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Savills Research
Singapore

Briefing
Office sector

July 2012

Image: Raffles Place

SUMMARY

As with previous quarters, the market has been dominated by small leasing deals.

- Leasing demand came mainly from companies in the oil and gas and legal services industries.
- Vacancy rates of CBD Grade A office space stood at 6.7% by the end of Q2/2012.
- Average rental rates of Grade A office space fell for the fourth consecutive quarter, albeit at a slower pace.
- Capital values of CBD Grade A offices held firm, supported by renewed investment activity.
- Four sites were offered for office developments under the 2H/2012 Government Land Sales (GLS) Programme.
- A higher vacancy rate is expected in late 2012 due to un-let premises in new completions, shadow space and at least 0.6 million sq ft of secondary stock.

"The leasing market experienced another quiet period with Grade A office rents slipping for the fourth consecutive quarter. There will be more challenges in the second half of 2012 in the wake of slowing demand and increasing vacancies."

Alan Cheong, Savills Research

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Market commentary

Economic news during the first four months of 2012 was generally positive. However, market anxieties have revived recently, sparked by fiscal slippage, banking downgrades and political uncertainties in the eurozone. The renewed nervousness over the global economy has dampened business sentiment. Asian companies are not insulated from the storm, as the latest surveys showed that Asia's top companies are less upbeat about their business outlook in Q2/2012, due mainly to the global economic situation.

Amid the volatility in the world economy, the office leasing market in Singapore remained lukewarm in the second quarter of 2012. As with previous quarters, the market was dominated by leasing deals for smaller space, the demand for which came mainly from companies in the oil and gas and legal services industries.

TABLE 1

Micro-market Grade A office rents and vacancy rates, Q2/2012

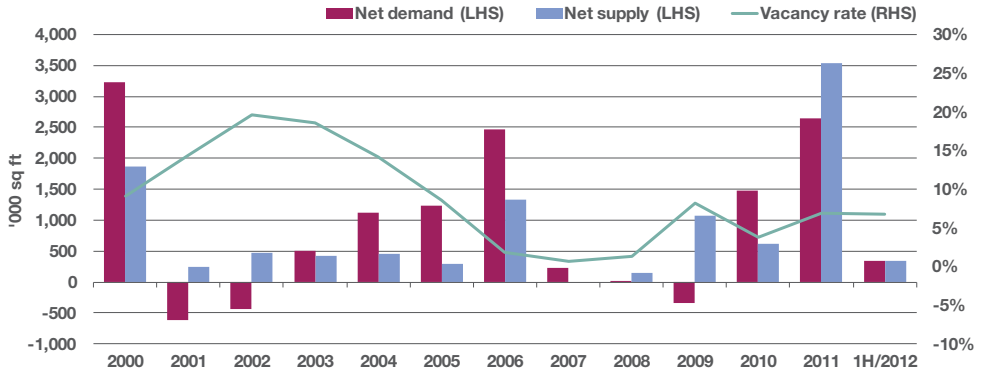
Location	Rent (S$ per sq ft)	Vacancy rate (%)
Raffles Place/Marina Bay	8.99	7.5
City Hall	8.66	2.3
Shenton Way	7.88	11.1
Tanjong Pagar	7.13	8.3
Orchard Road	9.33	2.7
Beach Road/Middle Road	6.81	4.3

Source: Savills Research & Consultancy

Although still holding firm on their face rents, landlords are offering more incentives, such as longer rent-free periods, to attract tenants. Some landlords of large floorplate space have sub-divided their premises to meet the changing demands of tenants, therefore securing higher rental rates.

GRAPH 1

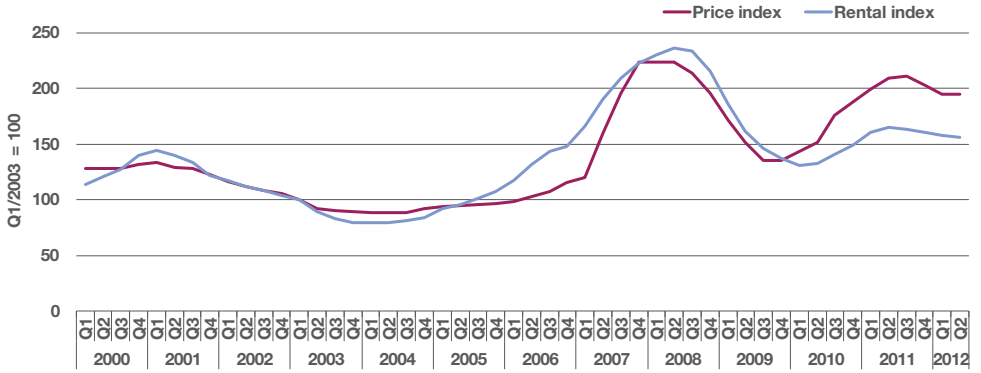
Net supply, net demand and vacancy rate for CBD Grade A office space, 2000–1H/2012



Source: Savills Research & Consultancy

GRAPH 2

Savills Grade A price and rental index, Q1/2000–Q1/2012



Source: Savills Research & Consultancy

Vacancy rates

Compared with 2011, new supply of Grade A office space was relatively limited in the first half of 2012. Year-to-date, only about 343,000 sq ft from the newly-completed One Raffles Place Tower 2 came to the market at the end of Q2/2012. Net demand was also significantly lower than the absorption level seen last year as a result of the difficult economic environment. According to Savills estimates, a total of about 345,000 sq ft of Grade A office space was taken-up in the first two quarters of 2012, marginally higher than net supply.

Vacancy rates of overall Grade A offices dipped some 10 basis points to 6.7% in Q2/2012 from 6.8% at the end of 2011. The stock of vacant space stood at an estimated 1.68 million sq ft, of which almost 80% is located in the Raffles Place/Marina Bay and Shenton Way micro-markets. As a result, the overall vacancy rate in the Raffles Place/Marina Bay area rose from 6.2% in Q1/2012 to 7.5% in Q2/2012, and Shenton Way recorded the highest vacancy rate among all the micro-markets, although it has eased to 11.1% in Q2 from 12.0% in the previous quarter. In contrast, the City Hall and Orchard Road areas enjoyed very high occupancy as vacancy rates fell to 2.3% and 2.7% respectively.

Rental and capital values

The average monthly rent of CBD Grade A offices was S$8.47 per sq ft in Q2/2012, slipping 1.3% quarter-on-quarter (QoQ). This is the fourth successive quarter which has seen rental levels falling from the peak of Q2/2011. However, the rate of decline

TABLE 2

GLS Programme list

Location	Zoning	Site area (sq ft)	Gross plot ratio	Estimated office space GFA (sq ft)
Confirmed list				
Venture Avenue (Jurong Gateway)	Commercial	129,167	5.6	578,667*
Reserve list				
Sims Avenue/Tanjong Katong Road	Commercial	222,756	4.2	374,239
Cecil Street/Telok Ayer Street	Commercial	83,958	12.88	666,328*
Marina View/Union Street	White	84,147	13.0	765,744

Source: URA, Savills Research & Consultancy
* Assuming 80% of the estimated commercial GFA will be for office use.

was slower in Q2/2012 compared with the previous two quarters, indicating a stalemate in the market as both landlords and tenants look for direction amid uncertainties in the global and local economies.

Increasing vacancy rates in the Raffles Place/Marina Bay and Shenton Way areas placed pressure on their achievable rents. Rents in these two sub-markets experienced the greatest corrections of 2.7% and 1.7% QoQ. On the other hand, due to the higher occupancy, rents in the Orchard Road micro-market rose 2.3% QoQ after three consecutive quarters of negative growth and have even surpassed Raffles Place rents. Meanwhile, rental levels in other areas, such as City Hall, Tanjong Pagar and Beach Road, remained stable in the reviewed quarter.

In Q2/2012, investment activity in the office segment picked-up with five block transactions worth a total of S$1.16 billion. In the CBD, Tower 15 on Hoe Chiang Road changed hands for S$360 million or S$1,895 per sq ft based on net lettable area (NLA) in May. More recently, K-Reit bought another 12.39% interest in Ocean Financial Centre for S$285.7 million or about S$2,600 per sq ft based on NLA. The average capital values of Grade A offices tracked by Savills remained unchanged at S$2,445 per sq ft in Q2/2012.

Future supply

In its effort to increase the commercial element in Jurong Gateway so as to offer more affordable non-CBD business locations, the government added a commercial site at Venture Avenue near Jurong East MRT Station to the 2H/2012 confirmed list of the GLS Programme. The 1.5 ha site, which has a plot ratio of 5.6 and a permissible GFA of 723,334 sq ft, will be sold with a minimum office GFA quantum. In addition, the reserve list also has three sites for office developments. They are the commercial sites at Sims Avenue/ Tanjong Katong Road, Cecil Street/ Telok Ayer Street and the white site at Marina View/Union Street. We estimate that a total GFA of 2.38 million sq ft of office space can be developed from these four sites.

OUTLOOK

The prospects for the market

Singapore's economy is still on track to grow by 1% to 3% this year. This growth rate is more modest than last year due to problems in the eurozone and the decelerating economies in China and the US. On the back of prolonged global difficulties, companies are likely to remain conservative about their expansion plans. Therefore, a strong pick-up in demand for office space is not expected in the near term.

On the supply side, although there is limited new supply in the second half of 2012, higher vacancy rates are expected in late 2012 due to un-let premises in new completions, shadow space and at least 0.6 million sq ft of secondary stock. Therefore, the leasing market will face more challenges ahead as higher vacancies and weaker demand continue to place downward pressure on rents.

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