

SINGAPORE RESEARCH OFFICE



Q1 2018 OFFICE MARKET SNAPSHOT

Total Stock
85.4 million sq ft
▲ 0.1% q-o-q

New Supply (Q1 2018)
132,000 sq ft

Upcoming New Supply (Q2 2018 - 2021):
6.9 million sq ft

Overall Prime Office Rents¹:
\$S\$9.20 psf pm

STEADY OFFICE MARKET RECOVERY ON THE BACK OF POSITIVE ECONOMIC OUTLOOK AND HIRING SENTIMENTS ACROSS SECTORS

Prime grade office rents on the rise for four consecutive quarters with a cumulative 4.5% increase since Q2 2017

- Grade A+ office space rents in the Raffles Place / Marina Bay precinct increased by 2.7% quarter-on-quarter (q-o-q) in Q1 2018. With an average occupancy rate of 92.5% and tapering supply of new prime office stock coming on-stream until 2020, landlords are adjusting rents upwards.
- While Grade A office space rents rose across all precincts, the Suntec / Marina Centre precinct saw the highest rent growth by 2.9% q-o-q as occupancy rose by 0.1% q-o-q to 95.9% in Q1 2018.
- Although Grade A office space occupancy in Raffles Place / Marina Bay decreased in Q1 2018 by 0.2% due to tenant movements, most precincts registered increase in occupancy, with City Hall Grade A office space at near full occupancy.



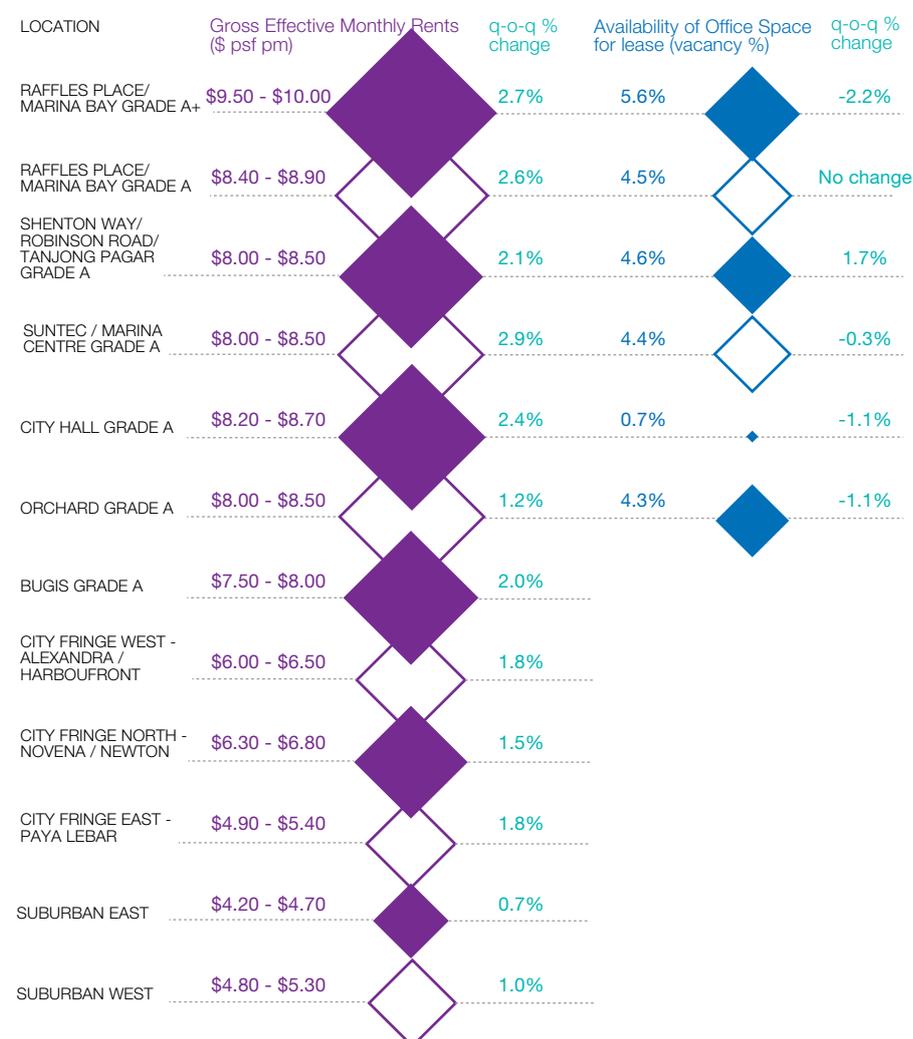
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“Many companies are increasingly adopting flexible workplace arrangements, enterprise co-working arrangements, gig economy outsourcing and office space providers would need to be more creative in meeting the new demand for such flexible occupancy arrangements.”

¹ Overall prime rents is defined as the average of Grade A+ & A Raffles Place / Marina Bay precinct

EXHIBIT 1

Average Office Rentals, by Key Precincts in Q1 2018



Source: Knight Frank Office Advisory

(A) Rents are based on transacted leases and on a lease term of at least three years and are expressed as values rounded to nearest 10-cent. (B) Rents are estimated based on leases of a whole-floor office space on the mid-floor levels of office properties, and taking into account rent free period and other concessions. (C) Availability of Office space for lease is based on Knight Frank Research basket of office buildings tracked in each respective precinct. (D) Office space available for lease is not representative of the entire precinct.

EXHIBIT 2

Shifts and expansions of selected enterprises in Q1 2018

Tenant	Sector	New Location	New Size (sf)
Total S.A.	Energy	Frasers Tower	125,000
Rajah & Tann	Legal	Marina One	80,000
SMRT	Government	Paya Lebar Quarter	100,000
Shiseido	Cosmetics	Frasers Tower	50,000

Source: Knight Frank Office Advisory

Major movements in the Office Market

- **Office space leasing movements in Q1 2018 was broad-based across industries.** The largest move in the CBD came from French energy giant Total S.A., leasing close to 125,000 sq ft of office space in Frasers Tower. Other notable movements include cosmetics firm Shiseido relocating from Haw Par Centre to take-up some 50,000 sq ft in Frasers Tower, and legal firm Rajah & Tann relocating to Marina One from MYP Centre to occupy some 80,000 sq ft.
- **Continued strong demand from Co-working space providers.** For instance, WeWork, which started operations in Singapore only at the end of 2017, is set to grow its footprint to over 300,000 sq ft by 2018. Justco would also be opening its sixth co-working centre in Singapore in July 2018, which spans 60,000 sq ft at Marina Square. Demand for co-working spaces come from a variety of businesses, typically locating their innovative functions at such flexible and alternative work arrangements to foster creativity and collaboration. But with the plethora of co-working space offerings, we may see some consolidation in the mid to long term.

Demand drivers of the Office Market

- **Singapore's economy grew by 4.3%²** on a y-o-y basis in Q1 2018, higher than the 3.6% growth in the previous quarter. While the growth was primarily supported by the manufacturing sector, the services producing industries too expanded by 3.8% y-o-y, slightly faster than the 3.5% increase in Q4 2017, contributing to the demand for office space.
- **Favourable hiring conditions to continue into 2018.** According to the Manpower Group's Singapore Employment Outlook Survey for Q2 2018, headcount increases are expected in seven industry sectors, with the Finance, Insurance & Real Estate (FIRE) sector leading the positive hiring sentiment with a net employment outlook of +25% over the next three months. This is also in line with the announced Financial Services Sector ITM's aim to create 3,000 jobs in the sector, with an additional 1,000 jobs in the financial technology (FinTech) sector by 2020. This is expected to drive net new demand for office space particularly in the CBD.
- **The Government has announced setting aside \$145 million for the Tech Skills Accelerator programme to expand information and communications technology (ICT) roles within the professional services.** The programme will serve to support the learning of emerging digital skills such as data analytics, artificial intelligence, the Internet of Things (IoT) and cybersecurity. The advent of new job functions alongside traditional sectors is expected to support office space demand.
- **With Singapore's Smart Nation initiative, companies are expected to step up hiring for ICT roles.** Currently, there are more than 180,000 ICT professionals employed with a projected 42,000 more employees needed for the sector in the next three years, according to Communications and Information Minister Yaacob Ibrahim. While step up hiring will create office space demand, many companies are adopting flexible workplace arrangements, enterprise co-working arrangements and gig economy outsourcing. Correspondingly, office space providers would need to be more creative in meeting the new demand for such flexible occupancy arrangements.
- **More multinational corporations (MNCs) are setting up their regional headquarters in Singapore compared to Hong Kong.** According to the Economic Development Board (EDB), an estimated 37,400 international companies have their headquarters in Singapore to date, including 7,000 MNCs which is some 9% more than in Hong Kong. Although Hong Kong continues to be the gateway into the Chinese market, Singapore remains attractive for businesses due to its tax regime, pro-business policies and outreach to the South-east Asian markets.

²Based on Economic Survey of Singapore Q1 2018 by the Ministry of Trade and Industry

EXHIBIT 3

Upcoming Office Supply (Gross Floor Area), as at Q1 2018

	Q2 - Q4 2018	2019	2020	2021	TOTAL
MARINA BAY/ RAFFLES PLACE GRADE A+/A	179,500 sq ft			1,833,700 sq ft	2,013,200 sq ft
SHENTON WAY/ ROBINSON ROAD/ TANJONG PAGAR GRADE A	884,300 sq ft	101,100 sq ft	939,400 sq ft		1,924,800 sq ft
SUNTEC/MARINA/ CITY HALL & REST OF CENTRAL GRADE A		270,400 sq ft			270,400 sq ft
ORCHARD		442,800 sq ft			442,800 sq ft
CITY FRINGE (EAST)	968,800 sq ft		130,100 sq ft		1,098,900 sq ft
CITY FRINGE (WEST)					
SUBURBAN		653,800 sq ft	62,700 sq ft		716,500 sq ft
TOTAL	2,032,600 sq ft	1,468,100 sq ft	1,132,200 sq ft	1,833,700 sq ft	6,466,600 sq ft

Source: URA (as at Q1 2018), Knight Frank Research

Outlook

- Given the current tight supply and increasing demand, prime office rents are expected to continue its rise by 8.0% to 12.0% year-on-year by Q4 2018 but new supply that will start coming onstream from 2019 onwards may help to keep the pace in rental increase in check.

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