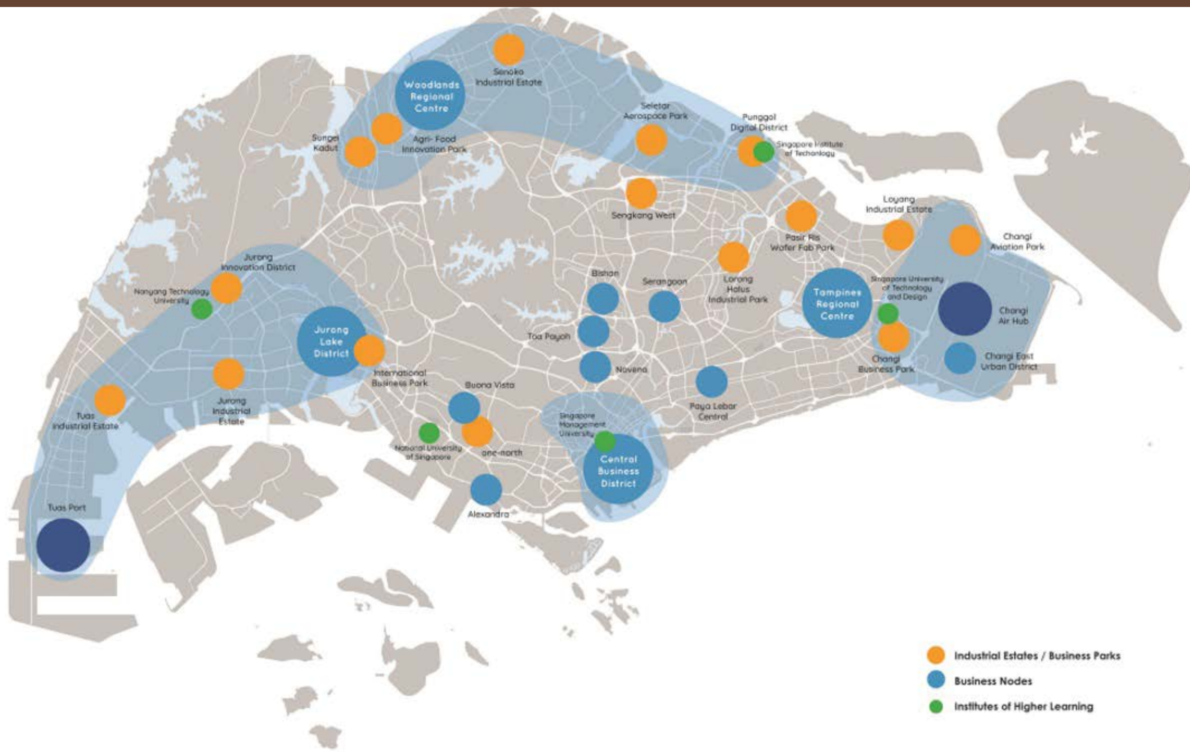


Source: URA

Office buildings located in the CBD are typically Grade A and B offices. These appeal to most MNCs, given their premium addresses, building specifications, amenities and location. Of the remaining one-third of the office stock, 24% is located in the Central Fringe and 9% in Outside Central Region (OCR).

Business parks, which are also located in Central Fringe and OCR (Figure 3), bear semblance to office buildings in their build-up and type of high-value-added and knowledge-intensive work done in offices. While there are restrictions on the type of activity that can be performed in business parks, many firms that occupy offices here have departments performing tasks that qualify for business-park usage.

Figure 3: Commercial clusters outside the city centre



Source: URA

COVID-19 digital adoption disrupted the office market

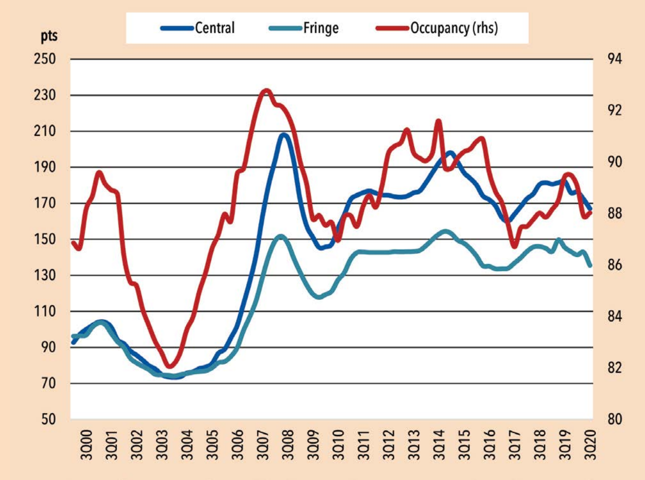
The scale of social and economic disruptions inflicted by COVID-19 has far outstripped other major outbreaks such as SARS, Ebola and H1N1.

Unlike the West, remote working is less conventional in Singapore. However, telecommuting became the default mode of work for most companies during Singapore's 2-month circuit breaker. Companies were forced by pandemic circumstances to adapt their operations for remote-working.

This telecommuting "experiment" has set in motion a structural shift in the office market. Given the novelty and successful implementation of remote-working, most employees are now keen to partially work from home (WFH). This has prompted companies to re-evaluate their space needs.

The weak economic outlook has also forced many companies to conserve resources. Business and expansion plans have been put on the back burner, with many firms under pressure to control costs. Demand from overseas tenants has been snuffed out by international travel bans. This has cumulated in a softer leasing environment, with both occupancies and rents on the decline. The office rental index fell by 8.3% and 6.9% YoY (Figure 4) for central and fringe rents respectively in 3Q20. Industry-wide occupancy slipped from 89.4% in 3Q19 to 88.0% in 3Q20.

Figure 4: Historical office rental index and occupancy



Office Rental Index Rebased 4Q1998 = 100	Industry	Central	Fringe	Occupancy (%)
3Q20	161.1	167.0	135.5	88.0
QoQ	-4.5%	-3.0%	-5.1%	0.1 ppts
YoY	-8.3%	-8.3%	-6.9%	-1.4 ppts

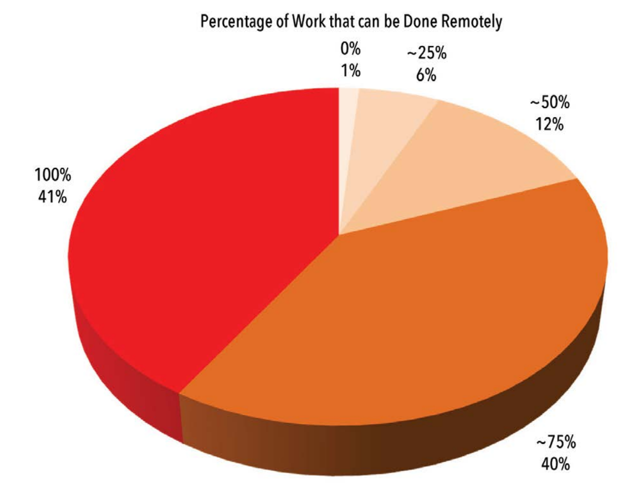
Source: URA (rebased 4Q1998), CEIC, PSR

PhillipCapital's **work-from-home** survey results

Keen to assess the attrition in demand for office space, we conducted a survey on workers' receptiveness and desire to telecommute. We also attempted to gauge the degree of rightsizing that could unfold over the next few years

Before the pandemic, about 75% of our respondents said they spent at least 75% of their workday in the office. Of this group, 48% reportedly spent 100% of their workday in the office while 26% spent 75%. Only 4% worked remotely. Although the bulk of the workforce stepped into the office daily, much of the work they performed could have been done remotely. About 41% shared that all of their tasks could have been executed remotely. Another 40% said 75% of their jobs could have been done remotely (Figure 6).

Figure 6: 81% of respondents can perform up to 75% of work remotely

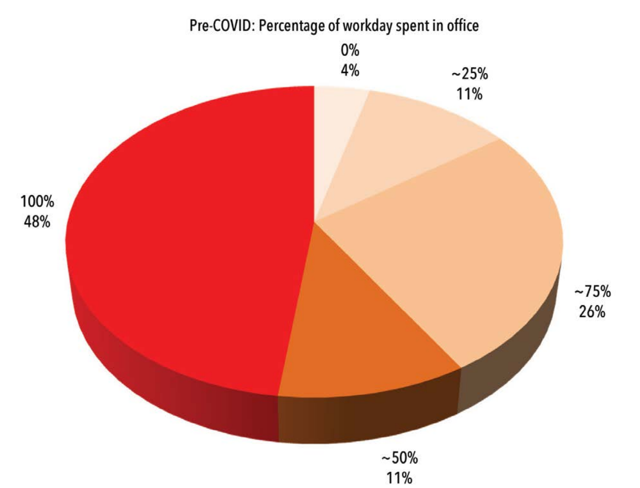


Source: PSR

Telecommuting promotes work-life balance

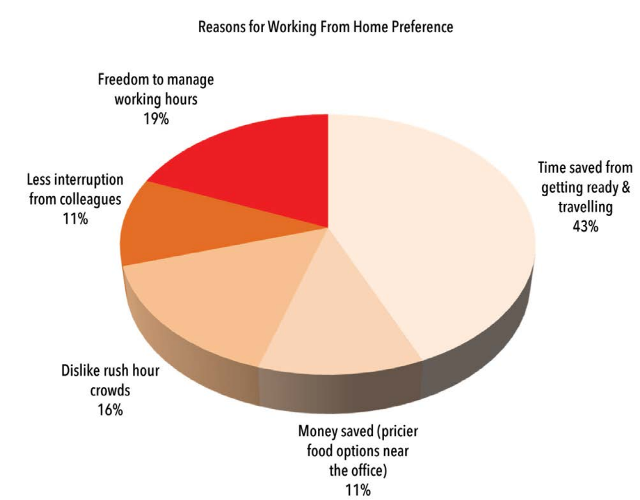
Time saved from getting ready and travelling was the biggest reason for respondents' preference for telecommuting (Figure 7). Freedom to manage working hours came in second, with 19% of our respondents citing this reason for their preference. Dislike of rush-hour crowds was the third

Figure 5: 75% of respondents spend at least 75% of their workday in the office



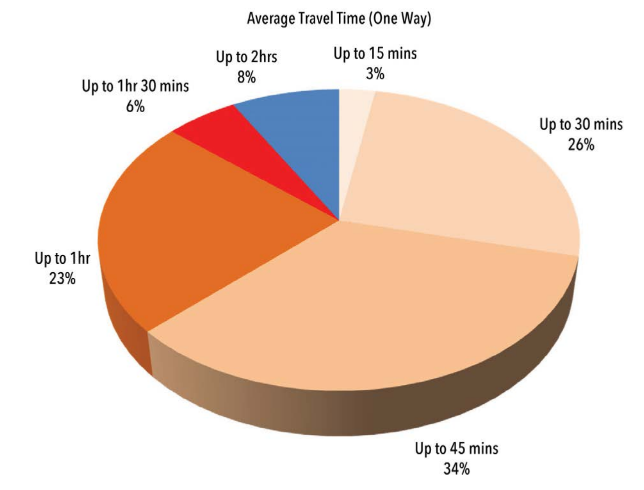
Source: PSR

Figure 7: Time saved was the top reason for WFH preference



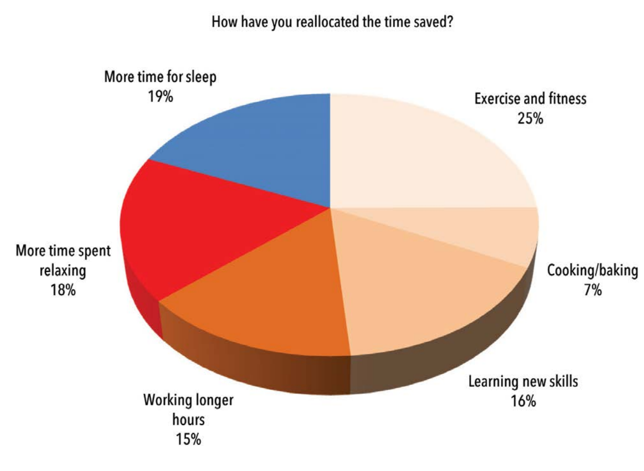
Source: PSR

Figure 8: 70% of respondents spent between one and four hours on daily commute



Source: PSR

Figure 9: Telecommuting promotes work-life balance



Source: PSR

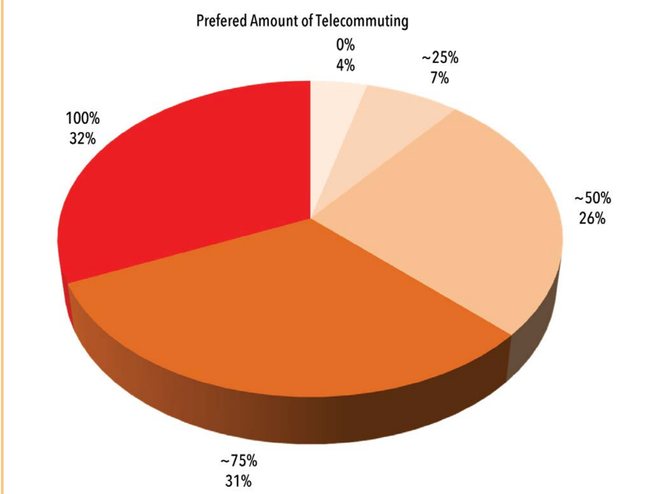
reason with 16% of the votes. The results are unsurprising, as 70% of the respondents spent between one and four hours on daily commute (Figure 8). Assuming a 5-day work week, this adds up to 5-20 hours in transit.

When asked how they have reallocated the time saved from commuting (Figure 9), 85% have managed to engage in constructive or enriching activities such as exercise and fitness, learning a new skill or recharging through rest and relaxation. The benefits of maintaining a good work-life balance are known and include lower risk of burnout and greater physical well-being. Both can boost productivity at work.

Most employees prefer some work-from-office time

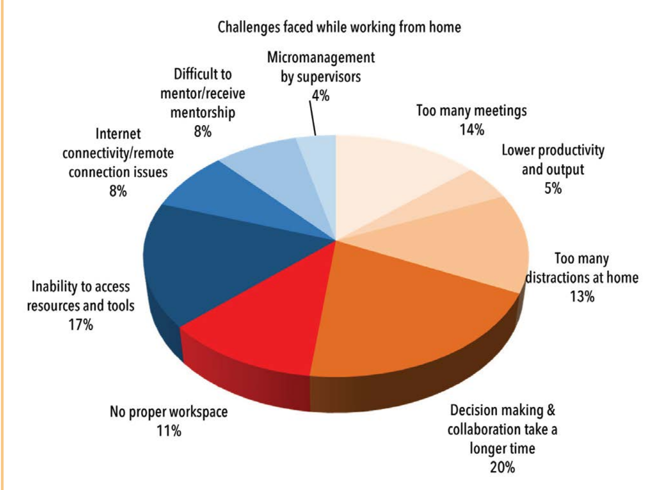
Working from the office does have its advantages. The office is usually well equipped with supplies and equipment and employees have dedicated and appropriately furnished space to work. Colleagues and supervisors are close by, enabling spontaneous discussions and instantaneous clarifications. The preference for some office time is captured in our survey results (Figures 6 and 10). Although 81% of our respondents are able to work remotely at least 75% of the time, only 63% would like to do so. About 58% said they prefer to spend at least 25-50% of their time working from the office. Only 32% can see themselves working from home 100% of the time.

Figure 10: Employees prefer some work-from-office time



Source: PSR

Figure 11: WFH impairs decision-making and collaboration



Source: PSR

Work from home

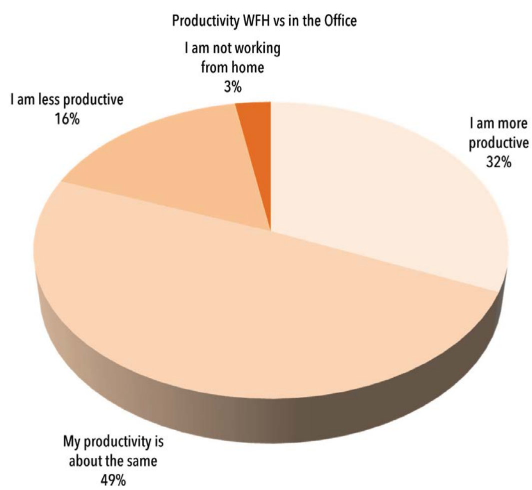
Considerations for WFH: WFH-readiness, efficiency and productivity

Singapore confirmed its first COVID-19 case on 23 January 2020. Six weeks later, it was in a lockdown. While the degree of technological adoption differs by company, the abrupt adoption of telecommuting required adjustments by all. These included the creation and refinement of work processes. Our survey uncovered that the top three challenges faced in telecommuting were: 1) the longer time needed for decision-making and collaboration; 2) employees' inability to access certain resources and tools; and 3) employees having to attend too many meetings (Figure 11).

While the second challenge can be easily overcome by the development of digital infrastructure and home-office set-up allowances, the first and third may best be addressed by face-to-face meetings or brainstorming sessions - where everyone can get on the same page quickly.

Another key consideration for WFH is productivity. When asked to compare their productivity working from home versus the office, 81% of our survey participants indicated that they were equally or more productive at home vs. the office. About 16% found that they were less productive (Figure 12).

Figure 12: 81% are equally or more productive at home



Source: PSR

Latest **office trends**

While these findings reiterate the relevance of the office setting, office assets will likely face competition from well-amenitised business parks with Grade-A specifications, especially those located in Central Fringe. The office sector faces a structural decline from hybrid work adoption. Larger occupiers of space like the financial and legal sectors have been progressively rightsizing space, even before COVID-19

Downsizing and relocations through the years

According to CBRE Research, Grade A CBD Core rents were S$10.70/sq ft in 3Q20. This was a 31% premium over Grade B CBD Core offices and 41% premium over Grade B island-wide office buildings. Should firms qualify for business-park usage, relocating from a Grade A CBD Core office to a business park in City Fringe or rest of the island can yield rent savings of 84% and 189% respectively (Figure 13).

Over the years, several financial institutions have in fact relocated their back-office operations to business parks. Changi Business Park is now home to Citi Group, DBS Bank, UBS, Credit Suisse, JP Morgan, Standard Chartered Bank and Bank of Tokyo Mitsubishi UFJ. HSBC has offices in Mapletree Business City. Business parks reduce the rent burden on these banks. With many firms under pressure to control costs, the market may see more decentralisation in the near term.

Office buildings along the Marina Bay area

Figure 13: Office rents by location and asset type

	3Q20	QoQ	YoY	Grade A CBD Premium Over
Office Rents (psf)				
Grade A CBD Core	$10.70	-4.0%	-6.6%	-
Grade B CBD Core	$8.15	-3.6%	-6.3%	31.3%
Grade B Islandwide	$7.60	-3.2%	-5.0%	40.8%
Business Park Rents (psf)				
City Fringe	$5.80	-0.9%	0.0%	84.5%
Rest of Island	$3.70	-1.3%	-2.6%	189.2%

Source: CBRE Research, PSR

Banks have also been consolidating and rightsizing their central headquarters. More recent transactions include Standard Chartered, which returned 130,000 sq ft or 81% of space at Six Battery Road upon lease expiry. It opted to renew just 30,000 sq ft. HSBC has also relocated from 21 Collyer Quay, where it leased 200,000 sq ft of space,

Raffles Place (CBD)

to Marina Bay Financial Centre Tower 2, where it signed a 140,000 sq ft lease. This represented a 30% decrease in its central-office footprint.

CapitaLand Integrated Commercial Trust shared the following observations: "Companies look to optimise workspace amidst meeting regulatory requirements of social distancing and working from home. As time is required to work through these space planning requirements, companies either renew their leases or downsize to be prudent, as they review the longer-term plan. There are also more talks about having a mix of core and flex space, to allow companies to be more responsive to their business operating environment."

Permanent flexible work arrangements to trigger more rightsizing

Throughout November, several banks announced their endorsement of permanent flexible work arrangements. DBS' 29,000-strong workforce now has the option to work remotely up to 40% of the time. About 65% of UOB's 26,000 staff has the option to work remotely two days a week. Standard Chartered, which employs 10,000 staff in Singapore, will offer flexible work options to more than 90% of its workforce over the next three years. It will allow about half of this workforce to apply for some form of hybrid work from early 2021. Other banks that plan to embrace hybrid work include HSBC and Maybank.

Not all banks are in favour of remote-working. JP Morgan wants employees to return to the office on concerns of productivity declines, missed learning opportunities and a stifling of "creative combustion". Creative combustion was coined by its CEO to refer to "the serendipity that results when people work side by side, bouncing ideas off each other and coming up with innovative ways to address problems".

Office landlords echo the same sentiment. They argue that the relevance of the workplace stems from the value-add from creativity, collaboration, mentorship and corporate culture. These are best effected through physical interactions.

Still, firms have grown more receptive to hybrid work arrangements. This may set in motion more aggressive rightsizing of space in the mid-term. In the most recent quarter, REITs reported that a handful of companies had decided to rationalise their space upon lease expiry. They have given back 10-20% of their space. A recent global survey of 315 chief executives by KPMG found that 80% had accelerated their business digitalisation to support teleworking during and after the pandemic. Nearly 70% planned to cut their office space, at least in the short term.

Flight to quality

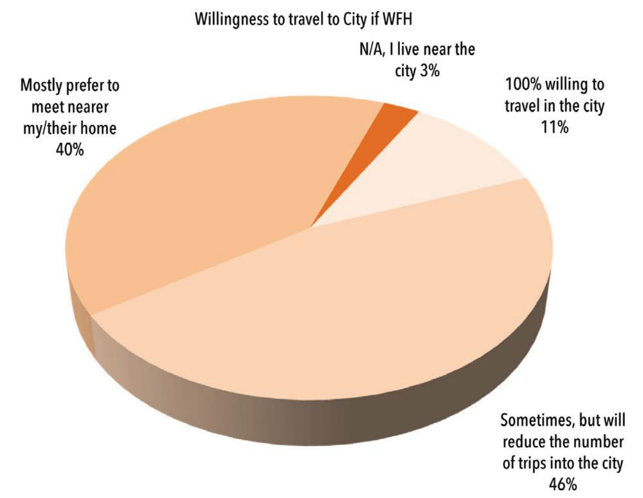
During past cycles of weaker demand or oversupply, high-quality assets tended to outperform lower-quality assets in leasing performance and value preservation.

In Singapore, the best office assets are Grade A offices. These buildings have best-in-class characteristics and amenities, allowing them to command premium rents over Grades B and C office buildings. Grade A office buildings are usually new or recently refurbished. They boast up-to-date facades, state-of-the-art technologies and building-management systems. Technical specifications that can be found in a Grade A office building include premium floor-to-ceiling heights, raised floor systems, large floor-to-ceiling windows and large column-free floor plates. Landlords of Grade A offices also have stringent requirements on tenant selection, usually preferring to lease to established firms and big industry players like the MNCs.

Well-managed and luxuriously-built office assets generally retain their appeal throughout the cycles. Falling market rents thus present opportunities for financially-stable firms in Grades B and C offices to relocate to Grade A buildings. Careful curation of established, predominantly MNC tenants in Grade A assets ensures high rent collectability. This in turn protects asset valuation.

Oversupply in the near term, but Singapore remains an attractive location for regional headquarters

Figure 14: Respondents would reduce trips into the city if WFH



Source: PSR

New office supply is benign in the near term, with an average 0.9mn sq ft expected per year. This is below the 10-year average of 1mn sq ft and before accounting for the redevelopment of AXA Towers, Fuji Xerox and Central Mall in 2020/2021. Their redevelopment will take almost 1.2mn sq ft off supply in the Central Area. On the other hand, lacklustre demand and downsizing from the adoption of hybrid work arrangements could result in oversupply in the office market.

Thankfully, Singapore is still one of the top cities for businesses to locate their regional headquarters. This reflects its political and operational stability, business-friendly policies and educated population. In recent years, Singapore has attracted investments from tech companies while defending its competitiveness as a business and financial hub.

Decentralisation and mixed-use developments may just be the solutions for the nation-state's land scarcity and sustainable development. The URA's Concept and Master Plans are built on these premises.

Reducing carbon emissions by bringing jobs and amenities closer to home

To reduce peak-hour congestion, regional and fringe centres outside the city centre were introduced under the 1991 Concept Plan to bring jobs closer to home. The Tampines Regional Centre and Novena Fringe Centre have since developed into bustling hubs. They offer a mix of retail, entertainment and commercial facilities. Over the next 15 years, three more new hubs have been planned: Jurong Lake District, Kallang Riverside and Paya Lebar Central (Figure 3).

We were curious to find out how telecommuting would change consumer behaviour that would affect retail and F&B offerings in the Central Area. We asked our survey participants, assuming a predominantly WFH arrangement, how often they would travel to the city to meet friends and family rather than closer to home (Figure 14). About 86% indicated they would reduce the number of trips to the city, opting for meetings closer to home (Figure 14).

Our findings confirm our hunch that central malls and F&B outlets will lose some of their appeal while heartland malls will be able to capitalise on increased daytime populations in their neighbourhoods. They may respond by diversifying their offerings. The result would be the creation of more vibrant districts sprinkled all over the city state.

Mixed-use developments will likely increase the efficiency of their space by driving economic and social activity, liveliness and vibrancy throughout the day. For example, the CBD can be an inefficient use of space, with many areas deserted after working hours and on weekends. The CBD Incentive Scheme was introduced in 2019 to incentivise developers to incorporate or convert eligible office buildings into hotels and residential units, by allowing higher gross plot ratios. The injection of live-in populations and tourists was expected to boost the vibrancy of the CBD throughout the week. As hybrid work arrangements scale back companies' need for office space, more developers may consider repositioning their buildings and tapping the CBD Incentive Scheme.

COVID-19 may be the impetus for URA to actualise its Master Plan and vision of a vibrant work-live-play city-state at an accelerated pace.

Conclusions for the Singapore residential, retail and office markets

The residential property market in Singapore has been resilient this year, with volumes minimally lower than last year. Here are some of the reasons why:

- One of the reasons for this is reasonable pricing, as the property price index is flat even after seven years.
- The introduction of TDSR has largely removed speculative demand for properties, which was as much as 20% of demand, judging by the number of sub-sales in the peak years in 2011-12.
- The growth in the number of high-income earners can support the average annual demand of around 8,300 units per annum.
- Around 2/3rd demand consists of HDB upgraders and the pool of buyers is expected to surge from 10,000 to touch 25,000 in the next three years, as their minimum occupancy period ends and they are now eligible to sell their units.
- The increase in government grants up to S$ 160,000 would become another stimulant for buyers of resale HDB units
- The current low interest will raise the affordability levels for residential properties.

For retail malls, we expect leasing headwinds due to cost rationalisation efforts by retailers.

- Weaker retail spends and negative rental reversions are likely to continue into 2021. That said, retail malls are expected to remain a crucial piece of commercial-property infrastructure, providing essential goods and services and a place for people to socialise.
- Dining out is the most frequent activity that survey participants engage in.
- The reluctance to make large purchases online makes having physical stores important for certain trade sectors such as home appliance and luxury stores.
- Landlords have adapted to the changing retail landscape, tweaking their leasing strategies to help struggling tenants. They have also enhanced their value proposition through the introduction of digital stores and online food offering platforms.
- Digital store platforms by mall operators will see some success in fighting back against e-commerce platforms due to the greater savings from rebates and rewards, as customers amalgamate daily, and discretionary purchases are made through the mall's loyalty programmes.

For the office sector, a new structural headwind has emerged as remote working becomes more acceptable.

- Firms have grown more receptive to hybrid work arrangements, resulting in companies rightsizing their space.
- The financial sector was one of the first industries to announce the endorsement of permanent flexible work arrangements, with most banks giving employees the option to work remotely up to 40% of the time.
- A recent global survey of 315 chief executives by KPMG found that 80% had accelerated their business digitalisation to support teleworking during and after the pandemic.
- Nearly 70% planned to cut their office space, at least in the short term.
- The challenging leasing environment may cause developers to consider repositioning their buildings and tapping the CBD Incentive Scheme, thereby taking some office stock offline.
- Well amenitised business parks with Grade A specifications in the Central Fringe and Outside Central regions will also stand to benefit due to the lower rents and the closer proximity to households catchment.
- The office sector will possibly experience oversupply and declining rents in the near term. However, Singapore remains an attractive location for firms to set up regional headquarters. We expect new demand from overseas firms to help to fill offices in the longer term.

We wanted to understand the short and long-term implications of the pandemic on the commercial real estate industry. A company that could give us an in-depth and multifaceted insight was LHN Group. With a real estate history dating to the early 1990s, LHN Group has evolved through the decades. It started as an asset-light rentals business. It leased building space from property owners and sub-leased it to smaller tenants. LHN strategy is to tap into the latest real estate trends. The company now looks to capitalise on the demand for agile and communal living and workspace. It is tapping into these trends through three key business segments - flexible office space, co-living for office workers and students, and work-cum-storage space for e-commerce businesses.

We spoke to Mr Kelvin Lim, Executive Chairman & Group Managing Director, LHN Group.

LHN has been in the real-estate business since 1991. Can you tell us about the early years?

Our history can be traced back to 1991, when our family started leasing out warehouse space in the family-owned factory to tenants. Since then, we have continued to expand our business in terms of geographical coverage, and in the variety of space-optimisation services offered. Our operations are spread across Singapore, Indonesia, Thailand, Myanmar, Hong Kong, China, Cambodia, and Malaysia.

Our business model has also grown extensively. We are now focused on taking unused and under-utilised industrial, commercial, and residential properties, and refurbishing

GreenHub suited offices located in Raeburn Park (Singapore); Source: LHN (greenhub.com)

them to increase their net lettable area and rental yield. After undergoing asset-enhancement activities, these upgraded properties are able to attract more tenants, who are willing to pay higher rent. The LHN Group also provides facilities-management and logistic services to customers seeking integrated solutions. Thanks to this model, we've accomplished key milestones over the last few years that include our dual listing on the Hong Kong stock exchange.

LHN's space optimisation segment converts and enhances old, unused, and under-utilised spaces – to maximise function and leasable area. It also provides a full range of services such as marketing, subleasing, and management of the converted properties

LHN is essentially in real-estate management and is focused on several businesses, which it hopes to explore further. Of this, the largest and first segment is space optimisation, where our company has introduced very innovative services. We can split space optimisation into commercial (that is office suites), industrial (which is e-commerce), and residential (co-living).

Under commercial, Greenhub started in 2012 by providing suited offices. Can we call this your "WeWork type of solution? What is the differentiator and how is the demand for such space currently?

The differentiating factor lies in our ability to optimise space to meet its maximum potential. Over the years, we have launched several concepts that were able to cater to the changing needs of our tenants from various segments including industrial (Work Plus Store), commercial (Greenhub Suited Offices) and residential (Coliwoo) properties. We've recently observed significant interest and demand for co-living spaces that provide working areas, conveniently located close to the CBD area, at reasonable rental rates. We can attribute this interest partly to the shift in demand towards value-added services across integrated developments, with companies trying to scale down their office sizes, and "subscribe" to ad-hoc working areas – as and when they need them.

Our GreenHub office suites offer flexible leases that come equipped with modern amenities. The premises are managed by our dedicated receptionists and staff, that oversee and enable workers to hot desk, and schedule meetings at our conference rooms. As the pandemic continues to affect businesses worldwide, demand for such office spaces has softened, with more companies adopting work-from-home models. Our team is continually assessing the situation, and we are considering integrating our serviced offices offerings with our co-living spaces.

We introduced a new business concept in 2016 called Work + Store – a one-stop integrated solution for both the work and storage needs of businesses and individuals. This became popular because e-commerce is surging and the customers for this product are e-sellers on popular platforms such as like Lazada, Qoo10.

How did you come across this business and can you explain why your Work + Store service works well for e-commerce sellers?

Our Work+Store space concept was established in 2016 to cater to the rising demands of local and international e-commerce players and smaller businesses that required a flexible storage service model – one that provided last-mile logistic services

Work + Store building in Eunos; Source: LHN (workstore.com)

to deliver goods to their end-users. Our flexible lease terms and smaller storage spaces are ideal for these e-commerce businesses that may not require huge storage spaces.

Our storage areas come with basic facilities installed, which allows providers or suppliers to 'move-in' immediately. Conversely, most traditional industrial landlords offer empty warehouses that lack the necessary facilities, which lead to high set-up costs for small individual businesses who need to bear overhead costs to maintain this space. These landlords usually impose strict lease terms that are not as flexible as what Work+Store offers. We also offer a valet service for our customers to pick up and deliver their goods, areas to process orders, and designed areas for them to live stream and sell their products.

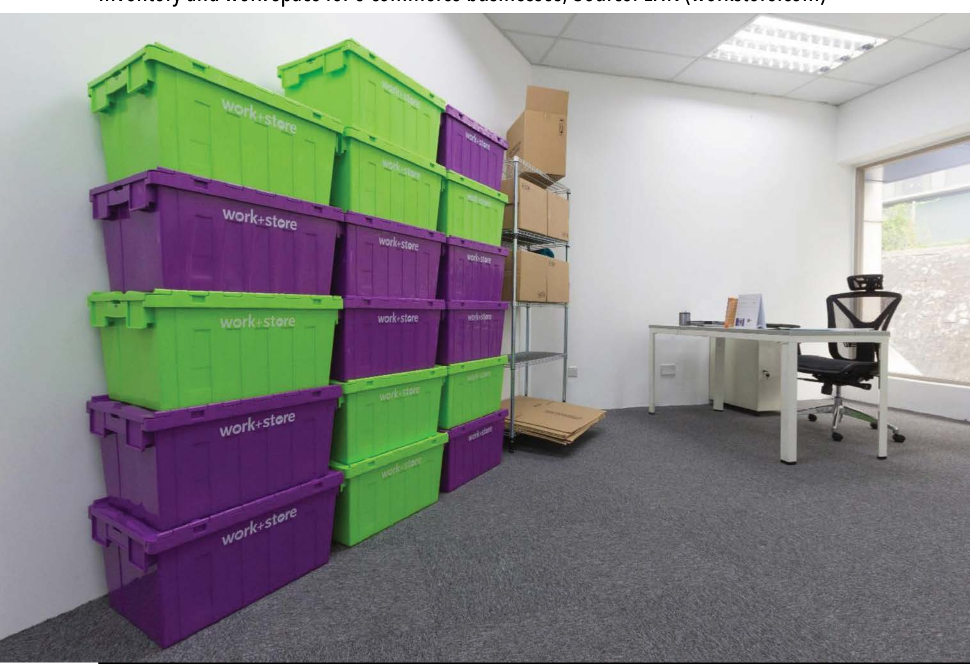
Work + Store has 8 locations in Singapore. What are the expansion plans?

Work + Store currently operates in eight locations in Singapore, with two new locations in the process of being set up. This includes our industrial property in 202 Kallang Bahru, where we have plans for an integrated logistics development that comprises a self-storage facility supported by an automated retrieval system. Our customers at this new Work + Store facility will be supported by a dedicated last-mile logistics team and ancillary office space to carry out their activities. In terms of occupancy, our facilities are riding at an all-time high of over 90% during this period due to strong demand coming from the e-commerce industry. Our customers include small business owners that typically require small and simple storage spaces for packing and processing orders.

Is there much to differentiate Work + Store with competitors?

Our competitors generally offer only self-storage lockers. At Work + Store, we provide spaces that suit the needs of e-commerce businesses and SME owners, who require smaller works spaces with fully integrated self-storage capacity and complemented by warehousing and last-mile logistics services. At 202 Kallang Bahru, our up and coming integrated development that includes a Work+Store outlet, we are creating communal breakout spaces for tenants and providers, to network at the pantry area or hot desk. This makes it so much more than just a storage space. The final segment is residential or co-living space, under the brand 85 Soho in Myanmar, Cambodia, and China.

Inventory and work space for e-commerce businesses; Source: LHN (workstore.com)



Coliwoo @ 31 Boon Lay Drive; Source: LHN (coliwoo.com)

LHN Parking Pte Ltd managing car parks; Source: LHN

Were you worried that the concept of white-collar workers living with strangers would not work? And how is this business performing under the current pandemic situation?

Residents at Coliwoo have their own private quarters. So, we do not view it as living together with strangers, but more akin to communal living. There are common facilities to encourage residential interaction, host networking meetings, and more.

How large is space optimisation for LHN group revenue, and would you look at adding even newer concepts into this business segment?

At present, our space optimisation business represents up to 70% of the LHN Group revenue. We will continue to evolve and roll out new concepts for our users; these will allow them to focus on what they do best for their respective businesses. In facilities management, LHN provides car park management plus cleaning and related services.

LHN is possibly the only listed company on SGX that offers facilities management services. Why pursue this business, since it looks niche and small in terms of market size?

LHN Group's facilities support segment provides a full spectrum of facilities, carpark, and security management services for commercial, industrial, and residential properties

In 2008, shortly after securing the master lease for 10 Raeburn Park, we installed an Electronic Parking System (ERP) to expand, and provide our tenants with value-added services. As the space was underutilised, we saw this as an opportunity to offer an integrated solution, one that combines the management of both office and car-park spaces, which provides a new income stream for our Group and allows us to simultaneously service our customers in another area. We then extended the car-park management to other third-party-building-owned carparks, by securing the rights of private and government-managed car parks in industrial, commercial, and residential areas. We have since expanded this service to Hong Kong, where we started operations in May 2017.

At present, how many car parks do you operate? What is the revenue model for such a business?

At present, we operate 16 internal and 36 external carparks in Singapore. The revenue model for this business lies in mainly parking income from hourly or seasonal parking, or the occasional car boot sale event.

Are the economics or returns higher in Hong Kong?

Hong Kong is much more competitive than Singapore, and comes with lower margins. However, we are benefiting tremendously from the current work-from-home situation as demand for carpark occupancy is high, and rents are low.

Does your cleaning and related services business complement space optimisation, or can it profitably serve other third-party clients?

We started our facilities management business in 2005, to complement our other service offerings. This came as a natural progression to us, which not only minimises our costs and increases the profit margin of our space optimisation business, but for our third-party providers, the

LHN Group provides transportation services in Singapore, and container depot management service in Singapore and Thailand

expansion can generate additional income. As a result, we have gained invaluable experiences in both sectors, which allows us to better advise and service our tenants for their respective properties.

How does LHN generate revenue from the logistics business?

Our logistics services include running a container depot and transportation.

Our container depot business generates income from the storage of empty container boxes, as well as income from conducting surveying, cleaning, repair, and maintenance of these containers to ensure that they are seaworthy before they leave our depot.

Storage, repair, and maintenance of container boxes; Source: LHN (hlacs.com.sg)

Transportation of ISO tanks; Source: LHN

Our customers are shipping line and leasing line companies.

Is this just a car park space for containers?

Our container depots are not just a storage space for containers, but also a place where we provide on-site repair, and also conduct surveying and cleaning services of these containers for our leasing and shipping line customers.

Under transportation, LHN owns more than 50 prime movers, 15 road tankers and 200 trailers. What goods do your vehicles transport?

We transport chemicals in bulk, within ISO tanks and containers, oversized project cargo, and general bulk and loose cargo.

Do you charge customers based on per shipment completed?

We charge our customers fees for the handling and transportation of these ISO tanks from point to point, usually between the port and the customers' refineries.

Logistics services as a business does not appear to fit into the core real-estate management services of the group; in that context, is LHN planning to expand further into these businesses?

While our logistics business does not directly complement our space-optimization services, it does provide added value to customers within the supply-chain sector, especially for ones that require space to store their cargo and goods. Managers with years of industry expertise head this unit; we

LHN was listed on the SGX in 2015. In 2017, it undertook dual listing on the main board of the Hong Kong Stock Exchange

have tremendous confidence in them supporting our goals for business growth.

What was the aim of the secondary listing in Hong Kong?

The SEHK listing will help increase our market visibility, attract a wider base of investors with different profiles, and serve as a springboard for us to expand our business in Hong Kong and China.

What challenges have you faced while expanding overseas? For instance, in terms of management resources, risk management, etc?

As we are a family-led business, our growth has been largely organic all this while. We are committed to growing our core team, to provide a suite of quality services and solutions across Asia.

Which country will LHN look to allocate more capital into?

We are constantly reviewing opportunities to expand our portfolio and service offerings in the region, including Hong Kong. However, Singapore remains our core focus market for growth, and we'll be launching new and exciting projects in Singapore over the next few months.

Service suites in Myanmar called 85soho; Source: LHN (85soho.com)

Amongst your portfolio of countries, Myanmar appears the most frontier. What is unique about running a business in this country compared to the others?

In contrast to other countries, Myanmar has the highest demand for serviced apartments. The Myanmar market generally has high confidence in the quality of the Singapore brand name, so we see great business potential in this market. The country has a fairly reasonable tax rate. There are no lack of opportunities to establish a business, what with a rather good-sized expat community in the country. Its workforce also has a sizeable number of English speakers making it an ideal market for us to build residential units catered for expats working there.

What permanent impact has the pandemic had on the real estate industry? As a result, what changes in strategy will LHN make?

The pandemic has radically changed how we work, live, and play. Workers that used to operate within an office are now required to work from home. The same goes for travel, hotel, and retail businesses, which were hit hardest by the restrictions. Many consumers are now looking to e-commerce, travelling in-bound, or experiential exploration within their respective countries.

Having been in the space optimisation business for over a decade, LHN Group closely monitors market trends to create mixed-use developments that cater to the changing needs of individuals and businesses.

We have leaped into co-living and self-storage segments over the last five years, as demand surged for e-commerce and integrated living. This includes developing our Work Plus Store self-storage spaces, which has since grown to eight locations in Singapore, and our Coliwoo properties to service locals, expats and students seeking communal experiences.

Our strategy remains the same - to identify opportunities from our study of market and consumer trends, and to keep building on our existing portfolio to provide added value to our customers.

PhillipCapital Singapore – Target price and recommendation summary

Company	Analyst	Last report	Rating	Target Price (S$)	Price (S$)	Change since last report (%)	Upside to TP (%)
Consumer Goods							
Sheng Siong	Paul Chew	2-Nov-20	Neutral	1.710	1.550	(6.6)	10.3
Thai Beverage	Paul Chew	30-Nov-20	Buy	0.860	0.750	1.4	14.7
Koufu Group Ltd	Terence Chua	17-Aug-20	Buy	0.770	0.650	(4.4)	18.5
Banking & Finance							
DBS	Tay Wee Kuang	9-Nov-20	Neutral	22.600	25.060	9.2	(9.8)
OCBC	Tay Wee Kuang	9-Nov-20	Accumulate	8.930	9.950	12.5	(10.3)
SGX	Tay Wee Kuang	3-Aug-20	Buy	9.450	9.180	7.9	2.9
UOB	Tay Wee Kuang	9-Nov-20	Accumulate	20.450	22.770	10.3	(10.2)
Healthcare							
Raffles Medical	Tay Wee Kuang	29-Jul-20	Neutral	0.940	0.865	(3.9)	8.7
Clearbridge Health Ltd	Phillip Research Team	31-Aug-20	Buy	0.260	0.145	(15.7)	79.3
Hyphens Pharma Intl. Ltd	Tay Wee Kuang	16-Nov-20	Accumulate	0.365	0.315	(11.3)	15.9
UG Healthcare Corp Ltd	Paul Chew	9-Nov-20	Buy	1.350	0.610	(37.1)	121.3
iX Biopharma Ltd	Tay Wee Kuang	2-Oct-20	Buy	0.455	0.240	0.0	89.6
Real Estate							
CapitaLand Ltd	Natalie Ong	11-May-20	Buy	3.940	3.230	9.5	22.0
City Developments Ltd	Natalie Ong	24-Aug-20	Buy	11.680	7.800	(2.5)	49.7
Apac Realty Ltd	Paul Chew	17-Aug-20	Neutral	0.350	0.435	16.0	(19.5)
PropNex Ltd	Paul Chew	16-Nov-20	Buy	0.850	0.740	8.8	14.9
Yoma Strategic Holdings	Tan Jie Hui	2-Dec-20	Buy	0.460	0.300	7.1	53.3
First Sponsor Group Ltd	Tan Jie Hui	28-Oct-20	Buy	1.560	1.290	(0.8)	20.9
Lendlease Global Commercial REIT	Tan Jie Hui	14-Dec-20	Accumulate	0.780	0.725	0.0	7.6
Investment Trusts							
Fraser Centrepoint Trust	Natalie Ong	9-Nov-20	Buy	2.790	2.360	3.1	18.2
Keppel DC REIT	Natalie Ong	26-Oct-20	Neutral	2.910	2.740	(7.1)	6.2
CapitaLand Mall Trust	Natalie Ong	15-Jun-20	Buy	2.330	2.090	2.5	11.5
Ascendas REIT	Natalie Ong	2-Nov-20	Buy	3.610	2.930	(0.3)	23.2
Dasin Retail Trust	Natalie Ong	7-Dec-20	Buy	0.900	0.775	2.0	16.1
Ascott Residence Trust	Natalie Ong	29-Jul-20	Buy	1.080	1.180	31.1	(8.5)
IREIT Global	Tan Jie Hui	13-Aug-20	Neutral	0.680	0.645	(1.7)	5.4
Manulife US REIT	Natalie Ong	5-Aug-20	Buy	0.900	0.745	(6.3)	20.8
Prime US REIT	Tan Jie Hui	9-Nov-20	Buy	0.940	0.785	2.6	19.7

Source: Phillipcapital Singapore Research

PhillipCapital Singapore – Target price and recommendation summary

Company	Analyst	Last report	Rating	Target Price (S$)	Price (S$)	Change since last report (%)	Upside to TP (%)
Transportation							
ComfortDelgro	Paul Chew	16-Nov-20	Buy	1.830	1.650	4.4	10.9
SATS	Paul Chew	18-Nov-20	Neutral	4.400	4.110	0.2	7.1
Technology							
Micro-Mechanics Holdings Ltd	Paul Chew	2-Nov-20	Accumulate	2.930	2.640	(0.4)	11.0
Venture Corporation Ltd	Paul Chew	9-Nov-20	Neutral	18.600	18.850	(9.0)	(1.3)
JEP Holdings Ltd	Paul Chew	21-Aug-20	Reduce	0.158	0.195	4.8	(19.0)
Telecommunications							
Singtel Ltd	Paul Chew	16-Nov-20	Neutral	2.440	2.310	0.0	5.6
StarHub Ltd	Paul Chew	20-Nov-20	Neutral	1.240	1.290	(1.5)	(3.9)
NetLink NBN Trust	Paul Chew	11-Aug-20	Accumulate	1.030	0.965	(0.5)	6.7
Asian Pay TV Trust	Paul Chew	13-Nov-20	Buy	0.150	0.116	(0.9)	29.3
Utilities							
Sembcorp Industries	Terence Chua	17-Sep-20	Buy	1.750	1.700	29.8	2.9
Conglomerate							
Keppel Corp Ltd	Terence Chua	2-Dec-20	Buy	6.120	5.160	0.2	18.6
Mining							
Fortress Minerals Ltd	Vivian Ye	14-Dec-20	Buy	0.275	0.205	0.0	34.1

Source: Phillipcapital Singapore Research

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