APAC Realty Limited

(Company Registration No. 201319080C)
(Incorporated in Singapore on 15 July 2013)

ANNUAL GENERAL MEETING TO BE HELD ON 20 APRIL 2023
RESPONSES TO SUBSTANTIAL AND RELEVANT QUESTIONS

There were no questions from shareholders as at 12 April 2023. Please refer to the questions received from Securities Investors Association (Singapore) and the Company's responses are set out below:

Q1. In April 2022, Morgan Stanley Private Equity Asia-controlled NHPEA Ace Realty agreed to acquire a 59.8% stake in the company from an entity controlled by private equity firm Northstar Group for $129.5 million.

The unconditional mandatory general offer closed in June with NHPEA acquiring 64.83% of the total shares of the company.

There were changes in the board, including the appointment of Mr Andrew Scobie Hawkyard as non-executive non-independent director on 10 June 2022. Mr Hawkyard is currently chief investment officer of Morgan Stanley Private Equity Asia and a managing director of Morgan Stanley. The lead independent director, chairman of audit and risk committee and member of nominating and remuneration committees, Mr Tan Bong Lin, will be retiring at the upcoming AGM.

(i) Can the board help shareholders better understand if it has engaged the new controlling shareholder, NHPEA, and further finetuned its growth plans and strategic priorities?

When Morgan Stanley Private Equity Asia ("MSPEA") acquired a controlling stake in APAC Realty through NHPEA, it said, "MSPEA will help to further build on this solid foundation and support APAC Realty's growth by leveraging our global network and extensive experience of growing businesses across Asia". Through Board representation, MSPEA worked closely with the Board and Management to fine-tune APAC Realty's strategic growth plans.

Whilst we are not able to share nature of these market-sensitive discussions, the market can take reference from the strong traction that APAC Realty has made since MSPEA came on board in April 2022. As announced in January 2023, APAC Realty increased its position in ERA Vietnam from 38% to 60%, allowing the Group to better participate in the growth of Asia's fastest growing market (in 2022). In March 2023, the Group announced it foray into Laos to deepen its foothold in the Indochina Peninsular.

(ii) On the other hand, how is the group capitalising on the new controlling shareholder?

MSPEA is the private equity arm of NYSE-listed Morgan Stanley in Asia. For close to 30 years, MSPEA has been making private equity investments in Asia. MSPEA has a strong track record of supporting revenue growth at its portfolio companies through the provision of value-added strategic advice, an extensive global network, enhanced capital markets and operational capabilities, as well as improved talent attraction and retention. As a portfolio company, APAC Realty was able to leverage on the same to realise its regional growth plans.

Q2. For the financial year ended 31 December 2022, the group reported a 4.7% decline in revenue to $705.0 million, after a record year in 2021. There was a lower number of property transactions as a result of the September 2022 cooling measures implemented by the Singapore Government.

The revenue from real estate brokerage fees and related services decreased by $35.0 million or 4.8% from $735.4 million in FY2021 to $700.4 million in FY2022, primarily due to a decline in property transactions. The decrease in brokerage income was attributed to a $32.1 million or 7.1% decline in resale and rental of properties, from $449.1 million in FY2021 to $417.0 million in FY2022, and a $2.7 million or 1.0% decline in new home sales, from $281.0 million in FY2021 to $278.3 million in FY2022.

The group has secured marketing agent mandates for 36 residential projects in Singapore for FY2023, which corresponds to a pipeline of nearly 12,000 new home units available for sale.

(i) Could management provide insight into the effectiveness and impact of the September 2022 cooling measures? Specifically, how have these measures affected different segments of property buyers?

Post September 2022 cooling measures, lower market transaction volume has been observed across different segments of property buyers.

However, home prices remained buoyant largely driven by strong demand from local home buyers and interest from foreign investors amidst a backdrop of limited supply.

With the cooling measures in place in Q4 2022, Singapore’s private residential resale market recorded sales of 14,791 units in FY2022, 28.0% or 5,739 units lower than 20,530 units transacted in FY2021. The HDB resale market recorded 27,896 transactions in FY2022, 10.1% or 3,121 units lower than 31,017 units in FY2021.

(ii) Is management able to quantify the level of interest from Chinese buyers (and other foreign buyers) since China’s reopening in January 2023?

Over the years, Singapore has been a destination of choice for Chinese real estate investors. Based on Realis data, purchases by Chinese buyers for Q1 2023 is quite consistent with the level in Q4 2022. However, following China’s reopening, the Company has received general feedback from our trusted agents on the ground that there is a higher level of interest from Chinese buyers in the luxury home and rental market.

(iii) Furthermore, how does management anticipate high interest rates impacting property prices and transactions in Singapore and what measure is the group taking to mitigate any negative impacts?

While interest rates continue to be elevated, home buyers are cognizant that over the long-term, property price growth is generally greater than interest rate, with private property prices increasing an average of 4.5% per annum over the past 20 years according to URA statistics.

While there could be some dampening of demand, this has not deterred home buyers from purchasing a property with the availability of progressive payment scheme (for private condominiums under construction) and deferred payment scheme (for executive condominium) which helps to cushion the impact from high interest rates.

(iv) Could high interest rates potentially negatively impact the group in terms of lower transaction volume, or are there silver lining and other opportunities that may arise from having higher interest rates?

We expect higher interest rates to impact overall transaction volume. Some demand may shift from resale to rental and new homes (progressive payment) as a result of the higher interest rates. This will help to cushion the impact of lower resale transaction volume.

This is evidenced from the high take-up rate of 53% of Tembusu Grand over the 8 & 9 April weekend when 340 out of 638 units were sold by the second day of its sales launch.

In addition, marketing and promotion expenses increased by approximately 15.8% to $4.3 million.

(v) Can the management clarify if the increased marketing and promotion expenses of approximately 15.8% to $4.3 million were mainly due to more marketing mandates secured?

Marketing and promotion expenses increased due to a greater number of marketing activities carried out during FY2022 as activities resumed post-Covid. Such marketing activities included events such as Chinese New Year Lo-Hei Lunch for developers and agents, Open House for external co-broke agents and new agents, Property Mega Show to showcase new project launches, ERA golf tournament, consumer outreach events such as Millionaire Investor Masterclass and ERA consumer seminars.

(vi) Has the management utilised social media to promote its services and enhance the group's brand and marketing efforts through a corporate social media strategy?

ERA has a robust corporate social media strategy in place to promote our services, enhance the group's brand image and recruit new agents. Follow us on LinkedIn, Facebook and Instagram.

Q3. The group established its Capital Markets & Investment Sales ("CMIS") business unit in February 2022 to engage high-net-worth individuals, family offices, developers, institutional investors and real estate investment trusts with services related to commercial and industrial buildings, strata offices and retail spaces, retail malls, collective sales, land for redevelopment, shophouses and Good Class Bungalows.

(i) How does the newly formed CMIS division relate to the "traditional" home sales and rental business, and what synergies can be expected between the two?

CMIS complements our traditional home residential sales and rental business, and is a separate business division. CMIS focuses on "big-ticket" properties such as commercial and industrial buildings, strata offices and retail spaces, retail malls, collective sales, land for redevelopment, shophouses and Good Class Bungalows. This division has a different set of clientele: high-net-worth individuals, family offices, developers, institutional investors and real estate investment trusts.

(ii) Can management elaborate on the competitive advantages of the CMIS division, and clarify if this is a new business model that involves bringing staff onto the company's P&L?

CMIS was a new business created in February 2022 to increase our revenue stream. We brought onboard a team of proven industry practitioners to drive this new business – people with a track record of success and industry networks to hit the ground running. In a short span of a year, our CMIS business unit has made significant ground, recording over S$153 million in transaction value. The most recent deal done by CMIS was to facilitate the sale of two industrial properties by Ho Bee Land for $115 million in March 2023.

The CMIS team has been appointed as the marketing agent for various properties (shophouses, mixed development, industrial building, hotel) with a total transaction value of more than $1.6 billion.

In addition, they are also working on the collective sale of Villa De West and Tan Tong Meng Tower, and is currently working with ERA trusted agents on the collective sale of Parkshore, The Meyer Place, Paya Ubi Industrial, Pine Grove, Mar Thoma Mansions and Casa Feliz. In aggregate, these collective sale mandates have a transaction value of more than S$2.0 billion.

(iii) Can management also confirm that SALES+ is limited to the group's agents while RealtyWatch could be downloaded by anybody using their smartphones?

In line with our digitalization and IT transformation strategy, we launched SALES+, a proprietary and highly advanced super-app in August 2022 to move the needle for ERA trusted agents. Only RealtyWatch can be downloaded by the general public.

(iv) Could management provide examples of how SALES+ has helped agents, specifically through its AI-powered features?

Launched in August 2022, SALES+ was developed for ERA agents to improve sales efficiency through data automation and market intelligence for real time property analysis and quick marketing materials and reports.

In early March 2023, we announced the integration of OpenAI Generative Pre-Trained Transformer 3 (GPT-3) into our proprietary SALES+ super app. This was further enhanced to GPT-3.5 at end of March 2023. Leveraging on the powerful underpin of popular AI tool ChatGPT, this feature will revolutionise how agents manage their daily work, equipping them with automated features that save time on mundane administrative tasks, including copywriting, content generation and translations, allowing agents to focus on more challenging aspects of their job.

ERA agents can take advantage of AI-powered automation within the SALES+ app to access an array of support features.

OpenAI GPT-3.5 in SALES+ comprises two sections: (a) Guided Creation and (b) Advanced.

a) Guided Creation is an efficient, user-friendly platform that simplifies the process of creating and managing content, as well as engaging with customers. Its two features, Content Management and Communication and Engagement, provide agents with the ability to generate necessary content quickly in the most optimal way. Content Management enables agents to better control how they communicate with customers. Agents can determine the tone, length, and structure of their messages, as well as improve them for Search Engine Optimization (SEO) and summarizing them for key takeaways. Communication and Engagement helps generate and enhance agent support, from self-introductions to tenancy reminders, personalised festive greetings to open house and event invitations. It also offers agents the option to translate their messages into various languages and to suggest a copy based on the platform type that the agent intends to post on.

b) Moreover, agents have access to an Advanced chat feature to interact with a chatbot for a wide range of AI-generated conversational responses. These features increase time efficiency and productivity, while engaging and connecting with clients.

BY ORDER OF THE BOARD

Chua Khee Hak
Executive Chairman
14 April 2023