

SINGAPORE RESEARCH OFFICE



Q1 2019 OFFICE MARKET SNAPSHOT

Total Stock as at Q4 2018

87.0 million sq ft

▲ 2.0% y-o-y

New Supply (2018)

1.7 million sq ft

Upcoming New Supply (2019 - 2023):

7.6 million sq ft

Overall Prime Office Rents:

S\$11.15 psf pm



CALVIN YEO
Head,
Office Advisory

“We expect rental increase to be moderated this year with less major expansions and increasing secondary supply.”

PRIME OFFICE RENTS APPRECIATED BY 1.5% IN Q1 2019 ON THE BACK OF HIGH OCCUPANCY

Key office sector indicators remained positive in Q1 2019

- Office rents continued to trend upwards in Q1 2019, with high occupancy supported by higher net absorption in 2018. For the whole of 2018, net absorption for the Downtown Core Planning Area was 1.7 million sq ft, or 63.5% higher than the whole of 2017. The strong net absorption was led mainly by the coworking industry, taking up some 611,000 sq ft in the Downtown Core or 36% of the office space leased in 2018 with the remaining absorbed mainly by the information and communication, banking and finance sectors.
- In Q1 2019, the occupancy rates for all precincts in the Central Business District (CBD) decreased marginally by 0.7 percentage-points quarter-on-quarter (q-o-q) to 97.5%. Prime Grade offices in the Raffles Place/ Marina Bay Precinct saw a decrease of 0.8 percentage-points q-o-q in occupancy to 96.5%. But with high market occupancy and limited new supply, landlords held out for higher rents on remaining or upcoming availability of space.
- As a result, Prime Grade office rents in Raffles Place/Marina Bay precinct increased by 1.5% q-o-q to S\$11.15 per sq ft per month in Q1 2019. Beach Road/Middle Road and Marina precincts saw the largest increase in rent by 3.1% and 2.5% q-o-q respectively led by the higher rents achieved at newer buildings.

EXHIBIT 1

Average Office Rentals, by Key Precincts in Q1 2019

LOCATION	Gross Effective Monthly Rents (\$ psf pm)	q-o-q % change	Vacancy of Office Space (%)	q-o-q change Percentage Point
RAFFLES PLACE/ MARINA BAY GRADE A+	\$12.10 - \$12.60	1.7%	2.3%	0.4 pp
RAFFLES PLACE/ MARINA BAY GRADE A	\$10.00 - \$10.50	2.3%	3.1%	1.7 pp
SHENTON WAY/ ROBINSON ROAD/ TANJONG PAGAR GRADE A	\$9.30 - \$9.80	1.3%	2.3%	1.6 pp
MARINA GRADE A	\$9.60 - \$10.10	2.5%	2.1%	0.3 pp
ORCHARD GRADE A	\$8.50 - \$9.00	1.2%	1.9%	1.1 pp
BEACH ROAD / MIDDLE ROAD GRADE A	\$9.20 - \$9.70	3.1%	1.9%	0.1 pp
CITY FRINGE WEST - ALEXANDRA / HARBOURFRONT	\$6.40 - \$6.90	1.5%	3.3%	-0.6 pp
CITY FRINGE NORTH - NOVENA / NEWTON	\$7.00 - \$7.50	-	2.1%	-0.4 pp
CITY FRINGE EAST - PAYA LEBAR	\$6.20 - \$6.70	0.5%	8.0%	1.5 pp
SUBURBAN EAST	\$4.40 - \$4.90	-	3.9%	1.7 pp
SUBURBAN WEST	\$5.10 - \$5.60	0.6%	5.8%	5.8 pp

Source: Knight Frank Office Advisory

Rents are based on effective gross rents (inclusive of service charge).

Rents are based on a lease term of at least three years.

Rent estimates are 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.

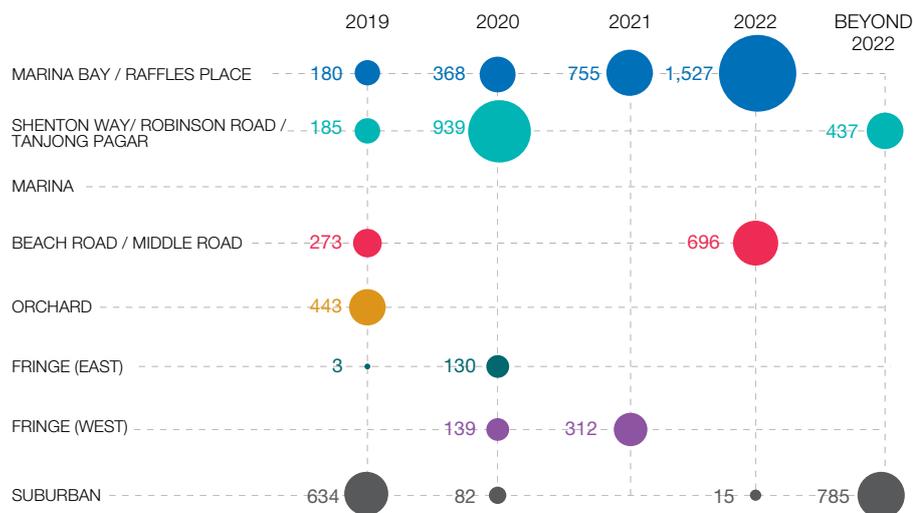
Availability of office space for lease is based on Knight Frank Research basket of office buildings monitored in each respective precinct.

Demand drivers of the Office Market

- Coworking space operators, backed by venture capitalists, continued to expand in competition for a market share of not only start-up and small firms, but also larger enterprise occupiers who are increasingly adopting a combination of Core plus Flexible space occupancy arrangements for business agility.
- For instance, WeWork took up an additional two floors at Mapletree Anson to occupy around 62,000 sq ft. They also leased 55 Market Street en bloc, occupying approximately 67,000 sq ft over five levels.
- The banking and financial sector saw lateral movement in Q1 2019. For instance, Willis Towers Watson will vacate about 38,000 sq ft at 6 Battery Road and relocate to One Raffles Quay South Tower to occupy around 32,000 sq ft.
- As Singapore continues to attract Multinational Companies (MNCs) and overseas start-ups to set up regional offices in Singapore, Hilton relocated its Asia-Pacific headquarters from Visioncrest Commercial (30,000 sq ft) to Centennial Tower, taking up about 30,000 sq ft. Separately, Lime, a California-headquartered mobility solutions start-up, chose Singapore as its Asia-Pacific Headquarters.

EXHIBIT 3

Upcoming Office Supply ('000 sq ft GFA), as at Q1 2019



Source: URA (as at Q1 2019), Knight Frank Research

Outlook

- Net new absorption is expected to continue being led by coworking space operators who are already in advanced negotiations for around 83,000 sq ft of office space in the CBD in Q1 2019.
- While there will be limited new supply in the CBD in 2019 with Funan and 9 Penang Road achieving 100% pre-commitment levels, there is around 452,000 sq ft of secondary space available, including 45,000 sq ft being vacated by pharmaceutical firm Bayer at OCBC Centre East, who are relocating to Paya Lebar Quarter. In addition, the space to be vacated by Swiss bank UBS in 2021 of around 76,000 sq ft at Suntec Tower Five and 230,000 sq ft at One Raffles Quay North Tower is already being marketed currently.
- Although the information and communication sector grew by 6.1% y-on-y in Q4 2018 and is expected to maintain its momentum due to the strong demand for technology, expansion of the sector may not translate to demand for CBD office space as these companies can locate in the Fringe and Suburban office and business park precincts due to the nature of business.
- While the finance and insurance sector grew by 4.1% y-on-y in Q4 2018, pockets of weakness have emerged in the banking and fund management segments due to softening of investors' sentiments and slower growth in mortgage loans. Although many firms in the sector are growing digital headcounts, this technological function may not need to locate in the CBD.
- Singapore continues to be an attractive location for regional headquarters, but the potential worsening of the US-China trade war and Brexit uncertainties may affect economic sentiments and business growth.
- Barring any acute economic shocks, office rents are expected to increase by 8% to 10% given the low vacancy levels of around 3%. However, existing buildings will in due course need to compete to retain tenants as the next wave of new supply chases pre-commitment leases with attractive "early bird" deals.

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