

# Office sector briefing

**Singapore**

**October 16, 2007**

**"Singapore's office market continues its strong performance in conjunction with buoyant economic growth and despite US sub-prime woes. The office sales market is recording firm demand levels, attracting unprecedented investment/capital flows"**



- Investment market remains buoyant with a steady economic outlook
- Investment from funds is four times more than in 2005
- Government land at Marina View attracts a top bid of more than S\$2 billion
- URA releases another transitional site after overwhelming response to its first
- Grade 'A' vacancy rates fall to below one per cent, with Tanjong Pagar and Beach Road squeezed further
- Prolonged US sub-prime market woes may see some investment banks putting their expansion plans on hold
- Tenants show some resistance to rapid rent rises in CBD

Image: CBD Area

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## Government Land Sale

The shortage of top grade office space has also driven investors and developers to participate in the development market. In previous months, Commercial/White sites put up for sale by the Urban Redevelopment Authority (URA) have attracted keen interest and high bids. The tender for Marina View Parcel A, for example, attracted three bids, all crossing the S\$1.5 billion mark. A top bid of S\$2.02 billion by Macquarie Global Property Advisors (MGPA) represented S\$1,409 per sq.ft. per plot ratio (ppr). The 1.02 ha White Site will contribute at least 1.0 million sq.ft. of office space. Marina View Parcel B, which is currently up for sale, is expected to generate a similar level of interest.

Similarly, the winning bid for a Beach Road site also topped the S\$1.5 billion mark at S\$1.69 billion or S\$1,069 per sq.ft. ppr. The consortium, comprising City Developments Limited, Istithmar Beach Road Fze and Elad Group Singapore, is expected to build at least 632,172 sq.ft. of premium office space on the site.

Other commercial sites which were awarded this quarter include the Anson Road/Enggor Street site to Mapletree for S\$391.9 million or S\$1,021 per sq.ft. ppr, and the Anson Road site to FirstOffice at S\$237.2 million or S\$941 per sq.ft. ppr. Both sites will generate a combined gross floor area (GFA) of 635,877 sq.ft.

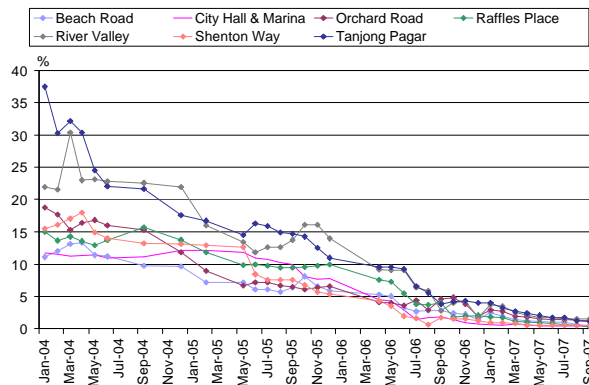
All these Commercial/White sites are expected to generate a combined 3.0 million sq.ft. of office space, scheduled for completion between 2010 and 2012. This Grade 'A' office space will support Singapore's status as a global business and financial centre in the longer term.

In the meantime, to ease the immediate supply crunch, the URA has released its second transitional office site. The site, located within the Tampines Regional Centre, can generate a maximum GFA of 124,000 sq.ft.

## Vacancy Rate

The vacancy rate of Grade 'A' offices remains tight, falling to below 1.0 per cent. Office space in Tanjong Pagar and Beach Road faced a further squeeze, with vacancy rates falling to 1.1 and 0.6 per cent respectively.

Vacancy by Location, Jan 2004 - Sep 2007

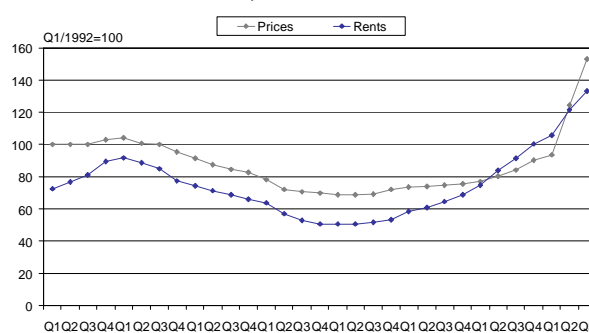


Source: Savills Research & Consultancy

## Rents and Capital Values

The rapid rent rises for Grade 'A' offices in the CBD are finally facing some resistance from tenants. After posting a strong increase in Q2/2007 (15 per cent q-o-q), average rents rose at a slower rate by 10 per cent to S\$13.3 per sq.ft. in Q3/2007. While some investment banks are considering putting their expansion plans on hold as they adopt a wait-and-see approach, others looked for alternative solutions instead of entering bidding wars with competing tenants. The trend of companies relocating to fringe and high-tech industrial buildings has become more evident in the past few months.

Rental & Price Indices, 2000 - Q3/2007



Source: Savills Research & Consultancy

Previously overlooked areas are now becoming options for some users. Connection One, previously known as HDB Centre in Jalan Bukit Merah, has attracted big names like Adidas and Meinhardt Singapore. In Changi Business Park, The Eightrium has also attracted major tenants such as Nestle and Bridge Mobile.

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Although average island-wide Grade 'A' rents are currently just a shade under those of Hong Kong, the highest rents achieved by Hong Kong Grade 'A' office buildings are still about 1.8 times higher than the top rents achieved in Singapore. In South-East Asia, Japan remains the most expensive city to set up an office.

## Island/City-wide Grade 'A' Rents, Q3/2007

City	Average Rent S\$ psf per mth	Highest rent achieved S\$ psf per mth
Tokyo	14.32	27.60
Hong Kong	9.80	31.72
Singapore	9.70	17.50
Ho Chi Minh City	6.77	5.40
Hanoi	5.29	5.40
Shanghai	4.80	7.02
Taiwan	3.17	4.18
Beijing	3.00	5.29

Source: Savills Research & Consultancy

The robust momentum of investment sales continued into the third quarter of 2007, with more record deals taking place. In August, One Raffles Quay was transacted at S\$2,109 per sq.ft. of net lettable area (NLA). One George Street and Chevron House went for S\$2,700 per sq.ft.<sup>1</sup> and S\$2,780 per sq.ft. respectively, higher than the benchmark set last quarter by the sale of 1 Finlayson Green for S\$2,650 per sq.ft.

## Major Private Commercial Investment Transactions in Q3/2007

Contract Date	Property Name	Tenure	Net Lettable Area	Price S\$	Rate Per NLA	Purchaser
Aug	One George Street	LH 99	-	-	2,700	CapitaLand
Aug	One Raffles Quay	LH 99	446,420	941.5 mil	2,109	K-Reit Asia & Suntec Reit
Aug	Chevron House	LH 99	262,590	730 mil	2,780	Foreign Fund

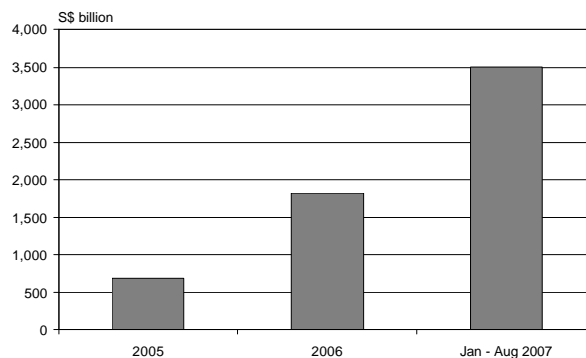
Source: Savills Research & Consultancy

<sup>1</sup> CapitaLand paid S\$590.3 million for the remaining 50 per cent stake in Eureka Office Fund, which owns part of One George Street. The development is valued at S\$1.2 billion, or about S\$2,700 per sq.ft.

The average capital value for Grade 'A' offices stood at S\$2,460 per sq.ft., a 23 per cent increase from last quarter. Clearly, the high pricing is encouraging some owners to put their properties on the market earlier than planned. Investors are taking advantage of rising values and turning over properties faster. Apollo Centre, a commercial building in Havelock Road, is up for sale for more than S\$200 million, while Hitachi Towers at Collyer Quay was reported to have attracted a bid of S\$3,200 per sq.ft. of NLA in August.

The buoyancy of the investment market can be partly attributed to aggressive purchases made by funds. In the first eight months of 2007, the total amount of office investment by funds was S\$3.5 billion<sup>2</sup>, almost twice the amount for the whole of 2006, and four times more than 2005.

## Total Invested by Funds, 2005 - August 2007



Source: Savills Research & Consultancy

## Outlook

The outlook for the rest of 2007 remains positive. Supply will still be limited and demand is likely to continue as businesses expand. Overall, rents look set to rise further next year but Grade 'A' offices are expected to grow at a slower pace due to resistance from tenants. Demand from multi-national companies for offices in suburban areas and high-tech space is expected to increase, especially by those who are more conscious of their bottom-line.

Strong acquisition demand from foreign investment funds, local companies and developers is likely to continue, driving capital values upwards by another 15 to 20 per cent and resulting in further yield compression. For the whole of 2007, investment in office properties is expected to set another record in light of a steady economic outlook and upbeat office market. Although prime commercial investment properties remain the most sought-after assets by investors, limited availability will see more Grade 'B' properties being transacted over the next couple of months.

<sup>2</sup> Major transactions by funds.

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MICA(P) No. 031 / 12 / 2006  
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