SINGAPORE RESEARCH

OFFICE

Q2 2018 OFFICE MARKET SNAPSHOT

Total Stock
86.1 million sq ft
▲ 0.8% q-o-q

New Supply (Q2 2018)
869,700 sq ft

Upcoming New Supply (Q3 2018 - 2021):
5.5 million sq ft

Overall Prime Office Rents:
S$10.50 psf pm

CALVIN YEO
Executive Director & Head, Office Advisory

"Net take up per occupier will typically be lower as major users take up same or less space of up to 15% by relocating to new buildings with more efficient floor plates and / or adopting new activity-based workstyles for some."

GROWTH IN OFFICE RENTS PICKED UP PACE AS NEWLY COMPLETED AND UPCOMING SUPPLY ARE PROGRESSIVELY TAKEN UP

Prime[1] grade office rents grew 11.4% q-o-q in Q2 2018, the highest rate of growth since Q1 2011

- Grade A+ office space rents in the Raffles Place/Marina Bay precinct went up by 12.5% quarter-on-quarter (q-o-q) in Q2 2018. Occupancy rate for Grade A+ office increased to 95.3% in Q2 from 92.5% in Q1. The limited supply of Grade A+ office space, together with the demand for quality efficient floor plates contributed to the surge in rents.
- While tenants were paying more in unit rent by relocating to the newer buildings from older buildings, the overall increase in rent is mitigated by accommodating more headcount on larger efficient floor plates and / or occupying less space comfortably by adopting new activity-based workstyles for some.
- Demand from co-working operators persisted, as new market entrants competed with existing operators for space. While there were concerns over the sustainability of the business model of co-working space, most providers enjoy healthy occupancy from larger users on longer term licences and the co-working trend is likely to stay for now.

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

- The overall improvement in the economy was the underlying boost for Grade A office rents across all precincts. Rents in the Raffles Place/Marina Bay precinct rose 10.3% q-o-q, with occupancy rates increasing by 1.2 percentage-points q-o-q to 97.6% in Q2.
- Grade A rents in the Marina precinct rose by 8.7% q-o-q, while Grade A rents in the Beach Road / Middle Road precint grew 8.2% q-o-q.

EXHIBIT 1

Average Office Rentals, by Key Precincts in Q2 2018

LOCATION	Gross Effective Monthly Rents ($ psf pm)	q-o-q % change	Vacancy of Office Space (%)	Percentage Point
RAFFLES PLACE/ MARINA BAY GRADE A+	$10.80 - $11.30	12.5%	5.7%	-1.8pp
RAFFLES PLACE/ MARINA BAY GRADE A	$9.30 - $9.80	10.3%	2.4%	-1.2pp
SHENTON WAY/ ROBINSON ROAD/ TANJONG PAGAR GRADE A	$8.40 - $8.90	4.6%	0.9%	-1.0pp
MARINA GRADE A	$8.80 - $9.30	8.7%	2.5%	-1.3pp
ORCHARD GRADE A	$8.20 - $8.70	2.4%	3.6%	-0.7pp
BEACH ROAD / MIDDLE ROAD GRADE A	$8.50 - $9.00	8.2%		
CITY FRINGE WEST - ALEXANDRA / HARBOUFRONT	$6.10 - $6.60	1.9%		
CITY FRINGE NORTH - NOVENA / NEWTON	$6.40 - $6.90	1.2%		
CITY FRINGE EAST - PAYA LEBAR	$5.00 - $5.50	1.6%		
SUBURBAN EAST	$4.30 - $4.80	1.6%		
SUBURBAN WEST	$4.90 - $5.40	1.8%		

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.

EXHIBIT 2

Notable shifts and expansions in Q2 2018

Tenant	Sector	New Location	New Size (sf)
JP Morgan	Banking	CapitaSpring	155,000
Great Eastern	Insurance	Paya Lebar Quarter	125,000
NTUC Income	Insurance	Paya Lebar Quarter	55,000
IWG	Co-working	TripleOne Somerset	35,000
JustCo	Co-working	Macdonald House	16,000

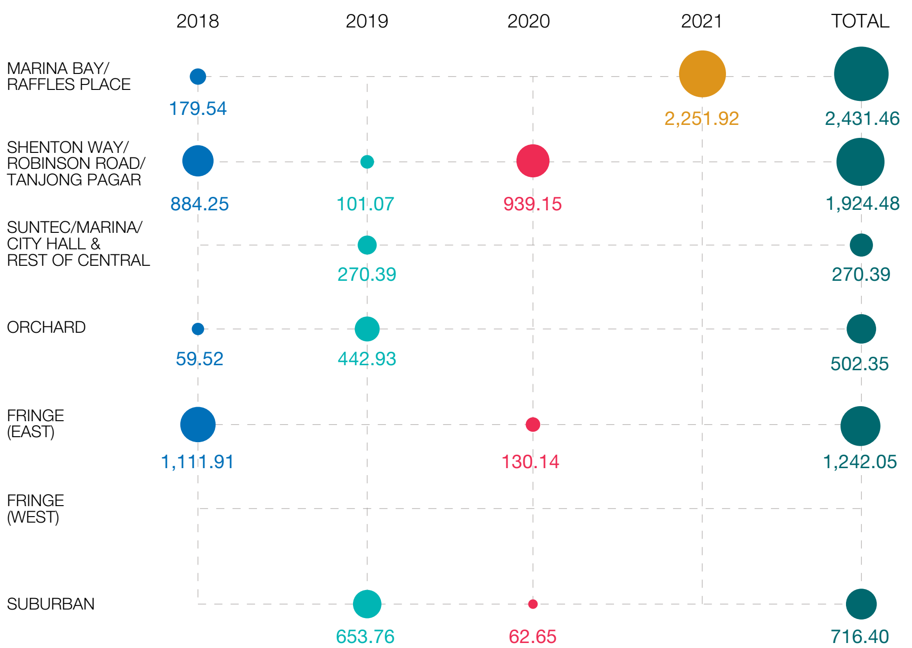
Source: Knight Frank Office Advisory

Major movements in the Office Market

- **Banks and insurance companies were active in the leasing market in Q2.** Based on the reported moves, most of the banks and insurance companies took less or same amount of space typically by relocating unto more efficient floor plates and / or adopting activity-based workstyles for some. Notable moves include JP Morgan, which will take up 155,000 sq ft, in CapitaSpring occupying levels 24 to 30 of the tower. JP Morgan currently occupies close to 155,000 sq ft at Capital Tower. Great Eastern and NTUC Income have also committed to take up 125,000 sq ft and 55,000 sq ft in Paya Lebar Quarter respectively.
- **Co-working space providers were taking up more space as they compete for market share**. IWG signed up 35,000 sq ft of space at TripleOne Somerset. and is expected to commence operations in mid-2019. JustCo also announced its newest co-working space of 17,000 sq ft at Macdonald House. Importantly co-working spaces are attracting established and multi-national companies (MNCs) seeking trendy co-working environment on flexible scale and tenure for their business units dealing with the constant change in the new economy. Notwithstanding, MNCs do still maintain traditional leases for their core corporate and business functions.

EXHIBIT 3

Upcoming Office Supply (Gross Floor Area), as at Q2 2018



Source: URA (as at Q2 2018), Knight Frank Research

Demand drivers of the Office Market

- **According to the Ministry of Trade and Industry, Singapore's economy grew 3.9% y-o-y in Q2 2018, slower than the 4.3% in Q1 2018**. Economists polled by the MAS expect the finance and insurance sector to contribute more to growth this year.
- **According to SingStat, the number of employment in Financial & Insurance Services rose by 2,800 employees from Q1, the highest among the service sectors**. The increase in hiring from Financial Services is likely to be led by the rapid growth of the Fintech sector. More banks and finance services companies are partnering fintech companies to drive technology strategy. For instance, Credit Suisse is extending a partnership with Canopy so that clients in Hong Kong are able to access the Singapore-based fintech's account aggregation platform. The fintech sector is expected to grow at a faster pace, with Singapore speeding up the fintech patent process to six months.

- **The Belt and Road's projects will lead to greater demand of financial services from strategic advisory and transactional banking services to risk management, project and export finance**. The Belt and Road projects could generate an additional US$23bn in commercial insurance premiums by 2030 according to Swiss RE estimates, and Singapore is one of the few financial centres across the Belt Road countries that have the attributes to leverage on the growth.
- **Total employment of business services sector also saw an increase by 2,400 employees in Q2 2018**. The business services sector saw an increase in employment, partly driven by more companies moving to leverage on technology, the internet of things and artificial intelligence to compete in the new economy. Consequently, this has led to an increase in demand for technology professionals.
- **Singapore Exchange (SGX) has approved rules to allow listing of dual-class shares**. The approval will draw companies led by founder-entrepreneurs who require funding for a rapid ramp-up of business while retaining the ability to execute on a long-term strategy. Not only will the new rules lead to an increase in overseas high-tech companies setting up offices to list in Singapore, domestic high-tech companies may leverage on the new rules and expand rapidly.
- **The Trump-Kim summit further reaffirms Singapore as a preferred choice of venue for a high-profile summit and arbitration hub**. The Singapore International Arbitration Centre (SIAC) is the most preferred arbitral institution in Asia and third out of the top 5 arbitral institutions according to the latest Queen University of London International Arbitration Survey (QMUL) released on 9 May 2018. It also set the highest number of new case filings and administered cases in 2017, receiving 452 new cases in 58 countries in 6 continents. This was a 32% increase from the 343 cases in 2016. The summit is likely to boost Singapore standing further, increase the demand for such services.

Outlook

- **The lack of supply in the CBD offices, coupled with the growing demand,** is expected to continue pushing up prime office rents.
- **However, net take up per occupier will typically be lower** as major users take up same or less space of up to 15% by relocating to new buildings with more efficient floor plates and / or adopting new activity-based workstyles for some.
- Additionally, companies, including multinational companies, are turning to co-working space for flexible scale and tenure expansion instead of taking up more permanent space on traditional leases.
- While the occupancy rate of office buildings remains high, co-working space serves as a form of shadow availability. For now, co-working space are enjoying healthy occupancy albeit flexible scale and tenures hence we expect rents to continue rising by another 5% to 10% for the remaining of the year.

FOR OFFICE LEASING ENQUIRIES, PLEASE CONTACT:

Calvin Yeo
Executive Director and Head
Office Advisory
6228 6887
calvin.yeo@sg.knightfrank.com

FOR FURTHER INFORMATION, PLEASE CONTACT:

Lee Nai Jia
Senior Director and Head
Research
6228 6878
naijia.lee@sg.knightfrank.com

Wong Shanting
Manager
Research
6228 7339
shanting.wong@sg.knightfrank.com

Lucy Zhu
Analyst
Research
6228 6584
lucy.zhu@sg.knightfrank.com