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Savills World Research
Singapore

Briefing
Office sector

November 2013

Image: Asia Square, Marina View

SUMMARY

About 958,000 sq ft of CBD Grade A office space was absorbed from January to September 2013.

- In September, the vacancy rate of CBD Grade A offices tracked by Savills fell by another 1.0 percentage point (ppt) to 3.5%.
- Some notable transactions emerged in Q3, such as Rabo Bank leasing 25,000 sq ft at South Beach Tower and CapitaLand Group taking 141,000 sq ft at Capital Tower.
- Average rents of Savills basket of CBD Grade A office buildings rose for the third successive quarter, inching up 0.7% quarter-on-quarter (QoQ) to S$8.48 per sq ft per month in Q3/2013.
- Prices of strata offices remained resilient in spite of tepid buying activity brought on by the total debt servicing ratio (TDSR) framework which came into force on 29 June 2013.
- In the reviewed quarter, Asia Square Tower 2 at Marina View and The Metropolis Tower 1 at one-north received their Temporary Occupancy Permits (TOPs).
- Supported by an improving economic outlook and limited new office supply, demand in the CBD area is expected to remain healthy, with rents for prime office space looking set to notch up an increase of 0.3% to 0.8% in the last quarter of 2013.

"Although vacancies are down to just 3.5%, the fact that office rents have not shot through the roof is a healthy sign that this time round, the market is not likely to suffer the previous swings from feast to famine." Alan Cheong, Savills Research

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Market commentary

Singapore's economy is experiencing a bumpy recovery due to its reliance on international trade and financial services, two sectors which have been languishing for the past two years. According to the advance estimates, GDP shrank 1.0% QoQ in the July to September period, after double-digit growth in Q2. However, the slowdown was milder than the 4.0% contraction estimated by economists. On a yearly basis, the Q3 economy posted 5.1% growth. The business sentiment of a majority of companies here continued to improve and the job market remained tight amid a sputtering global economy and external uncertainties.

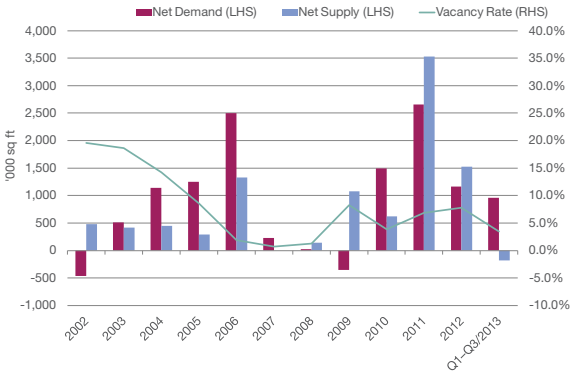
Although office leasing activity in the CBD has been characterised by small deals over the last few quarters, some big transactions have emerged recently. For example, Rabo Bank has pre-committed to 25,000 sq ft of space at South Beach Tower on Beach Road, which is slated to be completed by the end of 2014. CapitaLand Group has also leased a total of about 141,000 sq ft at Capital Tower, located opposite Tanjong Pagar MRT Station, to house all its business units. Earlier, they had intended to move to Westgate Tower in Jurong Gateway.

In the reviewed quarter, Asia Square Tower 2 at Marina View and The Metropolis Tower 1 at one-north received TOPs. Together with The Metropolis Tower 2 and Jem at Jurong Gateway, which are expected to complete next quarter, these developments will provide a total of about 2.2 million sq ft of prime office space. These projects constitute the last of the new supply until the end of next year when a number of new offices is expected to enter the market. Take-up was much better in the suburban market where the Metropolis and Jem achieved occupancy rates of above 90% and 100% respectively by the end of September. In the CBD, Asia Square Tower 2 managed to secure tenants for approximately 30% of its space.

In Q3, buying activity in the strata office segment was affected by the TDSR framework which came into force on 29 June 2013. Island-wide, only 113 caveats of strata-titled office transactions were recorded in Q3/2013, less than half of the 230 caveats in Q2 and 61.7% less than the 295 caveats in Q1[1].

GRAPH 1

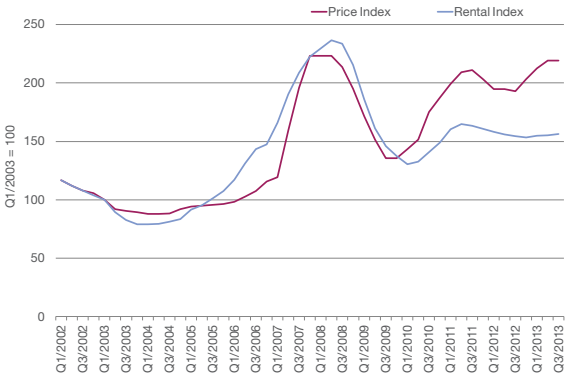
Net demand, net supply and vacancy rate of CBD Grade A offices, 2002–Q3/2013



Source: Savills Research & Consultancy

GRAPH 2

Price and rental indices of CBD Grade A offices, Q1/2002–Q3/2013



Source: Savills Research & Consultancy

TABLE 1

Micro-market Grade A office rents and vacancy rates, Q3/2013

Location	Rent (S$ per sq ft per month)	Vacancy rate (%)
Raffles Place/Marina Bay	8.86	3.7
City Hall	8.72	1.2
Shenton Way	7.83	5.3
Tanjong Pagar	7.55	8.3
Orchard Road	9.38	0.6
Beach Road/Middle Road	6.81	0.8

Source: Savills Research & Consultancy

Vacancy rates

Savills estimates that a total of 249,000 sq ft of Grade A office space in the CBD has been taken up in Q3/2013. This brought the total net absorption to 958,000 sq ft in the first nine months of this year, which is slightly below the average annual take-up of nearly 1 million sq ft in the last five years. If the momentum in the leasing market continues in the last quarter, the net annual take-up of CBD Grade A office space is expected to surpass 2012's 1.17 million sq ft.

The overall vacancy rate of CBD Grade A offices fell by another 1.0 ppt to 3.5% by September. In terms of location, Grade A office buildings in the Beach Road/Middle Road, City Hall and Orchard Road areas enjoyed almost full occupancy. The vacancy rate in the Shenton Way micro-market fell by 2.1 ppts to 5.3%, while Raffles Place/Marina Bay also dropped to 3.7% from 4.8% three months ago. Tanjong Pagar is the only location where the vacancy rate rose, by 2.1 ppts to 8.3%.

Rents and capital values

Average rents for Savills basket of CBD Grade A office buildings rose for the third successive quarter, increasing 0.7% QoQ to S$8.48 per sq ft per month in Q3/2013. Rents at the AAA Grade office buildings located mainly in the Marina Bay area stabilised at S$10.29 per sq ft, while those for AA and A Grade office space climbed to S$9.00 per sq ft and S$7.94 per sq ft respectively.

Compared with the previous quarter, rents of Grade A offices in the City Hall micro-market registered the biggest increase of 1.5% QoQ, followed by Raffles Place/Marina Bay (1.0%) and Shenton Way (0.6%).

1 As downloaded from the REALIS on 4 November 2013.

Rents in both the Beach Road/ Middle Road and Tanjong Pagar areas remained unchanged. Owing to pressure from the vacant space expected to be available in the next few quarters, rents at Orchard Road offices fell by 0.4% QoQ, the first decrease since Q4/2012.

Although office sales activity was tepid, prices remained resilient. For example, some floors in Springleaf Tower on Anson Road were transacted for S$2,220 per sq ft to S$2,320 per sq ft in the reviewed quarter. Average capital values of CBD Grade A offices tracked by Savills remained unchanged at S$2,750 per sq ft in Q3/2013.

OUTLOOK

The prospects for the market

Supported by a gradually improving global economic outlook, together with the limited supply of new Grade A office buildings, demand for CBD offices is expected to remain healthy. Rents are expected to improve further by 0.3% to 0.8% in the last quarter of 2013. The leasing market will continue to favour landlords due to the improving occupancy rates of CBD Grade A buildings, currently hovering above 95%.

In the strata office market, the positive buying momentum from individual investors was slowed somewhat by the TDSR. On the other hand, investment demand for office buildings from equity funds and developers is likely to continue on the back of the tight supply, rising rental rates and low interest rates. In line with this, capital values of Grade A office buildings are expected to trend moderately upwards in the next few quarters.

Please contact us for further information

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