

Still a soft market

Tricia Song Director and Head | Research

CBD Premium and Grade A Rents have continued to decline, albeit at a slower rate. We expect to see the market bottom out towards end-2017. Although the recovery is slow, we anticipate that new demand will return to more positive levels in H2 2017. This means that the Singapore office market may become more promising market for landlords in the medium term. For now, however, the time still seems opportune for occupiers to take advantage of a softer market to review their space requirements.

Forecast at a glance



Demand

Demand continues to lag behind supply comprising more relocations than expansions



Supply

Premium and Grade A supply in CBD to grow another 10% in 2017 on major completions



Vacancy rate

CBD vacancy rates as of:
Q4 2016: 7.0%
Q1 2017: 5.9%
end- 2017F: 11.1%



Rent

CBD Premium and Grade A office rents
Q1 2017: -0.2% QOQ,
FY 2017: -2 to -5%



Price

Prime office capital values to remain stable on investment demand

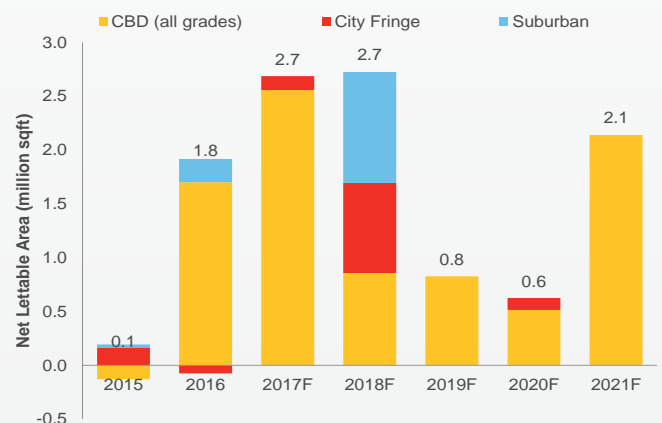
An improving climate

In Q1 2017, CBD Premium and Grade A office rents have declined 0.2% QOQ and 1.7% YOY, and this brings the cumulative decline since the last peak in Q2 2015 to 9.5%. Based on Colliers International research, CBD Premium and Grade A occupancy improved 1.1ppt to 94.1%, led by gains in Raffles Place/ New Downtown and Bugis/Beach Road and with no major completions during the quarter.

We expect Marina One and UIC Tower to be completed in Q2 2017, adding some 10% to CBD Premium and Grade A stock. As older buildings compete to backfill the space vacated by the relocations to the new builds, we foresee CBD Premium and Grade A rents to soften by 2-5% in 2017. 2018 will see reduced new supply in the CBD, but potential competition from Paya Lebar Quarter's 0.8 million sqft in the city fringe. Post 2018, we believe the steady supply could enable a slow recovery of the rents, so long as new international demand keeps up. YTD, GDP and trade growth have been promising, suggesting leasing demand could gradually strengthen.

During Q1 2017, overall business expansion remained modest. We note expansions coming mainly from IT and eCommerce related companies. The demand from co-working space operators continues in Singapore's embracing environment. Sustainability, evolution and saturation point of this niche will be carefully watched.

Islandwide Office Space Supply (2015 – 2021F)



Source: Colliers International Singapore Research, URA.

Leasing market and rental values

Seventh quarter of rental decline since recent peak in Q2 2015

In Q1 2017, office rentals across Singapore continue to slide under pressure of overhang supply and lackluster demand as the market saw the seventh consecutive QOQ rental decline in Q1 2017, albeit at a slower rate than in previous quarters. CBD Premium and Grade A office rents have declined 0.2% QOQ, 1.7% YOY and 9.5% since the last peak in Q2 2015.

Average Monthly Gross Office Rents by Micro-market

Micro Market	Q4 2016 Average Monthly Gross Office Rents (SGD psf)	QOQ Change (%)	YOY Change (%)
Premium			
Raffles Place/New Downtown	10.03	-0.1%	-5.3%
Grade A			
Raffles Place / New Downtown	9.1	-0.9%	-4.2%
Shenton Way / Tanjong Pagar	8.39	-0.2%	1.8%
Marina / City Hall	8.94	0.2%	-3.4%
Beach Road	7.68	-0.5%	1.6%
Orchard Road	8.22	0.0%	-2.7%
City Fringe	7.01	-0.7%	-4.2%
Suburban	4.85	0.0%	-0.8%
CBD Premium and Grade A			
CBD Premium and Grade A	8.54	-0.21%	-1.7%
Grade B			
Raffles Place / New Downtown	7.72	-0.9%	-4.3%
Shenton Way / Tanjong Pagar	7.16	-0.1%	-3.6%
Beach Road	6.19	-1.9%	-9.0%
Orchard Road	7.78	-0.9%	-4.1%
City Fringe	6.54	0.0%	-4.5%
Suburban	4.24	0.0%	0.0%

* Improvement YOY due to addition of new Grade A buildings Guoco Tower and DUO Tower in Shenton Way/Tanjong Pagar and Beach Road micro-markets in Q4 2016 respectively. Source: Colliers International Singapore Research

Across the various micro-markets, in Q1 2017, rents at Premium office buildings in Raffles Place/ New Downtown, Grade A office buildings in Shenton Way and Orchard Road appeared to have stabilised. Grade A office rents at City Hall improved 0.6% QOQ. In contrast, Grade A and Grade B rents at Raffles Place and Beach Road had continued to fall, by 0.5-1.9% QOQ, with increased competition from the new builds - Marina One and DUO Tower in respective micro-markets.

Rents to stay weak in H1 2017

The improving economic indicators and strong pre-commitment in Marina One - reportedly 60% as of early January- could point to a more stabilised environment. Singapore's real GDP growth has surprised on the upside in Q4 2016, growing 2.9% YOY and 12.3% QOQ. Preliminary forecasts for Q1 2017 shows GDP grew 2.5% YOY while Singapore's non-oil domestic exports (NODX) grew for a fourth straight month in March, posting a 16.5% YOY jump. However, the Monetary Authority of Singapore (MAS) noted employment growth is expected to remain uneven this year, with stronger demand in sectors like education and healthcare, but weaker in manufacturing and construction.

In addition, the impending completion of new office developments together with the increase in secondary stock from which tenants vacate and move to the new developments will continue to exert downward pressure on office market rents.

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

Micro Market	Q1 2017 Average Occupancy Rate (%)	Q4 2016 Average Occupancy Rate (%)
Premium		
Raffles Place/ New Downtown	96.0%	93.9%
Grade A		
Raffles Place / New Downtown	96.4%	96.9%
Shenton Way / Tanjong Pagar	92.9%	93.5%
Marina / City Hall	94.8%	94.4%
Beach Road	67.8%	57.4%
Orchard Road	96.6%	96.2%
City Fringe	95.3%	95.0%
Suburban	96.3%	94.8%
CBD Premium and Grade A	94.1%	93.0%

Source: Colliers International Singapore Research

SELECTED OCCUPIER MOVEMENTS FOR PREMIUM AND GRADE A OFFICE BUILDINGS IN Q1 2017

Building	Tenant	Net Floor Area (sq ft)	Relocation /Expansion /New site
Marina One	Facebook	250,000	Expansion
Republic Plaza 1	Distrii	60,000	New site
Asia Square 1	China Trust Banking Corporation	32,000	Expansion
One Raffles Place Tower 1	Alibaba (Cloud)	5,000	Expansion
Frasers Tower	The Executive Centre	20,000	New site
One Raffles Place Tower 2	St James Wealth Management	10,000	Expansion

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

Based on Colliers International's research, islandwide occupancy improved 0.8 percentage points QOQ to 94.1% in Q1 2017. Average occupancy in CBD Premium and Grade A office improved 1.1ppt QOQ to 94.1%, mainly due to improvements in Premium space in Raffles Place/ New Downtown and Grade A space at Beach Road, partially offset by declines in Grade A at Raffles Place and Shenton Way.

Occupancy at DUO Tower, in the Beach Road micro-market, improved to 47.5%, as tenants gradually moved in since its Temporary Occupation Permit (TOP) achieved in December. In the Shenton Way/ Tanjong Pagar micro-market, Guoco Tower's occupancy remained stable above 86% after it received its TOP in Sep 2016.

On the other hand, occupancy at CBD Grade B space was generally flat QOQ, as improvements in the Shenton Way/ Tanjong Pagar and Orchard Road micro-markets were offset by declines in the Raffles Place/New Downtown and Beach Road micro-markets.

During Q1 2017, overall business expansion remained modest. Similar to last year, we see movements in tenants across various trade sectors including banking and financial services, business services, media, Pharmaceuticals, Marine and Shipping, and IT and eCommerce. Expansions are coming mainly from IT and eCommerce related companies, as well as new sites set up by co-working space operators and serviced office providers.

According to Straits Times on 20 January, Facebook is taking up 250,000 sq ft (23,225 sqm) of space in the upcoming Marina One, more than doubling the size of their 70,000 sq ft (6,505 sqm) in South Beach Tower, which was taken up only in August 2015. Alibaba's cloud computing unit is reported to take up another floor in One Raffles Place Tower 1.

In an announcement on 15 March, Grab, the technology company that offers ride-hailing services through its app in Southeast Asia, said its Research and Development (R&D) centre in Singapore, which started in a 4,500 sqft (420 sq m) office in April 2015 in Midview City, will move to a larger office space of almost 100,000 sq ft (9,290 sq m) in Singapore's CBD.

As at Q1 2017, DUO Tower which obtained TOP in December 2016, was 47.5% committed, while Marina One had achieved 60% precommitment levels ahead of its TOP likely in June 2017.

CapitaLand Commercial Trust announced on 19 April that it has obtained the Urban Redevelopment Authority (URA)'s provisional permission for the proposed redevelopment of Golden Shoe Car Park and now awaits the Singapore Land Authority's assessment of the differential premium (DP) payable for the potential enhancement in land use. Only when the DP is known can CCT complete the feasibility study of the proposed redevelopment and determine whether or not to proceed with it.

Co-working space and serviced offices growing market share

Frasers Tower, which will be completed in 2018, found its first tenant - serviced office The Executive Centre for 20,000 sq ft (1,860 sq m).

Distrii, an operator of co-working spaces in China, will lease more than 60,000 sq ft (5,757 sq m) of space at CDL-owned Republic Plaza Tower 1 in Singapore's prime Raffles Place. Expected to be one of the largest co-working spaces in Singapore, it will integrate food and beverage, entertainment, recreational and office facilities. It is expected to open in the first half of 2018 after the space is vacated.

Other co-working space operators, The Working Capitol Group has leased 11 floors in 140 Robinson Road (Crown @ Robinson) amounting to 55,000 sq ft (5,110 sq m). Just Office has leased 40,000 sq ft (3,715 sq m) over two floors in UIC Building as well as 34,000 sq ft (3,160 sq m) in Marina One.

The demand from these operators continues with many regional and global operators eyeing Singapore's embracing environment for this occupier sector. Sustainability, evolution and saturation point of this niche will be carefully watched.

Strata sales and capital values

Continued interest in prime buildings

Based on Realis data as of 20 April, strata office sales transactions in Q1 2017 declined by 22% QOQ from a total transaction volume of 60 in Q4 2016 to 47. However, it was 42% above Q1 2016's 33.

During the quarter, there were only seven new strata unit sales. Median prices transacted for suburban offices such as Vision Exchange in Jurong and Woods Square in Woodlands were SGD2,021 (USD1,445) psf and SGD1,783 (USD1,275) psf respectively. Prices for new city fringe offices such as Wis@Changi and Centrium Square were SGD1,792 (USD1,280) psf and SGD2,548 (USD1,820) psf respectively. The proportion of new sales to overall transactions was 15%, vs 28% in Q4.

Investment sentiments for office buildings remained robust into Q1 2017 with conclusion of a few major private office asset sales: 1) PwC Building was sold to Manulife for SGD747 million (SGD2,100 psf on NLA), 2) GSH Plaza was sold to a subsidiary of Fullshare

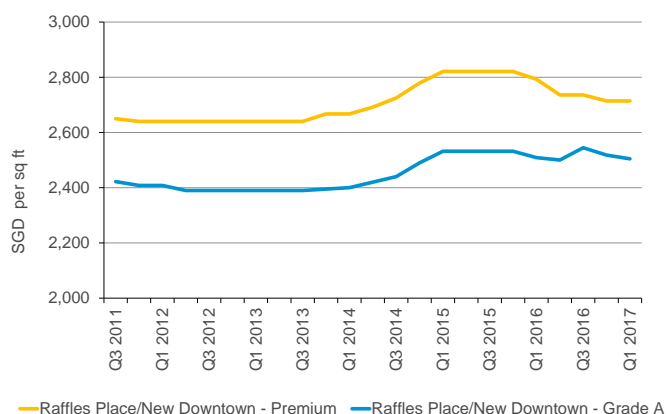
Holdings for SGD663.7 million (SGD2,900 psf on strata area), and 3) TripleOne Somerset (70% stake) was sold to a subsidiary of Shun Tak Holdings for SGD880.4 million (SGD2,200 psf on NLA).

Even as the market is expecting a pick-up in interest rates, overall cap rates as of 31 March 2017 have not moved up because 1) there are still keen investors in the market, and 2) owners have holding power. Selected buildings saw some downward adjustments in capital values due to lower rental and/or occupancy levels achieved.

As a result, the average capital value for Grade A office space in Raffles Place/New Downtown saw a decline of 0.5% QOQ and 0.2% YOY to SGD2,505 (USD1,790) psf in Q1 2017, while the average capital value for Premium office space in Raffles Place/New Downtown was stable at SGD2,714 (USD1,940) psf.

Average capital values for the other micro-markets across Singapore were mainly stable as rents stabilised.

Average Capital Values (1) for Premium and Grade A Office Space in Raffles Place/ New Downtown



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

For more information:

Duncan White
Executive Director
Head of Office Services
duncan.white@colliers.com

Tricia Song
Head of Research
Research
tricia.song@colliers.com

Anthea To
Head of Consulting
Advisory and Consulting
anthea.to@colliers.com

Colliers International | Singapore

Raffles Place, #45-00
One Raffles Place
Singapore 048616
Tel: +65 6223 2323
Fax: +65 6222 4901
RCB No. : 198901352R
CEA Licence No: L3004691J

Copyright © 2017 Colliers International.
The information contained herein has been obtained from sources deemed reliable. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.



Accelerating success.