



Q2 2018: Singapore Commercial Property Monitor

Offices lead cyclical recovery in commercial property market

Momentum in Singapore's commercial property market continued to edge higher in Q2 of 2018, led by the office segment. Rents and capital values for office space are expected to increase over the next year, while the outlook for the industrial and retail segments of the market is slightly more subdued. Despite some concerns surrounding valuations, the market is seen as being firmly in the midst of an upswing.

Occupier Market

- The Occupier Sentiment Index (an amalgamated measure of occupier market indicators) rose to +4 in Q2 from -7 in Q1, indicating a very slight upswing in momentum. As shown in chart 1, it was the first time that this indicator registered a reading above zero since Q1 of 2015.
- Occupier demand was flat at the headline level for the third consecutive quarter, as an increase in demand for office space was once again offset by declining demand for retail space.
- The availability of properties to rent increased, but at the slowest pace since Q4 of 2014 (in net balance terms). Respondents reported an increase in the availability of office and retail properties, while there was little change in the supply of industrial properties to rent.
- Headline development starts were flat in Q2, as an increase in office starts was offset by a decline in industrial and retail starts. Aggregate landlord incentives were also flat, though there was a decline in incentives offered to rent office space. Rent-free periods were the most popular type of inducement on offer.
- For the first time since Q1 of 2015, headline rents are expected to increase over the next three months (see chart 2). Office rents are seen leading, while those on industrial properties are expected to be unchanged over the next quarter. Although retail rents are expected to decline over the next quarter, only a net balance of 21% said that this was expected vs the balance of 55% who held this view one quarter ago.
- Over the next twelve months, respondents see rents on both prime industrial and office properties increasing, as shown in chart 6. Rents are expected to increase 4% and 0.4% over the next year on these assets, respectively.

Investment Market

- The Investment Sentiment Index (an amalgamated measure of occupier market indicators) was little changed at -1 in Q2 vs -2 in Q1 (chart 1), indicating flat momentum in the investment market. However, the Investment Sentiment Index for offices was positive for the third consecutive quarter, indicating an ongoing pickup in momentum for this segment.
- Headline investment enquiries increased over the quarter, led by robust demand for office space while demand for industrial and retail properties was little changed from Q1. Foreign demand increased for both office and industrial space, while that for retail properties was flat.
- The aggregate supply of properties available for sale rose at a similar pace to Q1; this was led by an increase in offices and retail properties.
- As shown in chart 3, sentiment toward credit conditions skewed towards a modest improvement. However, a majority of respondents (53%) reported no change in credit conditions during Q2.
- Chart 4 shows that the majority of respondents, 53%, see property as being fairly valued. However, a growing contingent (40% in Q2, 36% in Q1, 33% in Q4) see valuations as being expensive to some degree. Though despite this, 67% of respondents see the market at some stage of an upswing.
- Similar to rents, capital values for offices are expected to rise over the next three months, while the outlook is positive for both office and industrial capital values over the next year. Chart 5 shows that respondents have increase one-year capital value growth forecasts on prime office space higher (4% vs 2.5% in Q2), and decreased forecasts for secondary and prime retail.

Commercial Property Market

Chart 1: Occupier, Investment Sentiment Indexes

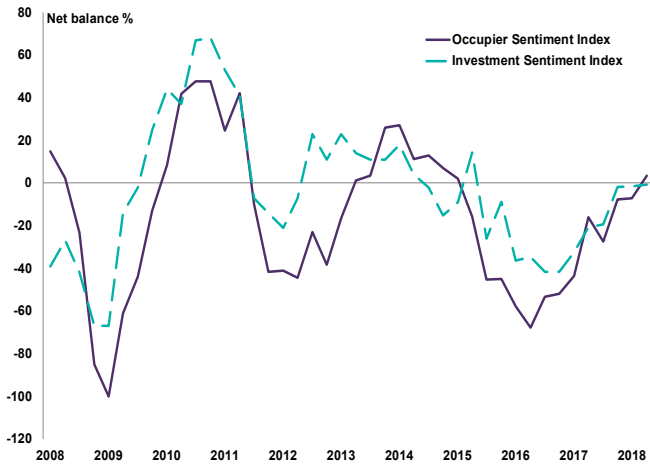


Chart 2: 3-month Rents, Capital Values

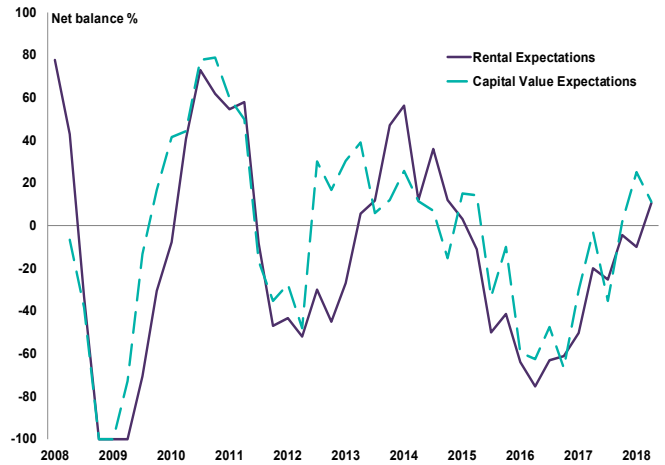


Chart 3: Credit Conditions

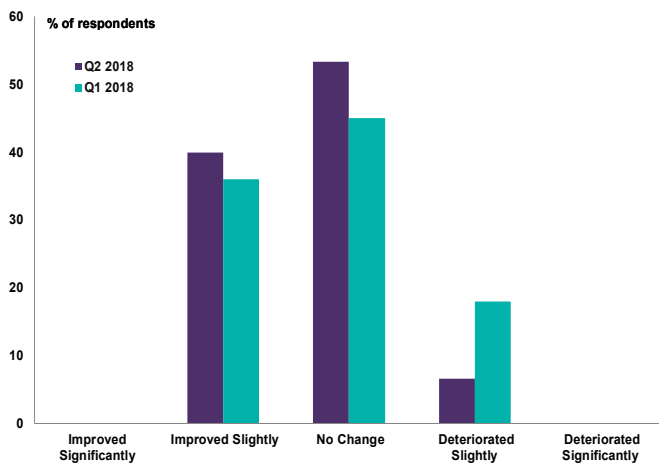


Chart 4: Valuations

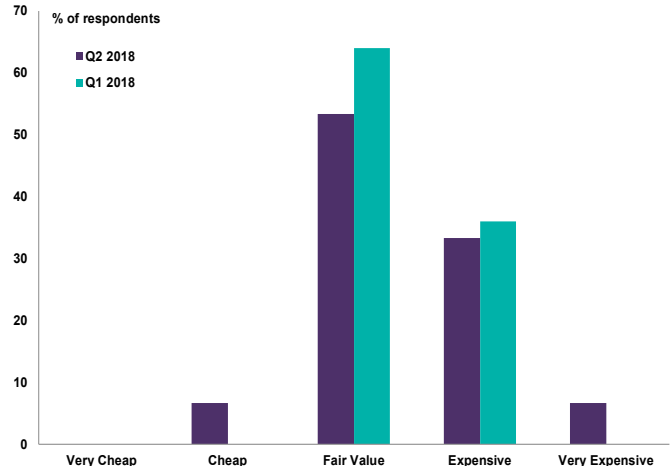


Chart 5: 12-month Capital Values Forecast

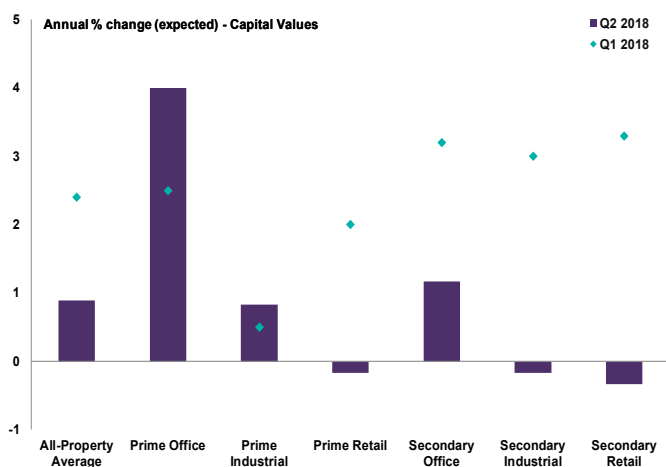
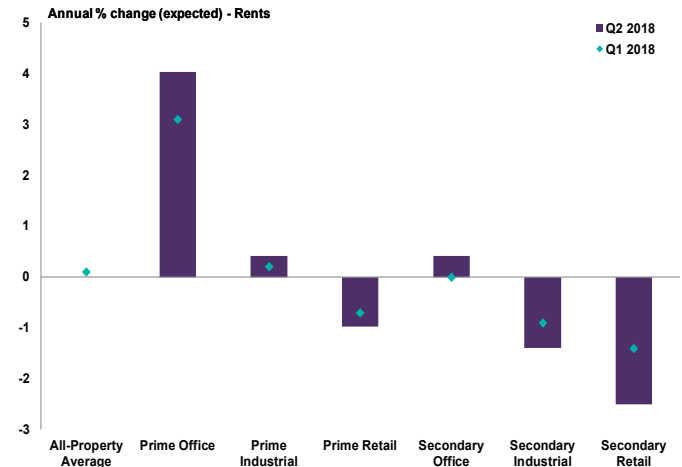


Chart 6: 12-month Rent Forecast



Information

Global Commercial Property Monitor

RICS' Global Commercial Property Monitor is a quarterly guide to the trends in the commercial property investment and occupier markets. The report is available from the RICS website www.rics.org/economics along with other surveys covering the housing market, residential lettings, commercial property, construction activity and the rural land market.

Methodology

Survey questionnaires were sent out on 13 June 2018 with responses received until July 2018. Respondents were asked to compare conditions over the latest three months with the previous three months as well as their views as to the outlook. A total of 1965 company responses were received, with 385 from the UK. Responses for Ireland were collated in conjunction with the Society of Chartered Surveyors Ireland. Responses for Spain and Portugal were collated in conjunction with Iberian Property. Responses for New Zealand were collated in conjunction with Property Council New Zealand.

Responses have been amalgamated across the three real estate sub-sectors (offices, retail and industrial) at a country level, to form a net balance reading for the market as a whole.

Net balance = Proportion of respondents reporting a rise in a variable (e.g. occupier demand) minus those reporting a fall (if 30% reported a rise and 5% reported a fall, the net balance will be 25%). Net balance data can range from -100 to +100.

A positive net balance reading indicates an overall increase while a negative reading indicates an overall decline. The RICS Occupier Sentiment Index (OSI) is constructed by taking an unweighted average of readings for three series relating to the occupier market measured on a net balance basis; occupier demand, the level of inducements and rent expectations. The RICS Investment Sentiment Index (ISI) is constructed by taking an unweighted average of readings for three series relating to the investment market measured on a net balance basis; investment enquiries, capital value expectations and the supply of properties for sale.

Contact details

This publication has been produced by RICS. For all economic enquiries, including participation in the monitor please contact: economics@rics.org

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Economics Team

Janet Guilfoyle

Market Surveys Administrator

+44(0)20 7334 3890

jguilfoyle@rics.org

Simon Rubinsohn

Chief Economist

+44(0)20 7334 3774

srubinsohn@rics.org

Jeffrey Matsu

Senior Economist

+44(0)20 7695 1644

jmatsu@rics.org

Sean Ellison

Senior Economist

+65 68128179

sellison@rics.org

Tarrant Parsons

Economist

+44(0)20 7695 1585

tparsons@rics.org

Kisa Zehra

Economist

+44(0)20 7695 1675

kzehra@rics.org



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United Kingdom RICS HQ

Parliament Square, London
SW1P 3AD United Kingdom

t +44 (0)24 7686 8555

f +44 (0)20 7334 3811

contactrics@rics.org

Media enquiries

pressoffice@rics.org

Ireland

38 Merrion Square, Dublin 2,
Ireland

t +353 1 644 5500

f +353 1 661 1797

ricsireland@rics.org

Europe

[excluding UK and Ireland]

Rue Ducale 67,
1000 Brussels,
Belgium

t +32 2 733 10 19

f +32 2 742 97 48

ricseurope@rics.org

Middle East

Office G14, Block 3,
Knowledge Village,
Dubai, United Arab Emirates

t +971 4 446 2808

f +971 4 427 2498

ricsmenea@rics.org

Africa

PO Box 3400,
Witkoppen 2068,
South Africa

t +27 11 467 2857

f +27 86 514 0655

ricsafrica@rics.org

Americas

One Grand Central Place,
60 East 42nd Street, Suite 2810,
New York 10165 – 2811, USA

t +1 212 847 7400

f +1 212 847 7401

ricsamericas@rics.org

South America

Rua Maranhão, 584 – cj 104,
São Paulo – SP, Brasil

t +55 11 2925 0068

ricsbrasil@rics.org

Oceania

Suite 1, Level 9,
1 Castlereagh Street,
Sydney NSW 2000. Australia

t +61 2 9216 2333

f +61 2 9232 5591

oceania@rics.org

North Asia

3707 Hopewell Centre,
183 Queen's Road East
Wanchai, Hong Kong

t +852 2537 7117

f +852 2537 2756

ricsasia@rics.org

ASEAN

10 Anson Road,
#27-16 International Plaza,
Singapore 079903

t +65 6635 4242

f +65 6635 4244

ricssingapore@rics.org

Japan

Level 14 Hibiya Central Building,
1-2-9 Nishi Shimbashi Minato-Ku,
Tokyo 105-0003, Japan

t +81 3 5532 8813

f +81 3 5532 8814

ricsjapan@rics.org

South Asia

48 & 49 Centrum Plaza,
Sector Road, Sector 53,
Gurgaon – 122002, India

t +91 124 459 5400

f +91 124 459 5402

ricsindia@rics.org

