

RESEARCH

June 2019

# Singapore Q1 2019

Government land sales jumped 50 folds to \$2.2bn amid cautious sentiments across all sectors



# Investment sales

## Market commentary

### Economy and Government policies

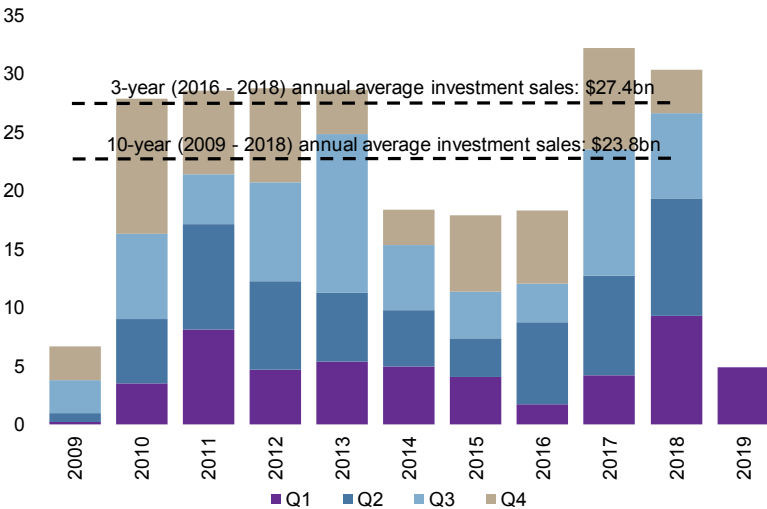
Singapore’s economy slowed with gross domestic product (GDP) growing at 1.2 per cent year-on-year (y-o-y) in Q1 2019, lower than the 1.3 per cent in Q4 2018. The manufacturing sector contracted by 0.5 per cent y-o-y, while growth was mainly supported by the information and communications, finance and insurance, and construction sectors in Q1 2019.

In addition, the Urban Redevelopment Authority (URA) released the Strategic Development Incentive (SDI) and Central Business District (CBD) Incentive schemes in March 2019 to encourage the redevelopment of older buildings in strategic areas islandwide and older commercial buildings in the CBD respectively. These schemes offer bonus gross floor area (GFA) depending on the proposed development mix with the aim of rejuvenating the overall precinct. Consequently, this could encourage more sales activities of older commercial buildings in the CBD in the short- to medium-term.

### Investment sales

Total investment sales increased by 30.0 per cent quarter-on-quarter (q-o-q) to nearly \$4.9bn in Q1 2019, largely attributed to the surge in the sale of sites under the Government Land Sales (GLS) Programme which increased more than 50-fold from \$44m to \$2.2bn. Consequently, private investment sales fell by 27.8 per cent q-o-q (Figure 1). However, on a y-o-y basis, total investment sales were down by 47.5 per cent.

Figure 1: Total investment sales, \$bn



Source: URA, Edmund Tie & Company Research

## Residential

While the private residential investment market remained subdued since the introduction of cooling measures in July 2018, sale activity for GLS sites rose from none in Q4 2018 to three sites (including an executive condominium [EC] site) worth more than \$1.5bn in Q1 2019 (Table 1). Hence, the residential sector accounted for 31.8 per cent of total investment sales in Q1 2019.

Amid the relatively subdued demand and potential supply, en bloc sales have failed to attract any successful bids and/or achieve the mandatory 80.0 per cent owners' consent. As such, developers remained cautious and have shifted their focus to GLS sites which are less complex and risky compared to en bloc sales.

Table 1: Residential/residential mixed-use GLS sites awarded in Q1 2019

Location	Site area (sq ft)	Permissible GFA (sq ft)	Successful bidder	Tender price
Kampong Java Road	125,327	350,925	Chip Eng Seng Corporation	\$418.4m (\$1,192 psf ppr)
Pasir Ris Central	409,068	1,022,678	Allgreen Properties & Kerry Properties	\$700m (\$648 psf ppr)
Tampines Avenue 10 (EC)	268,384	751,475	Hoi Hup Realty and Sunway Developments	\$434.5m(\$578 psf ppr)

Source: URA, Edmund Tie & Company Research

## Office

Office investment sales declined significantly by 57.6 per cent q-o-q to \$966.5m and accounted for 19.8 per cent of total investment sales in Q1 2019. The largest transaction was Manulife Centre for \$555.5m or \$2,305 per square foot (sq ft) net lettable area (NLA) which included a retail podium (Table 2). However, sales activity for the strata office segment remained active with three significant strata office transactions. The largest of these three was the sale of five office floors in Suntec Tower One and one floor in Suntec Tower Two for \$160m or \$2,600 per sq ft NLA.

With the private residential en bloc sales at a standstill, commercial en bloc sales has somewhat picked up with the sale of Selegie Centre (\$120m or \$1,942 psf ppr) in March 2019 and some of the current and upcoming en bloc sites include Sim Lim Square, Peace Centre/Mansion, International Plaza, and People's Park Centre.

## Industrial

Likewise, industrial investment sales fell by 19.3 per cent to \$567.6m q-o-q in Q1 2019 (or 11.6 per cent of total investment sales). Although there were more transactions in the private industrial market, their values were significantly lower. The largest transaction was a sale and leaseback agreement with LTH Logistics on Jurong Island for \$227.5m or \$321 per sq ft GFA.

In the public investment sales market, the most significant transaction was a vacant site for a build- to-suit building of 42,310 sq ft GFA for Grab's new headquarters at one-north developed by Ascendas REIT (Table 2).

Table 2: Private investment sales in Q1 2019 (exceeding \$30m)

Development name/Location	Tenure years (remaining)	Purchase price	Purchaser
<b>Office</b>			
Manulife Centre (with retail podium)	99 years (94 years)	\$555.5m (\$2,305 psf NLA)	ARA Asset Management and Chelsfield
5 levels at Suntec Tower One and 1 level at Suntec Tower Two	99 years (68 years)	\$160m (\$2,600 psf NLA)	Alpha Investment Partners
3 levels at The Octagon	Freehold (NA)	\$45.5m (\$2,450 psf NLA)	Central Cipta Murdaya
4 units at The Central	99 years (80 years)	\$42m (\$3,150 psf NLA)	Chuan Hup Holdings
<b>Office mixed-use</b>			
Selegie Centre	Freehold (NA)	\$120m (\$1,942 psf ppr)	Peak Tower Corporation
<b>Industrial</b>			
121 Banyan Drive	30 years (21 years)	\$227.5m (\$321 psf GFA)	SGRE Banyan
29 Tuas Bay Drive	60 years (47 years)	\$46.7m (\$240 psf site area)	Unknown
72 Loyang Way	19 years (18 years)	\$34.1m (\$199 psf NLA)	Kim Hock Enterprise Pte Ltd
3 Mandai Link	30+30 years (47 years)	\$32m (\$462 psf site area)	Unknown
<b>Retail</b>			
Liang Court	97 years (57 years)	\$400.0m (\$894 psf NLA)	CapitaLand Limited and CDL
Rivervale Mall	99 years (76 years)	\$230.0m (\$2,833 psf NLA)	SC Capital Partners

Source: URA, Edmund Tie & Company Research

## Retail

Retail investment sales jumped from \$56.6m to \$640.7m in Q1 2019 q-o-q, due to two large value deals for Liang Court (\$400.0m) and Rivervale Mall (\$230m) (Table 2). As such, the proportion of retail investment sales to total investment sales increased to 13.1 per cent in Q1 2019.

## Outlook

Amid current global headwinds and uncertainties, such as the escalation of the US-China trade tensions which is slowing global growth, investors are increasingly becoming more cautious. Hence, total investment sales value in 2019 is expected to range between \$17bn and \$21bn, with the private residential sector expected to remain subdued. However, with the SDI and CBD Incentive schemes, sales activity of older commercial buildings in the CBD may increase over time, although the sale process could be relatively long.

# Residential

## Market commentary

### Government policies and the economy

- Despite global economic headwinds and a slowing local economy, the unemployment rate for residents remained unchanged at 3.0 per cent in Q1 2019. In addition, the number of retrenchments stayed flat at 2,500 in Q1 2019 compared to the previous quarter (Ministry of Manpower, 2019).
- Development Charge (DC) rates for the non-landed residential use group were adjusted downwards by an average of 5.5 per cent for the period 1 March 2019 to 31 August 2019.
- Released in March 2019, the Strategic Development Incentive (SDI) Scheme encourages the redevelopment of existing older office buildings in the central business district (CBD), that meets certain planning requirements, to mixed-use developments, including hotel and residential uses to revitalise the CBD. This will increase the number of residential units in the CBD over the medium- to longer-term.

### Investment market

- Since the cooling measures in July 2018, the residential en bloc market remained muted with no sales in Q1 2019. In addition, larger en bloc sites such as Mandarin Gardens and Dairy Farm have failed as they could not achieve the mandatory 80.0 per cent owners' consent.
- Accordingly, the only residential/residential mixed-use sites sold in Q1 2019 were listed under the Government Land Sales (GLS) Programme – Kampong Java Road and an integrated mixed-use site in Pasir Ris Central (Table 3).

Table 3: Residential/residential mixed-use GLS sites awarded in Q1 2019

Location	Market segment	Permissible GFA (sq ft)	Successful bidder	Tender price
Kampong Java Road	Rest of Central Region (RCR)	350,925	Chip Eng Seng	\$418.4m (\$1,192 psf ppr)
Pasir Ris Central	Outside Central Region (OCR)	1,022,678	Allgreen Properties	\$700m (\$648 psf ppr)

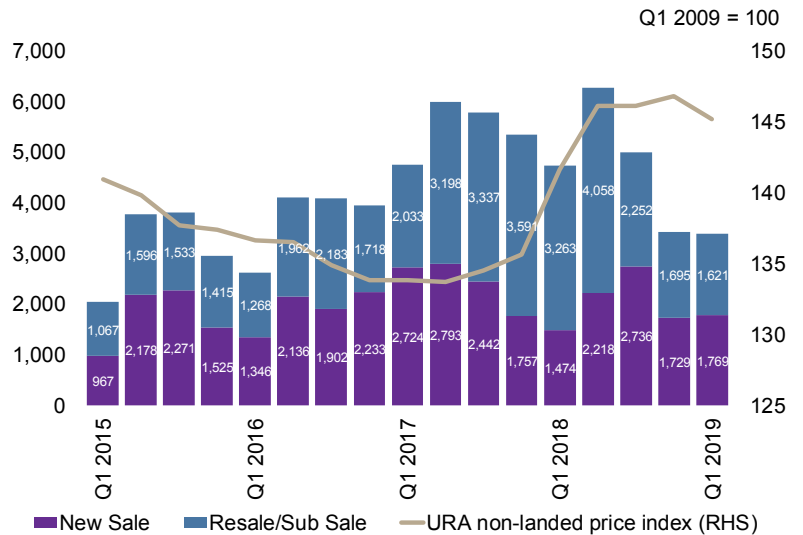
Source: URA, Edmund Tie & Company Research



### Sales volume, prices, completed supply and rents

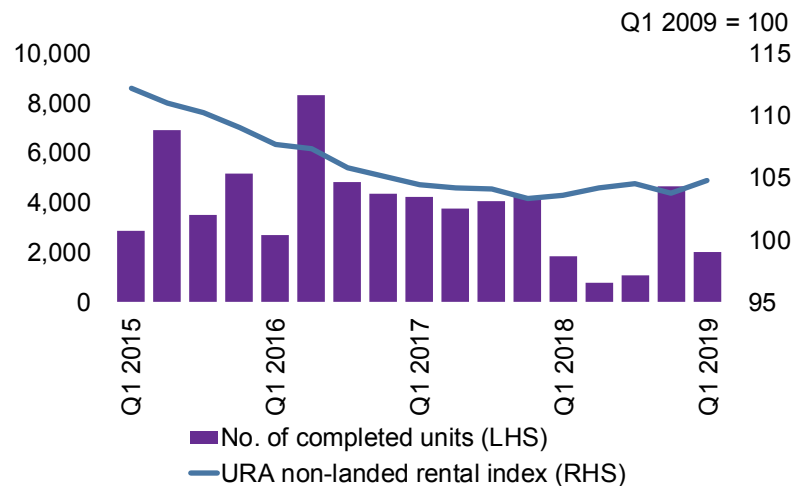
- Although sales volume continued to decline for the third consecutive quarter by 1.0 per cent quarter-on-quarter (q-o-q), the rate of decline has slowed compared to the 20.5 per cent q-o-q fall in Q3 2018 after the cooling measures. Furthermore, the number of new sales has outpaced resales, as both the number of new projects and units launched have increased from nine to 13 projects, and 13.4 per cent q-o-q respectively in Q1 2019 (Figure 2).
  - The price index of private non-landed residential properties fell by 1.1 per cent in Q1 2019. This was the first decline since Q3 2017. Our analysis showed that median prices in the OCR were steady while there were falls between 1.5 and 5.0 per cent in the RCR and Core Central Region (CCR) vis-à-vis Q4 2018. The price decline in the RCR and OCR was underpinned by lower unit prices (including \$psf) for both new and resale units.
- However, for new sales, the lower prices were largely reflective of the lower \$psf of units sold during Q1 2019 compared to the previous quarter.
- Non-landed rentals rose by 1.1 per cent q-o-q in Q1 2019 amid falling vacancy rates since Q4 2017. This is partly due to the lower number of unit completions since Q1 2018, except for Q4 2018 (Figure 3).

Figure 2: Private non-landed home sales volume (excluding ECs) and URA non-landed price index



Source: URA, Edmund Tie & Company Research

Figure 3: Private non-landed completions (excluding ECs) and URA rental index



Source: URA, Edmund Tie & Company Research

## Demand analysis and buyer profile

- While total non-landed sales volume fell by 1.0 per cent in Q1 2019, the increase in new project launches had somewhat shifted buyers' preference towards new sales with resale volume declining over the same period.
- The dominant unit price range for new and resale units continued to be under \$1.5m, especially for SCs and SPRs. As such, the RCR and OCR remained as the top selling market segments.
- Sales volume of foreign buyers declined some 5.2 per cent q-o-q in Q1 2019, with Chinese buyers falling by more than 40.0 per cent, likely due to the Chinese New Year holiday period. Consequently, the sale of units priced above \$2m decreased, while units priced between \$1m to \$2m saw an uplift. The CCR continued to be the more sought-after location by foreigners.
- Buyers with Housing & Development Board (HDB) addresses continued to be the most price-sensitive group with sales volume plummeting 68.0 per cent q-o-q (although this may be 'skewed' as the number of unknown addresses grew by 51.1 per cent over the same period), as the cooling measures took its toll on this group of buyers.

## Project launches

- There were six new project launches totalling almost 4,500 units. This represents nearly 23.0 per cent of the total anticipated 20,000 units that may be launched this year (Table 4).
- The sell-down rates of these new launches varied from 10.0 to 14.0 per cent, with launches in the CCR achieving higher rates.

Table 4: Non-landed private residential launches 100 units (excluding ECs) (Q1 2019)

Development	Developer	District (market segment)	Tenure	Total units	Launch dates
Fourth Avenue Residences	Allgreen Properties	10 (CCR)	99 years	476	January 2019
RV Altitude	Roxy-Pacific Holdings	9 (CCR)	Freehold	140	January 2019
Treasure at Tampines	Sim Lian Group	18 (OCR)	99 years	2,203	March 2019
The Florence Residences	Logan Property	19 (OCR)	99 years	1,410	March 2019
Boulevard 88	CDL	10 (CCR)	Freehold	154	March 2019
Rezi 24	KSH Holdings, Lian Beng Group & Heeton Holdings	14 (RCR)	Freehold	110	March 2019
<b>Total</b>				<b>4,493</b>	

Source: URA, Edmund Tie & Company Research

## Outlook

- Despite current global headwinds, slowing local and global economies, the private non-landed residential market appears to remain relatively resilient, although sales volume and prices are expected to moderate.
- Buyers will continue to have a wide range of options to choose from as we expect more new project launches. On the other hand, developers are mindful that new launches remain competitively priced.
- Accordingly, new sales unit volume in 2019 is forecasted to maintain within the range of 8,000 to 10,000 units, with prices expected to hold relatively steady barring policy and economic shocks.

# Office

## Market commentary

Advance estimates point to a slowing Singapore economy, with gross domestic product (GDP) growth at 1.3 per cent year-on-year (y-o-y) in Q1 2019 compared to 1.9 per cent y-o-y in Q4 2018. The manufacturing sector contracted 1.9 per cent y-o-y, while growth was mainly supported by the construction, information and communications and business services sectors in Q1 2019 (Table 5).

Table 5: GDP at 2010 prices  
Advance estimates of Q1 2019 GDP growth by sector

	Q1 2019	Q4 2018	Change
Manufacturing	-1.9	5.1	▼
Construction	1.4	-1.0	▲
Services	2.1	1.8	▲
<b>Overall</b>	<b>1.3</b>	<b>1.9</b>	▼

Source: MTI

Key changes to Government policies during Q1 2019 that may have some impact on the office sector include:

- Development charge rates for commercial use have increased by 9.8 per cent on average from 1 March to 31 August 2019;
- Introduction of the CBD incentive scheme (CIS) on 27 March 2019, which provides bonus gross floor area (GFA) of 25 to 30 per cent for predominantly office buildings older than 20 years with a minimum site area of 1,000 to 2,000 sq m to be redeveloped to mixed-use developments (e.g. residential, office and hotel uses - subject to approval). This may have a medium- to longer-term impact on office supply within the CBD, as well as increasing Grade A office rents when these redevelopments commence.

## Investment market

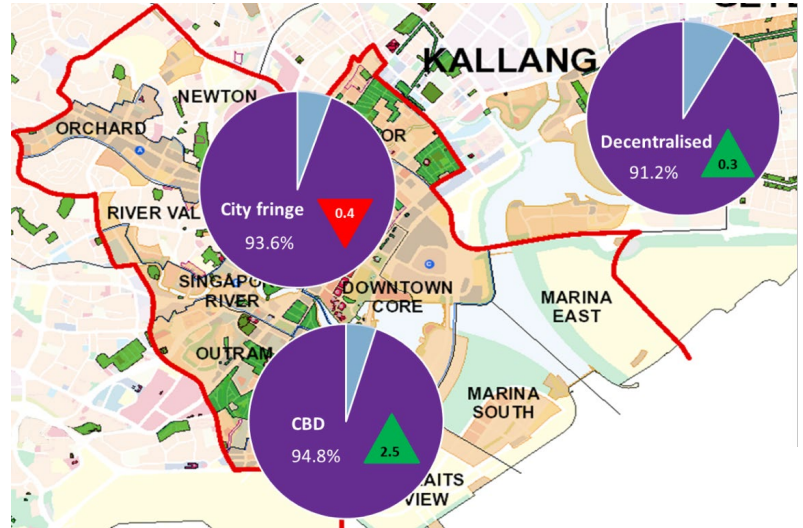
- Office transaction (valued above \$30m) slowed in Q1 2019 with just three transactions comprising strata offices with a total value of \$247m. One of these transactions was for six levels at Suntec City sold for approximately \$160m (or \$2,600 psf).
- However, there has been a consolidation/merger of major developers and REITs such as CapitaLand with Ascendas-Singbridge and OUE Commercial REIT with OUE Hospitality Trust. This is expected to continue as developers and REITs seek to diversify and improve operational efficiencies through scale.



## Office occupancy and rents for Q1 2019

- Islandwide occupancy rate increased from 92.4 per cent in Q4 2018 to 93.5 per cent in Q1 2019, with occupancy rate in the CBD rising the most to 94.8 per cent (Figure 4). On the contrary, occupancy rate in the city fringe fell marginally by 0.4 percentage points. This was partly driven by rising vacancies of older office buildings as well as strata-owned buildings.

Figure 4: Office occupancy rates



Source: URA, OneMap, Edmund Tie & Company Research

- Average gross monthly rents in the CBD increased by 1.5 to 3.5 per cent quarter-on-quarter (q-o-q) in Q1 2019 (Table 6).

Table 6: Average monthly gross office rents (\$ psf)

Location		Grade	Q4 2018	Q1 2019	Q-o-q change (%)
CBD	Marina Bay	A+	11.50	11.90	▲ 3.5
	Raffles Place	A	10.00	10.25	▲ 2.5
	Shenton Way/ Robinson Road/ Tanjong Pagar	A+	10.50	10.90	▲ 3.5
		A	8.80	9.00	▲ 2.5
		B	7.00	7.20	▲ 3.0
City fringe	Marina Centre	A	9.80	9.90	▲ 1.5
	Beach Road/North Bridge Road	A	10.50	10.50	▬ 0.0
		B	6.90	7.00	▲ 1.5
	Orchard Road	*	9.05	9.05	▬ 0.0
Decentralised areas	one-north/Buona Vista/Harbourfront	*	6.90	6.90	▬ 0.0
	Tampines Regional Centre	*	5.20	5.30	▲ 2.0
	Jurong Gateway	*	5.30	5.30	▬ 0.0

\* Ungraded office space

Source: Edmund Tie & Company Research

- Demand in the CBD was underpinned by co-working operators, business services and technology firms such as INVNT (marketing and advertising), CenturyLink Technology, IQVIA and QiO Technologies (Table 7) which have opened their Asia Pacific offices in Singapore.

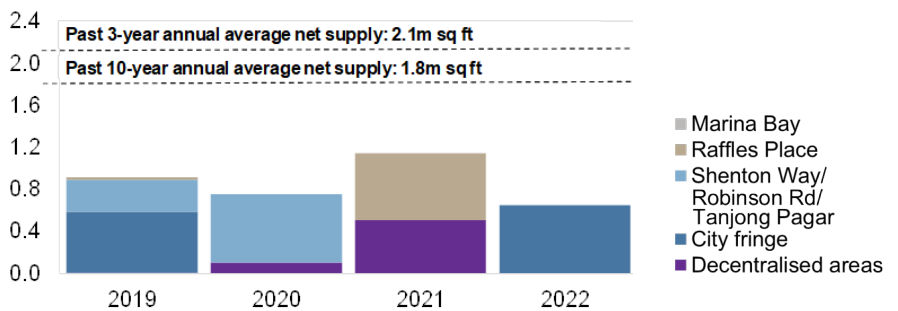
Table 7: Key tenant movements in Q1 2019

Building	Location	Tenant	Industry	Sq ft (estimated)
Marina One	Marina Bay	Rajah and Tann	Legal services	80,000 in 2020
Asia Square Tower 2		The Work Project	Co-working	41,000
20 Collyer Quay	Raffles Place	JustCo (management agreement)	Co-working	16,800
Capital Tower	Shenton Way/ Robinson Road/ Tanjong Pagar	The Work Project	Co-working	33,000
79 Anson Road		IQVIA	Technology	> 40,000
ARC 380	Jalan Besar	WeWork	Co-working	19,000

Source: Various sources, Edmund Tie & Company Research

- The only major completed office development in Q1 2019 was 18 Robinson with 136,000 sq ft net lettable area (NLA), while Funan is expected to complete by Q2 2019 and 9 Penang Road in Q4 2019 (Figure 5). New supply continues to be limited, particularly in the CBD. With the CIS and Government’s decentralisation strategy, it is likely that this will exacerbate office supply in the medium- to longer- term.

Figure 5: CBD office development pipeline (2019-2022)



Source: URA, Edmund Tie & Company Research

## Outlook

Despite the continued global headwinds and a slowing Singapore economy, the office sector is expected to remain relatively positive, largely due to limited new office supply from now till 2022, especially in the CBD. Accordingly, rental rates within the CBD are projected to rise between 5.0 to 9.0 per cent in 2019 barring economic shocks.

# Industrial

## Market commentary

### Economy

The manufacturing sector, non-oil domestic exports (NODX) and the purchasing managers' index (PMI) show signs of a slowing economy and industrial sector. This is underpinned by ongoing economic headwinds which include slowing global economies and the prolonged and volatile trade negotiations between USA and China.

- NODX in March 2019 contracted to its lowest level in more than two years, led by a slump in electronic exports of more than 26.0 per cent year-on-year (y-o-y) and non-electronic exports falling 7.0 per cent y-o-y.
- While the PMI remains above 50 at 50.8, indicating expansion in the sector, it was lower than the previous quarter (Table 8). In contrast, the electronics PMI remained in contraction mode at 49.8, unchanged from Q4 2018.

Table 8: GDP, PMI and NODX

Key economic indicators	Q4 2018	Q1 2019	Change
GDP - Manufacturing y-o-y	5.1%	-1.9%*	▼
NODX (seasonally adjusted) y-o-y	-7.8%	-8.9%	▼
Singapore PMI	51.1	50.8	▼

\* Advanced estimates

Source: MTI, Enterprise Singapore, SIPMM, Edmund Tie & Company Research

### Investment market

- Industrial transactions that are valued above \$20m dropped significantly by more than 57.0 per cent in Q1 2019 to \$424.3m. The largest transaction was a sale-and-leaseback deal with LTH Logistics on Jurong Island valued at \$227.5m (\$321 psf GFA). The other notable transaction was a vacant land site for a build-to-suit project with 42,310 square feet (sq ft) gross floor area (GFA) for Grab's HQ at one-north business park by Ascendas REIT worth \$84m (\$682 psf site area).

## Private demand, occupancy and supply

- Despite a slowing manufacturing sector and lower demand for industrial space, the private industrial market appeared to have stabilised with slight improvements in occupancy rates (except for warehouses), largely supported by a slowing net supply down almost 8.0 per cent in Q1 2019.
- Demand and supply for warehouses reversed from negative to positive territory, with net supply outweighing demand (Table 9). This was driven by the take-up of recently completed warehouses underpinned by demand from e-commerce and logistics services.

Table 9: Private industrial demand, occupancy and supply (islandwide)

Industrial type	As at Q4 2018			As at Q1 2019			Q-o-Q %age point change (Occupancy)
	Net absorption* ('000 sq ft)	Occupancy rate (%)	Net supply* ('000 sq ft)	Net supply* ('000 sq ft)	Occupancy rate (%)	Net supply** ('000 sq ft)	
Multiple-user factory	1,302	87.4	-32	420	87.7	65	0.3 ▲
Single-user factory	592	91.4	506	603	91.8	-549	0.4 ▲
Business park	54	84.5	355	323	85.4	161	0.9 ▲
Warehouse	-10	89.4	-129	431	89.0	969	-0.4 ▼
All industrial spaces	1,938	89.7	700	1,776	90.0	646	0.3 ▲

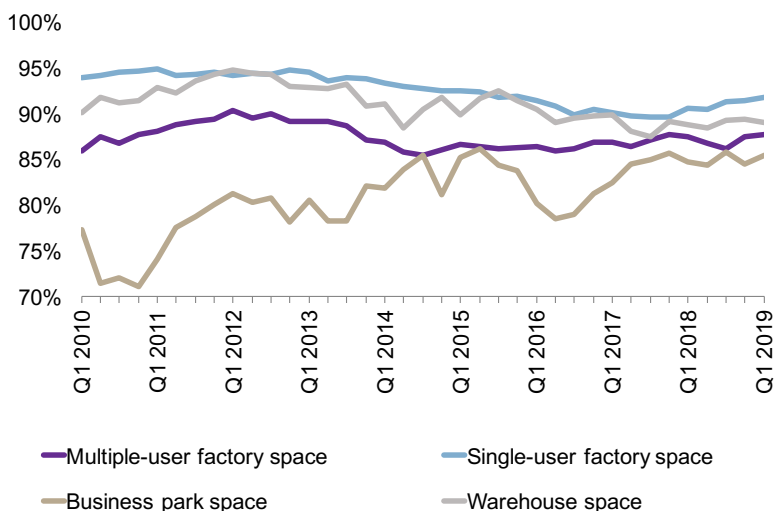
\* Change in occupied space

\*\* Change in available stock

Source: JTC, Edmund Tie & Company Research

- Demand and occupancy for business parks continued to increase (Figure 6), especially from technology and R&D companies as well as for companies that do not require a presence in the central business district (CBD) as CBD office rents continued to rise. For instance, Cisco opened its first innovation centre in Southeast Asia and Cybersecurity Centre of Excellence, both in Mapletree Business City, and Google could be in advanced talks for some 400,000 sq ft at Alexandra Technopark which is near its existing campus.

Figure 6: Occupancy rates of private industrial space by type



Source: JTC, Edmund Tie & Company Research

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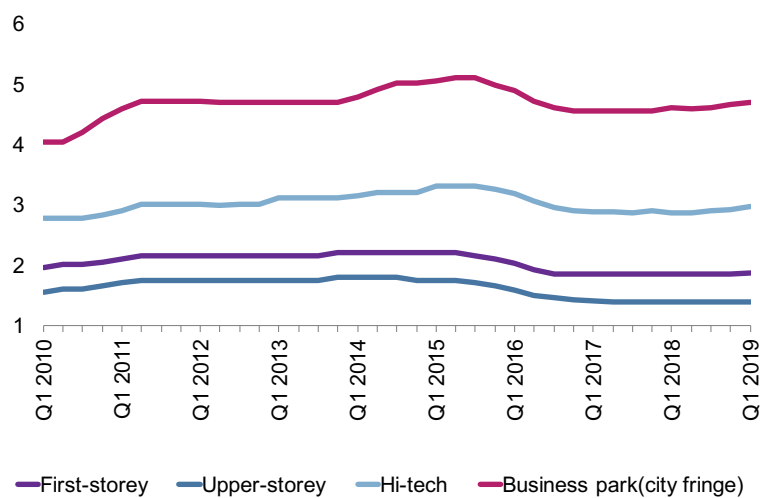
Industrial sector remains vulnerable to external shocks amid economic and trade war uncertainties, although limited future supply is expected to provide some support to rental rates.

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### Rental rates

- Likewise, rental rates have remained largely flat with some increases for first-storey multi-user factory, hi-tech industrial and business park space of between 1.0 to 1.5 per cent (Figure 7 and Table 10).

Figure 7: Private monthly industrial gross rents by type



Source: Edmund Tie & Company Research

Table 10: Average monthly gross rents (islandwide)

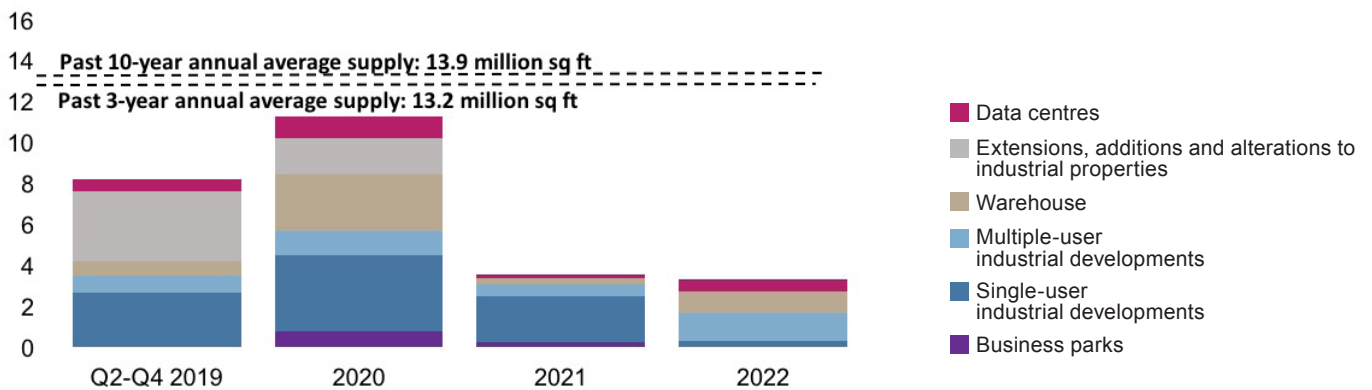
Industrial type	As at Q4 2018 (\$psf)	As at Q1 2019 (\$psf)	QoQ change (Est)
<b>Multiple-user factory</b>	<b>First-storey:</b> 1.75 to 1.95	1.75 to 2.00	1.3% ▲
	<b>Upper-storey:</b> 1.40 to 1.60	1.40 to 1.60	0.0% -
<b>Warehouse/logistics</b>	1.55 to 1.70	1.56 to 1.71	0.5% ▲
<b>Hi-tech industrial</b>	2.80 to 3.00	2.85 to 3.05	1.5% ▲
<b>Business park</b>	<b>City fringe:</b> 4.20 to 4.70	4.25 to 4.75	1.0% ▲
	<b>Non-city fringe:</b> 3.50 to 3.80	3.50 to 3.80	0.0% -

Source: JTC, Edmund Tie & Company Research

## Supply pipeline

- The annual average industrial supply of circa 7m sq ft net lettable area (NLA) for the period Q2 2019 to 2022 is almost half the past three-year average of 13.2m sq ft NLA. In addition, more than 80.0 per cent of this new supply are owner-occupied/fully pre-committed.
- There are approximately seven data centres currently under construction, totalling some 2.4m sq ft (or 9.0 per cent of supply pipeline) with the largest being Google’s third data centre of more than 1m sq ft NLA expected to be completed in 2020 (Figure 8). This is followed by Facebook’s first data centre of some 1.8m sq ft NLA expected to open in 2022 (not included in the pipeline as development has not obtained planning approval).

Figure 8: Private industrial development pipeline (with planning approvals and GLS sites which are pending approvals)



Source: Edmund Tie & Company Research

## Outlook

Despite current global economic uncertainties and a slowing local economy, the slower rate of supply coming into the market is expected to provide some support to occupancy and rents. However, the sector remains vulnerable to external shocks and may be significantly impacted should the US-China trade war escalate. Hence, rental rates are expected to remain stable with some downside risks (e.g. -2.0 to 2.0 per cent in 2019).



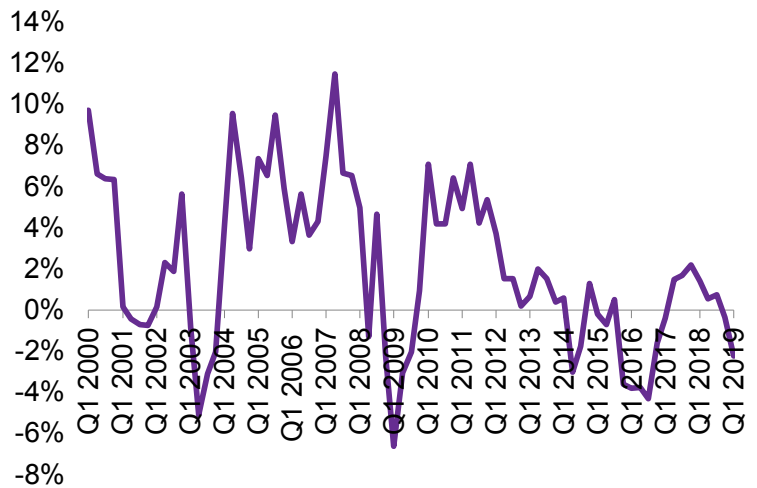
# Retail

## Market commentary

### Key economic indicators

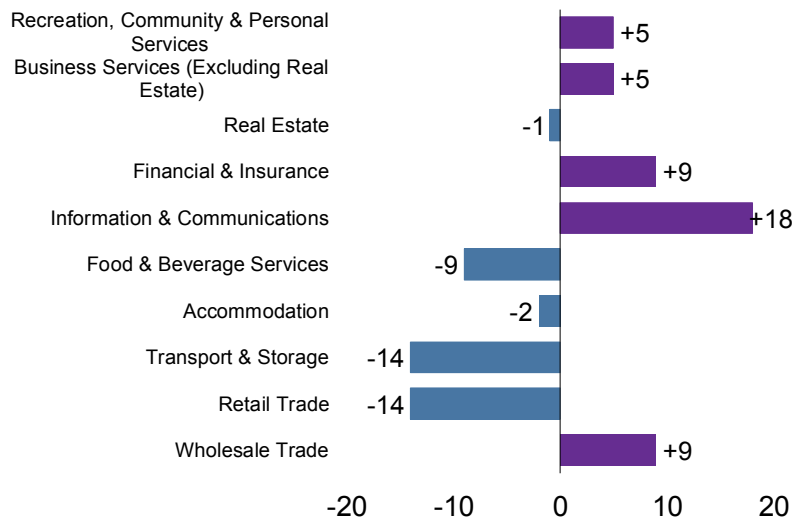
- Retail sales index (excluding motor vehicles) fell 2.3 per cent year-on-year (y-o-y) in Q1 2019, larger than 0.4 per cent contraction in Q4 2018 (Figure 9). In March 2019, retail sales in most segments fell y-o-y, with optical goods & books, food retailers, and computer and telecommunications equipment amongst the worst performers declining by 4.9 to 6.4 per cent y-o-y. Only sectors such as medical goods and toiletries saw some modest gains. Online sales accounted for 5.3 per cent of total sales.
- Based on the recent business expectations of the services sector for the period of April to September 2019, the outlook for retail trade and food and beverage (F&B) segments are less optimistic, especially so for department stores and supermarkets industries (Figure 10).
- International visitor arrivals increased by 4.7 per cent quarter-on-quarter (q-o-q) and 1.0 per cent year-on-year (y-o-y) in Q1 2019, with the top three countries being China (20.5 per cent), Indonesia (15.5 per cent) and India (6.4 per cent). This was in line with the Singapore Tourism Board’s forecast of 1.0 to 3.0 per cent growth for 2019.

Figure 9: Retail Sales Index (excluding motor vehicles)



Source: Department of Statistics Singapore

Figure 10: General business outlook



Source: Department of Statistics Singapore

## Investment market

- While there were no transactions valued above \$100m in Q4 2018, there were two retail transactions in Q1 2019 totalling \$630m. This comprised the sale of Liang Court to CapitaLand and City Developments Ltd for \$400m or \$894 per square foot (psf) net lettable area (NLA) and Rivervale Mall to SC Capital Partners for \$230m or \$2,833 psf NLA.

## Private demand, occupancy and supply

Islandwide net absorption fell by more than 98.0 per cent q-o-q to just 5,000 sq ft in Q1 2019. Likewise, net supply fell by about 78.0 per cent q-o-q as there were lesser completions in Q1 2019.

### Orchard/Scotts Road (OSR)

- Occupancy rate declined by 1.0 percentage point q-o-q to 93.9 per cent in Q1 2019 (Table 11).
- As the F&B segment was highly competitive, several brands closed their operations in Q1 2019 including Pablo Cheese Tart (Wisma Atria) and Chili's (Tanglin Mall).

### Other City Areas (OCA)

- Net absorption contracted by 16,000 sq ft in Q1 2019 vis-à-vis 102,000 sq ft in Q4 2018.
- Retail remains challenging, especially during after working hours and weekends when foot traffic drops significantly vis-à-vis during working hours.
- In Q1 2019, vacancy rates in the downtown and Singapore River areas remained above double digits at 10.2 per cent and 13.6 per cent respectively. Bookstore retailer, Kinokuniya, will be closing its 13,000 sq ft store in Liang Court in April 2019.

### Suburban Areas (SA)

- Net demand and supply for retail spaces slowed in Q1 2019 with the occupancy rate down marginally.
- Malls located in prime locations with the right tenant mix and near transportation nodes, continued to perform relatively well.
- This was evident with Singapore's largest retail REIT, CapitaLand Mall Trust's Q1 2019 results which reported 2.0 per cent increase in shopper traffic, 1.2 per cent rental reversions, and 0.4 per cent decline of tenants' sales psf. Malls that were well-connected to MRT stations and have diverse retail offerings reported higher gross revenues of 2.0 to 5.0 per cent. For e.g., Bedok Mall, Tampines Mall and Junction 8.
- Other notable expansions included Japanese discount chain Don Don Donki, which opened its third and largest outlet in City Square Mall in Q1 2019.

Table 11: Private retail demand, occupancy and supply in Q1 2019

Region	Q4 2018			Q1 2019			Q-o-Q %tage point change (Occupancy)
	Net absorption* ('000 sq ft)	Occupancy rate (%)	Net supply* ('000 sq ft)	Net supply* ('000 sq ft)	Occupancy rate (%)	Net supply** ('000 sq ft)	
OSR	47	94.8	0	12	93.9	97	-1.0 ▼
OCA	102	91.1	158	-16	90.6	58	-0.6 ▼
SA	174	88.8	695	9	88.7	35	-0.1 ▼
Islandwide	323	90.4	854	5	90.1	189	-0.4 ▼

Source: Source: URA, Edmund Tie & Company Research

## Rental rates

While the average gross rental rates in the OSR remained largely stable, rents in the OCA and SA were mixed (Table 12). Well-located malls with the right tenant mix have performed relatively well compared to some strata malls, as well as older and less accessible malls, which are likely to continue struggling with falling foot traffic and sales.

Table 12: Average monthly gross rents in Q1 2019 (\$ psf)

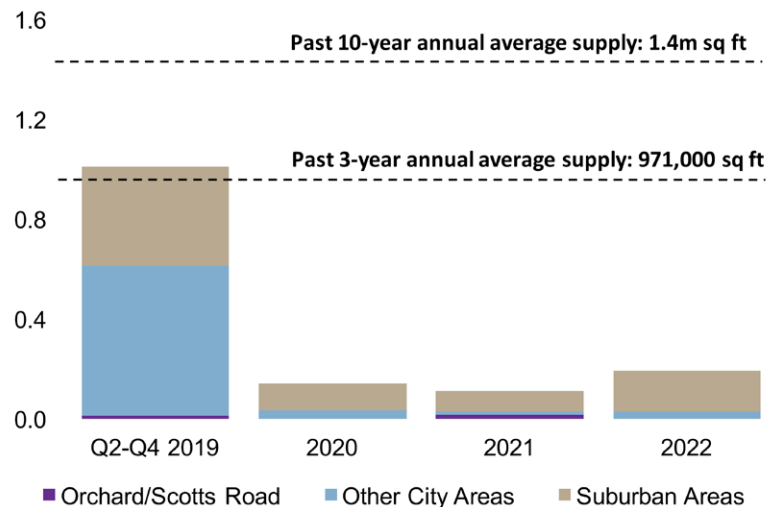
Region	Q4 2018	Q1 2019	Q-o-Q change
OSR	<b>First storey -</b> 35.80 to 38.80	36.00 to 39.00	0.5%
	<b>Upper storey -</b> 15.10 to 18.10	15.00 to 18.00	-0.5%
OCA	<b>First storey -</b> 16.00 to 21.00	16.10 to 21.10	0.5%
	<b>Upper storey -</b> 8.10 to 12.10	8.00 to 12.00	-0.5%
SA (prime malls)	<b>First storey -</b> 25.00 to 31.00	25.20 to 31.20	0.5%
	<b>Upper storey -</b> 15.00 to 20.00	15.00 to 20.00	0.0%

Source: Edmund Tie & Company Research

## Supply pipeline

From Q2 2019 to 2022, some 1.5m sq ft of retail NLA is expected to come on stream, with more than 65.0 per cent or 1.0m sq ft expected to complete from Q2 to Q4 2019. Funan (OCA) (325,000 sq ft NLA) will be the largest retail development which is expected to open in mid-2019 followed by Paya Lebar Quarter Mall (SA) (313,000 sq ft NLA) by late 2019 (Figure 11).

Figure 11: Retail development pipeline (Q2 2019-2022)



Source: URA, Edmund Tie & Company Research

## Outlook

With continuing local and global economic headwinds and consumer confidence remaining pessimistic, the retail sector is expected to remain challenging and susceptible to a fast-changing economic and consumer environment. While rents are expected to remain stable for the prime retail space, there remain significant risks for the sector in terms of tightening labour market (with the recent revised foreign workers quota), rising costs and weak sales. Additionally, the official opening of Jewel Changi Airport in April 2019 with over 280 shops and eateries (where 25.0 per cent are new-to-market brands and new-concept stores), may have some impact on footfall and sales of neighbourhood malls in the East Region.

However, well-managed and well-located malls are expected to perform relatively well, with the limited supply pipeline from 2020 onwards likely to provide some support to rental levels. Hence, rental growth is expected to be tepid and likely to range from -2.0 to 2.0 per cent in 2019.

## CONTACTS

**ONG Choon Fah**  
Chief Executive Officer  
+65 6393 2318  
choonfah.ong@etcsea.com

## PROFESSIONAL SERVICES

### Valuation Advisory

**POH Kwee Eng**  
Executive Director  
Regional Head of  
Valuation Advisory  
+65 6393 2312  
kweeeng.poh@etcsea.com

**Nicholas CHENG**  
Executive Director  
+65 6393 2317  
nicholas.cheng@etcsea.com

### Property Tax Advisory & Statutory Valuation

**NG Poh Chue**  
Executive Director  
+65 6393 2515  
pohchue.ng@etcsea.com

### Research & Consulting

**ONG Choon Fah**  
Chief Executive Officer  
+65 6393 2318  
choonfah.ong@etcsea.com

### Hospitality

**HENG Hua Thong**  
Executive Director  
Regional Head of  
Investment Advisory  
+65 6393 2398  
huathong.heng@etcsea.com

**TAY Hock Soon**  
Senior Director  
+65 6887 0088  
tayhs@treetops.com.sg

### Property Management

**Philip LEOW**  
Executive Director  
+65 6417 9228  
philip.leow@etcsea.com

**KWOK Sai Kuai**  
Executive Director  
Regional Head of  
Property Management  
+65 6417 9229  
saikuai.kwok@etcsea.com

**Paul WONG**  
Senior Director  
+65 6417 9225  
paul.wong@etcsea.com

## AGENCY SERVICES

### Investment Advisory

**Edmund TIE**  
Senior Advisor  
+65 6393 2386  
edmund.tie@etcsea.com

**YAM Kah Heng**  
Senior Advisor  
+65 6393 2368  
kahheng.yam@etcsea.com

**HENG Hua Thong**  
Executive Director  
Regional Head of  
Investment Advisory  
+65 6393 2398  
huathong.heng@etcsea.com

**SWEE Shou Fern**  
Executive Director  
+65 6393 2523  
shoufern.swee@etcsea.com

**TAN Chun Ming**  
Senior Director  
+65 6393 2360  
chunming.tan@etcsea.com

### Auction & Sales

**Nicholas CHENG**  
Executive Director  
+65 6393 2317  
nicholas.cheng@etcsea.com

**Joy TAN**  
Senior Director  
+65 6393 2505  
joy.tan@etcsea.com

### Residential

**Margaret THEAN**  
Executive Director  
Regional Head of Residential  
+65 6393 2383  
margaret.thean@etcsea.com

**Karen ONG**  
Senior Director  
+65 6393 2366  
karen.ong@etcsea.com

### Business Space & Retail

**CHUA Wei Lin**  
Executive Director  
Regional Head of  
Business Space  
+65 6393 2326  
weilin.chua@etcsea.com

### China Desk

**HENG Hua Thong**  
Executive Director  
Regional Head of  
Investment Advisory  
+65 6393 2398  
huathong.heng@etcsea.com

**YAM Kah Heng**  
Senior Advisor  
+65 6393 2368  
kahheng.yam@etcsea.com

## REGIONAL OFFICES

### Malaysia

**Eddy WONG**  
Managing Director  
+603 2024 6380  
eddy.wong@ntl.my

### Thailand

**Punnee SRITANYALUCKSANA**  
Chief Operating Officer  
+66 2257 0499 ext 101  
punnee.s@etchailand.co.th

### Authors:

**Saleha Yusoff**  
Executive Director  
Regional Head of  
Research & Consulting  
+603 2161 7228 ext 302  
saleha.yusoff@etcsea.com

**Leong Kin Mun**  
Assistant Manager  
Research  
+65 6393 2548  
kinmun.leong@etcsea.com

**Darren Teo**  
Associate Director  
Research  
+65 6393 2329  
darren.teo@etcsea.com

**Isabelle SETO**  
Senior Research Analyst  
+65 6393 2382  
isabelle.seto@etcsea.com

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**Edmund Tie & Company (SEA) Pte Ltd**

5 Shenton Way, #13-05 UIC Building, Singapore 068808 • Phone: +65 6293 3228 • Fax: +65 6298 9328 • Email: mail.sg@etcsea.com