

# Briefing Office sector

April 2014



Image: JEM, Jurong Gateway Road

## SUMMARY

Office leasing activity remained firm in Q1/2014.

- Despite the relentless increase in CBD office rents, tenant demand for premium office space still grew in the light of a shortage of available space, as well as limited future supply in the next few quarters.

- The Jurong Gateway district is gradually taking shape as more companies are willing to consider locating their businesses in new developments here, attracted by improving infrastructure, better quality office space and lower rents compared with the CBD.

- The overall vacancy rate of CBD Grade A offices inched up slightly to 4.3%.

- The average monthly rent for CBD Grade A offices increased by 4.2% to S\$9.01 per sq ft, a shade above the previous peak in Q2/2011.

- The office investment market was relatively quiet, with capital values of CBD Grade A offices tracked by Savills remaining unchanged at S\$2,780 per sq ft.

- With better macro economic conditions and limited available stock, we expect the current strong momentum in the office leasing market to continue over the next few quarters.

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 “The strong net take-up is a classic demonstration of demand chasing supply, a situation which characterises the Singapore office market.”

Alan Cheong, Savills Research  
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➔ **Market commentary**

Advance estimates showed that the Singapore economy grew 5.1% year-on-year (YoY) in the first quarter of 2014. This is slightly lower than the 5.5% growth recorded in the previous quarter, falling below market expectations due to a slowdown in the services sector. Nevertheless, office leasing activity remained firm in Q1/2014, underpinned by the improving global economic conditions and healthy employment expectations in Singapore.

Despite the relentless increase in CBD office rents, tenant demand for premium office space still grew in the light of a shortage of available space, as well as limited future supply in the next few quarters. Asia Square Tower 2, the new Grade AAA development at Marina View, had achieved a 60% occupancy level for its 780,000 sq ft of office space by the end of March, six months after its completion in September 2013. Tenants include Mizuho, Westpac, Mercuria Energy Trading, Scor RE, Nikko Asset Management and Los Angeles-based private equity group Platinum Equity Partners. Most of these companies leased more than 15,000 sq ft of space. In the meantime, CapitaGreen at Market Street has secured Cargill, its first tenant ahead of its completion expected by year's end. It was reported that Cargill has signed up for about 50,000 sq ft at a monthly rent of more than S\$9 per sq ft.

In Jurong East, leasing of the office space in Westgate Tower has

TABLE 1 **Micro-market Grade A office rents and vacancy rates, Q1/2014**

| Location                 | Rent (S\$ per sq ft per month) | Vacancy rate (%) |
|--------------------------|--------------------------------|------------------|
| Raffles Place/Marina Bay | 9.56                           | 3.2              |
| City Hall                | 8.86                           | 1.3              |
| Shenton Way              | 8.46                           | 10.6             |
| Tanjong Pagar            | 8.03                           | 7.2              |
| Orchard Road             | 9.46                           | 3.0              |
| Beach Road/Middle Road   | 7.13                           | 1.9              |

Source: Savills Research & Consultancy

begun, while the Ministry of National Development is releasing about 70,000 sq ft of its space in JEM for subletting. Healthy levels of enquiries have been received from companies in various sectors. Together with the good response to the launch of strata office sales in Vision Exchange, another new commercial development near Jurong East MRT Station, the Jurong Gateway district is gradually taking shape as the new regional centre in the west. More companies are now willing to consider locating their businesses in new office developments here, attracted by improving infrastructure, better quality office space and cheaper rents compared with the CBD.

**Vacancy rates**

Due to the healthy commitment level at Asia Square Tower 2, the net absorption of Grade A office space in the CBD reached about 520,000 sq ft in Q1/2014. Although it is still short

of the net supply of 780,000 sq ft contributed by the same development, it is already more than half of the 973,000 sq ft for the whole of last year.

The overall vacancy rate of CBD Grade A offices therefore rose 0.9 of a percentage point (ppt) from 3.4% in Q4/2013 to 4.3% in Q1/2014. The vacant space left in Asia Square Tower 2 pushed up the vacancy rate in the Shenton Way area to 10.6% by the end of March, from 4.6% three months ago. On the other hand, the vacancy rate in most of the other submarkets, including Raffles Place/Marina Bay, Tanjong Pagar and Beach Road/Middle Road, fell by 0.3 to 2.1 ppts quarter-on-quarter (QoQ).

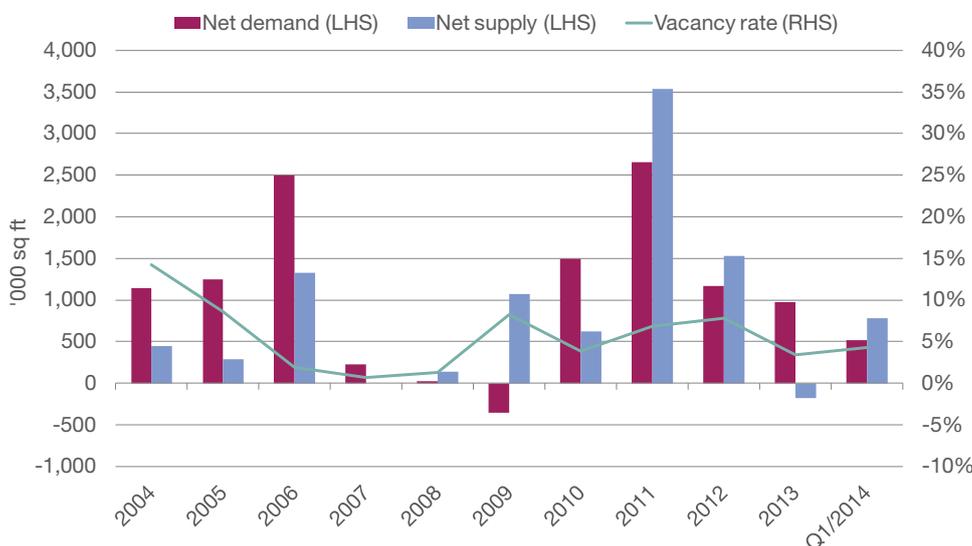
By grade, the AAA segment saw its vacancy level increase by 3.9 ppts to 6.5% by the end of March. In contrast, office space in other segments continued to be absorbed, with vacancy falling by 0.2 of a ppt to 2.9% for AA Grade and 0.3 of a ppt to 3.7% for A Grade.

**Rents and capital values**

The shortage of Grade A office space, coupled with a lack of new supply in the next few quarters is putting further upward pressure on office rents. Occupation costs are increasing as prime office rents continue to climb on the back of further compression in vacancy levels. In Q1/2014, the average monthly rent of CBD Grade A offices increased by 4.2% to S\$9.01 per sq ft, just 0.7% higher than the previous peak in Q2/2011.

AAA Grade office rents continued to record the highest growth of 6.2% QoQ, averaging around S\$11.50 per sq ft in Q1/2014. Rents of AA Grade and A Grade offices also registered quarterly growth of 3.8% and 2.9% respectively, standing at S\$9.49 and S\$8.28 per sq ft. By location, all submarkets tracked by Savills displayed positive rental growth,

GRAPH 1 **Net demand, net supply and vacancy rate of CBD Grade A offices, 2004–Q1/2014**



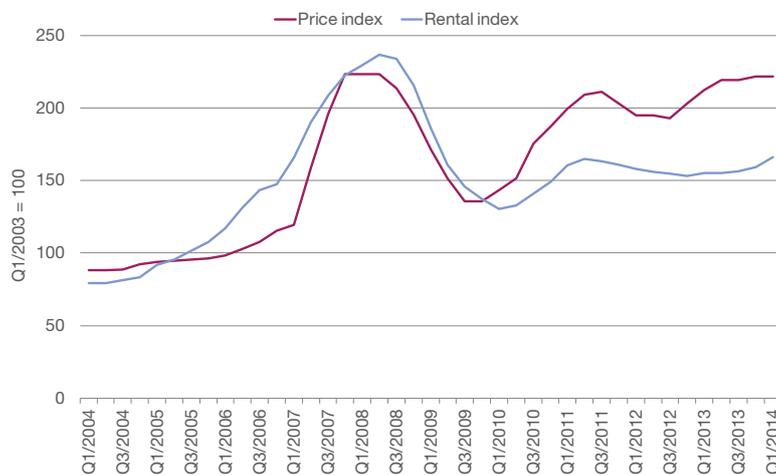
Source: Savills Research & Consultancy

→ ranging from 1.4% to 5.2% QoQ in the reviewed quarter, with the Raffles Place/Marina Bay area taking the lead.

Due to the festive holidays, but more significantly, the total debt servicing ratio framework and the large bid/ask spread, the office investment market was relatively quiet in Q1. Capital values of CBD Grade A offices tracked by Savills remained unchanged at S\$2,780 per sq ft in the reviewed quarter.

Only three en-bloc transactions were inked in January this year. A 50% stake in Finexis Building on Robinson Road was sold for S\$61.9 million or S\$2,300 per sq ft based on its strata area. Outside the CBD, Sun Venture and Low Keng Huat acquired Westgate Tower in Jurong Gateway for S\$579.4 million or S\$1,900 per sq ft of its net saleable area, while a joint venture between Master Contract Services and Fine Grain bought 700 Beach on Beach Road for S\$120.0 million or S\$1,780 per sq ft of strata area. ■

GRAPH 2 Price and rental indices of CBD Grade A offices, Q1/2004–Q1/2014



Source: Savills Research & Consultancy

## OUTLOOK

### The prospects for the market

Although Q1's GDP growth was below market estimates, the Singapore economy should gather pace in the coming quarters, fuelled by an improving external environment. The job market remains tight, as the average annual unemployment rate decreased to 1.9% in 2013, the lowest in the last ten years. Employment expectations are high, with the banking and financial services sector increasing positive hiring intentions for the third consecutive quarter in Q1/2014, according to the Hudson Report. This reflects an increase in confidence in the local banking sector and in Singapore becoming one of the region's leading offshore Chinese currency trading centres.

With better macro economic conditions and limited available stock, we expect the current strong momentum in the office leasing market to continue over the next few quarters. With the completion of two new CBD prime office developments, CapitaGreen and South Beach Tower, by the end of 2014, we can expect more headline-grabbing leasing deals ahead.

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