SINGAPORE OFFICE RESEARCH

QUARTERLY BULLETIN

Q1 2013

Knight Frank

Office Rents Remained Soft in 1Q 2013

Though leasing interest and demand picked up from a quiet rental market in 4Q 2012, office rents remained soft across most micro-markets.

"The office leasing sector is likely to bottom out in late 2013 as leasing activity picks up. Rental increases are likely to be marginal."

Louise Toovey
Senior Manager, Office

Overall Continued Downward Rental Trend For Office Market In 1Q 2013

The office leasing market remains dependent on changing tenant mix, evolving business sentiment and new upcoming supply. The downward trend for rents continued across most micro-markets.

Office rents for grade A+ office space in the Marina Bay and Raffles Place area registered a 2.3 per cent quarter on quarter (q-o-q) decrease in 1Q 2013. Typical large occupiers such as the finance industry are holding back on expansion plans amidst uncertainties in the global economy, while there is continued interest for smaller spaces from occupiers such as legal and commodity firms.

Due to this changing tenant mix for office spaces where shipping firms and other business services are more rent-sensitive, office rentals are gradually exhibiting greater elasticity and rent appreciation has been kept in check.

At the same time, landlords are not making substantial rental cuts and staying relatively firm on their rental expectations for incoming tenants, as existing leases within the buildings are up for renewals and new leases will set the benchmark for current rental rates.

Overall office rents in Central Business District (CBD) dropped by 0.9 per cent q-o-q, Raffles Place office Grade B rents increased by 1.5 per cent q-o-q while Grade A office rents saw a drop in rents of 0.9 per cent q-o-q.

Over at the Shenton Way/Tanjong Pagar and Robinson Road precinct, overall rents remained flat. Apart from old units in some buildings that have been vacant for several months, the ongoing construction of buildings such as Oxley Tower and V on Shenton has decreased the appeal of neighbouring buildings. As such, building owners are willing to negotiate new leases with incentives such as more rent free periods.

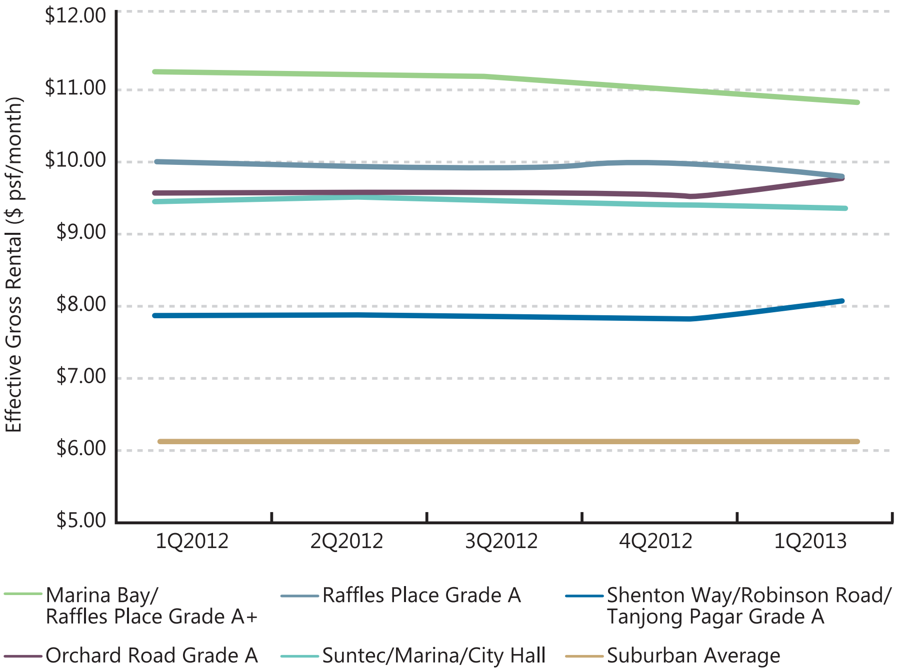
Office rents in the Suntec and Marina Centre remained flat for the third consecutive quarter. The retail podium at Suntec City is currently undergoing refurbishment, which will be completed in 1Q 2014.

Over at the Beach Road/Middle Road cluster, rents saw a q-o-q decrease of 1.8 per cent. Small office buildings such as Prinsep House which is currently undergoing some improvements may appeal to sole tenants with the benefit of getting naming rights and use of the whole building.

For suburban office spaces, overall rents decreased by a marginal 0.5 per cent q-o-q, due to the increase in available space at Tampines and Alexandra locations.

In the Orchard Road cluster, overall rents rose by 3.9 per cent q-o-q as several buildings are fully occupied. Rents remain strong as available office spaces in buildings like Wisma Atria, Ngee Ann City Towers and Winsland House are attractive expansion options for existing tenants.

Exhibit 1: Average Effective Gross Rentals by Cluster



Source: Knight Frank Research

Demand for Serviced Offices and Smaller Space Requirements are still on the rise

Serviced offices in the Central Business District are performing well with most of them operating at high occupancies. The appeal of a fully fitted out space with short lease terms and a premium office address continue to attract tenants who are testing the potential of their businesses in Singapore.

Increased demand for such office spaces has led to the expansion of many serviced offices such as Just Office that recently signed a lease for Asia Square Tower 2. Its outlet at PWC building was recently opened. In addition, Compass Offices has expanded into The Quadrant after the completion of refurbishments. Serviced offices are typically popular with new-to-market companies from the oil and gas, recruitment, and legal industries.

Relocations over Expansions

Within the CBD, demand for smaller unit sizes of 1,000 to 5,000 sq ft remains strong. Movements in the office sector have been mostly company relocations to newer buildings rather than expansions.

Outside of the CBD, good quality buildings such as the upcoming The Metropolis and Jem are of high appeal to large occupiers with cost saving objectives. Organisations such as Ministry of National Development, Shell, Procter and Gamble, Neptune Orient Lines and the Singapore Exchange have taken up large spaces in these buildings.

"Large occupiers are moving into good quality buildings outside of the CBD where they can benefit from up to 30% in rental savings."

Louise Toovey
Senior Manager, Office

Knight Frank

Exhibit 2: Shifts and Expansions of Selected Companies

Type	Organisation	Nature of Business	Office Location
Expansions	Shell Eastern Chemical (Pte) Limited	Oil & Gas	The Metropolis
	Just Office	Real Estate	Asia Square Tower 2
	L'Oréal	Fast Moving Consumer Goods	One George Street
Relocations	Attorney-General's Chambers	Legal	1 Upper Pickering Street
	International Lease Finance Corporation	Finance	Asia Square Tower 1
	Mundipharma	Pharmaceutical	Asia Square Tower 2

Source: Knight Frank Research

Market outlook

Lower Office rents enable Singapore to remain competitive globally

Despite the softening office rentals seen over the last few quarters, the lower rents enable Singapore to retain its competitiveness and attract global companies to be based here. Companies who are looking to establish themselves in Asia may choose Singapore as the more cost efficient business city over Hong Kong where rents are about 70 per cent higher. As at 4Q 2012, Prime Gross Effective Rents in Hong Kong stood at $18.20 per sq ft per month.

In addition, Singapore's position as a regional hub is further boosted by the entry of more certified Qualifying Foreign Law Practice firms.

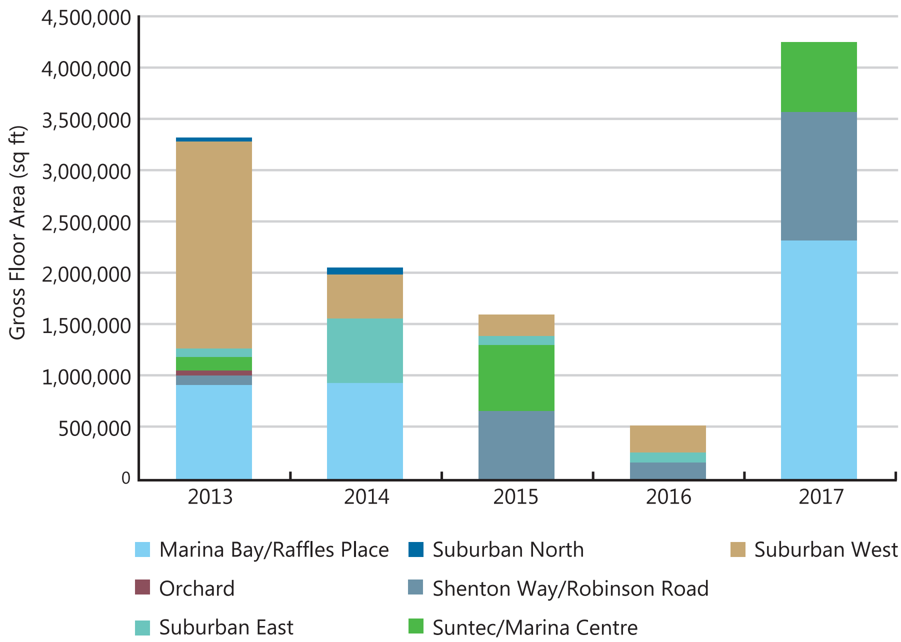
Despite softening rents, office leasing market likely to bottom out late this year

Within the Central Business District, Asia Square Tower 2 is set to be completed in 3Q 2013. With a current estimated pre-commitment rate of 30 per cent, prime rents are expected to be marginally affected.

In the coming months, we also expect to see a decline in rents in the Shenton Way/Tanjong Pagar and Robinson Road precinct. The ongoing construction of buildings such as V on Shenton, Oxley Tower and SBF Center would pose negative externalities for buildings in the area that will experience noise inconveniences.

However, overall leasing activity in the next 6 months is expected to pick up, as enquiries and interests generated this quarter materialises into new tenancies. In light of the circumstances, we expect overall islandwide rents to remain flat with a possibility of marginal increases of around 0.5 per cent towards the end of 2013.

Exhibit 3: Upcoming Supply of Office Space



Source: Urban Redevelopment Authority, Knight Frank Research

In the suburban areas, 2.12 million sq ft of office space is expected to come on stream in 2013, of which 2.02 million sq ft will be from the Western region. Major developments such as The Metropolis and Jem have high pre-committed rates stemming from major tenants occupying large spaces. Suburban rents are expected to remain strong while the development of good quality new office buildings will boost overall average rents of the region.

Exhibit 4: Effective Monthly Rentals in 1Q 2013

Location	Effective Monthly Gross Rentals (per sq ft)	Year-on-Year Change	Quarter-on-Quarter Change
CBD (Grade A+)			
Raffles Place/Marina Bay	$9.90-$11.70	-4.9%	-2.3%
CBD (Grade A)			
Raffles Place	$9.40-$10.40	-1.1%	-0.9%
Shenton Way/Robinson Road/ Tanjong Pagar	$7.40-$8.00	-0.8%	0.0%
Others			
Orchard Road	$6.50-$10.25	3.2%	3.9%
Suntec/Marina Centre/City Hall	$8.80-$10.10	0.0%	0.0%
Beach Road/Middle Road	$6.80-$7.50	1.3%	-1.8%
Suburban (North)	$6.80-$7.30	-1.1%	0.0%
Suburban (East)	$4.60-$5.20	-1.8%	-1.6%
Suburban (West)	$6.20-$6.80	0.0%	-0.2%

Source: Knight Frank Research

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