

### Market commentary

Advance estimates point to a slowing Singapore economy, with gross domestic product (GDP) growth at 1.3 per cent year-on-year (y-o-y) in Q1 2019 compared to 1.9 per cent y-o-y in Q4 2018. The manufacturing sector contracted 1.9 per cent y-o-y, while growth was mainly supported by the construction, information and communications and business services sectors in Q1 2019 (Table 1).

Table 1: GDP at 2010 prices

Advance estimates of Q1 2019 GDP growth by sector

	Q1 2019	Q4 2018	Change
Manufacturing	-1.9	5.1	▼
Construction	1.4	-1.0	▲
Services	2.1	1.8	▲
<b>Overall</b>	<b>1.3</b>	<b>1.9</b>	▼

Source: MTI

Key changes to Government policies during Q1 2019 that may have some impact on the office sector include:

- Development charge rates for commercial use have increased by 9.8 per cent on average from 1 March to 31 August 2019;
- Introduction of the CBD incentive scheme (CIS) on 27 March 2019, which provides bonus gross floor area (GFA) of 25 to 30 per cent for predominantly office buildings older than 20 years with a minimum site area of 1,000 to 2,000 sq m to be redeveloped to mixed-use developments (e.g. residential, office and hotel uses - subject to approval). This may have a medium- to longer-term impact on office supply within the CBD, as well as increasing Grade A office rents when these redevelopments commence.

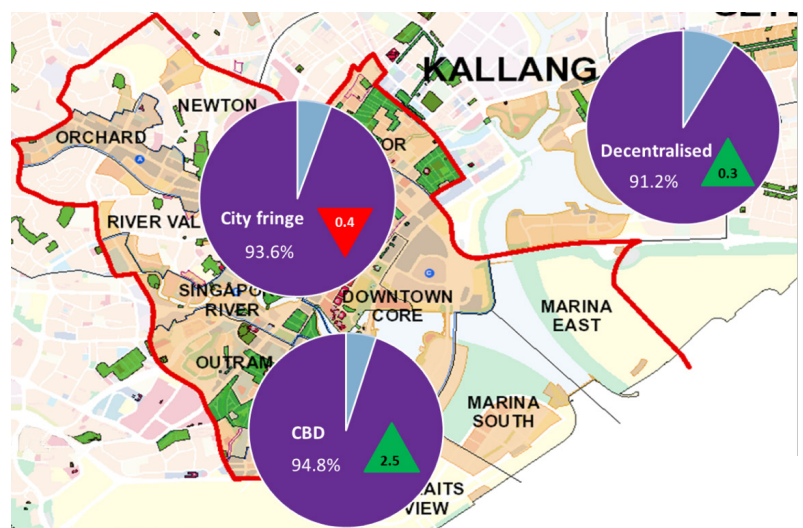
### Investment market

- Office transaction (valued above \$30m) slowed in Q1 2019 with just three transactions comprising strata offices with a total value of \$247m. One of these transactions was for six levels at Suntec City sold for approximately \$160m (or \$2,600 psf).
- However, there has been a consolidation/merger of major developers and REITs such as CapitaLand with Ascendas-Singbridge and OUE Commercial REIT with OUE Hospitality Trust. This is expected to continue as developers and REITs seek to diversify and improve operational efficiencies through scale.

### Office occupancy and rents for Q1 2019

- Islandwide occupancy rate increased from 92.4 per cent in Q4 2018 to 93.5 per cent in Q1 2019, with occupancy rate in the CBD rising the most to 94.8 per cent (Figure 1). On the contrary, occupancy rate in the city fringe fell marginally by 0.4 percentage points. This was partly driven by rising vacancies of older office buildings as well as strata-owned buildings.

Figure 1: Office occupancy rates



Source: URA, OneMap, Edmund Tie & Company Research

- Average gross monthly rents in the CBD increased by 1.5 to 3.5 per cent quarter-on-quarter (q-o-q) in Q1 2019 (Table 2).

Table 2: Average monthly gross office rents (\$ psf)

Location		Grade	Q4 2018	Q1 2019	Q-o-q change (%)
CBD	Marina Bay	A+	11.50	11.90	▲ 3.5
	Raffles Place	A	10.00	10.25	▲ 2.5
	Shenton Way/ Robinson Road/ Tanjong Pagar	A+	10.50	10.90	▲ 3.5
		A	8.80	9.00	▲ 2.5
		B	7.00	7.20	▲ 3.0
City fringe	Marina Centre	A	9.80	9.90	▲ 1.5
	Beach Road/ North Bridge Road	A	10.50	10.50	▬ 0.0
		B	6.90	7.00	▲ 1.5
	Orchard Road	*	9.05	9.05	▬ 0.0
Decentralised areas	one-north/Buona Vista/ Harbourfront	*	6.90	6.90	▬ 0.0
	Tampines Regional Centre	*	5.20	5.30	▲ 2.0
	Jurong Gateway	*	5.30	5.30	▬ 0.0

\* Ungraded office space

Source: Edmund Tie & Company Research

- Demand in the CBD was underpinned by co-working operators, business services and technology firms such as INVNT (marketing and advertising), CenturyLink Technology, IQVIA and QiO Technologies (Table 3) which have opened their Asia Pacific offices in Singapore.

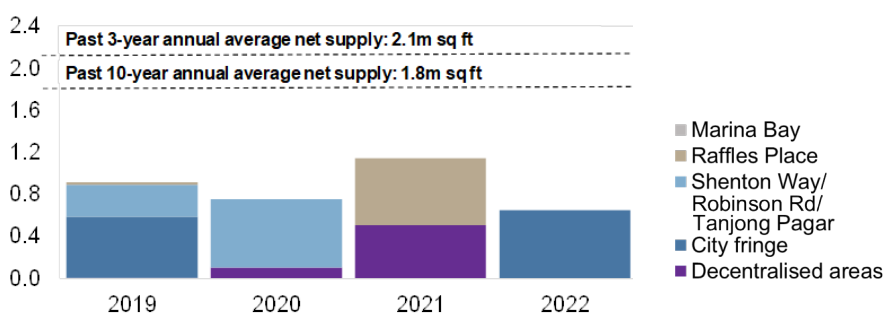
Table 3: Key tenant movements in Q1 2019

Building	Location	Tenant	Industry	Sq ft (estimated)
Marina One	Marina Bay	Rajah and Tann	Legal services	80,000 in 2020
Asia Square Tower 2		The Work Project	Co-working	41,000
20 Collyer Quay	Raffles Place	JustCo (management agreement)	Co-working	16,800
Capital Tower	Shenton Way/ Robinson Road/ Tanjong Pagar	The Work Project	Co-working	33,000
79 Anson Road		IQVIA	Technology	> 40,000
ARC 380	Jalan Besar	WeWork	Co-working	19,000

Source: Various sources, Edmund Tie & Company Research

- The only major completed office development in Q1 2019 was 18 Robinson with 136,000 sq ft net lettable area (NLA), while Funan is expected to complete by Q2 2019 and 9 Penang Road in Q4 2019 (Figure 2). New supply continues to be limited, particularly in the CBD. With the CIS and Government's decentralisation strategy, it is likely that this will exacerbate office supply in the medium- to longer- term.

Figure 2: CBD office development pipeline (2019-2022)



Source: URA, Edmund Tie & Company Research

## Outlook

Despite the continued global headwinds and a slowing Singapore economy, the office sector is expected to remain relatively positive, largely due to limited new office supply from now till 2022, especially in the CBD. Accordingly, rental rates within the CBD are projected to rise between 5.0 to 9.0 per cent in 2019 barring economic shocks.

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