Q3 2017: Singapore Commercial Property Monitor

Market sentiment stalls but agents bullish on some market segments

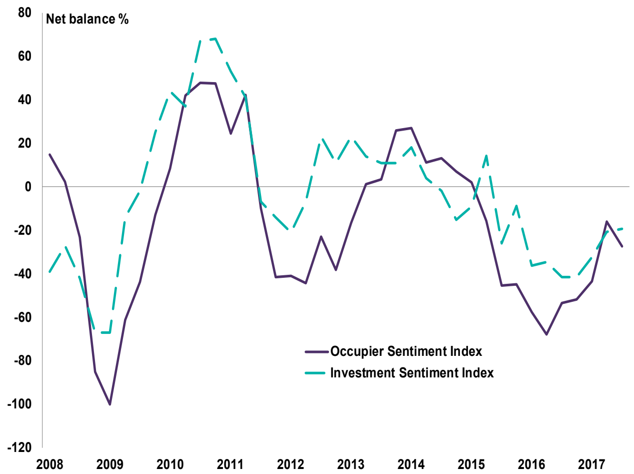
Occupier Market

- The Q3 2017 results indicate that occupeir demand for industrial and retail space continued to decline whilst remaining flat across the office sector for the second consecutive quarter. As a result, a net balance of 32% of respondents reported a pullback in headline demand, up from the 24% who reported a pullback in Q2.
- Headline supply continued to rise albeit at a slightly slower pace. This was driven mainly by contributors reporting a slight decline in the supply of office space, for the first time since Q4 of 2014.
- The net balance of those reporting an increase in headline landlord incentives increased to 25% from 4% in Q2. Incentives for office space remained unchanged, but were reported to have increased in the industrial and retail sectors.
- Rents across the office sector are expected to increase over the next three and twelve months, for the first time since Q2 of 2015. Rents on industrial and retail space are still expected to decline over both time horizons.
- The Occupier Sentiment Index (an amalgamated measure of occupier market indicators) moved to -27 in Q3 from -16 in Q2, indicating continued negative momentum in the occupier market.

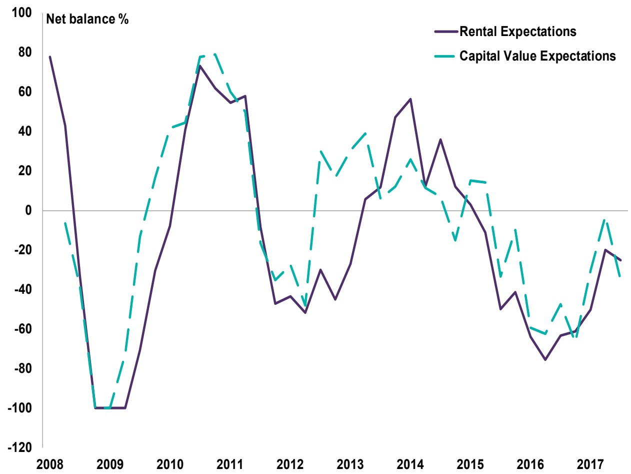
Investment Market

- The Q3 2017 data suggests a slight moderation headline investor demand. Although respondents continued to report a decline in demand for industrial and retail properties in net balance terms, investment enquiries for office space increased for the first time in three quarters. A similar dynamic were reported among foreign investors.
- The supply of property for investment purposes continued to rise at the headline level, although this was mainly driven by an increase in supply in the industrial and retail sector whereas supply across the office sector remained unchanged.
- A majority of respondents expect headline capital values to decline over both the next three and twelve months. However, a modest majority of respondents expect office capital values to increase in the coming year.
- The share of respondents who see the market at some stage of a downturn fell from 50% in Q2 to 40% in Q3, while 40% of respondents now see the market at some stage of an upturn (vs 29% in Q2).
- The Investor Sentiment Index (an amalgamated measure of investment market indicators) moderated to -19 in Q3 from -21 in Q3, indicating continued negative momentum in the investor market.

Occupier and Investment Sentiment Index

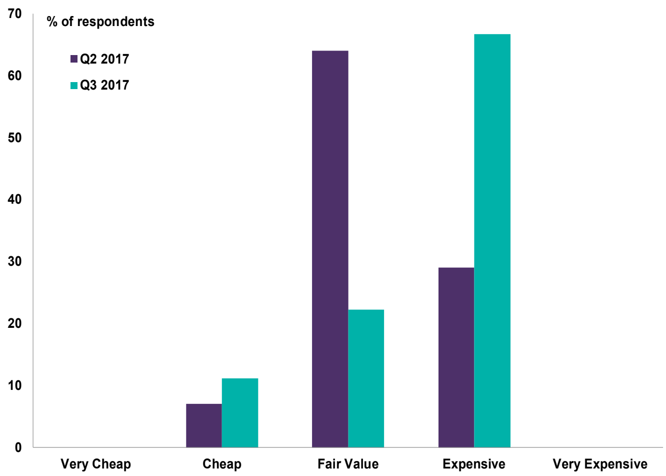


Rental and Capital Value Expectations

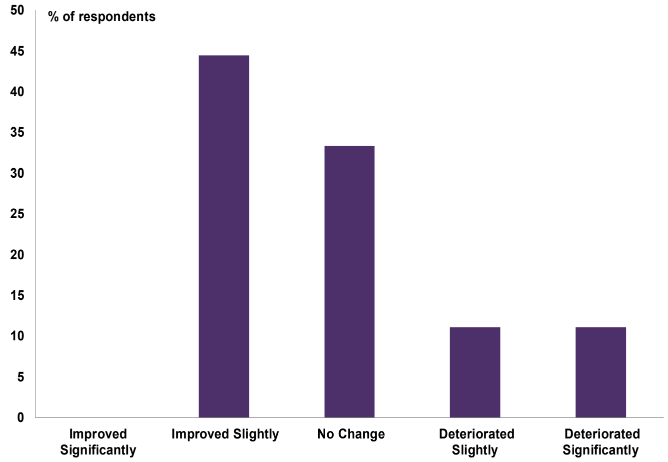


Commercial Property Market

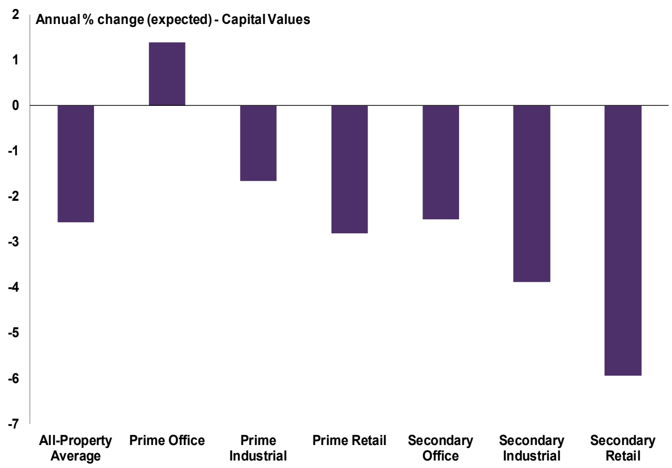
Market Valuations - The majority of respondents (67%) now see market valuations as expensive, up from the 29% who held this view in Q2. The share of respondents who see the market as fairly valued fell from 64% in Q2 to 22% in Q3.



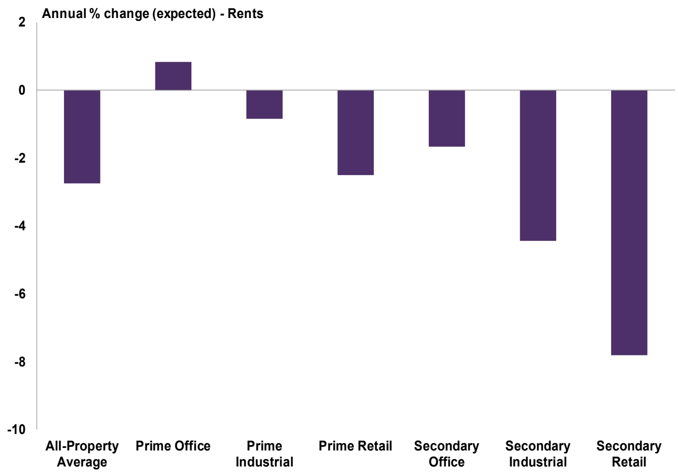
Credit Conditions - Credit conditions were reported to have improved slightly by 44% of respondents, up from 29% in Q2. 33% said that credit conditions were unchanged in Q3, down from 57% in Q2, while the remaining 22% reported no change in credit conditions in Q3.



12m Capital Value Expectations - Respondents' headline capital value forecast for the next year fell to -2.6% from -2.1% in Q2. However dispersion within market segments increased significantly. Respondents now expect prime office values to rise 1.4% over the next year after forecasting a 0.4% pullback in Q2, while prime retail is projected to decline by 2.8% after a 1.9% fall forecast in the last quarter. All forecasts for secondary space were revised lower.



12m Rental Expectations - Although respondents see headline rents falling by 2.7% over the next year, down from the 1.9% pullback forecast in Q2, this is almost entirely due to more bearish forecasts for secondary industrial and retail space. These sector are forecasted to fall by 4.4% and 7.8% respectively in the next twelve months vs the 2.5% and 3.7% pullback forecast in Q2. Alternatively, prime office rents are projected to rise by 0.8% in the next year, up from the 0.2% decline forecast in Q2.



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 September 2017 with responses received until 6 October 2017. 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 1609 company responses were received, with 347 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.

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