

RENTS FALL AS LANDLORDS COMPETE FOR TENANTS

Prime grade (Grade A + and A) office rents in Raffles Place/Marina Bay decreased by 3.4% quarter-on-quarter (q-o-q) in Q2 2016, marking its fifth consecutive decline. Amid weakening economic growth and cautious business sentiment, prime office rentals are expected to decline by 9% to 12% year-on-year (y-o-y) by Q4 2016.

Continued Weakening of Office Rents as Competition for Tenants Heightens

Amid heightened economic volatility and increasingly cautious business outlook, office rents continued on a downward trend in Q2 2016, with prime grade office rentals experiencing their fifth consecutive quarter of decline.

As more businesses look to manage their office occupancy costs, landlords are rolling out incentive packages such as longer rent-free periods to attract new tenants and retain existing ones.

Tenants Snapped Up Grade A Office Spaces as Rents Fall

Average vacancy level for Raffles Place/Marina Bay Grade A office buildings inched downwards from 2.5% in Q1 2016 to 2.4%

in Q2 2016, while Raffles Place/Marina Bay Grade A+ office buildings saw its overall vacancy increase from 5.5% in Q1 2016 to 6.0% in Q2 2016.

As a result of increasing vacancy rates, average rents for Raffles Place/Marina Bay Grade A+ office spaces slipped 3.6% q-o-q in Q2 2016 (Exhibit 1). However, this downward trend of rents in the second quarter has resulted in the continued flight-to-quality effect by tenants taking up spaces in new buildings in the Central Business District (CBD) as their leases approach expiry.

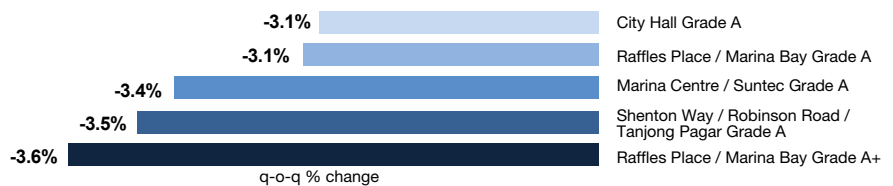
While the rest of CBD saw similar declines in rentals, Orchard Grade A office spaces remained the most resilient among all precincts, recording the smallest q-o-q rental decline of 2.4% in Q2 2016. Yet, this still marked its largest decline since Q3 2014, signalling the island-wide weakening in the office leasing market.



CALVIN YEO
Executive Director & Head,
Office Advisory

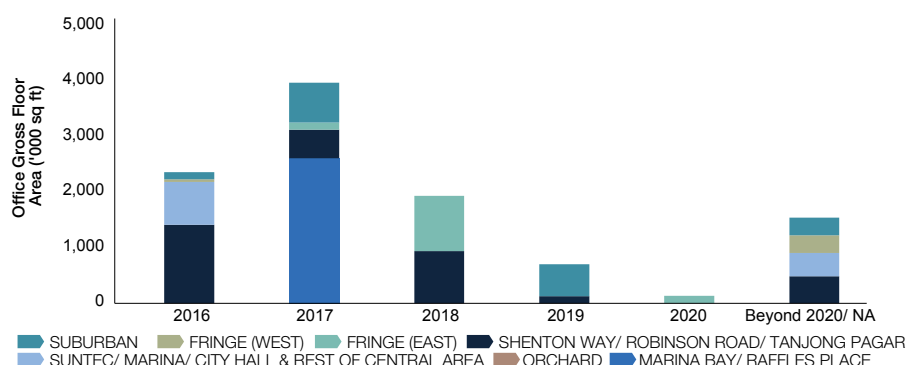
“In light of island-wide falling rents and the large upcoming supply, tenants stand to benefit from the plethora of options; either to renew or to relocate. Despite the uncertain economic environment, an increasing number of tenants are taking advantage of current low rents to secure high-quality spaces in the CBD, as flight-to-quality trends persist.”

EXHIBIT 1
Quarterly % Change in Average Office Rentals, by Key Precincts within CBD in Q2 2016



Source: Knight Frank Research

EXHIBIT 2
Upcoming Office Supply



Source: URA, Knight Frank Research

Market Outlook

In view of the expected completion of large-scale developments such as Guoco Tower, Duo Tower and Marina One in the next two years (i.e. 2016 and 2017), the looming upcoming supply of 6.3 million sq ft Gross Floor Area (GFA) new office space by end-2017 is expected to further compress office rents in the CBD.

With the Raffles Place/Marina Bay precinct contributing about half of this upcoming supply, downward pressure on rents in prime grade office buildings is likely to persist with projected declines of 9% to 12% y-o-y in Q4 2016. Meanwhile, island-wide vacancy rate is projected to range from 10% to 12% by Q4 2016. Nevertheless, the upcoming supply will provide options to tenants on the lookout for expansion or relocation.

EXHIBIT 3

Average Office Rentals, by Key Precincts in Q2 2016

Location	Gross Effective Monthly Rentals (\$\$ per sq ft)	Quarter on Quarter Change (%)
CBD (Grade A+, Grade A)		
Raffles Place / Marina Bay Grade A+	\$9.60 - \$10.10	-3.6%
Raffles Place / Marina Bay Grade A	\$8.50 - \$9.00	-3.1%
Shenton Way / Robinson Road / Tanjong Pagar Grade A	\$7.60 - \$8.10	-3.5%
Marina Centre / Suntec Grade A	\$8.30 - \$8.80	-3.4%
City Hall Grade A	\$8.20 - \$8.70	-3.1%
Central Area (Outside CBD)		
Orchard Grade A	\$8.10 - \$8.60	-2.4%
Others		
Fringe Areas	\$4.90 - \$7.00	-2.5%
Suburban Areas	\$4.30 - \$5.50	-2.7%

Source: Knight Frank Research

- (1) Rents are based on transacted leases
- (2) Rents are based on a lease term of at least three years
- (3) Rents are expressed as values rounded to nearest 10 cent
- (4) 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

FOR OFFICE LEASING ENQUIRIES, PLEASE CONTACT:

Calvin Yeo
Executive Director and Head
Office Advisory
6228 6887
calvin.yeo@sg.knightfrank.com

FOR FURTHER INFORMATION, PLEASE CONTACT:

Alice Tan
Director and Head
Consultancy & Research
6228 6833
alice.tan@sg.knightfrank.com

Derek Lor
Senior Analyst
Consultancy & Research
6228 7317
derek.lor@sg.knightfrank.com



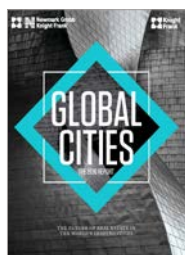
© Knight Frank Singapore 2016

This report is published for general information only and not to be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no responsibility or liability whatsoever can be accepted by Knight Frank Pte Ltd and its subsidiaries in relation to particular properties or projects. Reproduction of this report in whole or in part is not allowed without prior written approval of Knight Frank Pte Ltd to the form and content within which it appears. Knight Frank Pte Ltd is a private limited company which is incorporated in Singapore with company registration number 198205243Z and CEA licence number L3005536J. Our registered office is at 16 Raffles Quay #30-01 Hong Leong Building Singapore 048581.

RECENT SINGAPORE AND GLOBAL RESEARCH PUBLICATIONS



The Wealth Report 2016



Global Cities 2016



Singapore View



Houseview April 2016