

SLOWING RENTAL GROWTH

Shirley Wong
Associate Director | Research |
Singapore
+65 6531 8567
shirley.wong@colliers.com





















Tricia Song
Director and Head | Research |
Singapore
+65 6531 8536
tricia.song@colliers.com

Summary & Recommendations

The market is increasingly seeing a *flight to value*¹, as tenants show resistance to further rent hikes. This constrained CBD Grade A rental growth to 1.5% QOQ in Q3 2019. Vacancy increased to 3.3% as a result. Nonetheless, the supply pipeline remains tight, averaging 3% of stock per annum over 2019-2021.

2019 YTD rental growth of 7.0% is on track to meet Collier's full-year forecasted 8% growth. In 2020, we forecast a slower rental growth of 5%, in line with slower economic growth. Capital values rose 0.7% QOQ, supported by robust transactions. We expect yields to compress in 2019 on a favorable interest rate outlook and the large capital allocation to Singapore.

We recommend occupiers, particularly those requiring large contiguous space, to review and explore lease options early.

		Q3 2019	Full Year 2019	2018-23 Annual Average
	Demand	 -104,000 sq ft	 897,000 sq ft	 813,000 sq ft
	Supply	 0 sq ft	 731,000 sq ft	 910,000 sq ft
	Rent (psf pm)	 +1.5% SGD10.08	 +8.4% SGD10.22	 +4.3% SGD11.64
	Vacancy	 +0.4pp 3.3%	 -2.2pp 3.2%	 -0.1pp 5.0%
	Capital Values/Yields	 +0.7%* SGD2,512 psf	 +4.2% SGD2,525 psf	 +2.8% SGD2,780 psf

Source: Colliers International. Note: USD1 to SGD1.38 as of 30 Sep 2019. 1 sq m = 10.76 sq ft. "pp" refers to percentage point. *Adjusted for change in basket of properties. ¹Phenomenon where tenants look for the optimal combination of quality and price.

LEASING MARKET AND RENTS

Slowing rental growth momentum



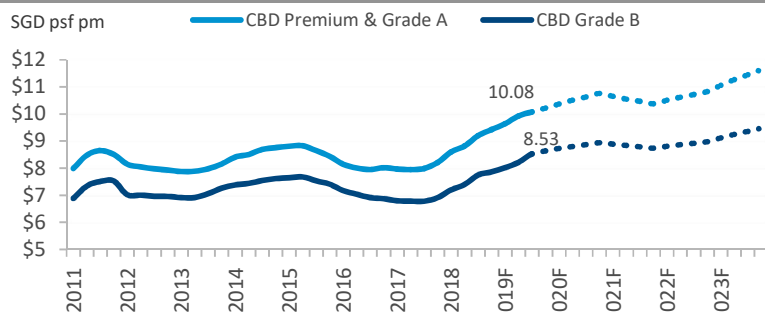
Q3 2019 rents grew 1.5% QOQ, expect flight to value

CBD Grade A office rents grew at a slower rate in Q3 2019, and we expect rental growth to continue to slow, in line with slower economic growth. Some sectors may have already felt the pressure, and we may see some shadow space¹ emerge from large occupiers such as financial institutions. With rising rents and renewal rates, we also expect to see an increasing *flight to value*.

Rents increased 1.5% QOQ to SGD10.08 (USD7.29) per sq foot per month in Q3 2019 versus 3.0% in the previous quarter, as tenants show resistance to further rent hikes. Nonetheless, flexible workspace continues to drive take-up. For example, East Japan Railway Company (JR East) opened a coworking space at Twenty Anson taking 13,000 sq feet (1,200 sq metres). Looking ahead, WeWork is reported to be leasing the entire building at 21 Collyer Quay (formerly HSBC Building), taking 200,000 sq feet (18,600 sq metres) of space in Q2 2021 after HSBC moves out.

Q3 2019 Grade A office rental growth was strongest in the Shenton Way / Tanjong Pagar and Raffles Place/New Downtown Premium micro-markets, driven by tight vacancy and newer buildings. Rents in Raffles Place/New Downtown, which is comprised of older buildings, were flat QOQ, closing the gap with Shenton Way.

CBD Grades A & B, gross effective rents



Source: Colliers International. ¹Shadow space or *phantom space* is leased space that is not being used by the tenant.

Office rents and vacancy, Q3 2019

	Average Gross Effective Rents* (SGD psf pm)	QOQ Change (%)	YOY Change (%)	Vacancy (%)
Grade A (Premium Tier)				
Raffles Place / New Downtown	12.27	2.6%	11.5%	3.5%
Grade A				
Raffles Place / New Downtown	10.41	0.0%	7.9%	4.3%
Shenton Way / Tanjong Pagar	10.31	2.8%	10.9%	2.0%
City Hall	10.29	1.4%	11.1%	2.7%
Beach Road / Bugis	9.38	2.2%	12.4%	0.8%
Orchard Road	9.22	0.0%	4.2%	5.8%
CBD Grade A Average	10.08	1.5%	9.6%	3.3%
City Fringe	7.90	0.0%	4.9%	5.6%
Suburban	5.18	0.0%	4.2%	4.1%
Grade B				
Raffles Place	8.96	1.0%	7.6%	3.7%
Shenton Way / Tanjong Pagar	8.33	0.0%	7.2%	4.9%
Beach Road / Bugis	8.13	2.1% ²	11.2% ²	5.8%
Orchard Road	8.69	0.3%	5.9%	6.9%
CBD Grade B Average	8.53	0.8%²	7.9%²	5.3%
City Fringe	7.06	0.0%	3.7%	5.7%
Suburban	4.54	0.0%	11.2%	9.7%

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. ²Adjusted due to change in basket of properties.

We expect new CBD Grade A supply to remain limited in 2019-2021, averaging 678,000 sq feet (63,000 sq metres) p.a. This should keep CBD Grade A vacancy tight, below the 10-year average of 6.3%. 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 remained robust in Q3 2019

Transaction volumes rose 11.9% QOQ

In Q3 2019, transactions remained robust and rose 11.9% QOQ even with a strong Q2 2019. Going forward in Q4 2019, a few more transactions could contribute to a positive year for commercial deals. Over the next few years, we remain positive on the capital market on a favorable interest rate outlook and demand-supply dynamics.

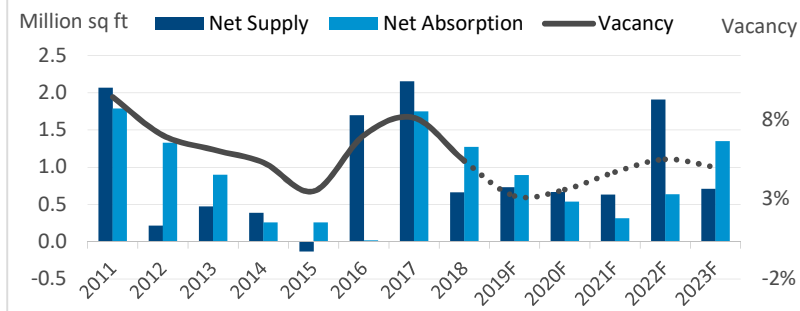
The transaction volume of SGD2.91 billion (USD2.11 billion) brought rolling 12-month volumes of office and mixed-use commercial transactions to SGD8.71 billion (USD6.30 billion, +23% QOQ). There were a few notable transactions in the quarter, as reported by the media. M+S, the joint venture between Khazanah and Temasek, sold DUO Tower and DUO Galleria to Allianz Real Estate and private equity firm Gaw Capital Partners for a combined value of SGD1.58 billion (US\$1.14 billion), or SGD2,570 (USD1,860) per sq foot of net lettable area. In addition, the Greater Southern Waterfront development plan, unveiled during the National Day Rally on 18 August, is likely to have boosted investor sentiment in the Shenton Way/Tanjong Pagar micro-market. Firstly, 71 Robinson Road was sold to SV Robinson, part of the Sun Venture group, for SGD655 million (USD474 million), pricing the property at SGD2,756 (USD1,994) per sq foot. Secondly, Hong Kong-based Arch Capital Management acquired Anson House for SGD210 million (USD152 million). This translates to a valuation of SGD2,435 (USD1,762) per sq foot.

CBD Grade A capital values up 0.7% QOQ

With optimistic valuations achieved in major transactions in Q3 2019, the average imputed capital value of CBD Grade A office properties rose 0.7% QOQ to SGD2,512 (USD1,818) per sq foot. Colliers' valuation team is of the view that cap rates remain unchanged this quarter and range between 3.15% and 3.50% on average. With the hefty weight of capital continuing to shift towards key gateway cities such as Singapore, we expect rental yields to compress in 2019, and then to hold steady from 2020-2023, as capital values trail our projected rent growth.



CBD Grade A net absorption, supply and vacancy



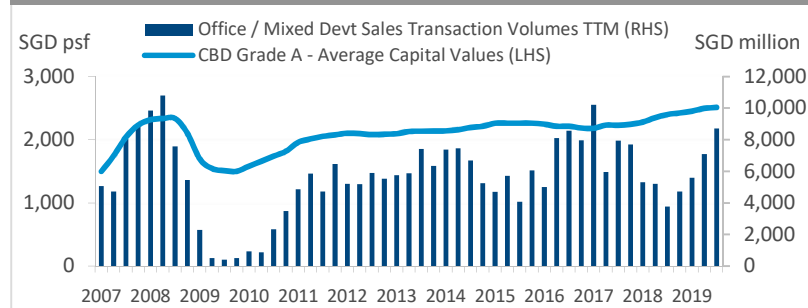
Source: Colliers International

Notable office transactions, Q3 2019

Property	Price (SGD million)	Price PSF NLA (SGD)	Micro-market	Remaining Tenure
DUO Tower (office block)	1,437	2,531	Beach Road/Bugis	91 years
71 Robinson Rd	655	2,756	Shenton Way/Tanjong Pagar	86 years
Anson House	210	2,435	Shenton Way/Tanjong Pagar	76 years

Source: Colliers International

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



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

Primary Authors:

Shirley Wong

Associate Director | Research | Singapore
+65 6531 8567
shirley.wong@colliers.com

Tricia Song

Director and Head | Research | Singapore
+65 6531 8536
tricia.song@colliers.com

For further information, please contact:

Rick Thomas

Executive Director and Head | Occupier Services | Singapore
+65 6531 8592
rick.thomas@colliers.com

Jerome Wright

Director | Capital Markets | Singapore
+65 6531 8683
jerome.wright@colliers.com

Govinda Singh

Executive Director | Valuation & Advisory Services | Singapore
+65 6531 8566
govinda.singh@colliers.com

About Colliers International Group Inc.

[Colliers International](#) (NASDAQ, TSX: CIGI) is a leading global real estate services and investment management company. With operations in 68 countries, our 14,000 enterprising people work collaboratively to provide expert advice and services to maximize the value of property for real estate occupiers, owners and investors. For more than 20 years, our experienced leadership team, owning approximately 40% of our equity, have delivered industry-leading investment returns for shareholders. In 2018, corporate revenues were \$2.8 billion (\$3.3 billion including affiliates), with more than \$26 billion of assets under management.

For the latest news from Colliers, visit our [website](#) or follow us on   

Copyright © 2019 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.

