Singapore June 2016

CORPORATE LOCATIONS

Market Update

Supply *Pg 2*
Market will be significantly affected by the major schemes due for completion in the next 8 months

Rentals / **Forecasts** *Pg 2*
Rentals to soften by a further 10% over the next 15 months. Supply to increase across the board

Demand Market has continued to soften over the last 6 months

The Singapore office market has continued to soften over the last 6 months, with demand remaining fragile but ironically it is the larger deals that are coming to the fore. The new schemes coming on-line are attracting the most interest from the larger space users, as expected. The Bank of Tokyo Mitsubishi UFJ is in advanced negotiations to relocate from Republic Plaza to **Marina One** (140,000 sq ft). Also lined up to go to this new scheme is Daiwa Capital Markets from OUE Downtown 2.

Guoco Tower is one of the busiest new developments at the moment because TOP is just around the corner, expected in early July. New tenants here include Japanese transportation group K Line (20,000 sq ft), food company Bunge Agribusiness, Accor Hotel Group (21,000 sq ft), and HR consulting firm Manpower. AXA Group is also rumoured to be leasing at least 30,000 sq ft. The Guoco Group themselves will also be occupying two whole floors.

Most demand being driven by companies looking to save costs by moving to more practical space or to a cheaper building

Elsewhere, most of the demand is being driven by companies looking to save costs, either by moving to more practical space or to a cheaper building. Companies moving in 2016/17 probably had their last rent review in 2013/14 when rental rates were still advancing. Hence many firms can move to a more efficient brand new building without having to pay any increase which encourages a flight to quality.

Industries that continue to be active in the office market include software/IT, shipping and finance. Earlier in the year, IBM secured a lease on 67,000 sq ft in **Marina Bay Financial Centre Tower 2** (previously occupied by BHP Billiton). Blackberry has also moved back into town and has just taken up a floor at **Goldbell Towers**.

Salesforce has expanded significantly in **Suntec City Tower 5**. Silverlake Axis has leased a whole floor at **6 Raffles Quay**, Numerix Singapore has leased half a floor at **1 Finlayson Green**. Trading Technologies Software is moving from Samsung Hub to **Asia Square** and JDA Software is also moving to Asia Square from Suntec City.

In the finance sector Union Bancaire Privee has moved from OUE Bayfront to **One Raffles Quay South Tower**. Bank Pictet & Cie is expanding within **MBFC Tower 2** absorbing some of the space given up by Barclays Bank. Financial trading company Propex have secured half a floor in **SGX Centre** and Jump Trading has expanded within Asia Square. Corporate services firm, Intertrust has leased a whole floor in **Robinson 77**. Edelweiss Alternative Asset Advisors has moved into **One Raffles Place Tower 1** from Royal Group Building.

Logistics /shipping companies remain active for a variety of reasons. Yang Ming Shipping has leased a whole floor in **CES Centre**, having to relocate from CPF Building. CP World is relocating to Spring Singapore Building from Anson House and Team Tankers is relocating from Millenia Tower to **Suntec City**. Iino Shipping has moved from Harbourfront Centre into **Capital Tower**. Logistics firm Panalpina is moving from Manulife Centre to Suntec Tower 4.

Ascent secures largest recent deal outside CBD: 100,000 sq ft

Elsewhere New Balance moved from Valley Point to **Great World City**, advertising firm Hakuhodo Singapore relocated from Triple One Somerset to **UE Square** and Citygas has leased offices in **PSA Building**. Outside the CBD, the largest deal to take place recently is with Johnson & Johnson leasing 100,000 sq ft of office space in Ascendas' latest scheme **Ascent** in **Singapore Science Park**.

Supply Market will be significantly affected by the major schemes

The market will be dominated and significantly affected, by the major schemes due for completion in the next eight months. We are already aware of some major relocations in the pipeline, so substantial space is expected to be coming available in buildings like Republic Plaza, Raffles City Tower and 20 Collyer Quay. We are also aware of some large tenants possibly relocating from Triple One Somerset. This however, is just the tip of the iceberg in terms of what second hand space will be coming available, and relocation to save costs or upgrade rather than expansion will be the pattern over the next few years for most companies.

The new schemes will not necessarily be filled up by new requirements to the market, but will be more likely a case of poaching tenants from existing buildings. It is expected that much larger swathes of older space will be coming available in time to come, which will increase the tenant's choice of opportunities still further in 2017. This older space is not to be confused with 'shadow space' which is not marketed by the landlord, but by tenants who have surplus space to offload. However, bit by bit, these spaces are being absorbed or the leases are falling in, so they are no longer categorized as shadow space.

Marina One

Guoco Tower

Republic Plaza

Ascent, Science Park

Rentals / Forecasts Rentals to soften by a further 10% over the next 15 months

Even the most resilient landlords have started to adjust their rates downwards

Even the most resilient landlords have started to adjust their rates downwards, with some making greater corrections than others. Much depends on the vacancy rate of the particular building, the nature of the landlord and the prospective current tenants which could be poached to the new schemes. It will be the middle / high end sector of the market that will see the most competition, with the economy range remaining fairly stable i.e. with due respect, a tenant in International Plaza is unlikely to be a target for Marina One. Top prime rates still average between $9.50 and $11.00 per sq ft effective. The mid-range buildings / locations command rates between $7.00 and $8.00 per sq ft and the economy range is in the region of $5.50 to $6.00 per sq ft effective.

Phased rates over the lease term are becoming more common

Some of the more proactive landlords are being more creative / flexible with the rental packages available. Phased rates over the lease term are becoming more common, but not widespread and only offered by the larger landlords with much space to fill. These phased rates by the way are always in an upwards direction. Landlords are also aware that the expense of fitting out a new unit can negate any cost savings that might otherwise be seen and prohibit any planned relocation. In certain cases the larger landlords have offered capital contributions to help towards the tenant's fitting out costs. It is important though for tenants to understand that any lump sum payment made to them to help cover such costs, will be amortized on a monthly basis over the term of the lease. So it is in effect a loan that is paid back on a monthly basis. All the same, this can be a really useful benefit to the tenant to cushion the burden of capital expenditure and allows the tenant to write-off the cost of fitting out over a shorter period.

To conclude we expect demand to remain weak, rentals to soften by a further 10% over the next 15 months, supply to increase across the board, the number of fitted units coming available to grow and tenant's incentives to be improved. It is indeed a tenant's market.

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