

DROP IN AVAILABILITY CONTINUES TO SUPPORT RENTAL GROWTH IN Q3 2017

While there was no major take up announced in Q3 2017, leasing activities remained stable on the back of improving economic sentiments.

Prime office space in the Central Business District continues to lead recovery

- Grade A+ office space rents saw a slight increase of 0.2% at Raffles Place / Marina Bay precinct in Q3 2017 with a decline in space availability for lease by 0.5% q-o-q. While there was no major take-up announced in Q3 2017, Grade A+ rents upheld given the lack of new supply over the next two years.
- Grade A office space rents saw increase across several precincts, with Shenton Way / Robinson Road / Tanjong Pagar precinct witnessing the highest increase by 0.6% q-o-q in Q3 2017, with a significant drop in availability by 4.2% q-o-q.
- Notable Grade A office take up in the quarter include 40,000 sq ft of office space at Frasers Tower by professional services firm Arup, and 36,000 sq ft of office space at Centennial Tower by co-working operator The Great Room
- Major secondary space¹ in the Central Business District also saw a reduction by 10.7% q-o-q to 335,000 sq ft, reflecting sustained demand for prime office space. For example, co-working space provider Justco, took up some 22,000 sq ft of secondary space in Ocean Financial Centre.
- Prime grade office space rents and availability across other precincts remained flat without any major activity.



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“In the new economy, we are seeing an increasing trend for co-working community and flexible office occupancy arrangements. While some landlords have responded, this is just the beginning of the evolution.”

EXHIBIT 1

Average Office Rentals, by Key Precincts in Q3 2017

LOCATION	Gross Effective Monthly Rents (\$ psf pm)	q-o-q % change	Availability of Office Space for lease (vacancy %)	q-o-q % change
RAFFLES PLACE/ MARINA BAY GRADE A+	\$9.10 - \$9.60	0.2%	11.1%	-0.5%
RAFFLES PLACE/ MARINA BAY GRADE A	\$8.00 - \$8.50	-	6.2%	-1.2%
SHENTON WAY/ ROBINSON ROAD/ TANJONG PAGAR GRADE A	\$7.70 - \$8.20	0.6%	5.7%	-4.2%
MARINA CENTRE/ SUNTEC GRADE A	\$7.70 - \$8.20	-	6.7%	-0.5%
CITY HALL GRADE A	\$7.90 - \$8.40	-	1.5%	-0.7%
BUGIS GRADE A	\$7.30 - \$7.80	0.5%	10.1%	-0.2%
ORCHARD GRADE A	\$7.80 - \$8.30	-	9.2%	-1.0%

Source: Knight Frank Research

(A) Rents are based on transacted leases and on a lease term of at least three years and are expressed as values rounded to nearest 10-cent. (B) Rents are estimated based on leases of a whole-floor office space on the mid-floor levels of office properties, and taking into account rent free period and other concessions. (C) Availability of Office space for lease is based on Knight Frank Research basket of office buildings tracked in each respective precinct.

¹ Knight Frank defines secondary space as current occupied space that is available for lease from the existing tenant.

EXHIBIT 2

Shifts and expansions of selected enterprises in Q3 2017

Tenant	Sector	New Location	New Size (sf)
Arup Group	Professional Services	Frasers Tower	40,000
Oiltanking	Oil and Gas	Suntec Tower 3	14,000
Cloudera	Technology	One Raffles Place	15,000
The Great Room	Co-working Space	Tower 2	36,000
Fonterra Brands	FMCG	Centennial Tower	15,000

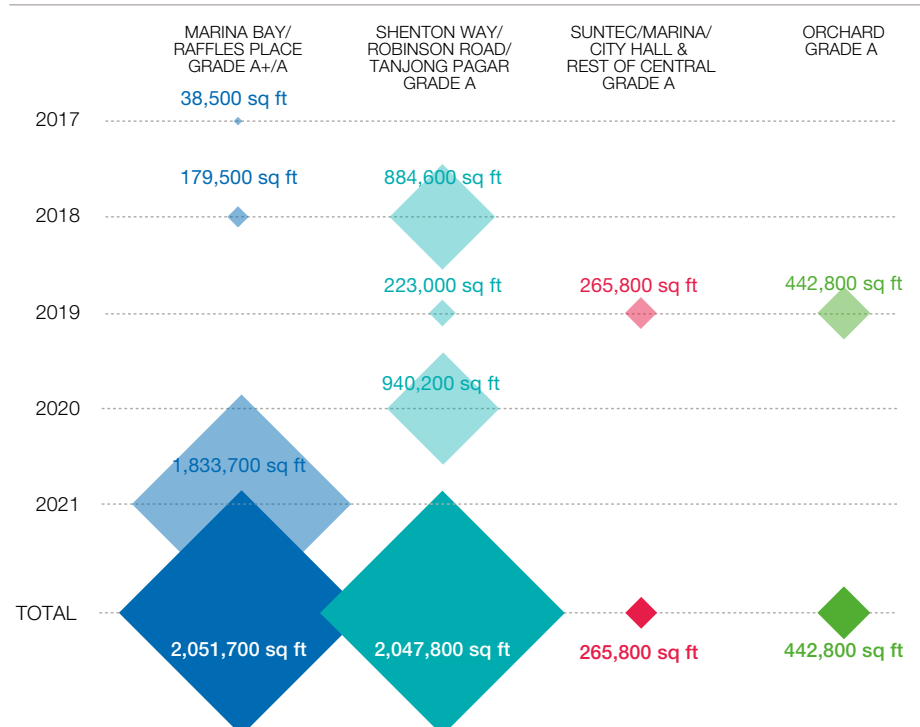
Source: Knight Frank Research

Improving economic sentiments in Q3 2017

- **Singapore’s Gross Domestic Product (GDP) grew 5.2% y-o-y in Q3 2017²**, compared to 2.9% y-o-y growth in Q2 2017. The manufacturing and finance & insurance sectors contributed the most to GDP growth at 3.3% and 0.8% in the quarter.
- **Business sentiments were more positive in the third quarter.** The Q3 2017 Business Expectations Survey of Services Sector report³ reported that a net weighted balance of 5.0% of firms in the services sector envisaged more favourable business conditions for H2 2017. This is a marked improvement from the net weighted balance of -14.0% for H1 2017. The more upbeat sentiment is expected to lead to expansionary plans and demand for office space.
- **The local labour market showed signs of growth.** The Information & Communications sector, Finance & Insurance sector and Business Services (excluding real estate services) sector, which are the typical office occupiers, have collectively added 6,900⁴ headcounts in Q3 2017, which is 25.5% more than the previous quarter.
- **With the rising tide of digital disruption, fintech phenomenon and the government’s plan to achieve SMART nation status,** demand for office space from the Information and Communications sector is expected to increase.
- **As there are no major new supply of Grade A+ office space coming on-stream till 2019,** Grade A+ rents are expected to continue its uptrend. However, opportunities in Grade A office spaces vacated by tenants relocating to Grade A+ quality and efficiency could keep the overall uptrend in check. For instance, One Marina Boulevard and Manulife Centre could have above 100,000 sq ft of office

EXHIBIT 3

Upcoming Office Supply (Gross Floor Area), as at Q3 2017



² According to Economic Survey of Singapore Q3 2017 by the Ministry of Trade and Industry (MTI).
³ Based on the Q3 2017 Business Expectations Survey (Services Sector) report released by the Department of Statistics (Singstat).
⁴ Data obtained from the Singapore Department of Statistics.

Source: URA (as at Q3 2017), Knight Frank Research Note: 2017 data denotes Q4 2017 supply, as at Q3 2017

Outlook

- The Ministry of Trade and Industry reported strong GDP growth in Q3 2017, raising the year forecast to between 3.0% to 3.5%. Strong performance from the manufacturing sector and stable growth in the services industries are expected to uphold prime office demand and rents going forward.
- As Singapore repositions to stay relevant in the new economy, the Information and Communications sector is expected to drive new demand for office space and the new work styles offered by co-working providers.

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