

CITY FRINGE GEMS

Exploring value options outside the CBD

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Summary & Recommendations

We believe City Fringe business space offers value, among other merits, for cost-conscious occupiers. Rents of City Fringe Grade A offices are currently 22% lower than that of CBD, with good existing infrastructure and potential enhancement to amenities.

For investors, City Fringe Grade A offices offer a cap rate of 3.7-4.0%, a stable rental growth outlook of 2.4% CAGR in 2019-2023, and capital appreciation potential with further planned developments.

We recommend occupiers consider value options within the City Fringe, particularly Alexandra, HarbourFront or Paya Lebar, which are zoned as part of the Government's urban transformation plans. Developers and investors can also review their portfolios and diversify into selective City Fringe areas with rental growth or capital appreciation potential.

Alexandra

(From Raffles Place: 12 mins drive/ 23 mins by train with 2 transfers)

Office stock: >1.6m sq feet (153,000 sq metres)
Business Park (BP) stock: >3.4m sq feet (325,000 sq metres)

Rents (Office): SGD6.92 (USD5.01) psf pm
Rents (BP): SGD5.75 (USD4.16) psf pm

Vacancy (Office): 2.7%
Vacancy (BP): 2.6%

Key occupiers:
Google, Frasers Property, PSA Corporation, Maritime and Port Authority of Singapore

HarbourFront

(From Raffles Place: 9 mins drive/ 15 mins by train with 1 transfer)

Office stock:
>1.6m sq feet (149,000 sq metres)

Rents:
SGD7.58 (USD5.49) psf pm

Vacancy: 5.3%

Key occupiers: ExxonMobil, Keppel Corporation, Bank of America Merrill Lynch, BMW Asia

Paya Lebar

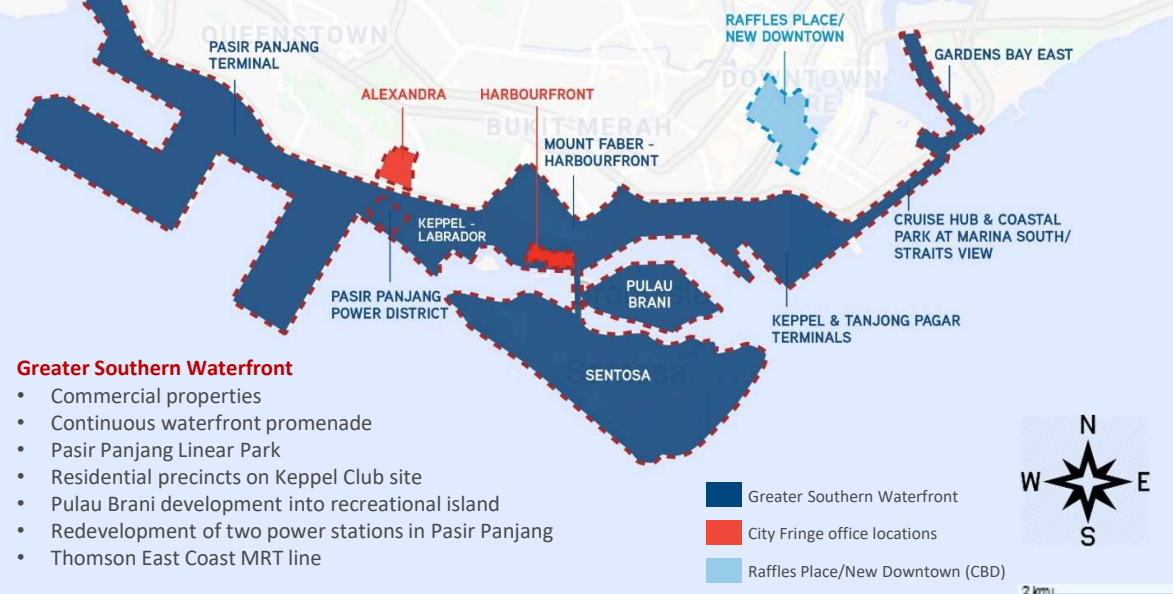
(From Raffles Place: 12 mins drive/ 15 mins by train direct)

Office stock:
>1.6m sq feet (153,000 sq metres)

Rents:
SGD8.25 (USD5.97) psf pm

Vacancy: 16.4%

Key occupiers:
Great Eastern Life Assurance, Visa Worldwide, SMRT



Source: Colliers International. Note: USD/SGD exchange rate of 1.38 as of Q3 2019. psf pm = per square foot per month. Flight-to-value is a phenomenon where tenants look for the optimal combination of quality and price.



City Fringe areas like Alexandra, HarbourFront and Paya Lebar provide quality offices at reasonable rents, among other merits.

City Fringe Grade A rents are currently at a 22% discount to CBD Grade A rents.

City Fringe: The Secondary CBD

Rising rents and tight vacancy within the CBD have resulted in the office market increasingly seeing a *flight-to-value*. We believe City Fringe business space offers value. The Government has been making ongoing efforts to decentralise and move businesses away from the CBD through regional development plans and urban transformation projects, with the aim of easing congestion, reducing commute times, and providing jobs closer to home. In our view, City Fringe offices possess the following merits:

- > Quality business space with reasonable rents. The rental gap between City Fringe Grade A offices and the CBD has been widening since 2011, from 8% to the current 22%.
- > Existing good infrastructure with potential enhancement of facilities and amenities.
- > Reduction in travel time and cost of commute (shorter distance from home, no ERP* charges) in most cases.
- > Residential enclaves and retail offerings provide exuberance to the area even after office hours.
- > Capital appreciation potential for investors with the construction of more planned developments in the vicinity.

Identifying City Fringe Gems

We identified three City Fringe gems – Alexandra, HarbourFront and the more recent Paya Lebar precinct (zoned under the Government's urban transformation plans) which have reshaped Singapore's fringe office market, at the same time offering an optimal quality and price mix.

Gem 1: Alexandra Precinct

Mapletree Business City (MBC), an integrated business hub comprising eight blocks of business space, is the result of the rejuvenation of the 13.5-hectare Alexandra Precinct which started in 2008. Fully completed in 2016, MBC, together with neighbouring buildings including PSA Building, Alexandra Technopark and Alexandra Point, offer over 5.0 million sq feet (473,000 sq metres) of office space, including some with Grade-A office specifications.

Gem 2: HarbourFront Precinct

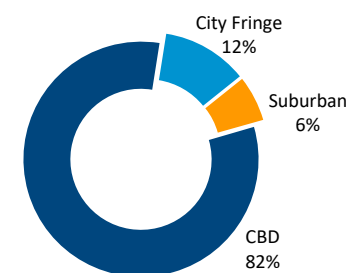
Rejuvenation of the HarbourFront precinct into a lifestyle and business hub started in 2004 with the refurbishment of the former World Trade Centre into HarbourFront Centre and the former Singapore Cable Car Tower into HarbourFront Tower Two, as well as further developments of HarbourFront Tower One, Keppel Bay Tower and the Built-to-Suit Bank of America Merrill Lynch HarbourFront. Currently, the precinct offers in excess of 1.6 million sq feet (149,000 sq metres) net lettable area (NLA) of office space.

Gem 3: Paya Lebar Precinct

Paya Lebar Central was designated under the 2008 URA Draft Masterplan to be transformed into a vibrant commercial hub with office and retail developments as part of the Government's decentralization strategy. With the opening of Paya Lebar Square in 2015 and Paya Lebar Quarter in 2019, and together with the redeveloped Singapore Post Centre, the precinct currently offers more than 1.6 million sq feet (153,000 sq metres) NLA of office space.

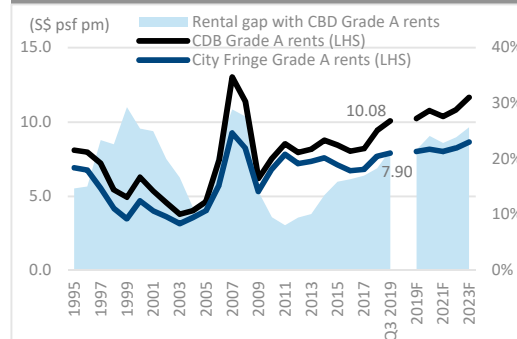
Among the three precincts, we believe Paya Lebar has the most to offer in terms of

Distribution of Grade A office stock



Source: Colliers International.

City Fringe rents and rental gap with CBD



Source: Colliers International.

accessibility (close proximity to Paya Lebar MRT station, an interchange for the East-West and Circle lines) and availability of quality office stock (especially in Paya Lebar Quarter), although rents are relatively higher than the other two precincts. Alexandra and HarbourFront, in contrast, currently have low vacancy despite lower rents.

Future Gem: Greater Southern Waterfront

The development of the Greater Southern Waterfront (GSW) involves the transformation of more than 30km of Singapore's southern

Ranking of City Fringe gems

	Availability of quality office stock	Accessibility	Rent
Paya Lebar	★★★★	★★★★	★
HarbourFront	★	★★	★★
Alexandra	★	★	★★★★

Source: Colliers International.

coastline from Pasir Panjang to Marina East, and offers over 2,000 ha of land for potential redevelopment, almost six times that of Marina Bay. Development will be carried out in phases, starting with the former Pasir Panjang Power District, Keppel Club and Mount Faber in the next five to 10 years. In addition to the construction of the Thomson East Coast MRT line, a continuous waterfront promenade, Pasir Panjang Linear Park, new residential precincts on the site of Keppel Club, development of Pulau Brani into a recreational island, and the redevelopment of two decommissioned power stations in Pasir Panjang, there are also plans to develop commercial properties in the GSW. As the GSW gets transformed into a new major gateway and location for urban living and recreation, we believe this will boost the attractiveness of office properties there for occupiers.

Investment Outlook

We believe City Fringe offices offers good investment prospects in terms of rental growth and capital appreciation, particularly in areas zoned as part of the Government's urban transformation plans. Currently, City Fringe Grade A offices offers a cap rate of 3.7%-4.0% as of Q3 2019, compared to 3.15%-3.50% for CBD Grade A offices.

City Fringe Grade A rents have climbed 18.4% year-to-September since the last low in Q2 2017 to SGD7.90 (USD 5.72) per sq foot per month, driven by healthy net absorption. Going forward, we forecast stable rental growth of 2.4% CAGR from 2019-2023 (4% in 2019 and 2% in 2020) as supply remains tight.

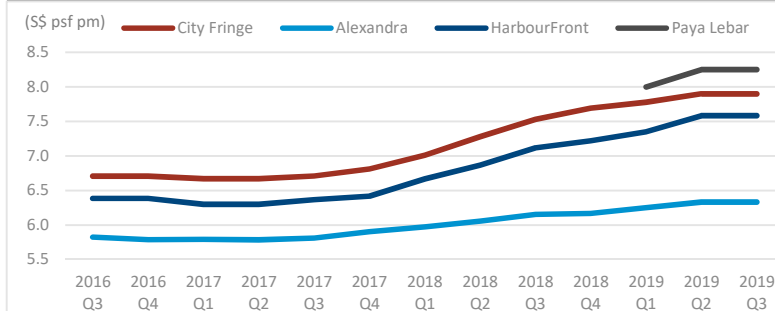
Similarly, average capital values of City fringe Grade A offices rose 16.5% since Q2 2017 to SGD1,733 per sq foot (USD1,254) as of Q3 2019, driven by robust transaction volumes for the overall office market. We remain optimistic for investment demand given favorable interest rate outlook and the large capital allocation to Singapore.

Selected City Fringe business space transactions in 2019

Property	Price (SGD million)	Price PSF NLA (SGD)	Remaining Tenure
Mapletree Business City II (Including common premises at 10, 20 and 30 Pasir Panjang Road)	1,550	1,308	77 years
Southpoint (Level 10, 11)	78	2,444	Freehold
The Central (Level 23)	41	3,080	80 years
The Central (Level 24)	42	3,150	80 years

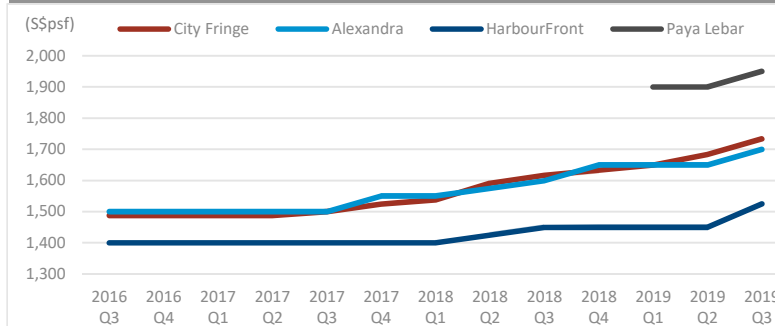
Source: Colliers International

Average Office/Business Park rents of selected City Fringe areas



Source: Colliers International

Average Grade A Office capital values of selected City Fringe areas



Source: Colliers International

City Fringe Grade A offices offer a cap rate of 3.7-4.0%, stable 5-year rental CAGR of 2.4%, and capital appreciation potential.

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