

SINGAPORE MARKET OUTLOOK 2020

Some bright spots amidst uncertainty

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Summary & Recommendations

Beyond the decade-low economic growth in 2019, we see some bright spots in the Singapore property market. Most economists expect the Singapore economy to improve marginally in 2020, while most property sectors' rents are stabilising or still growing. Investors should continue to look at Singapore favorably with global low interest rates and benign growth.

- > For investors, we recommend office and hotels for mid to long term growth, on favorable supply-demand dynamics and drivers.
- > Developers should selectively acquire residential landbanks as they pare their inventory.
- > Industrial and retail bottomed but remain fragile; landlords need to continuously upgrade, innovate and stay relevant to occupiers' needs.

		Rental Market	Vacancy	Capital Value
 Office	> We expect prime office rent to take a breather in 2020, after 26% growth in 2017-2019 and weaker demand from tech and flexible workspace occupiers. Supply is high in 2022, but below-par 5-year supply should support long term values.	 +1 %	 +1.6 pp	 +2 %
 Industrial	> We expect the general industrial market to remain soft in 2020 as supply outstrips demand on weaker trade. Business parks and high-spec spaces should perform better due to limited supply and higher demand for premium space.	 0 %	 +0.2 pp	 0 %
 Retail	> We expect the retail market to continue to find its footing in 2020, as the market digests the large new supply completed in 2019. Retailers' consolidation, F&B expansions and digitalisation trends will likely continue in 2020.	 0 %	 -0.1 pp	 +1 %
 Residential	> Private residential prices grew 2.5% in 2019, despite cooling measures in late 2018 and a subdued economy. We expect home prices to grow 3% in 2020.	 +5.0 %	 -0.4 pp	 +3 %
 Investment Sales	> We anticipate investment sales* in 2020 to improve across all segments on healthy fundamentals, a favorable interest rate outlook and Singapore's status as a key gateway city. The commercial sector should continue to lead investment volume while big-ticket deals should boost industrial and hospitality sales.	Investment Value YOY/Full Year 2020  6.0% SGD31.3 bil		

Source: Colliers International. *Investment sales refer to deals over SGD10 million.
Note: USD1 to SGD1.3472 as of end of 2019. 1 sq m = 10.7639 sq ft.

OFFICE



> In 2020, we expect demand to continue to be led by the technology and flexible workspace sectors, albeit at a slower rate than 2019.

Full Year 2020



552,000 sq ft

2020-24 Annual Average



790,000 sq ft



Supply

> We expect muted CBD Grade A supply in 2020-2021, with annual expansion averaging 3% of stock versus 5% for the last five years. The next supply hike (7% of stock) is in 2022.

1,000,000 sq ft

YOY / End 2020



SGD10.19

Annual Avg Growth 2020-24 / End 2024

+1.0%



SGD11.89



Rent (psf pm)

> We forecast marginal rental growth in 2020 on lower net demand given a weaker economy. We expect rents to decline 4% YOY in 2021 in anticipation of higher supply in 2022.

+1.6pp

5.0%

+0.1pp

4.0%



Vacancy

> We forecast CBD Grade A vacancy to increase to 5.0% in 2020 as net demand declines. That said, limited supply in 2020-2021 should keep vacancy below the 10-year average of 6.2%.

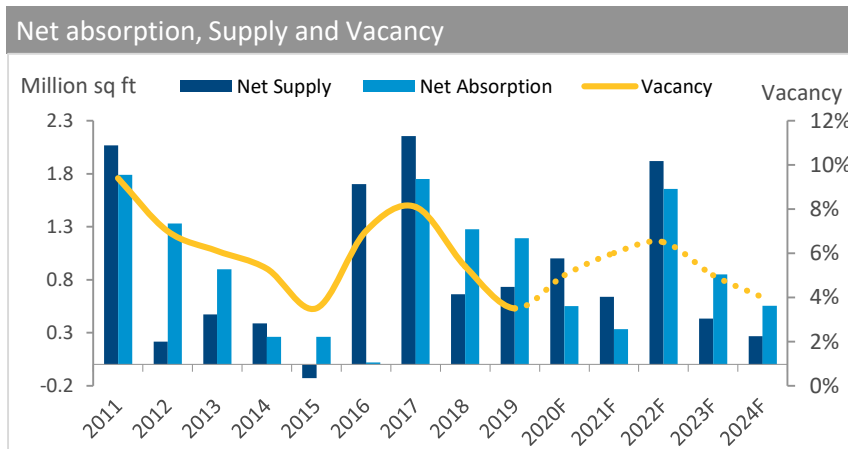
KEY TRENDS AND OUTLOOK

We expect **flexible workspace and technology** to continue driving new demand. We expect flexible workspace demand to grow at a slower pace, as operators focus more on sustainability and profitability, partly constrained by limited vacancy. The Monetary Authority of Singapore's issuance of up to five digital bank licenses by mid-2020 may also contribute to net absorption, though the impact now is unclear.

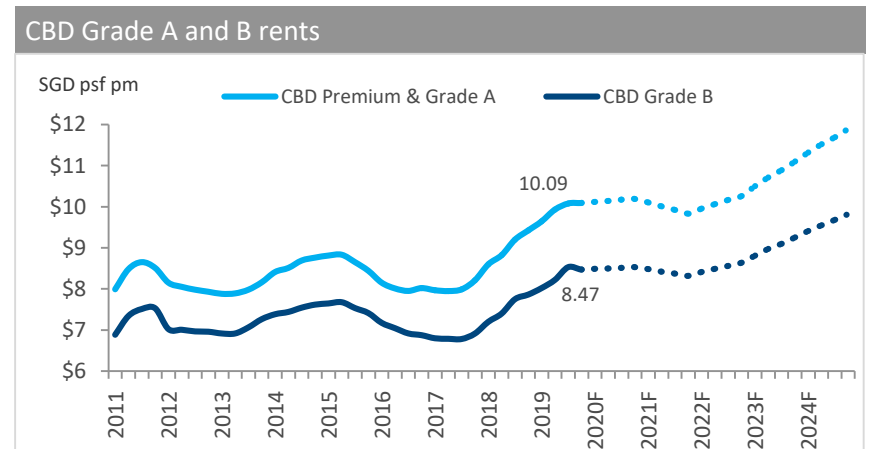
We forecast Grade A **rental growth to slow** to 1% YOY in 2020 as rents are on a 10-year high and tenants resist further rent hikes in view of macro-economic uncertainty.

On the back of **rejuvenation**, we expect the Shenton Way/Tanjong Pagar and Beach Road/ Bugis micro-markets to post the highest rental growth in the mid to long term. We recommend cost conscious occupiers to consider value options such as Grade B offices or City Fringe offices.

Source: Colliers International. Note: "pp" refers to percentage point.



Source: Colliers International



Source: Colliers International

INDUSTRIAL/LOGISTICS

	Full Year 2020	2020-24 Annual Average
Demand > We expect leasing demand to remain soft in 2020 on weaker trade, before outpacing supply in 2021, supported by a gradual recovery in the global electronics cycle.	15.6 mil sq ft *	11.0 mil sq ft *
Supply > From JTC's data, we expect total net new supply to intensify in 2020 to 18.5 million sq feet, with factories accounting for 77% of that, before tapering off from 2021 onwards.	18.5 mil sq ft *	10.5 mil sq ft *
Rent (psf pm) > We forecast warehouse rents to remain soft, stabilizing in 2020-2021 before edging up from 2022 as supply diminishes. Business park and high-specs rents could improve slightly.	YOY / End 2020 -1.6% SGD1.23#	Annual Avg Growth 2020-24 / End 2024 +0.8% SGD1.28#
Vacancy > We expect the overall, island-wide vacancy rate to edge up in 2020 as net demand lags net supply. Vacancy should decrease from 2021 onwards as demand improves.	+0.2pp 10.9%	-0.3pp 9.4%

KEY TRENDS AND OUTLOOK

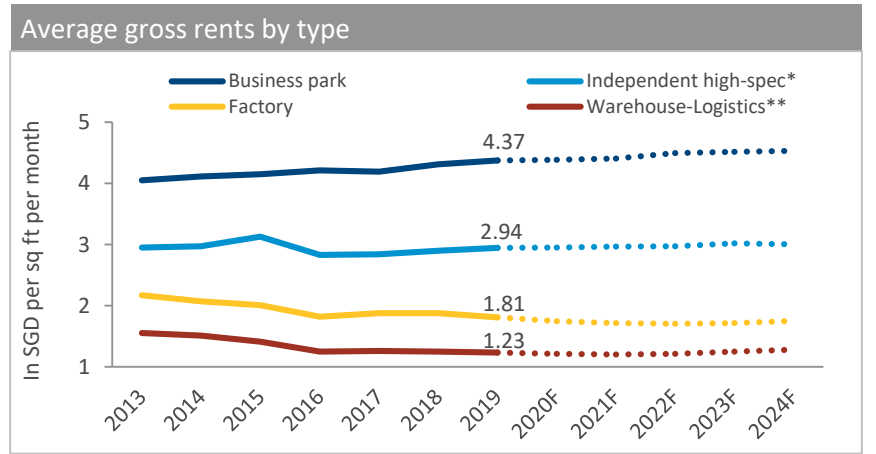
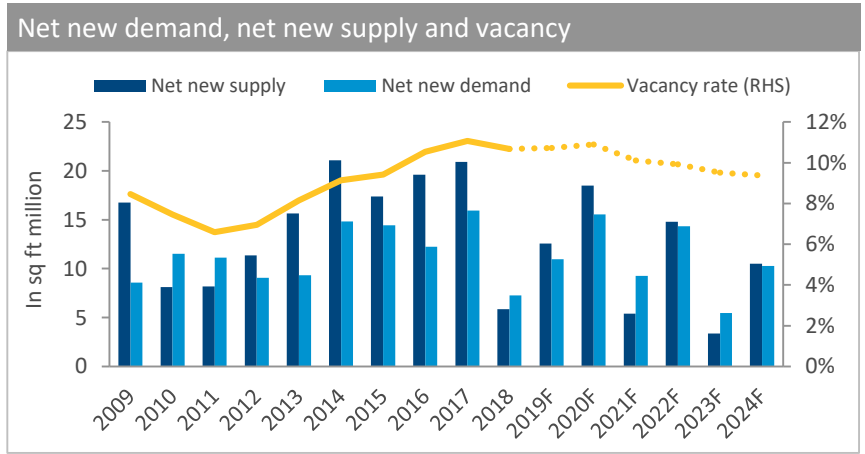
In 2020, we expect leasing demand to remain soft before a gradual recovery in the **global electronics cycle**, projected by the Ministry of Trade and Industry, could potentially support the factory segment.

For the **warehouse segment**, we anticipate the third-party logistics (3PLs), transport agencies, e-commerce and manufacturing sectors to remain the top occupier sectors for logistics space.

In general, we forecast continued **two-tier performance** between older lower-specifications and newer higher-specifications facilities. Location and supporting infrastructure could also be differentiating factors for specialized industries such as food factories and data centres.





We recommend landlords upgrade their assets to align with **Industry 4.0** needs such as automation, artificial intelligence and the Internet of Things to improve productivity and space efficiency.

Source: Colliers International, JTC. Note: "pp" refers to percentage point.
 *On a net lettable area basis #Rental values refer to warehouse-logistics rents



Source: Colliers International, JTC. * Independent High-Specs refer to top quality modern mid-level, multi-tenanted space that includes the latest or recent generation of building services, prestigious lobby finish and good views.
 ** Warehouse-Logistics rents refer to average of ramp-up and cargo lift warehouses rents.

RETAIL

		Full Year 2020	2020-24 Annual Average
 <p>Demand</p>	> Net demand in 2019 was supply-led with the completion of a few major malls. In 2020, with limited new supply, we expect new demand to be more muted compared to 2019.	260,000 sq ft	320,000 sq ft
 <p>Supply</p>	> New supply in 2020 is low at 0.3% of total stock versus the 10-year historical average of 1.7%. Supply is also concentrated in the suburbs with a well-defined catchment area.	209,000 sq ft	272,000 sq ft
 <p>Rent (psf pm)</p>	> We expect ground-floor rents at Orchard Road to rise marginally (+0.3% YOY) in 2020, while that of Regional Centres could stay flat.	+0.3% SGD40.52*	+0.8% SGD42.00*
 <p>Vacancy</p>	> We expect Island-wide vacancy to decline in 2020-2024 as front-loaded supply in 2018 and 2019 gets absorbed. Vacancy should trend towards 7.0% as supply tapers off.	-0.1pp 7.5%	-0.1pp 7.0%

Annual Avg Growth 2020-24 / End 2024

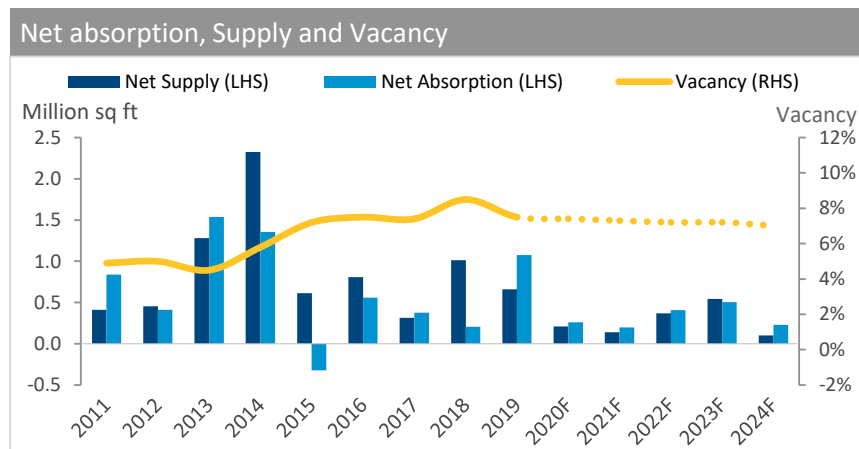
KEY TRENDS AND OUTLOOK

We expect to see a continued **bottoming of the overall retail market** in 2020 with relatively flat rental growth, as the market digests the new supply completed in 2019.

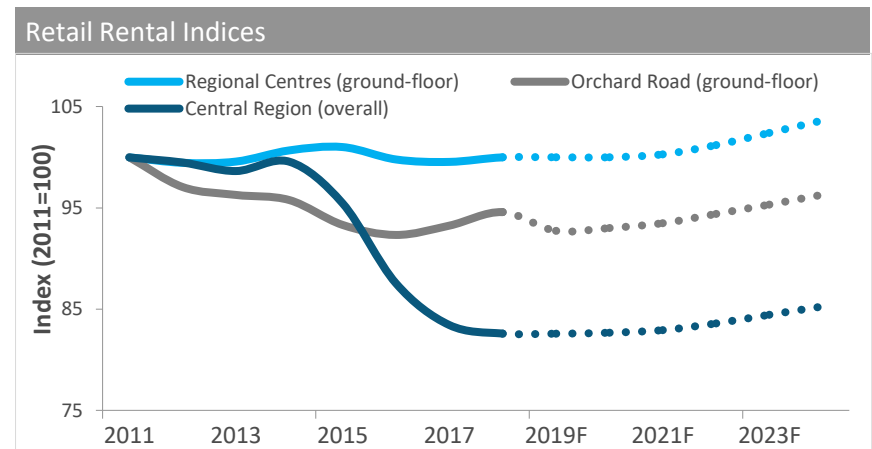
We see any rental recovery likely to be subdued given the lack of catalysts. Nonetheless, **Orchard Road malls should lead** in rental growth as a key beneficiary of the rejuvenation theme and any recovery in tourism receipts.

While consolidation (downsizing), *reinventing* retail, and omni-channel retail remain key themes, we see an **increasing adoption of technology** by retailers to enhance the customer experience. Many retailers are also diversifying their business models and expanding their product offerings or services to provide more options for consumers. For the landlords, F&B expansions and the inclusion of **flexible workspace** are likely to continue into 2020.

Source: Colliers International. Note: "pp" refers to percentage point.
 * Rental values refer to ground floor rents at Orchard Road.






Source: Colliers International



Source: Colliers International, URA

HOTELS

		Full Year 2020	2020-24 Annual Average
 Demand	> Demand should be driven by visitor arrivals, new tourist attractions and MICE events. Long term drivers include a new airport terminal and expansion of the Integrated Resorts#.	 1,300 rooms Per day	 1,900 rooms Per day
 Supply	> The total new completions over 2020-2024 would average around 1,400 units per annum, still well below the last ten-year average of circa 2,800 rooms per annum	 800 rooms	 1,400 rooms
 Rent (psf pm)	> RevPAR has recovered since 2017 and should continue to improve on tight near-term supply and continued growth in visitor arrivals.	YOY / End 2020 +1.0%  SGD193*	Annual Avg Growth 2020-24 / End 2024 +2.0%  SGD214*
 Vacancy	> Hotel occupancy has improved since 2016, absorbing most of the supply that came onstream in 2015-2017. Occupancy should improve with tight supply in 2020-2022F.	-0.9pp  12.2%	-0.5pp  11.0%

KEY TRENDS AND OUTLOOK

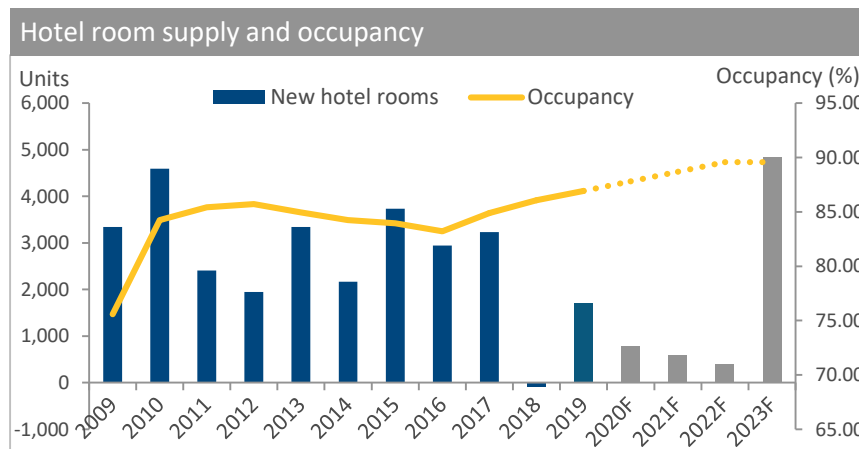
2020 attractions include large scale bi-annual MICE events such as The International Trademark Association's 142nd Annual Meeting and the 103rd Lions Clubs International Convention.

RevPAR should recover gradually with rising visitor arrivals and limited supply of rooms over 2020-2022. There may be an increase in hotel rooms in 2023 with the recent spate of conversions of commercial buildings into hotels. However, the 5-year average supply will still be about half of that in the past decade.

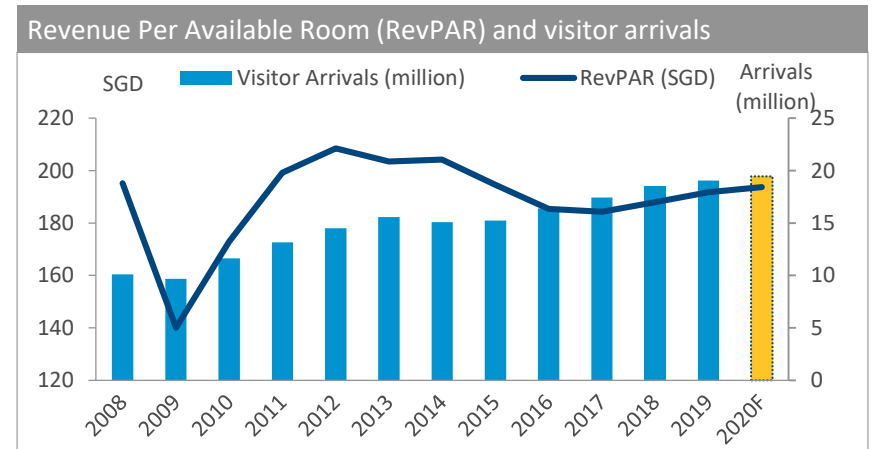
Hoteliers should continue to use technology to enhance the guest experience and improve productivity and service, such as facial recognition check-in, and using robots to service in-room dining and some housekeeping functions.

Healthy investor interest in hotel assets could continue in 2020 given the positive sector fundamentals.

Source: Colliers International. Note: "pp" refers to percentage point. *Rent refers to Revenue Per Available Room (RevPAR). #Integrated Resort: a hotel with casino, together with convention facilities, entertainment shows, theme parks, luxury retail and fine dining.



Source: Colliers International, Singapore Tourism Board, URA



Source: Colliers International, STB

RESIDENTIAL

		Full Year 2020	2020-24 Annual Average
Demand	> Steady household formation, low unemployment and favourable interest rates to drive occupier demand; while investment remains deterred by the cooling measures.	9,800 units (new sales)	10,000 units (new sales)
Supply	> We expect the record high supply in 2014-2017 to taper off over 2018-2021; and peak in 2022-2023 on the collective sales wave (2017-2018). Completions will likely be small in 2024.	5,122 units (completion)	10,368 units (completion)
Rent (psf pm)	> Gross rental yield of residential properties ranges from 2-4%. With vacancy declining, we expect rents to grow 5% in 2020, but could decline in 2022-2023 on rising vacancy.	+5.0% SGD3.47*	+1.0% SGD3.47*
Vacancy	> Vacancy has declined steadily to 6.4% since Q3 2017's 9.3%. We expect it to improve to 6.0% by end-2020 before increasing over 2021-2023 as new stock completes.	-0.4pp 6.0%	+0.1pp 7.0%

Source: Colliers International. Note: "pp" refers to percentage point. *refers to median rent of non-landed private residential property

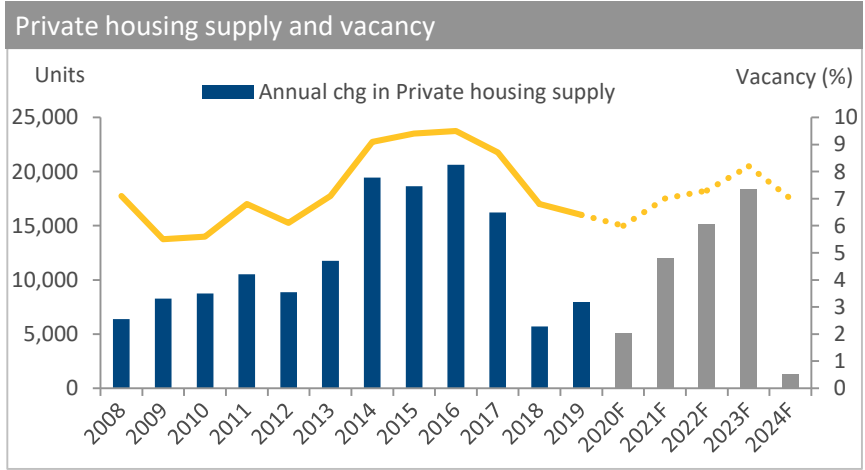
KEY TRENDS AND OUTLOOK

Cautious land bids. From the land sale tender results since the cooling measures in July 2018, we observed developers have been active but cautious in their bidding. We expect developers to remain cautious in land bidding, and to focus on moving inventory in most of 2020.

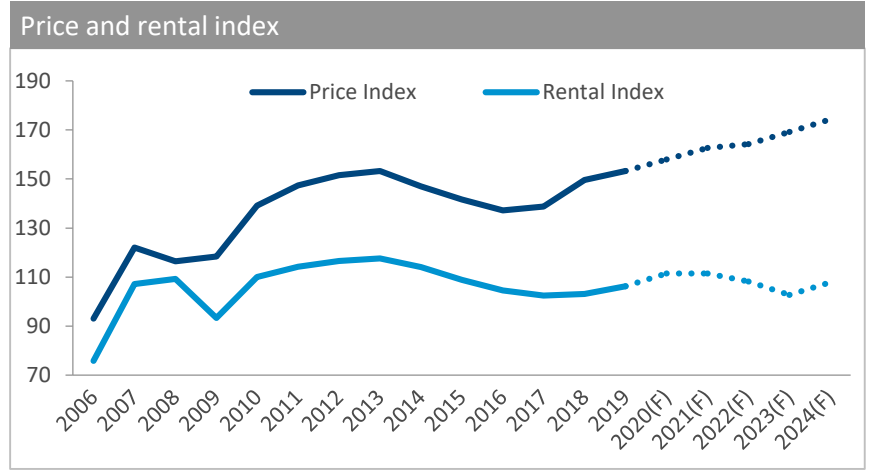
Resilient primary sales in 2019 have helped developers pare inventory. We estimate developers sold 9,850 units in 2019, 12% higher than the year before. In 2020, we estimate about 44 projects to be launched, of which 45% would be in the prime districts. We note foreigners are still attracted to selected super luxurious projects.

Infrastructure developments such as Greater Southern Waterfront, Jurong Lake District and new MRT lines would also drive end-buyer interest.

We recommend developers to selectively acquire land and also consider mixed developments with community and commercial components.







Source: Colliers International, URA.



Source: Colliers International, URA

INVESTMENT SALES

		YOY / Full Year 2020	Annual Avg Growth / 2020-24 Average
 Total	> In general, we expect favorable fundamentals to support institutional interest in Singapore real estate. Total investments should increase by 6% YOY in 2020 on strong commercial sales.	6.0% SGD31.3 bil	6.0% SGD35.3 bil
 Commercial	> We expect the remarkable pace of commercial deals to continue, supported by favorable interest rate outlook, healthy office market and Singapore's status as a key gateway city.	5.0% SGD12.3 bil	2.0% SGD12.5 bil
 Residential	> We anticipate residential transactions in 2020 to edge up by 3% YOY on healthy public land sales and luxury homes. Residential deals should rise on average 12% p.a. in 2020-2024.	3.0% SGD6.98 bil	12.0% SGD9.65 bil
 Industrial	> We forecast industrial sales to accelerate, with more big-ticket transactions by industrialists and institutional investors into yield-accretive assets such as business parks and data centres.	30.0% SGD5.26 bil	15.0% SGD6.28 bil

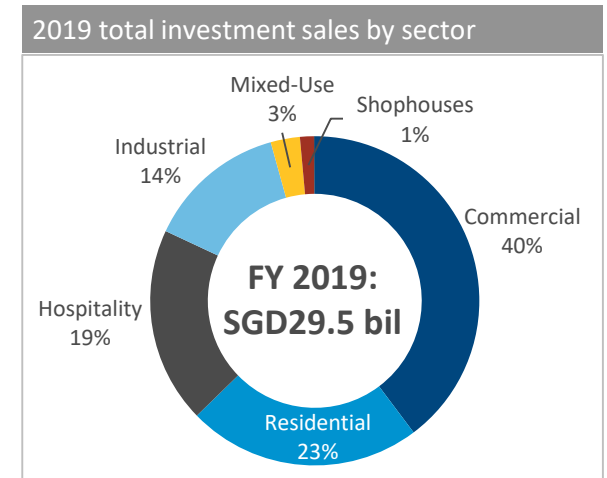
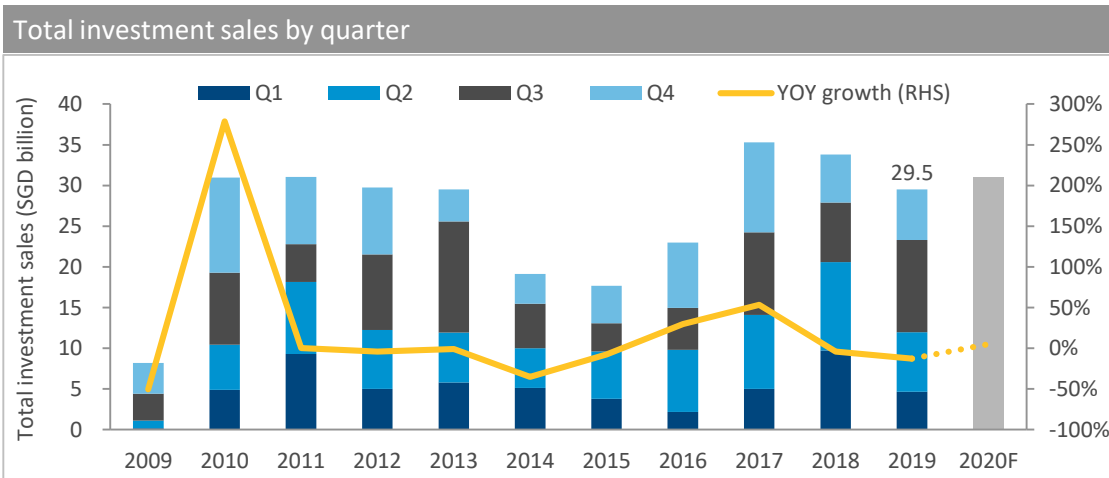
Source: Colliers International, URA, JTC, HDB.

KEY TRENDS AND OUTLOOK

The government's efforts to rejuvenate the city centre, coupled with investors' interest and confidence should support the strong investment momentum in the commercial sector. Older assets could continue to attract core-plus and value-add funds for redevelopment, while minority stakes in prime buildings could appeal to core investors on mid to long term healthy office rental outlook.

Meanwhile, specialised industrial assets such as data centres, high-spec industrial spaces and business parks could offer attractive yields for qualified investors.

We anticipate investment demand for hospitality assets to remain sustained, supported by a muted supply pipeline and robust visitor arrivals on more attractions and MICE events. In general, we expect a few major REIT acquisitions and mergers to boost commercial, industrial and hospitality deals in 2020.



Source: Colliers International, URA, JTC, HDB. Notes: 1) Information as of 3 January 2020. 2) Commercial includes office, retail and mixed- office and retail components in a development. Mixed-use refers to properties with two or more types of different uses. Others include properties such as medical centres, HDB shops, petrol stations, etc. 3) Investment sales only include transactions of SGD10 million and above.

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