

# Tailwinds into 2018

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**CBD Premium & Grade A rents gained further traction in Q4 2017, rising 2.7% QOQ compared to the previous quarter's uptick of 0.6%. This brings full year 2017 rent growth to 2.3%, the first annual increment since 2014. Upgrading dynamics, flight to efficiency and coworking deals were key themes in 2017. Going into 2018 and 2019, we expect rent growth to pick up speed, driven by businesses scaling up amidst the positive economic conditions.**

## Forecast at a glance



### Demand

Broad-based expansion across service sectors and new coworking set-ups should drive future net absorption.



### Supply

Diminished supply over 2018-2020, with annual expansion averaging 2% of stock. Next major jump in supply (7% of stock) should come on-stream in 2021.



### Vacancy rate

CBD prime vacancy declined to 8.1% in Q4. Peak vacancy is behind us and vacancy rates should step down gradually, before the next hike in 2021.



### Rent

CBD prime rents recorded a rise of 2.3% YOY for 2017. Rent growth should accelerate in 2018 (+10-12%), and taper down in 2019 (+3-5%). We expect a slight dip in 2020 before rebounding over 2021-22.



### Price

Prime office capital values and yields held stable, given ample market liquidity and investor interest. Capital values should rise in tandem with rents towards 2022, with yields remaining largely flat.

## Recovery picking up speed

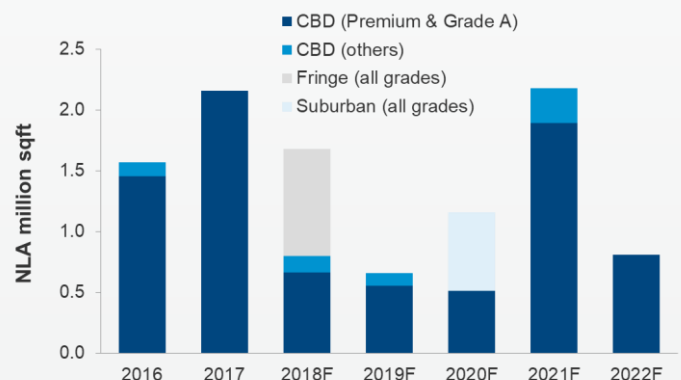
In Q4 2017, CBD Premium and Grade A gross effective rents rose 2.7% quarter-on-quarter (QOQ) to SGD8.21 (USD6.14) psf pm, accelerating from the 0.6% QOQ growth in the preceding quarter. Average occupancy rates also improved in tandem, rising 0.5 percentage points (ppt) QOQ to 91.9%.

Leasing activity during the quarter mainly comprised of relocations and expansions by small- to mid-sized technology firms and professional services companies. This helped drive robust pre-commitment rates in upcoming developments, as well as the filling up of backfill space vacated by relocating firms. The year 2017 rounded off with further net absorption of space by flexible workspace operators (i.e. coworking spaces & serviced offices).

Continued broadening of growth to the service sectors plus modest supply pipelines in the short-term, should pave the way for accelerated rent growth ranging 10% to 12% over 2018, and a more moderate 3% to 5% in 2019. Rents may dip slightly (-4%) in 2020 in anticipation of the large supply slated to come on-stream in 2021.

The office investment market continued to pick up in Q4 2017 with a surge in volumes. Average capital values for the CBD Premium and Grade A basket rose 0.7% QOQ to SGD2,245 (USD1,680) psf on improved rents and strong investor interest. Chevron House in Raffles Place was sold for SGD660 million (USD494 million), at SGD2,526 (USD1,890) psf NLA.

## Island-wide Office Space Supply (2016–2022F)



Source: Colliers International Singapore Research

# Leasing market and rental values

## Steepening CBD prime rental uplift

In Q4 2017, average gross effective rents in CBD Premium and Grade A buildings rose to SGD8.21 (USD6.14) psf pm, up 2.7% QOQ and 2.3% year-on-year (YOY). This is an accelerated growth from Q3 2017, which recorded a 0.6% QOQ rise in effective rents.

With rents bottoming in the first half of 2017, this may have incentivized occupiers to lock in prime choices at relatively attractive rates before the market recovery picks up speed.

The bullish sentiment is well spread out, with average gross effective rents rising across the Premium, Grade A and Grade B submarkets in the CBD.

### Average Monthly Gross Effective Office Rents (by Micro-market)

Micro Market	Q4 2017 Average Gross Effective Rents (SGD psf pm)	QOQ Change (%)	YOY Change (%)
<b>Premium</b>			
Raffles Place / New Downtown	9.83	6.6%	6.6%
<b>Grade A</b>			
Raffles Place / New Downtown	8.55	2.9%	2.8%
Shenton Way / Tanjong Pagar	8.05	2.2%	2.4%
Marina / City Hall	8.54	2.0%	1.3%
Beach Road	7.18	2.6%	1.4%
Orchard Road	8.10	1.7%	0.4%
<b>CBD Premium and Grade A</b>	<b>8.21</b>	<b>2.7%</b>	<b>2.3%</b>
City Fringe	6.81	1.5%	1.5%
Suburban	4.48	0.7%	0.7%
<b>Grade B</b>			
Raffles Place / New Downtown	7.51	2.2%	-0.3%
Shenton Way / Tanjong Pagar	6.95	2.5%	2.7%
Beach Road	5.86	1.2%	-0.5%
Orchard Road	7.34	1.8%	0.4%
City Fringe	6.33	0.8%	0.8%
Suburban	3.71	0.8%	1.6%

Source: Colliers International Singapore Research

Raffles Place / New Downtown Premium micro-market registered the highest rental uplift (+6.6% QOQ), on the back of robust demand and resilient occupancy levels, despite the large supply injection during 2017. Grade A developments within the same micro-market enjoyed the positive spill-over effect from the new Premium builds, and saw the next sharpest prime rental increment (+2.9% QOQ) within the CBD.

CBD Premium and Grade A average lease incentive offered by landlords was 5.9% of face rents in Q4 2017, equivalent to about 2.1 months' rent-free on a 36-month lease. This is a notable reduction from 6.8% (or about 2.4 months' rent-free) in Q3 2017.

## Upgrading dynamics accelerate Grade A developments' recovery

Occupancy rates for CBD Premium and Grade A buildings improved from 91.5% to 91.9% (+0.5ppt QOQ) in Q4 2017. Upgrading dynamics were noticeable across Orchard Road, Beach Road, City Fringe and Suburban locations.

Grade A occupancy rates across these micro-markets rose while the lower tier developments saw a corresponding decline in occupancy. For instance, Orchard Road Grade A average occupancy improved by 0.9ppt QOQ to 93.4%, while Grade B properties in the same micro-market recorded a sizable occupancy decline (-4.8ppt QOQ) to 89.7%.

### Average Occupancy Rates for Premium and Grade A Office Space (by Micro-market)

Micro Market	Q4 2017 Average Occupancy Rate (%)	Q3 2017 Average Occupancy Rate (%)	QOQ Change (ppt)
<b>Premium</b>			
Raffles Place / New Downtown	88.3%	88.2%	0.1
<b>Grade A</b>			
Raffles Place / New Downtown	96.7%	97.0%	-0.2
Shenton Way / Tanjong Pagar	95.8%	91.8%	4.1
Marina / City Hall	94.5%	95.4%	-0.9
Beach Road	73.9%	70.7%	3.2
Orchard Road	93.4%	92.5%	0.9
<b>CBD Premium and Grade A</b>	<b>91.9%</b>	<b>91.5%</b>	<b>0.5</b>
City Fringe	96.5%	95.1%	1.5
Suburban	98.6%	98.0%	0.6

Source: Colliers International Singapore Research

## SELECTED OCCUPIER MOVEMENTS WITHIN CBD - Q4 2017

Building	Tenant	Net Floor Area (sq ft)	Relocation /Expansion /New site
Funan	WeWork	40,000	New site
79 Anson Road	Core Collective	25,000	New site
UIC Building	Finastra	17,000	Relocation & Consolidation
Ngee Ann City Tower B	The Great Room	15,000	New site
Suntec Tower 2	Ucommune (previously URwork)	14,380	New site
Guoco Tower	Pure Storage	10,000	Relocation
Guoco Tower	Agoda	9,375	Expansion
Republic Plaza	Sojern	6,500	Relocation & Expansion

Sources: Colliers International Singapore Research, The Business Times, The Straits Times

## Small- to mid-sized relocations and expansionary activity predominated

Q4 2017 leasing activity mainly comprised of relocations and expansions by smaller technology firms and professional services companies. Expansionary demand was a major driver in filling up new builds, and backfill space vacated by occupiers moving to new locations.

Online travel company Agoda expanded its space take-up within Guoco Tower to 9,375 sq ft (871 sq m), while Pure Storage, a flash storage manufacturer, also leased 10,000 sq ft (929 sq m) in the same building. Travel marketing tech player, Sojern, took up a 6,500 sq ft (604 sq m) space at Republic Plaza in a relocation from a serviced office. These expansionary dynamics reflect the continued growth sentiment of the technology sector, particularly the software, online services and cloud computing sub-segments.

## Sustained momentum for flexible workspace growth

The year 2017 rounded off with further net absorption by flexible workspace operators, with deals in the Marina / City Hall locality headlining the quarter. JustCo took up four retail floors totalling 57,000 sq ft (5,295 sq m) at Marina Square. In its first foray into the CBD, China-based flexible workspace operator Ucommune leased 14,380 sq ft (1,336 sq m) at Suntec Tower 2. US-based WeWork also announced an early pre-commitment of 40,000 sq ft (3,716 sq m) at the upcoming Funan mixed-use development, which is slated for completion in 2019.

All in all, 2017 saw a continuation of 2016's strong momentum in flexible workspace take-up. Total square footage across Singapore leased by flexible workspace providers grew by 42% to 2.1 million sq ft (195,100 sq m) in 2017, a remarkable expansion given 2016's already eye-catching growth rate of 29%. We expect a healthy, albeit slightly curtailed growth rate of at least 25% YOY in 2018, given that a number of flexible workspace operators are still searching for several locations apiece.

## Services sector poised to be main driver of growth in 2018

Singapore's real GDP grew an impressive 5.4% YOY in Q3, and 3.1% YOY in Q4 2017, according to advance estimates released by the Ministry of Trade and Industry (MTI). This rounds up to about 3.5% growth for full-year 2017, an encouraging uplift from the preceding two years' weaker performance of +1.9% and +2.0% respectively.

Based on Oxford Economics' analysis, Singapore's overall growth momentum is likely to sustain in the short-term, with GDP rising approximately 3.0% over 2018, followed by average annual growth of 2.6% in the following years to 2022.

The core growth engine for Singapore in 2017 has been impressive cyclical outperformance by the manufacturing sector, which grew an estimated 10.5% YOY, bolstered by a strong surge in global demand for consumer electronics.

In contrast, the services sector delivered a slow but steady step-up in contribution to GDP in each consecutive quarter amounting to +2.5% for full-year 2017, substantially stronger than 2016 (+1.0%).

Looking ahead, the services sector is poised to deliver the lion's share of Singapore's real GDP growth in 2018, and this should cascade down into demand for prime office space.

Coupled with muted supply pipelines in the next three years, this should pave the way for double-digit rental growth over 2018-19. We forecast CBD Premium & Grade A rents to record a cumulative increase of 16% over the next two years, with accelerated rent growth ranging 10% to 12% over 2018, and a more moderate 3% to 5% in 2019.

In anticipation of the large supply in 2021, prime rents may see some consolidation (-4%) in 2020, before rebounding again over 2021-22.

## Muted short-term supply, healthy pre-leasing in upcoming builds

Over 2018-2020, we expect a moderate CBD Premium and Grade A supply pipeline averaging 0.58 million sq ft (53,670 sq m) per year, equivalent to an annual growth of 2% of stock. This is significantly muted against the large supply injection in 2017 (approx. 10% of stock). The next major jump (approx. 7% of stock), will actualize in 2021 from the Golden Shoe redevelopment and Central Boulevard greenfield site totalling 1.9 million sq ft (180,000 sq m).

Frasers Tower is slated to complete in Q2 2018, offering 663,000 sq ft (61,595 sq m) NLA and extending Grade A stock by 25% in Shenton Way / Tanjong Pagar. Its take-up rate reached 70% as of 15 January 2018, adding to the strong recent performance of the micro-market, with the neighbouring Guoco Tower having posted full occupancy within 12 months of completion.

In Q3 2018, the 880,000 sq ft (81,755 sq m) Paya Lebar Quarter mixed development is expected to come on-stream. As of 16 January 2018, about 50% of its office component is pre-leased, or under advanced stages of negotiation. 18 Robinson, a smaller development in Raffles Place totalling some 194,000 sq ft (18,023 sq m), should also come on-stream during Q3 2018.

# Strata sales and capital values

## Strata resales surged, capital values and yields held stable

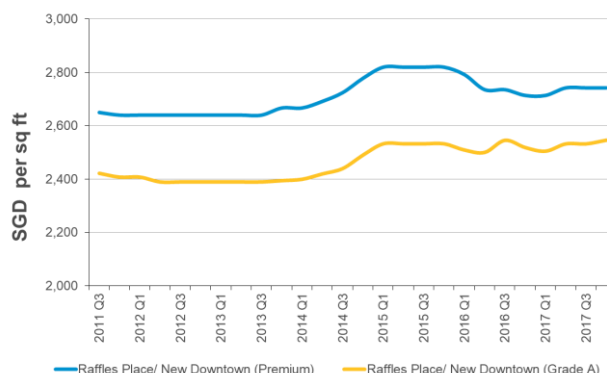
Based on Urban Redevelopment Authority (URA) REALIS data as of 22 January 2018, strata office sales

transactions in Q4 2017 increased 32.6% QOQ to 122 deals, from 92 in the previous quarter. This marks the first triple-digit quarterly sales volume in more than three years. The bulk of the deals were resale transactions (114 resales), comprising 93% of deal volume by caveats lodged. Notable strata unit resales in the CBD include units at Prudential Tower, Shenton House, Samsung Hub and SBF Centre.

In Q4 2017, the 32-storey Chevron House in Raffles Place changed hands for SGD660 million (USD493.8 million). The office development was sold to Oxley Holdings by Deka Singapore, at SGD2,526 (USD1,890) psf NLA. The Prospex building along Middle Road was also transacted en-bloc for SGD60 million (USD44.9 million), or SGD1,784 (USD1,335) psf NLA.

Based on Colliers International's research, average capital values of Premium office properties in Raffles Place / New Downtown held stable at SGD2,743 (USD 2,052) psf, while the Grade A basket saw capital values inching up by 0.5% QOQ to SGD2,545 (USD1,904) psf. On the whole, prime office yields remained largely stable in Q4 2017.

### Average Capital Values<sup>(1)</sup> for Premium and Grade A Office in Raffles Place / New Downtown



Note: (1) A valuation based methodology is used to derive the average capital values. Source: Colliers International Singapore Research

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