

“ Geopolitical uncertainties around the world and region also enhanced the attractiveness of Singapore’s hub status. ”

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Singapore Research

Office

Q3 2020

OFFICE RENTS AND OCCUPANCIES CONTINUED TO SLIDE IN Q3 2020, ALBEIT AT A SLOWER PACE

MARKET SNAPSHOT

5.30 MILLION SQFT

EXPECTED ISLAND-WIDE NEW SUPPLY (Q3 2020-2023)

94.5% (5.5% VACANCY) CBD OCCUPANCY

\$10.37 PSF PM OVERALL PRIME OFFICE RENTS

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Rents and Occupancy

- Prime Grade office rents in the Raffles Place / Marina Bay precinct fell by a further 2.3% quarter-on-quarter (q-o-q) to \$10.37 per square foot per month (psf pm) in Q3 2020, bringing the total decline in the first three quarters of the year to 8.4%. Prime Grade occupancies also continued to drop, albeit more mildly at 0.6% q-o-q as existing leases generally remained committed.
- While occupancies were healthy despite the recession, the amount of shadow space increased as corporates continued to review the most efficient use of space through working from home rotations. The amount of shadow space is estimated to have increased from at least 170,000 sqft in the previous quarter to some 260,000 sqft in Q3.

Demand Drivers

- More traditional businesses have been contributing to co-working space demand as corporates harness these flexible spaces on shorter leases to augment their space requirements. Arcc Spaces at One Marina Boulevard reported a 30% take-up rate with companies in finance, technology and professional services after starting operations in August. Several office landlords have also followed suit to provide their own flexible space offerings within their office buildings for tenants. As such, office space will increasingly be offered “as a service” to occupiers.
- E-commerce and technology companies continued to lead office space demand. Amazon took up some 90,000 sqft of office space vacated by Citibank in Asia Square Tower 1, while food-delivery service company Delivery Hero will expand from its existing premises to take up about 50,000 sqft in the upcoming Afro-Asia I-Mark. Geopolitical uncertainties around the world and region also enhanced the attractiveness of Singapore’s hub status, with international law firms as well as tech giants such as Tencent, ByteDance and Alibaba selecting Singapore as regional bases, creating new office demand.

Exhibit 1: Average Office Rentals, by Key Precincts in Q3 2020

| LOCATION | GROSS EFFECTIVE MONTHLY RENTS (\$ PSF PM) | Q-O-Q % CHANGE | VACANCY (%) | Q-O-Q CHANGE (PERCENTAGE POINTS) |
|---|---|----------------|-------------|----------------------------------|
| Raffles Place / Marina Bay Grade A+ | \$11.15 - \$11.65 | -1.9% | 3.2% | 0.5 |
| Raffles Place / Marina Bay Grade A | \$9.40 - \$9.90 | -2.6% | 8.2% | 0.7 |
| Marina Grade A | \$9.05 - \$9.55 | -4.2% | 3.4% | 0.3 |
| Beach Road / Middle Road Grade A | \$8.65 - \$9.15 | -2.1% | 2.8% | -2.2 |
| Shenton Way /Robinson Road /Tanjong Pagar Grade A | \$9.20 - \$9.70 | -2.2% | 5.3% | 0.9 |
| Orchard Grade A | \$8.15 - \$8.65 | -2.8% | 7.1% | 2.8 |
| City Fringe West - Alexandra / Harbourfront | \$6.45 - \$6.95 | -0.4% | 3.4% | 0.8 |
| City Fringe North - Novena / Newton | \$6.95 - \$7.45 | -1.6% | 0.7% | -0.3 |
| City Fringe East - Paya Lebar | \$6.45 - \$6.95 | -0.6% | 3.9% | -2.1 |
| Suburban East | \$4.50 - \$5.00 | -0.4% | 18.3% | 6.5 |
| Suburban West | \$5.20 - \$5.70 | 0.0% | 5.6% | -1.3 |

Source: Knight Frank Corporate Real Estate

Economic Sentiment and Outlook

- Singapore’s GDP growth forecast further narrowed to “-7.0 to -5.0%” in August from “-7.0 to -4.0%” in May as the economy dived 13.2% from the previous year in Q2 2020. Retrenchments more than doubled in Q2 2020 to 8,130, of which almost 45% were Professionals, Managers, Executives and Technicians (PMETs) as slower business conditions translate to a decline in office space demand in the near term.
- Despite the weak recessionary climate, investments into Singapore reached S\$14.3 billion in the first half of 2020. Technology firms such as Beijing-based ByteDance and Shenzhen-based Tencent intend to expand, investing billions that will support economic recovery and drive office demand.
- Additionally, the redevelopment of several ageing office buildings in the CBD will provide a further boost to easing occupancy levels. Displaced occupiers as a result of the withdrawal of some 880,000 sqft of net lettable area (NLA) from the redevelopment of Shaw Towers, Keppel Towers and Tower Fifteen this year, and more than 1.2 million sqft of NLA from AXA Tower, Fuji Xerox Tower and potentially Central Mall in 2021, will generate leasing demand.
- Pre-commitment rates at the upcoming Afro-Asia I-Mark and CapitaSpring are at 60% and 35% respectively, while Hub Synergy Point, Guoco Midtown and Central Boulevard Towers are currently still marketing their spaces. Given the combination of these factors and the envisaged period of recovery, office rents are expected to drop closer to 10% within the projected range of 10-15% in 2020, followed by a more moderate 5-10% easing in 2021.

Exhibit 2: Selected Upcoming Office Supply in the Central Business District

| PROJECT NAME | STREET NAME | PLANNING AREA | TOTAL OFFICE SPACE GFA (SQ FT) | DEVELOPER |
|------------------------------|-------------------|---------------|--------------------------------|--|
| Afro-Asia I-Mark | Robinson Road | Downtown Core | 180,400 | Robinson Development Pte Ltd |
| CapitaSpring | Market Street | Downtown Core | 754,550 | CL Office Trustee Pte Ltd / Glory SR Trustee Pte Ltd |
| Hub Synergy Point | Anson Road | Downtown Core | 154,350 | Hub Synergy (S) Pte Ltd |
| 21 Collyer Quay | Collyer Quay | Downtown Core | 200,000 | CapitaLand Commercial Management Pte Ltd |
| Total Key Supply 2021 | | | 1,289,300 | |
| Central Boulevard Towers | Central Boulevard | Downtown Core | 1,493,060 | Wealthy Link Pte Ltd (IOI) |
| Guoco Midtown | Beach Road | Downtown Core | 773,390 | GLL Prosper Pte Ltd / GLL Thrive Pte Ltd |
| Total Key Supply 2022 | | | 2,266,450 | |

Source: URA, Knight Frank Research

Contact us for insights, research and real estate opportunities.



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