

Market Update

Including a Singapore market forecast



RENTALS

30% drop in rates in first half of 2009

The softening of the Singapore office market shows no signs of abating and if anything the decline in rates has speeded up, with the 'fear factor' of a massive over supply during the next 2 years. Even though no new developments were completed in the first half of this year, rates have continued to plummet and top prime rates have come down to around \$10.00 per sq ft from \$15.00 psf in December 2008. Average rates in Raffles Place are between \$8.00 and \$10.00 psf and lease renewal rates can be even lower. Whilst the new space has not arrived yet (most 2009 schemes expect TOP in August/October) the anticipated impact has definitely filtered through and landlords view any deal they strike now will look better than anything they will achieve next year.

New high quality space now for around \$5.50 - \$6.00 psf

We are beginning to see some exceptional opportunities, especially in the new developments in the Shenton Way / Tanjong Pagar area. Here top quality, high specification space can be secured for between \$5.50 and \$6.00 psf. In the Tanjong Pagar area, rates generally range from \$4.50 to \$6.50 psf. The City Hall / Marina Bay area has a broader band of rates between \$4.00 and \$8.50 psf, because there is a far wider range of buildings from Centennial Tower to Peninsular Plaza. Suntec City averages around \$6.00 - \$7.00 psf.

Orchard Road has traditionally seen much less fluctuation in rental rates and has always commanded fuller rates compared with other locations. Rentals here however have fallen to around \$6.50 to \$9.00 psf. Older buildings in this location will be closer to \$5.50 to \$6.00 psf. Outside the CBD there has been a mixed story. Tampines had up until recently been holding firm at relatively high levels around \$6.00 psf, but supply in this location has increased vastly in the first half of this year - hence rates have dropped to around \$3.50 - \$4.50 psf. Harbourfront on the other hand still enjoys reasonably full occupancy although some large pockets are appearing and rates remain firm between \$5.50 and \$7.00 psf.

SUPPLY

Massive influx of new supply

We are just about to enter into an extraordinary period with a sudden massive influx of new supply at a time when demand for office space has been at its weakest for years. The chronic imbalance could not be starker and how the market will work this through remains to be seen. Whilst we have not witnessed a huge exodus of tenants nor widespread downsizing on a scale as first feared, it will still take many years to correct the current situation even if the economy turns around quicker than expected.

Supply will be coming from 4 different sources. Firstly, there is the existing stock which is currently available in established buildings. This should not be under-estimated when there are buildings like 8 Shenton Way that currently have over 6 whole floors currently lying vacant amounting to 80,000 sq ft, and more to come next year.

Then there is the supply coming on stream because of large relocations to out-of-town sites. Examples of these include Hitachi Tower with the anchor tenant moving to Tampines, UOB Plaza where one of the largest occupiers is moving to their own building on Scotts Road and various locations where WPP are moving from to collocate on Scotts Road.

New supply in the next 18 months is simply overwhelming

The third type of supply is of course the new developments that will be ready for occupation between September 2009 and December 2010, and will add a staggering 6 million sq ft to the stock.

Finally there is the supply coming from 'shadow space' but to a degree this has already been accounted for under the new schemes category and should not be double counted. Still the shadow space is significant, but most will be in the Marina Bay Financial Centre. Suffice to say the amount of new supply in the next 18 months is simply overwhelming and unprecedented - but this is all good news for tenants.

MARKET FORECAST

Demand expected to remain fragile for the rest of 2009

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Demand for new office space in the first half of this year has been patchy at best and is likely to remain fragile for the rest of the year. Whilst many companies have decided to defer their relocations until 2010/2011, as the market is expected to bottom out then, there are some more pro-active tenants that are relocating now on 2-3 year leases with options to renew in 2012 at the anticipated market low. This way they are structuring their lease renewal cycle to enjoy the benefits of a soft market now as well as being able to renew at the bottom a few years later.

We foresee increased activity in the 2nd half of 2010 when many lease expiry dates fall in around this time and also coincide with the beginning of the bottoming out of the market. Many companies who renewed their leases or moved into new premises last year, at the peak of the market, will probably look to re-gear their leases towards the end of this year or early next year (at least a year before their expiry dates) as this will offer landlords greater security in return for a reduced rental.

By the end of next year top prime rates could be down to as low as \$5.00 - \$6.00 per sq ft which will be on a par with the low of 2004. New developments will be the most competitive and rates of \$4.50 to \$5.50 per sq ft in late 2010/early 2011 might be a distinct possibility.

Capital contributions towards fitting out costs are expected to become more common with some landlords already offering \$30 - \$60 per sq ft for fitting out works depending upon the length of lease – obviously 5 year leases are preferred by landlords – but these incentives are mainly being offered to larger requirements of 25,000 to 40,000 sq ft at the moment.

Activity in office space sales is expected to increase before long as prices have already fallen so far – from an average of \$2,750 per sq ft to \$1,200 per sq ft. Whilst rents still have some way to fall, prices are unlikely to fall far below the \$1,000 per sq ft mark and there is considerable pent up demand. There are many buyers waiting in the wings, particularly owner occupiers, and with a clear business plan for the next 7 - 8 years then it could soon make more sense to own premises rather than rent.

We believe that it could take 4 years to absorb all the supply that is scheduled to come on stream between now and 2012. It is important to appreciate that only half the new stock will be inside the CBD, with the remainder being in business parks or other decentralized locations.

History of Singapore Office Market

Showing correlation to STI Index

Note how the office market generally takes about 12 months to react when the STI index rises, but 6 months when it falls

