

Q2 2023

knightfrank.com.sg/research

# Healthy occupancy rate in the office sector despite economic volatility

► “Office rents continued to show upward gravity with resilient occupancy rates supported by flight-to-safety and flight-to-quality moves, despite global and domestic economic uncertainties.”

CALVIN YEO, MANAGING DIRECTOR, OCCUPIER STRATEGY AND SOLUTIONS

## RENTS AND OCCUPANCY

Prime Grade office rents in the Raffles Place / Marina Bay precinct increased 1.2% q-o-q and 5.8% y-o-y in Q2 2023, averaging \$S\$10.96 psf pm. This brought rental growth to 2.5% in the first half of 2023 amid escalating geopolitical tensions, inflationary pressures, and prevailing economic gloom. Nevertheless, with office inventory remaining tight, prime office rents are expected to remain firm.

Occupancy levels in the Raffles Place / Marina Bay precinct, and in the overall CBD remained healthy at 95.8% and 94.4% respectively in Q2 2023, marginally higher than the corresponding 95.4% and 94.1% in Q1. Despite growing rents, businesses were

not deterred from continuing to seek quality spaces in the CBD, supporting the strong occupancy levels in the office market.

## DEMAND DRIVERS

Despite the reporting of business contractions and/or employee layoffs around the world, many international corporates continued to relocate functions to Singapore alongside local start-ups. According to business registry statistics from the Accounting and Corporate Regulatory Authority (ACRA), the number of entities registered in Singapore grew from 570,992 to 579,221 in the first five months of 2023. This increase of 8,229 is higher than the 4,649 new entities registered

**4.6** MILLION SF  
(GROSS FLOOR AREA)

Estimated CBD New Supply  
(Q2 2023-2027): ▼ Q-O-Q

**94.4%**

CBD Occupancy: ▲ Q-O-Q

**\$S\$10.96** PSF PM

Prime Office Rents: ▲ Q-O-Q

over the same period in the previous year. It was also reported that 203 foreign companies established new set ups in Singapore since 2021. While the rising costs of operations and escalating rents might lead some businesses to delay or to cancel expansion plans, Singapore remains a destination of choice for many foreign multinational corporations (MNCs) and family offices (FOs), with the flight-to-safety dynamic a sustained demand driver as firms prioritise business continuity amid the ongoing geopolitical and economic tensions.

Although a survey conducted by Knight Frank and Cresa cited that half the international respondents that had around 50,000 employees, had plans to reduce global office footprint by 10% to 20% in the next few years, net increases are still being observed in Singapore. An example of expansion is Morgan Stanley, which was reported to be moving to IOI Central Boulevard Towers, with business expansion key to their operational strategy. Morgan Stanley is expected to occupy about 100,000 sf of space when the development completes in late 2023.

In the same survey, again nearly half of the 350 respondents planned to move their corporate headquarters within the next few years. Such relocations could translate to net expansion spaces, with occupiers seeking the right workplaces that enhance productivity, and at the same time pursue corporate sustainability goals in the long term. One example is

**Exhibit 1: Average Office Rentals, by Key Precincts in Q2 2023**

LOCATION	GROSS EFFECTIVE MONTHLY RENTS (\$ PSF PM)	Q-O-Q % CHANGE	VACANCY (%)	Q-O-Q CHANGE (PERCENTAGE POINTS)
Raffles Place / Marina Bay Grade A+	\$11.85 - \$12.35	0.9%	3.3%	-0.5
Raffles Place / Marina Bay Grade A	\$9.85 - \$10.35	1.4%	6.2%	-0.3
Marina Grade A	\$9.70 - \$10.20	0.8%	5.8%	-0.2
Beach Road / Middle Road Grade A	\$9.60 - \$10.10	0.9%	2.9%	-0.1
Shenton Way / Robinson Road / Tanjong Pagar Grade A	\$9.70 - \$10.20	0.4%	6.2%	0.6
Orchard Grade A	\$8.50 - \$9.00	0.8%	1.1%	-0.2
City Fringe West - Alexandra / Harbourfront	\$6.80 - \$7.30	0.6%	2.7%	0.2
City Fringe North - Novena / Newton	\$7.05 - \$7.55	0.3%	2.1%	-0.4
City Fringe East - Paya Lebar	\$6.85 - \$7.35	1.4%	2.9%	-0.5
Suburban East	\$4.60 - \$5.10	0.4%	5.8%	-5.1
Suburban West	\$5.55 - \$6.05	1.4%	9.3%	-0.7

Source: Knight Frank Occupier Strategy and Solutions

the recent announcement of Publicis Groupe moving to Guoco Midtown, occupying 55,000 sf of space. The completed office development offers a wide array of lifestyle trends including end-of-commute facilities. With landlords being more conscious of the Environment, Social and Governance (ESG) framework and are increasingly advocates themselves, new builds, redevelopment or asset enhancement initiatives (AEIs) are incorporating sustainability features so that buildings stay competitive and attract blue-chip international tenants.

## ECONOMIC SENTIMENT AND OUTLOOK

The pipeline supply of new office space in the last few years has been few and far between, and inventory remains tight especially in the CBD. Between 2019 and 2022, office stock in the Central Region declined from some 79.6 million sf to 78.8 million sf, before rising to 79.7 million sf in 2021, due to the completion of CapitaSpring and Afro-Asia. At the same time, office demand was fuelled by a steady combination of flight-to-safety moves from the region and around the world, especially during the pandemic, and on the domestic front, office occupiers upgraded their workplaces in flight-to-quality relocations.

Even though economists downgraded Singapore's Gross Domestic Product (GDP) growth forecast as a result of the softening global demand affecting the export-oriented industry, persistently high inflation rate, and the possibility of a technical recession, Singapore's labour market remained tight with the rate of re-employment at 71.7% in Q1 2023, higher than the pre-pandemic level of 65.9%, and overall unemployment at a low of 1.8%. With the dual dynamic of flight-to-safety and flight-to-quality underpinning occupancy levels, Knight Frank has revised the outlook for prime office rents to grow 3% to 5% for the whole of 2023, an improvement from the earlier estimated 3% growth projection made at end-2022.

**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

### 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	1,492,825	Wealthy Link Pte Ltd
One Holland Village	Holland Road	Queenstown	62,754	Commons Residential Pte Ltd / Commons SR Trustee Pte Ltd / Commons Commercial Trustee Pte Ltd
Surbana Jurong Campus	Cleantech Loop	Western Water Catchment	130,082	SJ Capital (JID) Pte Ltd
<b>Total Key Supply 2023</b>			<b>1,685,661</b>	
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
Extension of Odeon Towers	North Bridge Road	Downtown Core	46,425	UOL Group Limited
Paya Lebar Green	Jalan Afifi	Geylang	388,943	RBC Investor Services Trust Singapore Limited (Trustee Of CLPT)
<b>Total Key Supply 2024</b>			<b>1,856,129</b>	
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
<b>Total Key Supply 2025</b>			<b>898,055</b>	
Solitaire On Cecil	Cecil Street	Downtown Core	216,484	Solitaire Cecil Pte Ltd
<b>Total Key Supply 2026</b>			<b>216,484</b>	

Source: URA, Knight Frank Research

## Recent Publications



THE WEALTH REPORT 2023



OFFICE Q1 2023

**SUBSCRIBE** to updates and reports delivered to your inbox

**SIGN UP ONLINE**