



FINDING THE RIGHT INVESTMENT FOR CLIENTS



INCREASING BORROWING COST AND INTEREST RATES, WHAT'S NEXT?



TRACKING OF INVESTORS' MOVEMENT AND BEHAVIOUR

Financial focus

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ADDRESSING THE NEEDS OF INDIVIDUAL INVESTORS AND PLANTING THE SEEDS FOR A SECURE FUTURE.

This article will discuss the office market which has experienced a stable rental and capital growth after recovery. With limited supply in the pipeline, there is probably more rental growth to come.

Office Market in Singapore: Right time to Invest?

SINGAPORE has one of the most popular office markets in Asia due to its reputation of a high-quality source of talent, business friendly environment, as well as political and regulatory stability. Following the bottoming of office rents in early 2017, the office market recovered gradually and performed exceptionally well in 2018 with CBD Grade A office average rents grew by 14.9% to S\$9.43 per month psf, the highest annual growth since 2010. This is mainly due to tightening vacancies caused by a robust demand but shrinking supply in the pipeline.

In addition to the rents, CBD Grade A Office capital values grew by 7.9% in 2018. Despite Singapore's GDP is expected to moderate from 3.2% in 2018 to 2.7% in 2019 due to the volatile global market, there is positive economic growth outlook as the finance and insurance sector grew at 5.6% and the information and communications sector expanded by 4.7% in 2018.

The outstanding performance of the Singapore office market in 2018 has raised both domestic and international investors' interest in the market. So, is now a perfect time to invest in office?



Property in picture: Suntec City Tower 1 & 2, located at 7 & 9 Temasek Boulevard

Latest Transaction Highlights

Suntec City (Strata Units)

- Property type - Office
- Tenure - 99 years | District 6
- GFA - 61,667 sq. ft
- Transacted Price - S\$160,000,000
- PSF - S\$2,600
- Number of Floors - 5 in Tower One, 1 in Tower Two

Manulife Centre

- Property type - Office
- Tenure - 99 years | District 2
- NLA: 241,000 sq. ft
- Transacted Price - S\$555,500,000
- PSF - S\$2,305
- Number pf Floors - 11



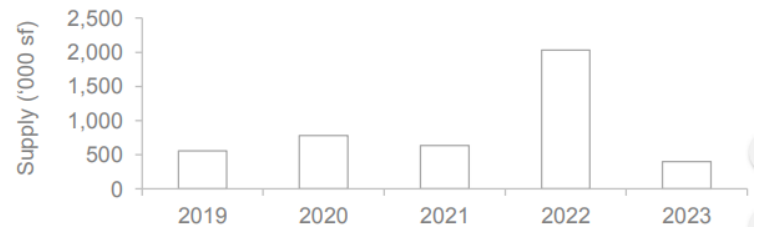
“Will this favourable trend in office market persist in upcoming years?”



Submarket	Occupancy Rate	Grade A Effective Rent
Marina Bay	97.5%	S\$12.29
Raffles Place	97.1%	S\$10.61
Shenton Way/ Tanjong Pagar	97.2%	S\$9.86
City Hall/ Marina Centre	97%	S\$9.72

Average Occupancy rate and effective rent of Grade A office spaces in CBD, by submarket
Source: Cushman& Wakefield

GRADE A CBD SUPPLY PIPELINE



Estimated Grade A CBD supply pipeline in the next 5 years
Source: Cushman& Wakefield

The office demand will most likely to remain firm from 2019 onwards with stable economic growth and it is largely driven by technology companies and co-working office operators. The technology companies are seeking opportunities to expand their presence locally as the government gives positive notion to promote technology, innovation and research and development (R&D) in Singapore.

On the other hand, the co-working market is booming rapidly with flexible office spaces doubled from 0.7 million sq. ft. in 2017 to 1.4million sq. ft. in 2018. Although co-working spaces only occupy a small portion of the total market today, the co-working operators such as WeWork, JustCo, and Distrii are expanding their business furiously to acquire a market share in this lucrative industry.

However, office supply will be tapering down from 2019 to 2021, with approximately 2% stock growth annually. The potential withdrawal of ageing commercial buildings in CBD for redevelopment will further tip the balance in favour of demand to support rents.

As such, a tightened supply will not only provide a buffer for the market if global uncertainties hit the office demand, it suggests that most Grade A office spaces in Singapore are enjoying near full occupancy rates. This is evident from the average occupancy rates at Raffles Place and Tanjong Pagar submarket, which are approximately 97.1% and 97.2% respectively. Thus, highly occupied office spaces will significantly reduce vacancy and collection losses when holding the assets and thus, increase the effective gross profit of the landlords and investors.

The analysis suggests that both rental and capital growths are likely to expand significantly in near future.

We could expect CBD Grade A Office rents to increase continuously by 8% in 2019 due to stable demand and the tight supply situation which will continue to persist for the next 3 years and foresee capital values to appreciate as well due to favourable rental growth. Even though global uncertainties such as the China-US trade war may affect the office demand, the occupancy rate will most likely to remain steady due to limited supply pipeline until 2022.

Therefore, given that the great investment potential from booming office market, investors must grab the opportunities and decide on the right mix of the asset within their portfolio as soon as possible.



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