Singapore Research

Office

Knight Frank

Q1 2024 | knightfrank.com.sg/research

Renewals support office rents

4.9 MILLION SF (GROSS FLOOR AREA)

Estimated CBD New Supply (2024 - 2028): ▲ Q-O-Q

94.7%

CBD Occupancy: ▲ Q-O-Q

S$11.20 PSF PM

Prime Office Rents: ▲ Q-O-Q

"Although rents remain supported by renewals as most corporates resist relocation or expansion to avoid capital expenditure, there is a possibility of rents flatlining in the second half of 2024, as corporates such as technology firms and banks restructure, and reduce their footprints."

CALVIN YEO, MANAGING DIRECTOR, OCCUPIER STRATEGY AND SOLUTIONS

RENTS AND OCCUPANCY

Prime Grade office rents in the Raffles Place / Marina Bay precinct increased to an average of S$11.20 psf pm, recording a 0.6% q-o-q expansion in Q1 2024. On a yearly basis, rents climbed 3.4%, slowing from the 5.7% growth recorded a year ago.

Occupancy levels in the Raffles Place / Marina Bay precinct and in the overall CBD remained tight at 95.6% and 94.7% respectively in Q1 2024, largely unchanged from the previous quarter. The tight occupancy levels in the quarter were supported mainly by renewals at slightly higher levels from previous positions, as most businesses that already occupy quality spaces resisted relocation and/or expansion, and instead, continued to operate in existing premises.

DEMAND DRIVERS

Singapore's appeal to the international business community has remained intact as multinational corporations (MNCs) continued to locate regional headquarters to the city-state, with many citing the wide pool of talent, tax incentives, a diversified economy and modern infrastructure. One example is FedEx, which recently opened a new regional headquarters, occupying 29,000 sf of space in Centennial Tower, so as to maximise the strategic location of Singapore in the growing supply chain market in Southeast Asia. The International Energy Agency (IEA) will also open its first office outside of its headquarters in Paris in Singapore, to serve as a hub for its activities and engagements in the region. In a report by Bloomberg Intelligence, Singapore hosted 4,200 MNCs in 2023 compared to the 1,336 MNCs found in Hong Kong in the same period, emphatically highlighting Singapore's popularity as a headquarters destination.

Notwithstanding Singapore's pole position as a commercial hub and the prevailing tight occupancy rates in quality buildings, there is a possibility of rents flattening out in the second half of 2024. The shrinking of space footprints by some downsizing technology firms or international banks that are in the process of laying off staff and consolidating business functions could lead to sections of office space being returned upon lease expiry. New builds, such as IOI Central Boulevard Towers and Keppel South Central, expected to complete in 2024, could also attract blue-chip tenants who then decant substantial tracks of space in existing premises. These decanted spaces would provide "flight-to-quality" opportunities for interested companies to move into better buildings should rents be pegged reasonably to keep the building filled.

According to the Minister of Manpower (MOM), the removal of safe management measures in 2022 resulted in the proportion of firms offering at least one scheduled flexible work arrangement (FWAs) falling to 71.4% in 2022 from the 90.5% in 2021. Nevertheless, this proportion remains higher than the 52.7% in 2019 before the pandemic, suggesting that some adoption of hybrid work arrangements will be here to stay. A survey on a diverse group of occupiers conducted by Knight Frank

Exhibit 1: Average Office Rentals, by Key Precincts in Q1 2024

LOCATION	GROSS EFFECTIVE MONTHLY RENTS ($ PSF PM)	Q-O-Q % CHANGE	VACANCY (%)	Q-O-Q CHANGE (PERCENTAGE POINTS)
Raffles Place / Marina Bay Grade A+	$12.15 - $12.65	1.7%	3.6%	-0.2
Raffles Place / Marina Bay Grade A	$10.10 - $10.60	0.4%	5.9%	0.6
Marina Grade A	$10.05 - $10.55	1.7%	2.0%	-1.9
Beach Road / Middle Road Grade A	$9.85 - $10.35	0.2%	8.0%	-0.3
Shenton Way / Robinson Road / Tanjong Pagar Grade A	$10.00 - $10.50	1.2%	4.1%	-0.5
Orchard Grade A	$8.70 - $9.20	0.0%	2.3%	0.0
City Fringe West – Alexandra / Harbourfront	$6.90 - $7.40	0.1%	3.2%	0.2
City Fringe North – Novena / Newton	$7.10 - $7.60	0.0%	0.6%	-0.4
City Fringe East – Paya Lebar	$7.15 - $7.65	0.8%	2.3%	-0.2
Suburban East	$4.70 - $5.20	0.0%	1.8%	1.4
Suburban West	$5.80 - $6.30	2.0%	6.6%	0.3

Source: Knight Frank Occupier Strategy and Solutions also supported a similar sentiment, with approximately 80% anticipating to settle for a 4-day work-from-office schedule by January 2025. Employers who offer such flexibility are likely to have some competitive edge in the labour market and higher employee retention.

ECONOMIC SENTIMENT AND OUTLOOK

Headline news of global retrenchment exercises at various MNCs continued to surface, especially in the technology sector. Based on a labour market report released by MOM, retrenchments rose to 14,590 in 2023 from a record low of 6,440 the previous year, with sectors from IT services, Wholesale Trade and Electronics Manufacturing making up the bulk, as these sectors were most affected by global economic headwinds. However, the overall annual average unemployment rate in Singapore remained low and stable at 1.9% in 2023, lower than the 2.1% and 3.0% recorded in 2022 and 2020 respectively. The re-employment rate for residents in 2023 was a sturdy 63.7%.

In 2024, businesses are expected to tread with cautious optimism, with geo-political tensions the main destabilising factor impacting business growth and operations. On the domestic front, a two-tier market continues to characterise the office landscape, whereby quality buildings that can command a premium are expected to maintain tight occupancy levels while landlords of older buildings increasingly have to consider upgrading their assets to unlock more potential recurring income. Despite the completion of about 3.4 million sf of new office space in the CBD and fringe areas, and rents in the second half of the year possibly plateauing as technology companies and some international banks reorganise and restructure, Singapore remains a premier business location and therefore, Knight Frank expects rents to grow moderately between 1% and 3% for the whole of 2024.

Exhibit 2: Selected Upcoming Office Supply Islandwide

PROJECT NAME	STREET NAME	PLANNING AREA	TOTAL OFFICE SPACE GFA (SF)	DEVELOPER
IOI Central Boulevard Towers	Central Boulevard	Downtown Core	1,493,170	Wealthy Link Pte Ltd
Keppel South Central	Hoe Chiang Road	Downtown Core	613,468	K-Commercial Pte Ltd
Labrador Tower	Labrador Villa Road / Pasir Panjang Road	Queenstown	807,293	SP Group
Paya Lebar Green	Jalan Afifi	Geylang	388,943	RBC Investor Services Trust Singapore Limited (Trustee Of CLPT)
Total Key Supply 2024			**3,302,874**	
Punggol Digital District	Punggol Way	Punggol	421,450	JTC Corporation
Shaw Towers Redevelopment	Beach Road / Middle Road / Nicoll Highway	Downtown Core	476,604	Shaw Towers Realty Pte Ltd
Total Key Supply 2025			**898,055**	
Solitaire On Cecil	Cecil Street	Downtown Core	216,484	Solitaire Cecil Pte Ltd
Total Key Supply 2026			**216,484**	
Singtel Comcentre Redevelopment	Exeter Road	Orchard	882,221	Singtel Somerset Pte Ltd
One Sophia	Sophia Road	Rochor	252,564	Sophia Residential Pte Ltd / Sophia Commercial Pte Ltd
The Skywaters	Shenton Way	Downtown Core	876,710	Ace Shenton Development Pte Ltd / Shenton Commercial Property Pte Ltd / Shenton Hotel Property Pte Ltd / Shenton Office Property Pte Ltd / Shenton Residential Property Pte Ltd
Total Key Supply 2028			**2,011,495**	

Source: URA, Knight Frank Research

For further information on the report, please contact:

Calvin Yeo
Managing Director
Occupier Strategy and Solutions
+65 6228 6887
calvin.yeo@sg.knightfrank.com

Leonard Tay
Head
Research
+65 6228 6854
leonard.tay@sg.knightfrank.com

Koh Kai Jie
Analyst
Research
+65 6228 6857
kaijie.koh@sg.knightfrank.com

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