

Q3 2023

knightfrank.com.sg/research

The office sector remained resilient

► “Despite the soft economy, many businesses continued to renew their leases, supporting the healthy occupancy levels in the office sector.”

CALVIN YEO, MANAGING DIRECTOR, OCCUPIER STRATEGY AND SOLUTIONS

RENTS AND OCCUPANCY

Prime Grade office rents in the Raffles Place / Marina Bay precinct rose 0.8% q-o-q and 5.1% y-o-y in Q3 2023, averaging S\$11.05 psf pm. The slowing economy did not deter office rents from holding up, with prime office rents growing a moderate 3.4% in the first nine months of 2023. In the remaining months of the year, prime office rents are expected to maintain as CBD office supply will continue to remain tight.

Occupancy levels in the Raffles Place / Marina Bay precinct, and in the overall CBD were healthy at 96.0% and 94.4% respectively in Q3 2023, remaining relatively stable from the

corresponding levels of 95.8% and 94.1% in the previous quarter. Most office occupiers in quality office buildings in the CBD were generally more inclined to renew their rental contracts due to cost efficiencies compared to relocation. Post pandemic, the office as a relevant focal point for workplace productivity remains critical for many aspects of business operations, thereby keeping occupancy levels tight.

DEMAND DRIVERS

The third quarter was a relatively quiet one for the office market as businesses around the world turned cautious, reticent to expand amid the bearish

4.7

 MILLION SF
(GROSS FLOOR AREA)

Estimated CBD New Supply
(Q3 2023-2027): ▲ Q-O-Q

94.4%

CBD Occupancy: ▲ Q-O-Q

S\$11.05

 PSF PM

Prime Office Rents: ▲ Q-O-Q

global economic outlook. Some international banks such as UBS and Standard Chartered recently announced reductions in headcounts. However, at the same time, smaller international and regional banks have been sourcing for modest expansion space.

As businesses continued to grapple between global economic headwinds and escalating geo-political tensions, international firms were not deterred from locating in Singapore, for a presence in South-east Asia. Key examples included San Francisco-based global human resource firm Deel and Japanese firm Exeo Global citing the strategic location of the city to Asia Pacific markets as well as the substantial talent pool as favourable factors for establishing their new offices in Singapore.

The demand for quality spaces maintained with occupiers not moving out of their current offices to lower-cost buildings. As such, while tight occupancies characterise quality offices, older buildings may struggle to mitigate vacancy levels. To attract the best tenants seeking “flight-to-quality” moves and to secure a recurring rental stream in the future, asset enhancement or redevelopment into a sustainable asset can position to capture market upside when the business cycle turns. This trend started during the pandemic when several buildings such as the former Keppel Towers at Hoe Chiang Road, the former Shaw Tower in Beach

Exhibit 1: Average Office Rentals, by Key Precincts in Q3 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+	\$11.95 - \$12.45	0.7%	3.2%	-0.1
Raffles Place / Marina Bay Grade A	\$9.95 - \$10.45	1.0%	5.7%	-0.5
Marina Grade A	\$9.90 - \$10.40	2.0%	5.8%	0.0
Beach Road / Middle Road Grade A	\$9.80 - \$10.30	2.0%	6.8%	0.3
Shenton Way / Robinson Road / Tanjong Pagar Grade A	\$9.90 - \$10.40	1.9%	5.9%	-0.3
Orchard Grade A	\$8.60 - \$9.10	1.1%	1.7%	0.6
City Fringe West - Alexandra / Harbourfront	\$6.85 - \$7.35	0.1%	5.6%	2.9
City Fringe North - Novena / Newton	\$7.10 - \$7.60	0.3%	1.5%	-0.6
City Fringe East - Paya Lebar	\$7.00 - \$7.50	2.4%	2.0%	-0.9
Suburban East	\$4.70 - \$5.20	2.1%	4.7%	-1.0
Suburban West	\$5.65 - \$6.15	1.7%	10.1%	0.8

Source: Knight Frank Occupier Strategy and Solutions

Road and the former AXA Tower in Shenton way decanted to undergo redevelopment into modern green certified buildings.

ECONOMIC SENTIMENT AND OUTLOOK

Singapore's Gross Domestic Product (GDP) grew 0.5% y-o-y in Q2 2023 according to the Ministry of Trade and Industry (MTI), improving slightly from the 0.4% y-o-y growth in Q1 2023. On a quarterly basis, the economy avoided recession with a very marginal increase of 0.1% q-o-q after reversing from a 0.4% contraction in Q1 2023. Given the pre-existing weak global economy with continued downside risks, MTI narrowed the GDP growth forecast for 2023 to 0.5% to 1.5%, with private economists echoing a similar weak sentiment, cutting GDP forecast for the year to 1%.

However, according to the Ministry of Manpower, the Singapore labour market remained stable in Q2 2023 albeit at a slower pace of growth in the next few quarters. Hiring sentiments remained optimistic among employers in Singapore. Based on a survey conducted by the ManpowerGroup, 510 employers in the city-state across various sectors reflected a positive net employment outlook of 34%, a two percentage-point increase from the previous quarter. Among these employers surveyed, 48% of respondents were expecting to increase headcount in the next few quarters, which could translate into moderate office expansions.

Despite the slow growth, Singapore would unlikely fall into a technical recession in 2023. Undergirded by a tight labour market, office tenants will continue to take holding positions by renewing or relocating their leases cautiously. With no new office inventory expected to complete in the CBD until 2024, occupancy levels will remain firm, with very marginal rental upside. As such, Knight Frank maintains its forecast of 3% to 5% growth in rents for the whole of the year.

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
One Holland Village	Holland Road	Queenstown	62,754	Commons Residential Pte Ltd / Commons SR Trustee Pte Ltd / Commons Commercial Trustee Pte Ltd
Total Key Supply 2023			62,754	
IOI Central Boulevard Towers	Central Boulevard	Downtown Core	1,492,825	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
Extension of Odeon Towers	North Bridge Road	Downtown Core	46,425	UOL Group Limited
Paya Lebar Green	Jalan Affi	Geylang	388,943	RBC Investor Services Trust Singapore Limited (Trustee Of CLPT)
Total Key Supply 2024			3,348,954	
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	

Source: URA, Knight Frank Research

Recent Publications



THE WEALTH REPORT 2023



OFFICE Q2 2023

SUBSCRIBE to updates and reports delivered to your inbox

SIGN UP ONLINE



About Knight Frank Singapore

Knight Frank LLP is the leading independent global property consultancy. Headquartered in London, Knight Frank has over 25,728 people, across 604 offices in 58 territories. The Group advises clients ranging from individual owners and buyers to major developers, investors and corporate tenants. Knight Frank has a strong presence in Singapore with a head office and two subsidiaries: Knight Frank Property Asset Management and KF Property Network. For further information about the Company, please visit www.knightfrank.com.sg.

© Knight Frank 2023

This report is published for general information only. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no legal responsibility can be accepted by Knight Frank Research or Knight Frank for any loss or damage resultant from the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank in relation to particular properties or projects. Reproduction of this report in whole or in part is allowed with proper reference to Knight Frank Research.