SLOWER RENT GROWTH AHEAD

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Summary & Recommendations

CBD Grade A office rents rose 2.4% qoq in Q4 to bring the full year growth to 15%, the highest annual growth since 2010, amidst strong broad-based demand and tightening vacancy rates across prime developments.

> We expect 2019 demand drivers to be similar to 2018 -- continued expansion by tech and flexible workspace, against a benign 2.5% GDP growth backdrop.

> We advise occupiers to review portfolios early given limited prime contiguous space, and consider alternatives including flex and core strategies.

> Capital values and yields stabilised in Q4 as full year capital values rose 7.9% on a steady rent growth outlook.

		Q4 2018 Full Quarter	2019F Full Year	2019–2023F Annual Average
Demand	> CBD Grade A net absorption should be driven by broad-based expansionary demand, mainly financial, professional services, technology and flexible workspace firms.	50,700 sq ft	857,000 sq ft	700,000 sq ft
Supply	> We expect diminished CBD Grade A supply over 2019-2021, with annual expansion averaging 2% of stock. The next major jump in supply (about 8% of stock) should be in 2022.	0 sq ft	692,000 sq ft	835,000 sq ft
		QOQ Change/ Quarter-End	**YOY Change/ End-2019**	**End-2023/Annual Average Growth 2019-23**
Rent (psf pm)	> CBD Grade A rents recorded a rise of 15% in 2018. We expect rent growth to taper down in 2019 to 8%. We expect a slight decline in 2021, before a rebound thereafter.	+2.4% SGD9.43	+8% SGD10.22	+5.0% SGD11.75
Vacancy	> CBD Grade A vacancy has stabilised below the 10-year average of 6.2%, and should remain tight on low supply until the 2022 supply hike.	-0.2pp 5.4%	-0.8pp 4.6%	+0.3pp 7.0%
Capital Values/ Yields	> Yields should stay largely flat in 2019 while CBD Grade A capital values look set to trail the steady rental growth and on strong transaction activity.	+0.9% SGD2,424 psf	+3% SGD2,500 psf	+3% SGD2,780 psf

Source: Colliers International
Note: USD1 to SGD1.3671 as at 30 Sep 2018. 1 sq m = 10.7639 sq ft. "pp" refers to percentage point.

LEASING MARKET AND RENTS

Tightening vacancy drove rents up 15% in 2018

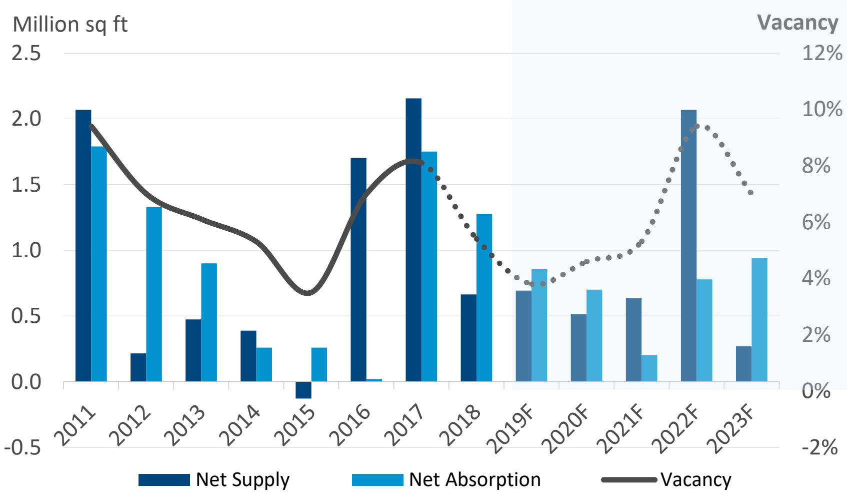
Upward rental trend likely to continue at modest pace over 2019-20

Based on Colliers International's research, in Q4 average CBD Grade A office rents showed an increase of +2.4% qoq to SGD9.43 (USD6.91), a slight slowdown from the 4.3% growth in Q3 2018. This brings the full year growth to 14.9%. This is the fastest annual growth since 2010, when rents rebounded 22% after falling 46% in the 2009 Global Financial Crisis.

The Shenton Way and Beach Road markets saw the largest rental increases in 2018, driven by the premium new buildings in these localities, Guoco Tower and Duo, respectively. These were completed in 2016 and brought about a re-rating of rents in their respective micro-markets.

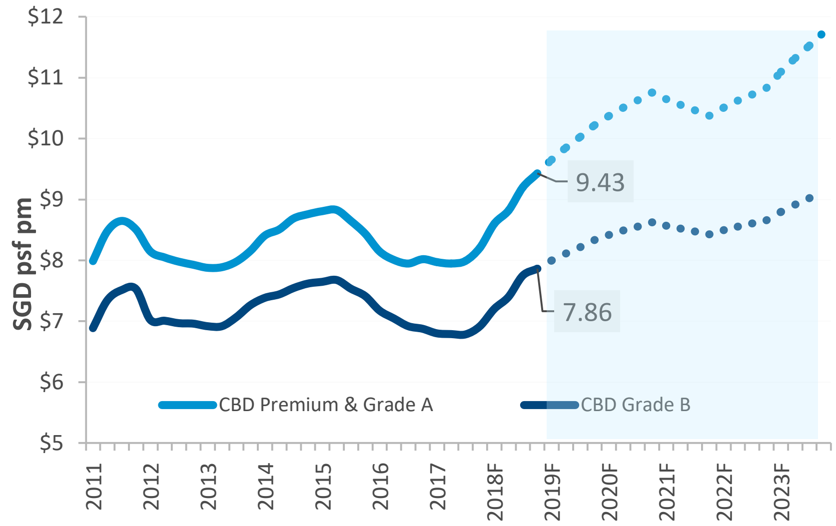
In view of tight vacancy and a muted supply pipeline, we expect the steady upward rental trend to persist over the next two years, with average rents rising an estimated 8% yoy in 2019, and a further 5% yoy over 2020.

CBD Grade A, net supply, absorption & vacancy



Source: Colliers International

CBD Grades A & B, gross effective rents



Source: Colliers International

Large contiguous space in shortage, vacancy falling below the long-term average

During Q4 2018, the CBD Grade A vacancy tightened by 0.2ppt qoq to 5.4% with no new completions and net absorption outstripping supply. For the full year 2018, we estimate net absorption at 1.28 million sq feet (119,000 sq metres) for CBD Grade A office, compared to 663,000 sq feet (61,600 sq metres) of supply (Frasers Tower).

Over 2019-2021, we expect the CBD Grade A supply pipeline to taper down significantly from the preceding few years, with new supply averaging 614,000 sq feet (57,000 sq metress), or 2% of stock per annum, in contrast to the large supply injection in 2017 (about 10% of stock).

The supply shortfall over 2019-2021 should keep CBD Grade A vacancy tight, below the 10-year average of 6.2%, even after accounting for the impact of slowing net absorption in 2020 and 2021 in accordance with consensus forecasts of slowing global economic growth.

Flexible workspace and tech dominated key moves and expansions in Q4 2018 and full year 2018

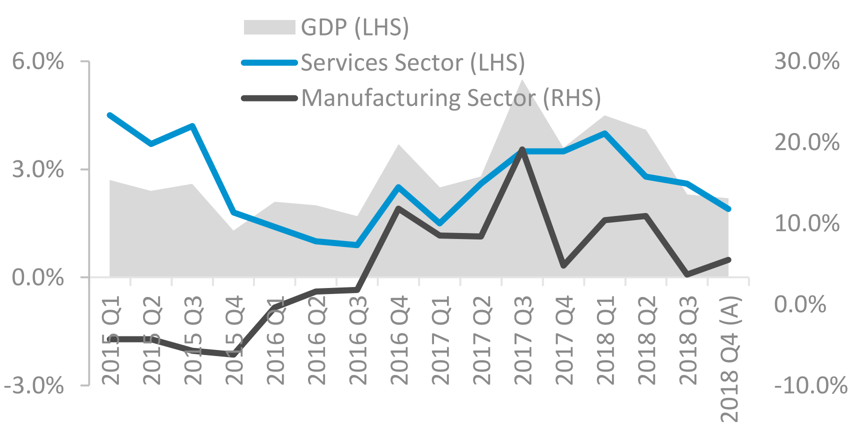
During Q4, the flexible workspace operators WeWork, JustCo and Collision8 added new centres. Notably, WeWork signed up to open at MYP Centre, JustCo at China Square Central and Collision8 at 79 Anson Road.

SenseTime, an artificial intelligence (AI) unicorn focused on computer vision and deep learning, has leased its 10,000 sq foot (929 sq metress) maiden office in Singapore, located in the new Frasers Tower.

On the macro-economic front, based on advance estimates from the Ministry of Trade and Industry (2 January 2019), GDP contributed by the service sectors grew 1.9% yoy in Q4 2018, or 2.8% for the full year 2018, similar to 2017. The primary drivers of GDP growth during Q4 and 2018 were financial, insurance and business services as well as the information & communications sectors. According to Colliers' estimates, these sectors occupy a total of more than 50% of the CBD Grade A office market.

Outside the CBD, Paya Lebar Quarter Towers 1 and 2, a Grade A development on the city fringe, were completed during Q4. Tower 3 was completed earlier in August 2018. Together they offer 885,000 sq feet (82,000 sq metres) NLA of office space, offering decentralised choices for occupiers.

Singapore, components of real GDP growth, Q4 2018 (% YOY Change)



Source: Colliers International, MTI

Office rents, Q4 2018

	Average Gross Effective Rents* (SGD psf pm)	QOQ Change (%)	YOY Change (%)
Grade A (Premium Tier)			
Raffles Place / New Downtown	11.33	3.0%	15.3%
Grade A			
Raffles Place	9.97	3.3%	16.6%
Shenton Way / Tanjong Pagar	9.53	2.5%	18.4%
City Hall	9.60	3.7%	12.4%
Beach Road	8.52	2.0%	18.6%
Orchard Road	8.90	0.6%	9.9%
CBD Grade A	**9.43**	**2.4%**	**14.9%**
City Fringe	7.69	2.2%	13.0%
Suburban	5.02	1.1%	12.1%
Grade B			
Raffles Place	8.45	1.4%	12.5%
Shenton Way / Tanjong Pagar	7.91	1.9%	13.9%
Beach Road	6.76	0.8%	15.4%
Orchard Road	8.33	1.6%	13.5%
CBD Grade B	**7.86**	**1.4%**	**13.7%**
City Fringe	6.84	0.5%	8.1%
Suburban	4.24	3.9%	14.2%

*Benchmarked to a full-floor space in mid-zone level; conservative figure tending towards lower-end of rental range for a property. Effective rent refers to average rate payable over the lease term after accounting for incentives.

Source: Colliers International

INVESTMENT MARKET AND CAPITAL VALUES

More seek core opportunities in a rising rental market

Improving transaction volumes in Q4 capped 2018

Rolling 12-month volumes of office and mixed-use commercial transactions rose 25% qoq to SGD4.79 billion (USD3.5 billion) during Q4 2018. This is mainly attributable to several big ticket deals transacted during Q4.

During Q4, Business Times reported a few major prime office transactions. These include 78 Shenton Way and Robinson 77, both in the Shenton Way/ Tanjong Pagar micro-market which is undergoing rejuvenation, being sold to seasoned real estate funds. Business Times also reported in late November that Allianz Real Estate made its maiden Singapore foray, acquiring a 20% stake in Ocean Financial Centre for SGD537.3 (USD394) million.

These deals brought total office transactions in 2018 to SGD4.8 (USD3.5) billion, down 49% from 2017's SGD9.3 (USD6.8) billion, as 2017 was boosted by Asia Square Tower 2 (SGD2.1 or USD1.5 billion) and large mixed developments. In Colliers' view, the Additional Buyer's Stamp Duty hike on residential properties should continue to fuel a rise in investor interest towards the commercial sector.

CBD Grade A capital values stabilised, up 0.9% QOQ during Q4 2018

In Q4 2018, the average imputed capital value of CBD Grade A office properties rose 0.9% qoq and 7.9% yoy to SGD2,424 (USD1,776) per sq foot. CBD Grade A implied yields remained flat, ranging between 3.2% and 3.8% on average.

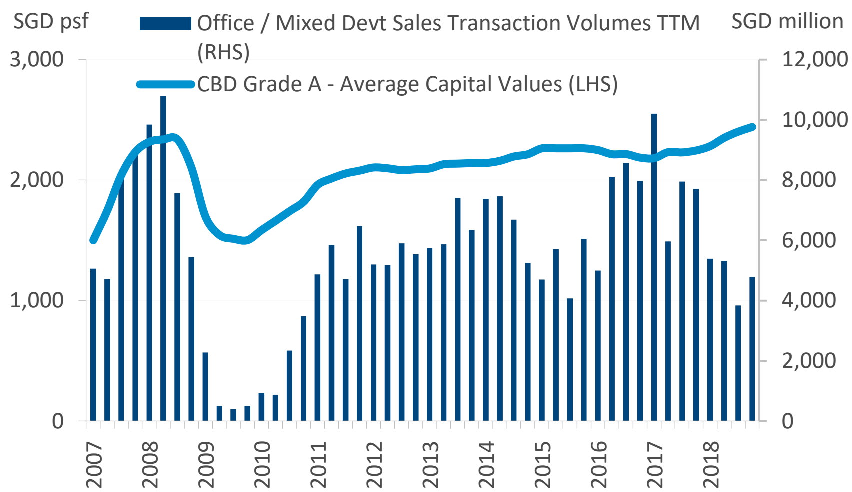
We expect capital values to trail the projected rent growth and hence yields to remain largely stable over 2019-2021. This is mainly due to the hefty weight of global capital directed towards gateway cities. Moreover, the Singapore office market offers favourable fundamentals, given the impending supply shortfall over 2019-2021.

Notable office transactions, Q4 2018

Property	Price (SGD million)	Price PSF NLA (SGD)	Micro-market	Remaining Tenure
78 Shenton Way	680.0	1,878	Shenton Way/ Tanjong Pagar	64 years
Robinson 77	710.0	2,300	Shenton Way / Tanjong Pagar	75 years
Ocean Financial Centre (20% stake)	537.3	3,061	Raffles Place	Freehold

Source: Colliers International

CBD (Grade A) capital values & island-wide transaction volumes



*Valuation-based methodology is used to derive capital values. Investment volumes only include transactions over SGD5 million. "TTM" refers to trailing 12 months.

Source: Colliers International

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