

STEADY RENTAL GROWTH

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Summary & Recommendations

CBD Grade A office rental growth remained stable at 2.3% QOQ in Q1 2019, raising monthly rent to SGD9.64 (USD7.12). Increasing landlord confidence underpinned lower incentives and rental uplift.

- > Q1 2019 net absorption was driven by technology and flexible workspace sectors, as vacancy tightened to 3.9%.
- > We forecast 2019 rents to grow 8% on tight supply at just 2% of stock per annum in 2019-2021. Capital values should trail our projected rent growth resulting in stable yields in 2019-2021.
- > In view of the CBD incentive schemes to encourage office space conversions, we recommend affected occupiers to explore options such as moving to newer buildings or outside the CBD.

	Q1 2019	Full Year 2019	2018-23 Annual Average
 Demand <ul style="list-style-type: none"> > CBD Grade A net absorption should be driven mainly by technology and flexible workspace sectors' expansionary demand in 2019. We expect net demand in 2019 to outstrip supply. 	511,000 sq ft	857,000 sq ft	750,000 sq ft
 Supply <ul style="list-style-type: none"> > We expect diminished CBD Grade A supply over 2019-2021, with annual expansion averaging 2% of stock versus 5% for last 5 years. The next major jump in supply (about 7% of stock) should be in 2022. 	136,000 sq ft	692,000 sq ft	893,000 sq ft
	QOQ / End Q1	YOY / End 2019	Annual Average Growth 2018-23 / End 2023
 Rent (psf pm) <ul style="list-style-type: none"> > We expect 2019 CBD Grade A rental growth to moderate to 8% from 15% in 2018, and to experience a slight decline in 2021 in anticipation of higher supply in 2022, before a rebound thereafter. 	+2.3% SGD9.64	+8.5% SGD10.22	+4.5% SGD11.75
 Vacancy <ul style="list-style-type: none"> > CBD Grade A vacancy continues to tighten below the 10-year average of 6.2%, and should remain tight on low supply until the 2022 supply hike. 	-1.5pp 3.9%	-0.8pp 4.6%	+0.3pp 7.0%
 Capital Values/ Yields <ul style="list-style-type: none"> > 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. 	+1.2% SGD2,453 psf	+3.0% SGD2,500 psf	+2.8% SGD2,780 psf

Source: Colliers International

Note: USD1 to SGD1.35 as of 31 Mar 2019. 1 sq m = 10.76 sq ft. "pp" refers to percentage point.

LEASING MARKET AND RENTS

Continued tech and flexible workspace expansion

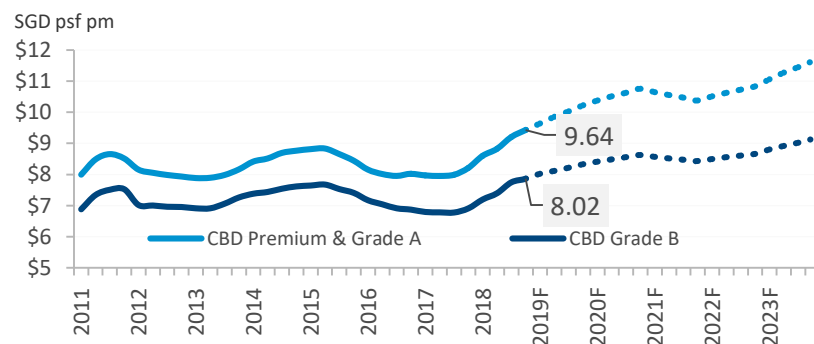
Q1 2019 rental growth remained stable, vacancy tightened further

CBD Grade A office rents in Q1 2019 grew +2.3% QOQ to SGD9.64 (USD7.12) per sq foot per month, driven by tighter vacancy across most micro-markets with higher demand mostly from technology and flexible workspace operators. Technology companies Zendesk and Grab expanded, with a takeup of 50,000 sq feet (4,645 sq metres) and 32,000 sq feet (2,973 sq metres) in Marina One West Tower respectively. Flexible workspace operator Regus occupied three office floors and one retail floor (over 30,000 sq feet or 2,787 sq metres) in the newly completed 18 Robinson. CBD Grade A vacancy tightened significantly, to 3.9% from 5.4%.

Rents at City Hall and Beach Road micro-markets grew faster than average, as landlord confidence was boosted by the upcoming rejuvenation in the precinct; Guoco Midtown and the redevelopment of Shaw Tower are due to be completed in 2022 and 2023, respectively. The move by UBS to 9 Penang Road¹, and potential surrendering of space by other financial occupiers, should provide some relief to occupiers in the core CBD in the next few quarters.

Nonetheless, CBD Grade A supply should remain tight averaging 614,000 sq feet (57,000 sq metres) p.a. over 2019-2021. The Funan building which is

CBD Grades A & B, gross effective rents



Source: Colliers International

^{1,2} As reported by the Straits Times on 17 April 2019 and Business Times on 9 April 2019 respectively.

Office rents, Q1 2019

	Average Gross Effective Rents* (SGD psf pm)	QOQ Change (%)	YOY Change (%)
Grade A (Premium Tier)			
Raffles Place / New Downtown	11.61	2.5%	10.7%
Grade A			
Raffles Place	10.17	2.0%	14.2%
Shenton Way / Tanjong Pagar	9.71	1.9%	15.2%
City Hall	9.84	2.5%	10.7%
Beach Road	8.78	3.1%	15.6%
Orchard Road	9.06	1.8%	7.5%
CBD Grade A	9.64	2.3%	12.1%
City Fringe	7.78	1.1%	11.0%
Suburban	5.09	1.3%	8.5%
Grade B			
Raffles Place	8.63	2.2%	11.1%
Shenton Way / Tanjong Pagar	8.16	3.1%	12.7%
Beach Road	6.83	0.9%	11.9%
Orchard Road	8.48	1.8%	10.3%
CBD Grade B	8.02	2.0%	11.4%
City Fringe	6.92	1.1%	8.7%
Suburban	4.38	3.2%	14.2%

Source: Colliers International. *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.

completing in June 2019 is already substantially pre-committed by government agencies². 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

Deals remain robust in a rising rental market

CBD Grade A capital values up 1.2% QOQ on robust transaction volumes

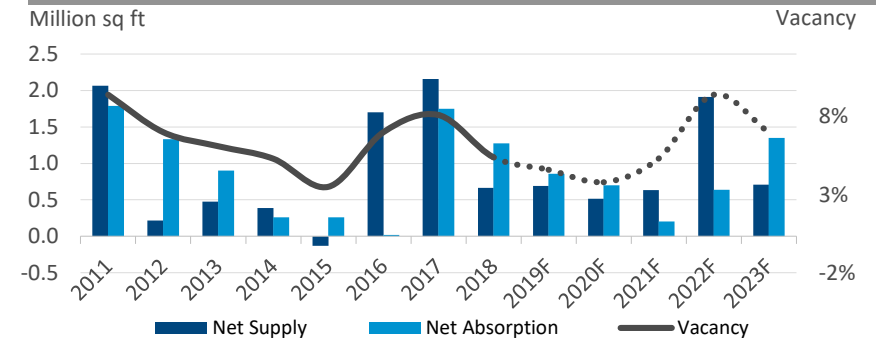
In Q1 2019, the average imputed capital value of CBD Grade A office properties rose 1.2% QOQ and 7.6% YOY to SGD2,453 (USD1,811) per sq foot. This reflected SGD953 million (USD704 million) worth of transactions seen in the quarter, pushing the rolling 12-month volumes of office and mixed-use commercial transactions to SGD5.39 billion (USD3.98 billion), an 18% QOQ increase. CBD Grade A implied yields remained flat, ranging between 3.2% and 3.7% on average. We expect capital values to trail our projected rent growth and hence yields to remain largely stable over 2019-2021, mainly due to the hefty weight of global capital directed towards gateway cities. Moreover, the Singapore office market offers favourable fundamentals with our expected supply shortfall over 2019-2021.

New CBD rejuvenation schemes could reduce office space availability

In the new Draft Master Plan 2019 released on 27 March 2019, the Singapore government proposed a number of initiatives to promote and incorporate an inclusive and green lifestyle business environment in key strategic areas. The proposals suggested enhancing the North, Central, Eastern and Western economic gateways, while at the same time developing business nodes and industrial estates outside the CBD to support growth and bring more jobs within easy reach. In particular, to encourage the redevelopment of older buildings and rejuvenate the Central area, two new incentive schemes, the CBD Incentive Scheme and the Strategic Development Incentive (SDI) Scheme, were proposed to allow for potential GFA increase for the redevelopment of old office buildings in strategic areas.

We expect these schemes, if taken up, to reduce the availability of office space in the CBD and drive up rents. Affected occupiers should explore options to move to newer space within the CBD, or move to city fringe offices or even to business parks, if applicable. Investors could also look to add value with redevelopment premiums to older buildings.

CBD Grade A net absorption, supply and vacancy



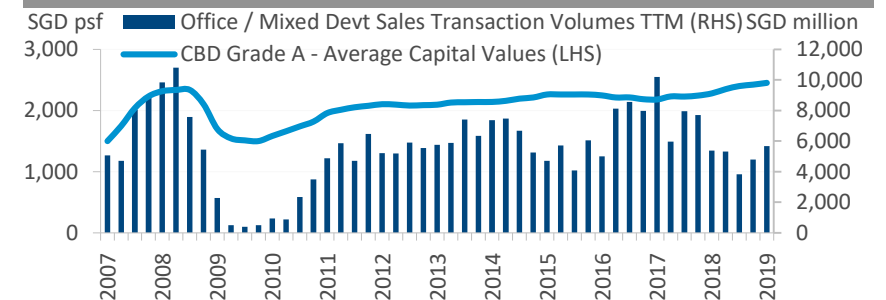
Source: Colliers International

Notable office transactions, Q1 2019

Property	Price (SGD million)	Price PSF NLA (SGD)	Micro-market	Remaining Tenure
Manulife Centre	555.5	2,305	City Hall	96 years
Suntec City	168.0	2,578	City Hall	69 years
The Octagon	45.5	2,450	Shenton Way / Tanjong Pagar	Freehold
The Central	42.0	3,150	City Hall	81 years

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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