

“ Overall occupancy levels are expected to come under increasing pressure for the rest of the year and could decline by 5% or more in 2020. ”

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Singapore Research

Office

Q2 2020

THE ECONOMIC FALLOUT FROM THE PANDEMIC WEIGHED DOWN ON DEMAND AND RENTS

MARKET SNAPSHOT

5.15 MILLION SQFT

EXPECTED ISLAND-WIDE
NEW SUPPLY (Q2 2020-2023)

94.8% (5.2% VACANCY)
CBD OCCUPANCY

\$10.61 PSF PM
OVERALL PRIME OFFICE RENTS

Rents and Occupancy

- Prime Grade office rents in the Raffles Place/Marina Bay precinct dropped for the second consecutive quarter in Q2 2020, declining by a further 4.1% quarter-on-quarter (q-o-q) to \$10.61 per square foot per month (psf pm) as landlords lowered their expectations to maintain occupancy and try to secure new tenants amid clouded economic prospects for the rest of the year, but occupancy rates remained relatively stable decreasing by a marginal 0.2% q-o-q in the precinct due to ongoing lease commitments.
- The economic fallout from the pandemic weighed down on demand and rents with many corporates considering space reduction now that working from home has proven workable as a regular work arrangement component post-pandemic.

Exhibit 1: 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
		Total Key Supply 2020	180,400	
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	1,108,900	
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

Demand Drivers

- The unemployment rate climbed from 2.3% at the end of last year to 2.4% by March 2020, as total employment fell by 25,600. However, the decline was largely due to the contraction in the trade and tourism-related sectors and had less of an impact on traditional occupiers of CBD office space. Retrenchment numbers reported were also below recessionary highs, with 3,220 retrenchments in Q1 2020 as compared to 12,760 during the peak of the Global Financial Crisis (GFC) in Q1 2009. With further job losses being inevitable for the rest of 2020, the return of office space to the market is expected to increase.
- However, there is increasing demand for short-term renewals as office tenants adopt a wait-and-see approach, to evaluate the impact of the pandemic on their balance sheets and business strategy post-pandemic, before making headcount and space-related decisions.
- Despite the prevailing weak sentiment, sectors such as finance and insurance and information and communications (ICT) went against the grain with increased employment numbers in early 2020. The demand for digital solutions and remote-work services in a post-pandemic world, coupled with government incentives such as the E-commerce Booster Package to help businesses come onboard digitally, will also fuel the growth of information and technology companies. But given the newfound possibility of having employees work from home regularly post-pandemic, office space expansions are expected to remain muted.

Exhibit 2: Average Office Rentals, by Key Precincts in Q2 2020

LOCATION	GROSS EFFECTIVE MONTHLY RENTS (\$ PSF PM)	Q-O-Q % CHANGE	VACANCY (%)	Q-O-Q CHANGE (% POINTS)
Raffles Place / Marina Bay Grade A+	\$11.40 - \$11.90	-6.0%	2.7%	-1.4
Raffles Place / Marina Bay Grade A	\$9.70 - \$10.20	-2.6%	7.5%	3.8
Marina Grade A	\$9.45 - \$9.95	-4.3%	3.1%	0.3
Beach Road / Middle Road Grade A	\$8.90 - \$9.40	-4.6%	5.0%	2.6
Shenton Way / Robinson Road / Tanjong Pagar Grade A	\$9.40 - \$9.90	-1.4%	4.4%	1.8
Orchard Grade A	\$8.40 - \$8.90	-1.1%	4.3%	-0.3
City Fringe West - Alexandra / Harbourfront	\$6.50 - \$7.00	-0.4%	2.6%	0.2
City Fringe North - Novena / Newton	\$7.10 - \$7.55	-0.5%	1.0%	-0.6
City Fringe East - Paya Lebar	\$6.50 - \$7.00	-0.9%	6.0%	1.7
Suburban East	\$4.50 - \$5.00	0.0%	11.8%	-3.6
Suburban West	\$5.20 - \$5.70	0.6%	6.9%	2.2

Source: Knight Frank Corporate Real Estate

Economic Sentiment and Outlook

- ♦ The economic forecast for Singapore in 2020 went through yet another round of downward revision, as the Ministry of Trade and Industry (MTI) lowered their Gross Domestic Product (GDP) expectations to a contraction of between -7% and -4% from the previous estimates of between -4% and -1%. Given the correlation between office space demand and GDP growth in the previous recessions, prime office rents are expected to fall by 10% to 15% for the whole of 2020.
- ♦ The recent completion of 30 Raffles Place and 55 Market Street introduced about 280,000 sq ft of market vacancy. In addition, there is a spectre of increasing shadow space of at least 170,000 sq ft currently available via pre-termination in the market. Typically, during periods of recessionary pressure, such shadow space will increase as tenants seek to mitigate cost pressures, and this round is expected to be exacerbated with many corporates adopting teleworking from home arrangements and pre-terminating excess space. Given the combination of these factors, overall occupancy levels are expected to come under increasing pressure for the rest of the year and could decline by 5% or more in 2020.

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.



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