

“ The permanent adoption of rotational remote working by many corporates is expected to lower the net new demand for office space. ”



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# Office

## Q4 2020

### OFFICE OCCUPANCIES REMAINED LARGELY INTACT DUE TO COMMITTED LEASES MITIGATING RENTAL DECLINES IN 2020

#### Rents and Occupancy

- Prime Grade office rents in the Raffles Place / Marina Bay precinct contracted 10.2% in 2020 as rental declines moderated in Q4 2020, dipping by 2.0% quarter-on-quarter (q-o-q) to S\$10.16 per square foot per month (psf pm) compared to the -2.3% q-o-q decrease in Q3 2020. Rental declines eased generally due to short-term renewals, as tenants adopted a wait-and-see approach until the economic outlook becomes more certain and to appraise the manner in which they would occupy office space in the post-pandemic era.
- Although pre-termination space continued to rise and was estimated at 330,000 square feet (sqft) in Q4 2020 compared to the 260,000 sqft in Q3 2020, occupancy levels for prime grade offices remained supported by these committed leases resulting in a slight 0.2 percentage point decline q-o-q in Q4.

Exhibit 1: Average Office Rentals, by Key Precincts in Q4 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+	\$10.95 - \$11.45	-1.8%	2.9%	-0.3
Raffles Place / Marina Bay Grade A	\$9.20 - \$9.70	-2.2%	9.2%	1.0
Marina Grade A	\$8.65 - \$9.15	-4.0%	2.0%	-1.3
Beach Road / Middle Road Grade A	\$8.60 - \$9.10	-0.9%	5.0%	2.2
Shenton Way / Robinson Road / Tanjong Pagar Grade A	\$9.00 - \$9.50	-2.0	5.7%	0.4
Orchard Grade A	\$8.10 - \$8.60	-1.0%	7.0%	-0.1
City Fringe West – Alexandra / Harbourfront	\$6.35 - \$6.85	-1.5%	5.4%	2.0
City Fringe North – Novena / Newton	\$6.85 - \$7.35	-1.4%	1.6%	0.9
City Fringe East – Paya Lebar	\$6.40 - \$6.90	-0.4%	3.9%	0.0
Suburban East	\$4.50 - \$5.00	0.0%	17.6%	-0.7
Suburban West	\$5.20 - \$5.70	0.0%	5.6%	0.0

Source: Knight Frank Corporate Real Estate

#### MARKET SNAPSHOT

**5.30** MILLION SQFT

EXPECTED ISLAND-WIDE NEW SUPPLY (Q4 2020-2023)

**94.1%**

CBD OCCUPANCY

**S\$10.16** PSF PM

OVERALL PRIME OFFICE RENTS

#### Demand Drivers

- In Q4 2020, corporates in the banking and insurance sectors started the trend of consolidating and paring down their real estate footprint as flexible work arrangements became more widely adopted. Mizuho will trim about 16,800 sqft in Asia Square Tower 2, and Sompo Insurance trimmed 40% of its 26,000 sqft office space at Singapore Land Tower while accommodating all staff on a hybrid work model. CIMB Bank was also reported to have leased more than 50,000 sqft in 30 Raffles Place, less than their existing space of about 70,000 sqft at Singapore Land Tower. As this is expected to continue, more space will be freed up going forward.
- As an inadvertent beneficiary of the COVID-19 pandemic, information and technology communications (ICT) firms continued to be active in the office market. As global tech giants such as ByteDance and Tencent announced expansion inroads into Singapore this year, other technology firms such as Lazada are looking to take up 100,000 sqft of contiguous space at a reasonable rent in 50ne Central, some 23% less than the 130,000 sqft they currently occupy at AXA Tower.

## Economic Sentiment and Outlook

- Singapore's GDP forecast was revised to "-6.0 to -6.5%" for 2020 from "-5.0 to -7.0%", with quarterly rebounds of 9.5% and 2.1% (flash estimates) in Q3 2020 and Q4 2020 respectively. While economic recovery is expected to be gradual and uneven, 2021 is envisaged to revert to growth with the economy expanding by "4.0% to 6.0%" according to the Ministry of Trade and Industry (MTI).
- In addition, there are several other factors that will boost Singapore as an office destination. The government's effective handling of the COVID-19 outbreak and commitment to developing key sectors of the economy is a beacon of confidence for businesses anxious over resurging waves of the pandemic as well as geopolitical tensions around the world and in the region. With an estimated S\$3.5 billion invested for ICT procurement in 2020 and a further S\$25 billion into research, innovation and enterprise activities till 2025, global firms and family offices have been and will continue to be drawn to set up in Singapore.
- Cumulatively, these factors are expected to create more than 12,000 jobs openings in the information and technology communications (ICT) sector of which 95% will likely be PMETs roles. The issuance of four digital bank licenses will also translate to more job openings and consequently office space demand.
- Nevertheless, even with economic recovery and the growing presence of tech companies in Singapore, the permanent adoption of rotational remote working by many corporates is expected to lower the net new demand for office space. Furthermore, the rethinking of traditional office space usage in an age of flexible work arrangements, and the casualties of the COVID-19 pandemic as the government withdraws business support measures will likely add to contractionary pressures for office space.
- Barring new strains of the virus causing recurring waves of infection and consequent lockdowns, and with the economy improving as expected, office rents may fall by around 5% in 2021 before bottoming out and recovering in 2022 considering the combination of all the above factors.

## Contact us for insights, research and real estate opportunities.



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### 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	755,820	CL Office Trustee Pte Ltd / Glory SR Trustee Pte Ltd
Hub Synergy Point	Anson Road	Downtown Core	154,300	Hub Synergy (S) Pte Ltd
21 Collyer Quay	Collyer Quay	Downtown Core	200,000	CapitaLand Commercial Management Pte Ltd
<b>Total Key Supply 2021</b>			<b>1,290,520</b>	
Central Boulevard Towers	Central Boulevard	Downtown Core	1,493,040	Wealthy Link Pte Ltd (IOI)
Guoco Midtown	Beach Road	Downtown Core	773,440	GLL Prosper Pte Ltd / GLL Thrive Pte Ltd
<b>Total Key Supply 2022</b>			<b>2,260,480</b>	

Source: URA, Knight Frank Research

### Recent Publications



OFFICE Q3 2020



SINGAPORE VIEW  
22<sup>ND</sup> EDITION

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