

Market Update



RENTALS

Top prime rates now \$15 - \$17 per sq ft

It is official – rental rates have dropped dramatically in the last quarter of 2008, by nearly 30% in some cases. It almost seemed like a knee jerk reaction to the recent events that shocked the financial markets around the world, but the reality is the collapse of Lehman Brothers marked the end of a 3 year bull run and defined the exact date the market turned. Whilst the massive supply scheduled for 2010/2011 has barely had an impact, the landlords have to some degree factored this in by offering extremely competitive renewal rates now before rates plummet.

The adjustment in rates has been across the board, with the exception of some out-of-town areas like Tampines. Raffles Place has been especially hard hit. Generally the top prime rates are around \$15.00 - \$17.00 psf. Buildings such as UOB Plaza were quoting \$20.00 in Sep 2008 but by December large space users were renewing at around \$16.00 psf. In Republic Plaza deals were being struck at \$23.00 in August 2008 but come the end of the year even the asking rates had dropped to \$19.00. The story is the same for 6 Battery Road - now quoting \$18.00, down from \$23.00.

In the Robinson Road area premises that were previously \$13.00 psf are now around \$10.00 psf and at the Keppel Road end of Tanjong Pagar what was \$11.00 psf now ranges between \$8.00 and \$9.00 psf. Elsewhere, rates at Suntec City have dropped from \$15.00 psf to around \$10.00 psf. Beach Road has seen buildings like The Gateway reduce their rates from \$11.00 per sq ft to around \$9.00 psf. Orchard Road has seen less volatility because less activity has taken place. Nonetheless Wheelock Place has come down to around \$11.00 psf from \$16.00 psf and in general rates in this district range from \$8.50 psf to \$13.00 psf.

Best value to be found in the new developments in 2009

This year the best value for money will undoubtedly be found in the new developments in the Tanjong Pagar area, namely Mapletree Anson, Twenty Anson and 71 Robinson Road, where rates should range from \$7.50 to \$9.50 psf. In Raffles Place the new Straits Trading Building is offering very competitive rates around \$10.00 - \$11.00 psf which is superb value for a brand new development in such a prime location. For smaller space users and bargain hunters, there are good opportunities to be found in the Tanjong Pagar and Beach Road areas for between \$6.00 and \$7.50 psf.

MARKET FORECAST

Double dip decline expected later in year

It is only now that the financial woes of the US and Europe are really beginning to filter through to affect the market in Singapore. The massive oversupply of space in 2010/2011 has not even hit the market yet so we are expecting an acceleration of rental adjustments later in the year when negotiations for new space in 2010 gathers pace. To a limited extent landlords have preempted the oversupply of next year by offering extremely competitive renewal rates now, but by the end of this year we will witness a completely different type of market when many operations will be in survival mode.

A tenant's market now for the next 3 years. Rates likely to fall by 30% this year, and a further 30% in 2010.

The 2008 Christmas period saw very little activity and very few revised rates were posted. The speed at which rates decline may slow for a while, but it will still be a steady drop. This is because alternative choices remain limited for now, but that will all change around the end of the year. That is when not only the new schemes will be fighting their hardest to secure tenants, but also the established buildings will begin to see large vacancies, particularly in Raffles Place.

Expect top rates to drop by 2011 to \$8.00 per sq ft - matching the low of 2005

We expect rentals to fall by a further 30% this year, from current top rates of \$16.00/\$17.00 psf to around \$11.00/\$12.00 psf and this is likely to be followed by a further drop of 30% in 2010, which will bring the highest prime rates down to around \$8.00 psf by 2011, which is not far from the levels we saw in 2005. We do not anticipate a 'V' recovery as there is a lot of supply to be absorbed, so a 'U' or rather a 'V with an elongated bottom' recovery is most likely - which is only expected in late 2011.

We foresee more developments may be put on hold, particularly if ground works have not started yet ie. those earmarked for 2012. We expect more landlords offering greater incentives such as assistance with fitting-out premises as part of the rental package, longer rent-free periods, and flexible lease terms (even including break clauses) may start to become common place and all in all this will be very much a tenants market for the next 3 years.

SUPPLY

Raffles Place will be especially hard hit

Whilst the market has taken a dramatic downturn this doesn't mean there is automatically a wave of new supply available because tenants remain dictated by their lease expiry dates. It is still too early to see the real effects of the recession on office space supply but we are already starting to see some of the larger banks such as Citibank subleasing surplus space because they have committed to so much new space. The effect of some businesses moving to transitional sites or business parks is beginning to filter through with buildings such as Suntec City being particularly affected with vacancies.

Expect 1 million sq ft to be leased out in 2009 but net take-up could be zero

We are expecting some 1 million sq ft to be leased out this year (the historic average is 2 million sq ft per annum) but very little of this space will be for expansion, mainly companies moving to more economic locations. Hence the net take-up rate for 2009 could be zero.

Raffles Place will continue to be the hardest hit especially around the end of this year when many large companies are decanting from this location. Hitachi is planning to move out of Hitachi Towers to relocate to Tampines Grande. The other anchor tenant of Hitachi Towers, American Express, will also be moving out shortly afterwards, relocating to Marina Bay Financial Centre. The brokerage arm of UOB Bank, UOB Kay Hian is moving out of substantial space in UOB Plaza when they relocate to their own building on Scotts Road. Kim Eng Securities will be moving out of four floors in 63 Market Street to move into their own building near Clarke Quay. Other buildings that will be seriously affected by major relocations will be 6 Battery Road where Standard Chartered Bank and ICAP are amongst those relocating to MBFC. Singapore Land Tower has several major tenants moving out including Aon Insurance to Mapletree Anson and Natexis Banque to MBFC.

Ample supply in Raffles Place will therefore be found in the above buildings and other buildings with a wide choice of units include OUB Centre, OCBC Centre and 1 Finlayson Green. In the Robinson Road area, 80 Robinson Road has good choices and 8 Shenton Way has a wide variety of sizes available. In the Tanjong Pagar area, 79 Anson and Anson House probably offer

the best value but there is also considerable space in Marina House and Fuji Xerox Towers. On Beach Road, The Gateway has a good choice of space and in City Hall Odeon Towers has several good units coming available. In Marina Bay, Centennial Tower is practically full but Millennia Tower has ample space through Citibank. Suntec City now has the widest choice of all schemes in Singapore and this still remains a good safe option for corporate requirements, especially since there is a new MRT station scheduled to open close by later this year. Supply on Orchard Road is fairly limited and the edge-of-town locations such as Novena have always been popular so supply is restricted here.

4 important schemes to be completed in CBD this year

The four most important schemes scheduled for completion this year in the CBD, are Mapletree Anson, 20 Anson Road, 71 Robinson Road and Straits Trading Building and they will be very influential sources of supply. They are all relatively small compared with the mega schemes coming on stream in 2010, but the take-up rate has been modest and these schemes will be under immense pressure to secure tenants before the 2010 projects become alternative options for tenants.

OFFICE DEVELOPMENTS 2009 - 2011

12 million sq ft coming on stream in next 3 years

Building Name	Address	Size (Sq Ft)	Expected Completion Date
2009			
EFG Bank Building	North Bridge Road	80,000	Jan 2009
Cintech IV, Science Park 1	Science Park Drive	105,000	Feb 2009
Mountbatten Square	Mountbatten Road	200,000	Mar 2009
Tampines Concourse	Tampines	105,000	Mar 2009
28 Murray Street	Tanjong Pagar	57,000	Apr 2009
Citibank Changi	Changi Business Park	400,000	May 2009/Sep 2010
2 Havelock Road	Havelock Road	182,000	May 2009
Tampines Grande	Tampines	300,000	Jun 2009
71 Robinson Rd	Robinson Road	280,000	Jul 2009
Mapletree Anson	Tanjong Pagar	325,000	Aug 2009
Icon@IBP Jurong	Jurong East	390,000	Sep 2009
Twenty Anson	Tanjong Pagar	215,000	Oct 2009
Straits Trading Building	Raffles Place	187,000	Oct 2009
Scotts Road Development	Newton	126,000	Oct 2009
Kim Eng Tower	Clarke Quay	60,000	Oct 2009
Kendall@Science Park 3	Pasir Panjang	170,000	Oct 2009
DBS Changi	Changi Business Park	400,000	Nov 2009
The Spazio	Cecil Street	50,000	Dec 2009
78 Shenton Way Tower 2	Shenton Way	76,000	Dec 2009
Ascendas CBP	Changi Business Park	250,000	Dec 2009
Merchant Road Site	Clarke Quay	42,000	Q4 2009
		4,000,000	2009 Total
2010			
Marina Bay Financial Centre P1	Marina Boulevard	1,660,000	Apr 2010
Tokia Marine Centre (Asia Chambers)	Cecil Street	114,000	Apr 2010
50 Collyer Quay	Collyer Quay	412,000	Dec 2010
Mapletree Business Centre	Alexandra Road	1,700,000	Dec 2010
Standard Chartered Bank	Changi Business Park	250,000	Dec 2010
Centric Singapore	Changi Business Park	500,000	Dec 2010
		4,636,000	2010 Total
2011			
Ocean Financial Centre	Raffles Place	832,000	Jun 2011
Marina View A	Marina Bay	1,200,000	Jun 2011
Marina Bay Financial Centre P2	Marina Boulevard	1,400,000	Jun 2011
Harbourfront Tower 4	Harbourfront	200,000	Jun 2011
OUB Centre Tower 2	Raffles Place	300,000	2011
Science Park Central Plaza	Science Park 1	250,000	Oct 2011
		4,182,000	2011 Total

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