CBD Grade A office rents gained momentum and rose 3.0% QOQ in Q2 2019, raising monthly rent to SGD9.93 (USD7.35). The strong net absorption was once again driven by the technology and flexible workspace sectors. As a result, vacancy tightened to 2.9%.

H1 2019 rental growth reached 5.4%. Growth should slow going forward as tenants show resistance to further rent hikes. We remain on track for 8% full-year growth, as new supply remains tight at 2% of stock per annum over 2019-2021.

Capital values rose 1.8% QOQ as transaction volumes jumped 176% QOQ. With a favorable interest rate outlook, yields could compress in 2019 before keeping steady from 2020-2023.

We advise occupiers with leases expiring in 2019-2020 to review and explore lease options early.

## Summary & Recommendations

**Demand**

> In 2019, we expect CBD Grade A net absorption to be driven mainly by expansion in the technology and flexible workspace sectors, and we expect net demand to outstrip supply.

<table>
<thead>
<tr>
<th>Q2 2019</th>
<th>Full Year 2019</th>
<th>2018–23 Annual Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>450,000 sq ft</td>
<td>1,405,000 sq ft</td>
<td>810,000 sq ft</td>
</tr>
</tbody>
</table>

**Supply**

> We expect muted CBD Grade A supply through 2019-2021, with annual expansion averaging 2% of stock versus 5% for the last 5 years. The next major supply hike (about 7% of stock) is in 2022.

<table>
<thead>
<tr>
<th>QOQ / End Q2</th>
<th>YOY / End 2019</th>
<th>Annual Average Growth 2018–23 / End 2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>214,000 sq ft</td>
<td>702,000 sq ft</td>
<td>895,000 sq ft</td>
</tr>
</tbody>
</table>

**Rent (psf pm)**

> We expect 2019 CBD Grade A rental growth to moderate from 15% to 8% in 2018, and subsequently decline slightly in 2021 in anticipation of higher supply in 2022, followed by a rebound.

<table>
<thead>
<tr>
<th>End 2019</th>
<th>Annual Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>SGD9.93</td>
<td>SGD11.64</td>
</tr>
</tbody>
</table>

**Vacancy**

> CBD Grade A vacancy continues to tighten well below the 10-year average of 6.2%, and limited supply should keep vacancy rates down until the 2022 supply hike.

<table>
<thead>
<tr>
<th>End Q2</th>
<th>End 2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>-1.0pp</td>
<td>+0.1pp</td>
</tr>
<tr>
<td>2.9%</td>
<td>6.0%</td>
</tr>
</tbody>
</table>

**Capital Values**

> We expect yields to compress slightly as capital values rise faster than income growth in 2019, due to high transaction volume. Capital values should trail our projected rental growth thereafter.

<table>
<thead>
<tr>
<th>End 2019</th>
<th>2018–23</th>
</tr>
</thead>
<tbody>
<tr>
<td>SGD2,498 psf</td>
<td>SGD2,780 psf</td>
</tr>
</tbody>
</table>

Source: Colliers International

Note: USD1 to SGD1.35 as of 30 Jun 2019. 1 sq m = 10.76 sq ft. "pp" refers to percentage point.
LEASING MARKET AND RENTS

Strong rental momentum; growth likely peaked

Q2 2019 rental growth gains momentum on tightened vacancy

CBD Grade A office rents in Q2 2019 grew +3.0% QOQ to SGD9.93 (USD7.35) per sq foot per month, driven by tighter vacancy across all Colliers’ micro-markets, with demand once again mostly coming from technology and flexible workspace operators. CBD Grade A vacancy continued to tighten QOQ, falling to 2.9% from 3.9%. While rental growth momentum remains strong, we believe growth has peaked.

Notable leasing activities included: WeWork committing to three floors (51,000 sq feet; 4,740 sq meters) at UE Square, and one additional floor to their existing presence at Mapletree Anson; Zebra Technologies committing to a whole floor (21,000 sq feet; 1,950 sq meters) at Frasers Tower; and JUUL, an e-cigarette provider, entering into a lease with The Executive Centre on an enterprise solutions model at One Raffles Quay South Tower, taking up 20,000 sq feet (1,860 sq meters) of space. 18 Robinson, completed in Q1 2019, is now 65% leased after additional commitments from diversified tenants, including CNBC, a media broadcasting company.

Rental growth continued to be strongest at Beach Road/Bugis micro-market, driven by tight vacancies, and as landlords price in the upcoming rejuvenation in the precinct and the planned completion of Guoco Midtown in 2022 and the Shaw Tower redevelopment in 2023.

CBD Grades A & B, gross effective rents

Office rents and vacancy, Q2 2019

We expect CBD new Grade A supply to remain limited in 2019-2021 averaging 617,000 sq feet (57,000 sq metres) p.a. This should keep CBD Grade A vacancy tight, below the 10-year average of 6.2%. We expect CBD Grade A office rents to grow 8% in 2019 and 5% in 2020, moderating from a strong 15% in 2018.
INVESTMENT MARKET

Transaction volumes jumped 176% QOQ in Q2 2019

Deals to remain robust amid rising rents

Despite the ongoing trade war, negligible impact was felt in the office market. Q2 2019 transactions jumped 176% QOQ to SGD2.63 billion (USD1.95 million), pushing the rolling 12-month volumes of office and mixed-use commercial transactions to SGD7.17 billion (USD5.31 billion, +27% QOQ). There were two key contributing deals during the quarter, first, the sale of Chevron House by Oxley Holdings at SGD1.03 billion (USD0.76 billion) to AEW, a US-based real estate fund, as reported by Bloomberg; and second, an agreement entered by Frasers Property Ltd to divest a 50% stake in Frasers Tower, valued at SGD983 million (USD727 million) to Korea’s National Pension Service (NPS), as reported by Mingtiandi.

There are also signs investors are looking beyond the prime CBD for office deals. During the quarter, 7 and 9 Tampines Grande, a suburban office property, was sold by City Developments Ltd and Alpha Investment Partners to a 50:50 joint venture between Metro Holdings and privately-held Evia Real Estate, for SGD395 million (USD292 million).

Going forward, we expect capital transactions to remain robust due to a favorable interest rate outlook and tight local office demand-supply dynamics. Already, it was reported by Business Times that a GAW Capital Partners-led consortium is negotiating to buy the office and retail space at the Duo project in the Bugis area for potentially over SGD1.5 billion (USD1.1 billion). It was also reported that Commerz Real is in talks with potential buyers for the sale of 71 Robinson Road.

CBD Grade A capital values up 1.8% QOQ

With optimistic valuations achieved in major transactions in Q2 2019, the average imputed capital value of CBD Grade A office properties rose 1.8% QOQ and 6.1% YOY to SGD2,498 (USD1,849) per sq foot. Colliers’ valuation team is of the view that cap rates compressed 10-15 bps to range between 3.15% and 3.5% on average. With the hefty weight of capital continuing to shift towards key gateway cities such as Singapore, we expect rental yields to compress in 2019, and then to hold steady from 2020-2023, as capital values trail our projected rent growth.
About Colliers International Group Inc.

Colliers International (NASDAQ, TSX: CIGI) is a leading global real estate services and investment management company. With operations in 68 countries, our 14,000 enterprising people work collaboratively to provide expert advice and services to maximize the value of property for real estate occupiers, owners and investors. For more than 20 years, our experienced leadership team, owning more than 40% of our equity, have delivered industry-leading investment returns for shareholders. In 2018, corporate revenues were $2.8 billion ($3.3 billion including affiliates), with more than $26 billion of assets under management.

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