



Research Highlights

Singapore Office Property Market 1Q 2011

Executive Summary:

The double-digit GDP growth in 2010 is unlikely maintain in 2011 and expected to be more subdued at 4%-6%¹. Against the prospect of a higher inflation from 5 to 6 % in the first few months of this year, the pace of office rental growth and activities slowed in 1Q 2011. Rents of Grade A office space in Raffles Place and Shenton Way/ Robinson Road/ Tanjong Pagar saw marginal increase q-o-q by 0.7% and 1.7% respectively.

Slowdown in Leasing Activities

Following the highest quarterly take-up of office space in 4Q 2010 since 1Q 2007, the office leasing momentum slowed down in the first quarter of 2011. At the beginning of the year, inflationary pressures are becoming more of a concern in most emerging countries such as China and India. In Singapore, the consumer price index grew by 5.5% y-o-y in January 2011 arising from higher cost of transport, housing and food. New measures were instituted to tighten foreign workers inflow (including white-collar) leading to a tighter employment market and inadvertently raising employment cost. Overall, the combination of these macro factors lead to an overall slowdown in leasing activities notwithstanding the market being still in an upward trending stage.

In 1Q 2011, Raffles Place Grade A office monthly rentals inched up marginally by some 0.5 – 1.0% q-o-q averaging at about \$9.80 psf. This pales in comparison with the strong rebound of 8.0 – 10.0% q-o-q in 4Q 2010. Following the slowdown of the leasing activities and completion of a good number of major leasing deals, the exceptional high take-up rates and double-digit rental increase in 2010 are unlikely to be sustained in 2011.

Similar to Raffles Place, average monthly rent of office spaces at Shenton Way/Robinson Road/Tanjong Pagar also saw a marginal rise of 0.5 to 1.0% q-o-q at about \$6.70 psf. Nonetheless, Grade A office buildings in this locality registered a 1.7% q-o-q increase at \$ 7.80 psf.

Grade A offices in Orchard Road also saw lower leasing activities despite rents increasing by 1.0 – 1.5% q-o-q. Overall rentals of these office spaces averaged at \$9.25 psf. With limited office supply in Suntec/Marina/City Hall, rents of Grade A offices in this area continues to climb northward, narrowing the its rental gap with Raffles Place. In 1Q 2011, Grade A office spaces in Suntec/Marina/City Hall were generally leased at an

¹ Ministry of Trade and Industry Singapore, Press Release, 18 (November 2010)

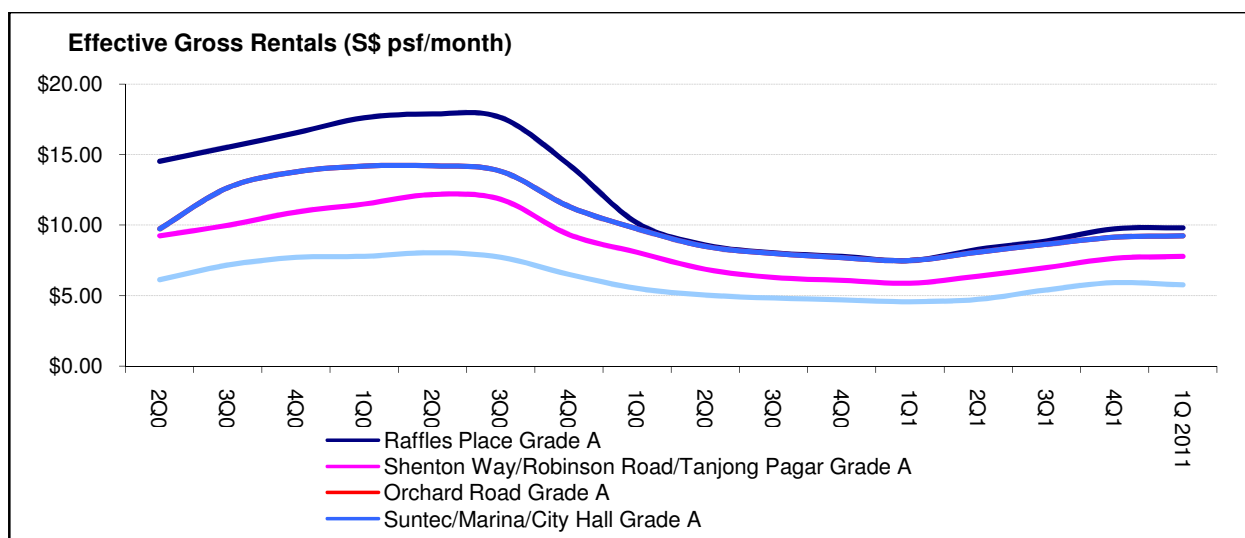


average of about \$9.60 psf, up by 4.8% q-o-q. Overall, on year-on-year basis, office average rents in CBD are still enjoying 31.5% y-o-y rental improvement.

Whilst office rents in CBD are still rising, the pace of leasing activities has slowed down in the first quarter 2011 notwithstanding they are still within healthy levels. Inflationary concerns resulted in increased tenant resistance to higher rents. Older buildings which are facing competition from the new kids on the block are embarking on a series of renovation works whether minor or major to provide a face lift and to retain tenants. Landlords are also likely to provide incentives to retain existing tenants who now have more choices. These tenants will definitely weigh the cost and benefits of moving to a new office space vis-à-vis a lower renewal rent at their existing aging premise unless efforts were expended to upkeep the building and to improve the image.

While the office rents in CBD generally saw minor increase, rents of office spaces in suburban region decreased. In 1Q 2011, office rents in suburban locations dipped 2.7% q-o-q from average monthly rent of \$5.93 psf to \$5.77 psf, showing a rental turnaround after 3-straight-quarters of rental appreciation. Tenants may choose cheaper options such as office like business spaces in High Tech Factories or Business Parks. Invariably, the increased availability of such facilities attracts back room qualifying office users seeking to operate at lower rental spaces and places downward pressure on the existing suburban office rentals.

Chart 3: Average Effective Rentals



Source: Knight Frank Research



Table 1: Effective Monthly Rentals in 1Q 2011

Location	Effective Monthly Gross Rentals (psf)
CBD (Grade A)	
Raffles Place	S\$9.50 - \$10.20
Suntec/Marina Centre/ City Hall	S\$9.10 - \$10.10
Shenton Way/ Robinson Road	S\$7.50 - \$8.05
Orchard Road	S\$ 9.00 - \$9.50
Non-CBD	
Beach Road/ Middle Road	S\$ 6.50 - \$7.00
Suburban (North)	S\$ 6.60 - \$7.10
Suburban (East)	S\$ 4.20 - \$4.70
Suburban (West)	S\$ 5.60 - \$6.30

Source: Knight Frank Research

Outlook

Singapore emerged as one of the world's fastest-growing economies in 2010 with real GDP growing by 14.5%. However, the accelerated GDP growth is expected to weaken in 2011 and the economy is slated to return to a more moderate but sustainable pace of growth. Domestically, increasing number of visitor arrivals following the opening of the two IRs should continue to support consumer's confidence and bolster economic activities in 2011.

The outlook of the business expectation for 3 key office space users i.e. financial, real estate and business remained positive for the next 6 months, according to the Economic Survey of Singapore, Fourth Quarter 2010. This leading indicator translates into positive outlook for business expansion in terms of employment and operating receipts. Arising from the recent budgetary measures which advocate worker's productivity and government tightening of foreign labour, companies are expected to become more selective when hiring foreign talents.

Downside risks remained over protracted economic recovery in US and potential worsening of sovereign debt problems in EU. Inflation will remain a key bugbear and contractionary policies risk to combat rising cost remains real.

Moving forward, we expect CBD rental increase to slow down at a more sustainable level averaging some 5.0% to 10.0% in 2011.