

# SINGAPORE RESEARCH OFFICE



## Q2 2019 OFFICE MARKET SNAPSHOT

Total Stock as at Q2 2019

**87.0 million sq ft**

▲ 1.1% y-o-y

New Private Supply (Q2 2019)

**53,820 sq ft**

Upcoming New Supply (2019 - 2023):

**7.9 million sq ft**

Overall Prime Office Rents:

**S\$11.20 psf pm**

## GROWTH IN OFFICE RENTS MODERATE AMID SUBDUED ECONOMIC OUTLOOK

### Moderation of key office sector indicators in Q2 2019

- Office rental growth moderated in Q2 2019 on the back of lower net absorption and occupancy levels. The weaker economic outlook resulting mainly from the uncertainties of a protracted trade war contributed to lower growth projections by businesses.
- Net absorption in Q1 2019 for the Downtown Core Planning Area amounted to 247,570 square feet (sqft), a 14.8% year-on-year (y-o-y) decrease from Q1 2018. Net absorption was largely led by co-working space operators, taking up some 111,000 sqft of office space in Q1 2019. The remaining supply was absorbed mainly by the insurance, hospitality and the banking and finance sectors.
- The office occupancy rate in the Central Business District (CBD) decreased by 1.8 percentage points quarter-on-quarter (q-o-q) to 95.7% in Q2 2019. Occupancy for Prime Grade offices in the Raffles Place / Marina Bay Precinct, while supported by underlying demand for quality space, saw a decrease of 0.5 percentage points q-o-q to 96.9%. As the decrease in occupancy is marginal, landlords continued to hold out for higher rents.
- Therefore, notwithstanding the decrease in occupancy, Prime Grade office rents in Raffles Place/Marina Bay precinct increased by 0.5% q-o-q to S\$11.20 per sqft per month in Q2 2019, but at a slower pace compared to Q1 2019 when rents increased by 1.5% q-o-q. Likewise, Grade A office rents in the Shenton Way/Robinson Road/Tanjong Pagar precinct increased at a slower pace by 0.4% q-o-q in Q2 2019, compared to 1.3% q-o-q increase in Q1 2019.



**CALVIN YEO**

**Head,  
Office Advisory**

“While the technology industry is growing, we can expect the slowing economy to impact overall office space demand and rents.”

## EXHIBIT 1

## Average Office Rentals, by Key Precincts in Q2 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	0.3%	3.1%	0.8%
RAFFLES PLACE/ MARINA BAY GRADE A	\$10.10 - \$10.60	0.6%	3.0%	-0.1%
SHENTON WAY/ ROBINSON ROAD/ TANJONG PAGAR GRADE A	\$9.35 - \$9.85	0.4%	3.3%	1.0%
MARINA GRADE A	\$9.75 - \$10.25	1.5%	1.0%	-1.1%
ORCHARD GRADE A	\$8.55 - \$9.05	0.6%	1.9%	-
BEACH ROAD / MIDDLE ROAD GRADE A	\$9.20 - \$9.70	0.4%	3.1%	1.2%
CITY FRINGE WEST - ALEXANDRA / HARBOURFRONT	\$6.40 - \$6.90	0.8%	3.3%	-
CITY FRINGE NORTH - NOVENA / NEWTON	\$7.00 - \$7.50	0.4%	1.8%	-0.3%
CITY FRINGE EAST - PAYA LEBAR	\$6.20 - \$6.70	-	18.2%	-12.8%
SUBURBAN EAST	\$4.40 - \$4.90	-	4.6%	0.7%
SUBURBAN WEST	\$5.20 - \$5.70	-	6.6%	0.8%

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.

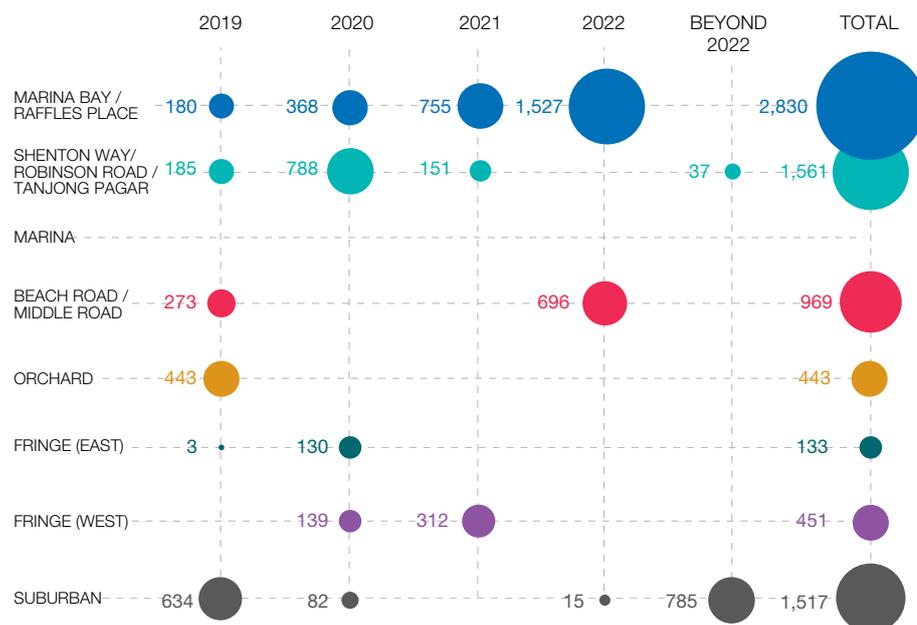
Availability of office space for lease is based on Knight Frank Research basket of office buildings monitored in each respective precinct.

## Demand drivers of the Office Market

- With the average occupancy of co-working space maintaining at around 80% and showing no signs of an oversupply at this point, demand from co-working space operators continued, with some 300,000 sqft under final negotiations in the CBD area.
- The demand for quality and efficient space remains evident, with UBS going to relocate its offices of some 310,000 sqft from One Raffles Quay and Suntec City to consolidate at the soon to complete 9 Penang Road. UBS will expand its footprint and occupy 381,000 sqft en-bloc to bring employees together in enhancing collaboration and to incorporate its UBS University for training and development.
- The availability of new Grade A offices in the fringe areas at relatively lower rents continued to draw demand from the CBD, with firms such as PropertyGuru, Obayashi and RHT Law relocating to Paya Lebar Quarters and taking up some 63,000 sqft of space in total.
- There was also expansion demand from government agencies, with the Department of Statistics, The Attorney-General Chambers, the Smart Nation and Digital Government Office taking up 92,600 sqft in total at Funan's South Tower.

## EXHIBIT 3

## Upcoming Office Supply ('000 sq ft GFA), as at Q2 2019



Source: URA (as at Q2 2019), Knight Frank Research

## Outlook

- Growth in co-working space take-up has stayed largely the same. For the first half of 2018, co-working space take-up grew by about 50.0% y-o-y and a further 44.8% y-o-y in the first half of 2019, with the current total stock reaching a significant 3 million sqft. Nearly 78.4% of the co-working space take-up in the first half of 2019 were by two co-working space operators, WeWork and IWG. Based on ongoing negotiations, the total stock of co-working space will surpass 3 million sqft by end 2019, amid rising concerns of an oversupply in the near future.
- The fintech sector is likely to see some growth, with the Singapore government announcing its intention to issue five new licenses to digital banks with companies' head-quartered and controlled by Singaporeans. However, the demand for space by this industry is likely to offset the lower absorption rate by the other industries affected by increasing business disruption and an imminent economic downturn.
- Singapore continued to attract Multinational Companies to set up their regional Headquarters. Global technology services provider NTT, which is the international arm of technology giant NTT Group, announced their plans to consolidate their Asia-Pacific headquarters in Singapore. This move will unify 28 of its units from 57 countries to form a single business, with no planned redundancies. The company plans to tap into Singapore's talent pool, especially in areas of automation and cybersecurity.
- The total CBD pipeline is close to 2.24 million sqft for 2019 and 2020. Upcoming developments in 2019 and 2020 include 79 Robinson Road, Afro-Asia-i-Mark and Hub Synergy, which will account for some 1.03 million sqft of office supply. 79 Robinson Road has secured pre-commitment tenants with Allianz and EFG bank taking up some 90,000 sqft of space while 30 Raffles Place is also in an ongoing negotiation with a serviced office provider to lease nine floors totaling 82,500 sqft in the tower.
- The economic outlook has weakened further due to escalating trade tensions, while the growth of office rents for the first half of 2019 has moderated to 2% compared to 16.5% for the first half of 2018. As a result, office rents are unlikely to reach an 8-10% increase for the year as initially expected.

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