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**Savills World Research**
Singapore

# Briefing
# **Office sector**

April 2013


Image: Raffles Place

## SUMMARY

CBD Grade A office rents took a surprising upswing of 1.2% quarter-on-quarter (QoQ) in Q1/2013.

- Business confidence and hiring expectations among non-financial companies in Singapore remained optimistic from a few quarters ago.
- A healthy take-up of 489,000 sq ft, mainly by private equity, oil and gas, and trading companies, together with no new supply in Q1/2013 resulted in vacancy rates of overall CBD Grade A offices falling to 5.9% and rents being pushed up.
- Occupancy rates of prime office buildings in Marina Bay surpassed other Grade A offices for the first time since Q3/2011.
- The strongest demand came from pocket spaces, and as these smaller units command higher rents, the average rents of prime offices in Marina Bay rose 2.9% QoQ.
- Record prices have been achieved in spite of moderate investment activity in the office sector. Capital values of CBD Grade A offices rose for the second consecutive quarter to an average of S$2,667 per sq ft.
- As the financial sector continues to deleverage, it is likely that demand in the next few quarters will continue to be derived from a mix of real economy companies like oil and gas, chemicals, and IT companies.

"Rents for CBD Grade A office buildings may rise further if interest rates remain low and the economy holds steady, owing to a lack of new supply over the next three years."
Alan Cheong, Savills Research

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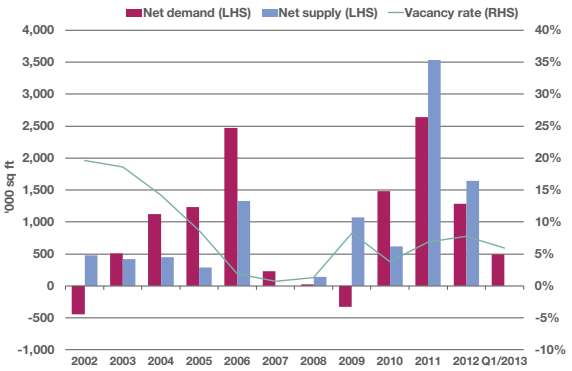
## Market commentary

On a seasonally-adjusted QoQ annualised basis, Singapore's economy contracted 1.4% in Q1/2013 after manufacturing output showed bleak results in January and February. However, according to the results of surveys conducted recently, business confidence and hiring expectations among non-financial companies here remained optimistic from a few quarters ago.

The office leasing market was active in Q1/2013. In the CBD, the market continued to be dominated by smaller deals of 10,000 sq ft and less, arising mainly from existing tenants' expansions or flight-to-quality. The remaining space in newly-completed prime office buildings, such as Asia Square Tower 1 and Marina Bay Financial Centre (MBFC) Tower 3, has been promptly filled after the subdivision of entire floors. Tenants include private equity firms and China-based resources and trading companies.

GRAPH 1

### Net demand, net supply and vacancy rate of CBD Grade A offices, 2002–Q1/2013




Source: Savills Research & Consultancy

GRAPH 2

### Price and rental indices of CBD Grade A offices, Q1/2003–Q1/2013


Source: Savills Research & Consultancy

TABLE 1

### Micro-market Grade A office rents and vacancy rates, Q1/2013

| Location | Rent (S$ per sq ft) | Vacancy rate (%) |
|---|---|---|
| Raffles Place/Marina Bay | 8.8 | 6.2 |
| City Hall | 8.6 | 1.5 |
| Shenton Way | 7.7 | 12.6 |
| Tanjong Pagar | 7.6 | 6.0 |
| Orchard Road | 9.4 | 1.0 |
| Beach Road/Middle Road | 6.8 | 3.6 |

Source: Savills Research & Consultancy

Meanwhile, driven by attractive rents and quality builds, a few big deals were sealed in decentralised locations. For example, Shell and Procter & Gamble leased 120,000 sq and 200,000 sq ft respectively in The Metropolis at one-north, bringing the pre-commitment level for the project to 60% half a year ahead of its completion.

On the back of healthy demand for smaller space, and the lack of new supply in the coming quarters, landlords have raised their rents to a higher plateau despite a backlog of unlet and shadow space. Instead of lowering their face rents, some landlords have structured more creative packages to attract the tenants. In spite of the rental premium for office buildings located in Marina Bay over other CBD locations, take-up has been good as some companies could be less sensitive with rents when location becomes critical to their operations/businesses.

## Vacancy rates

According to Savills data, about 489,000 sq ft of CBD Grade A office space was taken up in Q1/2013, in contrast to the 80,000 sq ft in the previous quarter. This, together with no new supply during the same period, caused vacancy rates in most micro-markets to fall for the second successive quarter. The declines ranged from 0.5 to 3.9 percentage points (ppts). By the end of March, the overall vacancy rate of CBD Grade A office space stood at 5.9%, 1.9 ppts down from 7.8% at the end of 2012.

Due to the quick absorption of remaining vacant space in Asia Square Tower 1 and MBFC Tower 3 in the reviewed quarter, occupancy rates of prime (AAA grade) office buildings in the Marina Bay precinct (95.0%) have surpassed those of other Grade A offices (93.8%) in our basket for the first time since Q3/2011.

## Rents and capital values

A turnaround in average rents of CBD Grade A offices was witnessed in Q1/2013 after falling for six consecutive quarters since Q3/2011. Rents of such buildings tracked by Savills edged up 1.2% QoQ from S$8.31 per sq ft in Q4/2012 to S$8.41 per sq ft in Q1/2013. AAA grade office rents recorded the biggest quarterly growth of 2.9%, averaging around S$10.29 per sq ft in Q1/2013. Although whole-floor rents have remained unchanged from a quarter ago, the healthy demand for pocket space has pushed up rates. In contrast, the rental growth of other CBD Grade A offices was marginal at 0.5% QoQ. By location, rents were unchanged in the Beach Road/Middle Road and

City Hall submarkets, while those in other areas rose slightly from a quarter ago, with the Shenton Way submarket topping the growth at 3.7% QoQ.

Even as investment activity in the office sector moderated in Q1/2013, record prices have been achieved. Buoyant take-up of newly launched strata office units, such as SBF Center on Robinson Road, reignited buying interest in the market and drove up prices of older projects. Caveats showed that the whole 20/F and a unit on the 15/F of Suntec City Tower 2 were sold at S$2,750 per sq ft of strata area. This is the third highest unit price for Suntec City Towers since 2011. In addition, a unit on the 13/F of Samsung Hub was transacted at S$3,150 per sq ft in March, setting another new high. Therefore, capital values of Grade A offices continued to climb for the second successive quarter, up 4.6% QoQ to S$2,667 per sq ft in Q1/2013.

# OUTLOOK

## The prospects for the market

According to the Monetary Authority of Singapore's latest quarterly survey, economists from the private sector are still positive about the Singapore economy and expect a 2.8% growth for the whole of 2013. This is near the top end of the government's forecast of 1% to 3%. However, a flare-up in Europe's debt crisis and the impact of the US government's fiscal deals remain the biggest downside risks.

For the foreseeable future, it is likely that office demand will continue to come from real economy companies like oil and gas, chemicals, and IT companies.

On the other hand, for the rest of 2013, the low interest rate environment and the lack of new prime CBD supply could embolden landlords of CBD Grade A buildings to push up rents, despite knowing full well that the underlying and future market fundamentals may remain soft. This situation may continue over the next few years as Grade A supply in the CBD is limited, with 700,000 sq ft in the second half of this year, 692,000 sq ft in 2014 and 506,900 sq ft in 2015. Therefore, when the substantial supply comes on stream beyond 2015, the landlords would have already set a much higher base from which to discount instead of doing so from a low base.

# Please contact us for further information


## Savills Singapore

**Christopher J Marriott**
CEO, Southeast Asia
+65 6415 3888
cjmarriott@savills.asia

**Agnes Tay**
Director, Commercial
+65 6415 3628
atay@savills.com.sg

## Savills Research

**Alan Cheong**
Senior Director, Singapore
+65 6415 3641
alan.cheong@savills.com.sg

**Simon Smith**
Senior Director, Asia Pacific
+852 2842 4573
ssmith@savills.com.hk