Q3 2018: Singapore Commercial Property Monitor

Recovery in retail; industrial market stalls but office sentiment remains robust

Momentum in Singapore's commercial property market moved sideways in Q3 of 2018. Both occupier and investor demand for retail properties remained soft, and sentiment surrounding offices eased somewhat. Based on its position in the global supply chain, Singapore is vulnerable to any escalation in trade tensions. Despite this, contributors see headline rents and capital values increasing over the next year.

Occupier Market

- The Occupier Sentiment Index (an amalgamated measure of occupier market indicators) fell to -12 in Q3 from +4 in Q2 (Chart 1), indicating a slight pullback in occupier market momentum.
- Occupier demand for office properties continued to increase at a robust pace in Q3. However, demand to rent industrial properties fell modestly in Q3, while demand for retail space fell for the fourteenth consecutive quarter.
- The headline stock of properties available to let rose at a pace similar to the last three quarters, driven mainly by the office segment. The pipeline of development starts was flat at the headline level, as an increase in office starts was offset by a decrease in retail.
- Respondents reported that landlord incentives to rent increased across all market segments (office, industrial, retail). A rent-free period continued to be the most popular type of incentive on offer.
- Headline rent expectations are fairly muted for the next three months (Chart 2). Office rents are expected to increase at a robust pace, but this is seen as being offset by a pullback in industrial and retail rents.
- Over the next year, respondents expect rents on both offices and industrial space to increase. As shown in Chart 6, rents on prime space have been revised modestly lower across all market segments (office, industrial, retail).
- Views on which phase of the cycle the market is in are disperse. 19% of contributors say that the market in a downturn, and 38% each saying the market is in an upturn or at its peak, likely a result of the nuances characterizing the various market segments (office, industrial, retail).

Investment Market

- The Investment Sentiment Index (an amalgamated measure of occupier market indicators) increased to +5 in Q3 from -1 in Q2 (Chart 1). Although this only indicates sideways momentum in the investment market, it is the first time this indicator was in positive territory since 2015.
- Both foreign and domestic investors continued to show interest in the office segment. Meanwhile, investment enquiries into industrial and retail properties declined in Q3.
- The supply of properties available for sale decreased marginally, driven by fewer industrial and retail properties being put up for sale. While the supply of office properties for sale increased in Q3, it did so only marginally and at a much slower pace than in previous quarters.
- Credit conditions were evenly distributed in Q3, with 31% reporting some improvement, 44% reporting no change, and 25% reporting a deterioration (Chart 3).
- As shown in Chart 4, 44% of respondents felt that valuations were above fair value to some degree, up from 40% who held this belief in Q2. However, 19% felt that commercial property was cheap, up from 7% in the previous quarter.
- Against this backdrop, capital values are seen flat over the next three months (Chart 2), as an expected increase in office values is offset by an expected decrease in retail values.
- Respondents were more bullish for the next twelve months, as both office and industrial values are seen increasing and retail volumes are expected to remain level. Chart 5 shows that this is primarily driven by prime valuations.

Commercial Property Market

Chart 1: Occupier, Investment Sentiment Indexes

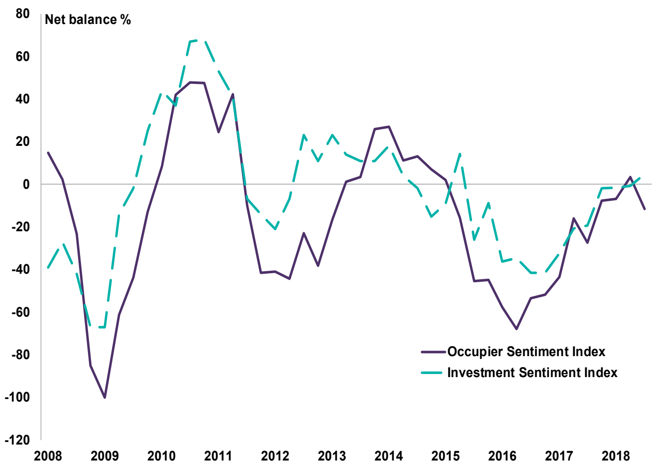


Chart 2: 3-month Rents, Capital Values

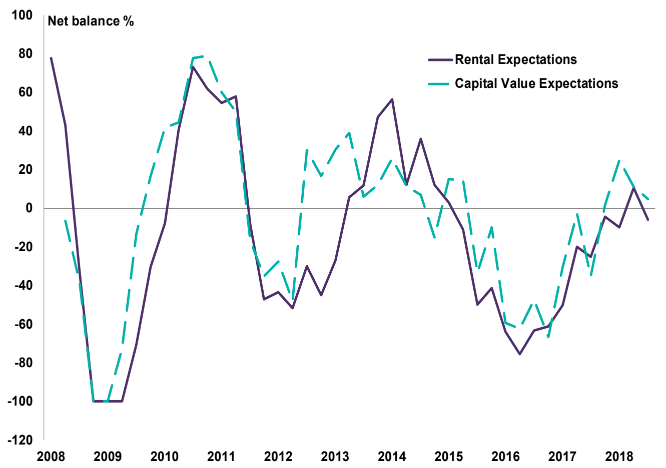


Chart 3: Credit Conditions

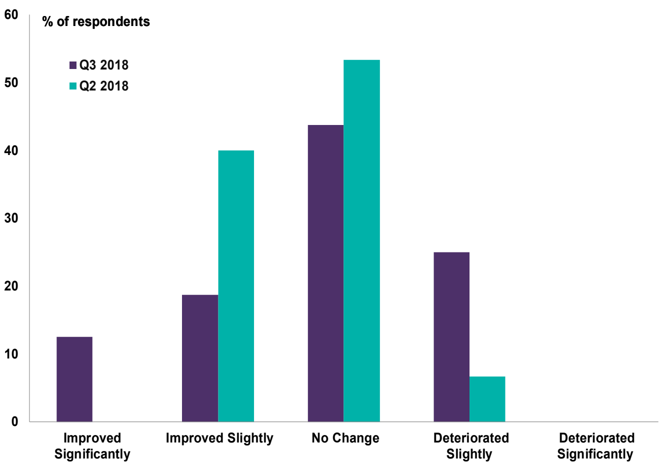


Chart 4: Valuations

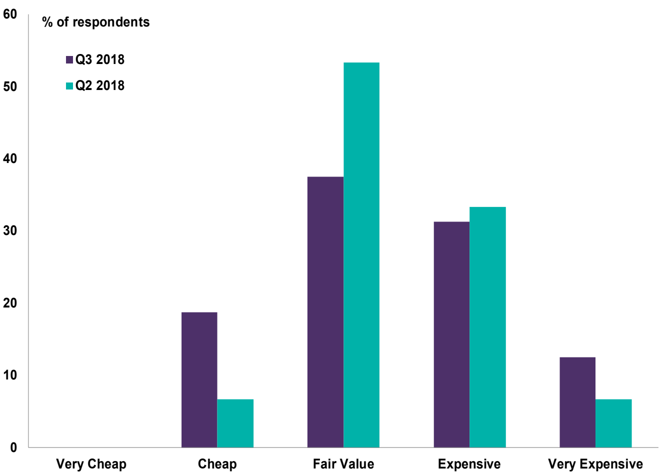


Chart 5: 12-month Capital Values Forecast

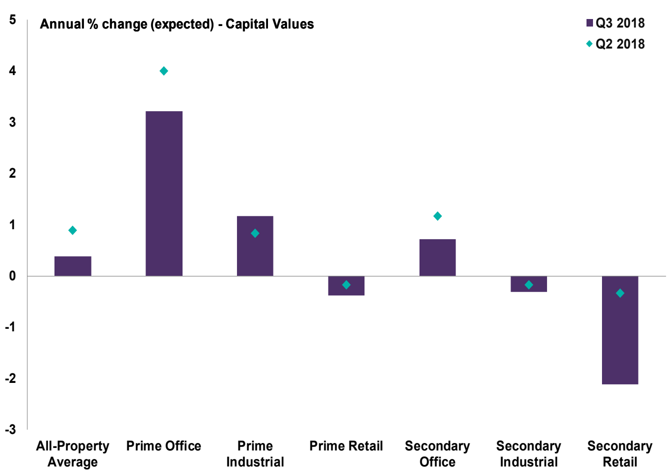
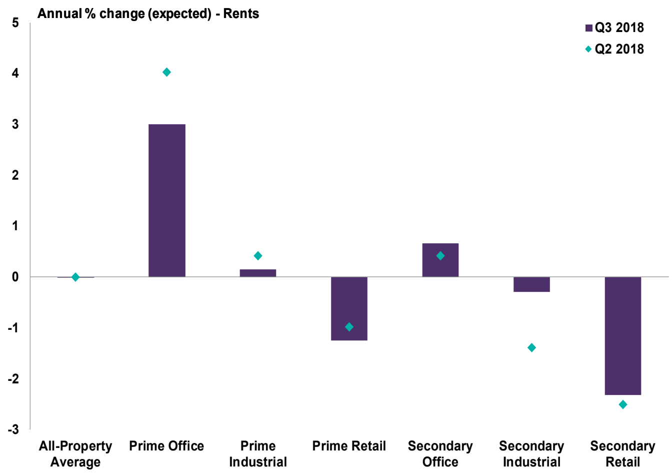


Chart 6: 12-month Rent Forecast



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 September 2018 with responses received until 14 October 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 1791 company responses were received, with 341 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 for Malaysia were collated in conjunction with the Royal Institution of Surveyors Malaysia.

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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Americas

Latin America
ricsamericalatina@rics.org

North America
ricsamericas@rics.org

Asia Pacific

ASEAN
ricsasean@rics.org

Greater China (Hong Kong)
ricshk@rics.org

Greater China (Shanghai)
ricschina@rics.org

Japan
ricsjapan@rics.org

Oceania
oceania@rics.org

South Asia
ricsindia@rics.org

EMEA

Africa
ricsafrica@rics.org

Europe
ricseurope@rics.org

Ireland
ricsireland@rics.org

Middle East
ricsmiddleeast@rics.org

United Kingdom RICS HQ
contactrics@rics.org