Colliers Outlook

SINGAPORE | 2018 MARKET OUTLOOK

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Colliers INTERNATIONAL

Accelerating success.

2018: Broadening growth

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We expect Singapore's property market to stabilize and strengthen over 2018, supported by broad-based GDP growth and an expected multi-year upcycle in the office and residential markets. Physical supply in office, residential and industrial sectors is also easing from the oversupply situation of past years. Capital flows should remain buoyant as we expect interest rates hikes to be benign, and yield spreads are relatively attractive. Barring external shocks, we project a general uplift in rents and capital values over 2018, primarily driven by the office and residential sectors.

2017: A decent year in hindsight

The fourth quarter of 2017 reflected a positive end to a decent year for the Singapore property market.

> The investment sales market had a stellar quarter capping the best year since 2007

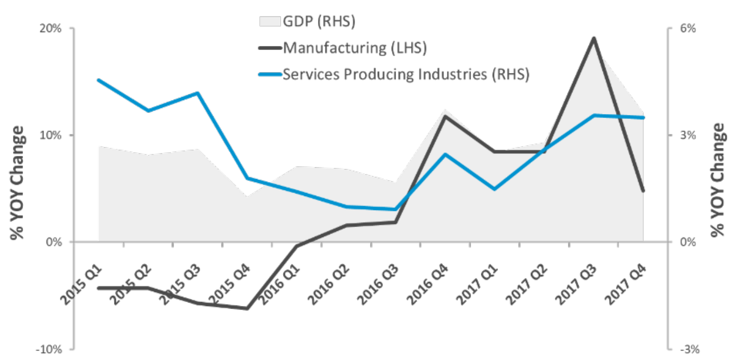
> The office leasing market is firmly on a growth path after rising for the second consecutive quarter, with vacancy trending downwards and healthy pre-commitments in new builds

> The industrial sector is showing signs of bottoming and could start to catch up with economic fundamentals

> The retail sector continues to find its footing, and saw some life with ongoing digitalization efforts and omni-channel strategies from landlords and retailers

The Singapore economy grew by a healthy 3.6% in 2017. The core growth engine has been impressive cyclical outperformance by the manufacturing sector (+10.1%), bolstered by a strong surge in global demand for consumer electronics.

Components of Real GDP Growth (2015-2017)



Source: MTI, Colliers International Singapore Research

In contrast, the services sectors delivered a slow but steady step-up in contribution to the GDP growth in each consecutive quarter amounting to +2.8% for full year 2017, substantially stronger than 2016 (+1.4%).

2018: Stronger rental outlook

Based on Ministry of Trade and Industry (MTI) forecasts, GDP growth in 2018 is expected to "moderate but remain firm", clocking in the upper half of the forecast range of +1.5% to +3.5%.

Our view is that the office and high-specifications industrial leasing markets are likely the main beneficiaries of Singapore's economic growth momentum over 2018.

2018 Leasing Market Outlook

Rental Values (YOY % Change)		
Office (Premium & Grade A)	CBD	+10 to +12%
	Suburban	+5 to +6%
Industrial	Factory	0%
	Warehouse	-1%
	Independent Hi-Specs	+1%
	Business Parks	+1%
Retail (Prime floors)	Orchard	+1 to +2%
	Regional Centres	-1 to -1.5%
Residential	Private	+1%

Source: Colliers International Singapore Research

- > Office: Service sectors are poised to deliver a higher share of Singapore's real GDP growth in 2018, and this should cascade down into strengthened demand for prime office space. Moderate supply pipelines further underpin our expectations of an accelerated rental uplift (+10-12%) in 2018.
- > Industrial: Stronger leasing demand in tandem with the growth in manufacturing GDP and export volumes, alongside an easing supply pipeline, should stabilise rents in 2018. Rents in high-specifications and business park industrial space ought to lead demand, with rents rising 1% in 2018.
- > Retail: The recent strength in tourist receipts should support a marginal uplift in Orchard Road prime floor rents in 2018. However, the overall retail property market is likely to continue stabilizing over 2018-19, given the relatively high tenant turnover in this challenging bricks-and-mortar retail climate.
- > Residential: With vacancy of the private non-landed market still elevated at 8.7%, rents will likely remain soft in the near term, before recovering by end of 2018 as supply completions taper.

The improved fundamentals in occupier markets should pave the way for a stronger year of investment sales, as detailed in the following section.

2018: Singapore looking sharp amongst APAC investment destinations

According to a recent **Investor Survey conducted by Colliers Hong Kong Research** on 35 Asia Pacific (APAC)-focused real estate investors and developers, economic outlook was viewed as the most important consideration (cited by 23% of respondents) when making investment decisions for 2018, followed closely by interest rates (22%), and geopolitical conflicts (21%).

While Greater China remains the preferred region for APAC-focused investors, the outsized focus on growth fundamentals and geopolitical stability plays into Singapore's favour in 2018. The city-state's real GDP growth is forecast to be a healthy +3.1% for 2018F (per Oxford Economics, 26 February 2018), relatively attractive amongst peers with mature economies. Singapore also remains a defensive and well-regulated market, with low risk of geopolitical conflict or market volatility.

Ample liquidity from **stable and rising intra-regional investment flows** bode well for the investment sales market in 2018, as Asia-based investors continue to seek opportunities within the region.

Real GDP Growth (%) - 2017 and 2018F

Market	2017A	2018F
Singapore	+3.6%	+3.1%
Hong Kong	+3.7%	+2.8%
South Korea	+3.1%	+2.9%
Taiwan	+2.8%	+2.6%

Source: Oxford Economics (26 February 2018), MTI

After growing 55% in 2017, we expect the positive momentum in investment sale volumes to carry into 2018, driven by buoyant investor sentiment and expected multi-year upcycles in the underlying residential sales and office leasing markets.

Looking ahead to 2018, the investment sales market should grow 10-20% YOY to SGD44-48 (USD33-36) billion. Capital values for office and freehold industrial properties are on a gradual uptrend, supported by rising rents, robust demand and ample market liquidity.

2018 Investment Market Outlook		
Capital Values (YOY Change)		
Office (Premium & Grade A)	CBD	↑
Industrial	Freehold*	↑
	Leasehold*	↓
	Independent Hi-Specs	↑
	Business Parks	↑
Retail (Prime strata floors)	Orchard	↔
	Regional Centres	↔
Residential	Private	↑
Investment Volumes (YOY Change)		
Residential		↑
Commercial (office / retail)		↑
Industrial		↑
Total Investment Sales in 2018:		**+10 to +20%**

*Refers to factory and warehouse space.

Source: Colliers International Singapore Research

Residential in 2018: strong positive sentiment

Overall, we expect private home prices to recover 5% in 2018, in tandem with the rosier GDP growth. The price recovery could also be supported by a more benign supply outlook over the next three years. Supply completions in 2017 was down 20.9% from the peak in 2016, and will taper off further in 2018.

In 2018, we project a full year developer take-up of 12,600 units (excluding Executive Condominiums), 19% higher than last year's 10,566 units. This would be underpinned by pent-up demand, improved sentiment and availability of more choices with more new launches. There may also be spill-over demand from sellers of the en-bloc sales looking for replacement homes.

Office in 2018: accelerating growth

Going into 2018, we expect the office leasing market to pick up speed amidst strengthening economic conditions and muted supply pipelines over 2018-2020F (averaging 2% of stock per annum), after the 2017 supply peak which expanded stock by nearly 10%.

Rent growth should accelerate in 2018 (+10-12%), and taper down in 2019 (+3-5%). Capital values are likely to rise in tandem with rents over 2018, albeit at a graduated pace. Yields should remain largely flat.

We project vacancy rates to step down gradually, amidst expansionary activity led by the services sectors, particularly financial and professional services, as well as niche segments of the technology sector, such as software and cloud computing. The total footprint of flexible workspaces is also projected to grow 25% in 2018, from the current 2.1 million sq ft (195,100 sq m) island-wide.

Industrial in 2018: bottoming out

We expect stronger leasing demand in tandem with the growth in manufacturing and export volumes.

A record new supply of 20.9 million sq ft (1.9 million sq m) of net lettable area of industrial space was completed in 2017. We expect a further 17.5 million sq ft (1.6 million sq m) (gross), or 3% of current stock to come onstream in 2018. This number is expected to ease by half to 7.6 million sq ft (0.7 million sq m) in 2019. Hence, we expect rents to stabilise in 2018 with some growth in high-specifications and business park space.

Capital values for prime freehold industrial could well improve or remain stable on investment demand and scarcity, while those for short-leasehold and older units will probably continue to moderate due to ample supply and depreciation.

Retail in 2018: nearing bottom

Prime floor retail rents (tracking floors with the highest foot traffic, typically the ground floor) in the Orchard Road shopping belt have started to stabilise, rising 1% in 2017, underpinned by strengthening tourist arrivals and shopping receipts.

However, the overall retail market recovery would be more gradual given the significant structural challenges upending the retail sector, with average retail rents continuing to decline over 2017. We expect turnover of retail tenants to remain high in 2018 as retailers and landlords continue adapting.

Orchard Road prime floor rents should inch up marginally (+1-2%) over 2018, while the Regional Centres' prime floor rents are likely to fall by a further 1%-1.5% in 2018 before stabilising in 2019.

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