

Grade A CBD rents poised to rise next year: analysts

They cite limited supply coming in the next two years and recovery in demand

By **KALPANA RASHIWALA**
kalpana@sph.com.sg

[SINGAPORE] Big office leasing deals this year have focused mostly on decentralised locations but with very limited supply of future new projects outside the city, the limelight is set to return to the CBD next year.

As much of the pre-leasing activity is expected to be concentrated in higher-quality buildings, rent growth is likely to be led by Grade A space, says CBRE.

It estimates that the average monthly rental value for Grade A (CBD Core) offices will appreciate about 8 per cent next year, followed by stronger growth of 10-plus per cent in 2015, fuelled by limited new supply in the next two years and a broadbased recovery in demand. This may extend to the financial services sector, which has been relatively quiet this year, said Moray Armstrong, executive director (office services) at CBRE.

"There is a very tangible uptick in CBD leasing activi-

Mostly in suburbs

2013 office leasings: some major pre-commitments*

PROJECT	TENANT	SIZE (SQ FT)
The Metropolis, North Buona Vista Drive	Shell	120,000
The Metropolis	Procter & Gamble	250,000
The Metropolis	Neptune Orient Lines	105,000
The Metropolis	Singapore Exchange	80,000
Asia Square Tower 2, Marina View	Allianz	79,000
South Beach, Beach Road	Rabobank	26,000

* Deals inked before the projects received Temporary Occupation Permit Source: CBRE

ty as we close 2013, and we expect this momentum will continue into next year. While US and European banks' office requirements may take longer to return, we are seeing strengthening interest from Asia-Pacific financial institutions and, in particular, the Japanese banks," he added.

Agreeing, DTZ's regional head, occupier services, SE Asia, Angela Tan, said: "Some major Japanese banks such as Mizuho, Norinchukin and SMBC are expanding in Singapore. We're also seeing enquiries from our Japan offices about other Japanese banks wanting to enter the Singapore market."

Ms Tan also expects further activity from the insurance sector, which along with sustained demand from professional services, technology and social media sectors, should lend support to the office market.

According to CBRE data, 2013 is likely to end with a 2 per cent rent rise in the average monthly rental value for Grade A (CBD Core) office space to \$9.75 psf, following stagnation in the first three quarters at \$9.55 psf. CBRE's Grade A (CBD Core) basket covers the best-quality office buildings in Raffles Place, Marina Bay and Marina Centre.

Jones Lang LaSalle too noted that Grade A rents in

Great expectations

Grade A (CBD Core) office rents



the CBD have stabilised and started to grow over the past year, as vacancy levels have slowly reduced. Many well-located, existing Grade A buildings are now fully let or over 95 per cent occupied. A majority of new lettings have been from occupiers of less than 30,000 sq ft.

"As landlords have stabilised their occupancies, they are now looking to grow rents on a case-by-case basis," JLL said.

"Given the current economic uncertainty, there will be some headwinds. However, the current low islandwide office vacancy rate of 3.9 per cent, notable

lack of new CBD office completion in 2015, along with Singapore's successful positioning as a business hub in Asean all point to positive take-up and an upward shift in rental," said Chris Archibold, head of markets at JLL.

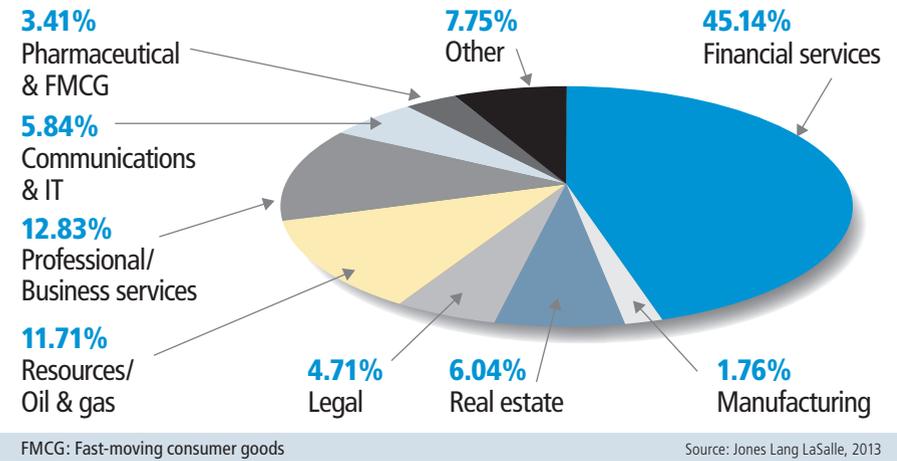
"The key question is whether demand sustains at current levels or better."

Based on JLL's numbers, 2013 is likely to end with about 1-1.1 million sq ft net increase in islandwide office demand – about half the nearly two million sq ft last year and at least 30 per cent shy of the 20-year average annual take-up of 1.6 million sq ft.

"(Since 2011), the key

Star performer missing in action

Profile of occupiers for space leased in major new office developments islandwide (2006-2012)



piece that has been missing from the market and therefore reducing overall demand has been front-office activity from the major financial institutions. Most of the large international banking & finance occupiers, which are typically responsible for the majority of CBD demand, are fairly static and focused on cost saving at present," said Mr Archibold.

The current situation is in contrast to the seven-year period between 2006 and 2012, when FIs accounted for 45 per cent of space leased in major new office developments islandwide.

Weak demand from FIs' front-end operations is also behind a contraction in the average office lease-size in major new projects from 57,000 sq ft in 2010 to 18,700 sq ft in 2011 and 23,800 sq ft in 2012. Mr Archibold reckons the figure for 2013 will be similar

to last year, but predicts it will again start to increase next year, when he expects the islandwide net increase in office demand to pick up to around 1.4-1.6 million sq ft. He cites Asean's economic growth and Singapore's positioning as a hub for various industries.

Another positive for the office market is that despite a relatively strong pipeline of new completions scheduled from now to 2017, there is a notable lack of completions in 2015.

Mr Archibold reckons that CBD office rents, which will end this year about 5 per cent higher, could climb a further 8-10 per cent in 2014. "Singapore and Asean look well placed to take advantage of any upside in economic cycles, but there are still mixed messages in the office market."

A number of FIs are looking to give up potentially up to 500,000 sq ft of space, he added. "If this materialises,

it may not move the needle compared with the 63.6 million sq ft of (leasable) islandwide office stock, but it could be a dampener on sentiment," Mr Archibold said.

He declined to say which banks were planning to release excess space. However, word in the market is that these include Credit Suisse, which is widely expected to begin its phased exit from One Raffles Quay from next year. It is also said to be seeking replacement tenants for some of the space it has leased at One@Changi City.

At Six Battery Road, about 55,000 sq ft leased to Standard Chartered Bank will be available next year. Barclays has about 50,000 sq ft of excess space in Marina Bay Financial Centre Tower 2 already on the market, plus around 29,000 sq ft at Eightrium@Changi Business Park that could be available in March.