

**Shirley Wong**  
Associate Director | Research |  
Singapore  
+65 6531 8567  
[shirley.wong@colliers.com](mailto:shirley.wong@colliers.com)

**Tricia Song**  
Director and Head | Research |  
Singapore  
+65 6531 8536  
[tricia.song@colliers.com](mailto:tricia.song@colliers.com)



# TOP MICRO-MARKETS IN SINGAPORE

Identifying the most attractive CBD micro-markets in Singapore for different occupiers, and implications for landlords and investors

## Summary & Recommendations

Colliers earlier identified the top locations in Asia for [technology](#), [finance](#) and [law](#) occupiers, and Singapore is the only city to rank top three across all three sectors. This report provides the top occupier sectors deeper insights into the best micro-market locations within Singapore based on existing clusters, availability of office stock, accessibility and rents.

- **Financial Services** is the top occupier sector in the CBD Grade A office market with a 42% share, and should locate in Raffles Place/New Downtown (Premium) for its strong industry cluster and premium specifications;
- **TMT** (technology, media and telecommunications) and **flexible workspace operators** have emerged as fast-growing sectors in recent years, and we recommend Shenton Way/Tanjong Pagar micro-market for its modern new builds, and high accessibility;
- **Professional Services**, comprising legal, real estate, consultancy services occupiers should locate in Raffles Place/New Downtown (Grade A), balancing rents and accessibility;
- **Resources, energy and commodities** should stay in City Hall given a stronger cluster;
- **Consumer** is recommended to locate in Orchard for its proximity to distribution channels.

We expect rents in the Shenton Way/Tanjong Pagar micro-markets to rise the most on a 3-5 year horizon with ongoing rejuvenation, as the CBD Incentive Scheme under the URA Draft Master Plan 2019 provides investors further redevelopment options. Beyond 2022, City Hall and Beach Road should see stronger rental upside with new builds and better transport links.

## Raffles Place/ New Downtown

Raffles Place/New Downtown (Premium) is #1 for Financial services companies, while Raffles Place (Grade A) is #1 for Professional Services. This precinct remains the key financial district in Singapore (> 48% financial services exposure), with the most premium buildings.

## Shenton Way/ Tanjong Pagar

Shenton Way, the former financial district, is #1 for TMT and flexible workspace operators. We forecast rental growth in this area to be the highest on a three to five year horizon given redevelopments encouraged by various government initiatives.

## Beach Road/Bugis

Beach Road/Bugis is #2 for consumer companies. The addition of Duo Tower in 2016 lifted the profile of this precinct. Rents should grow faster than the historical average of 3.7% (2013-2018 CAGR) beyond 2022, given further rejuvenation in the precinct.

## City Hall

City Hall is #1 for resources, energy and commodities firms. City Hall ought to become more vibrant and attractive, as more mixed-use developments, namely, Funan, Guoco Midtown and the redevelopment of Shaw Tower are scheduled to be completed over 2019-2023.

## Orchard

Orchard is #1 for the consumer sector. Orchard is Singapore's main retail and entertainment belt, and remains the preferred prime office location for consumer companies providing easy access to suppliers and customers. The consumer sector makes up 38% of occupied space in the Orchard Grade A micro-market.

This summary chart compares the Colliers Singapore CBD Premium and Grade A micro-markets for the top six occupier sectors.

- We assign each micro-market a score of ★, ★★, or ★★★ based on:
- a) Concentration of occupier sector;
  - b) Availability of current and future office stock;
  - c) Accessibility;
  - d) Rent versus the city average



Existing cluster



Availability of quality office stock\*



Accessibility



Rent

RP/NDT (P): Raffles Place/New Downtown (Premium)  
 RP/NDT (A): Raffles Place/New Downtown (Grade A)  
 SW/TP: Shenton Way/Tanjong Pagar  
 BR/B: Beach Road/Bugis

### Financial Services

Market

RP/NDT (P)  
 RP/NDT (A)  
 SW/TP



### Professional Services

Market

RP/NDT (A)  
 RP/NDT (P)  
 Orchard



### TMT

Market

SW/TP  
 City Hall  
 RP/NDT (P)



### Resources, Energy, Commodities

Market

City Hall  
 RP/NDT (P)  
 BR/B



### Consumer

Market

Orchard  
 BR/B  
 SW/TP



### Flexible Workspace

Market

SW/TP  
 City Hall  
 BR/B



\*Includes known future stock

## EVOLVING OCCUPIER TRENDS

### Technology and flexible workspace have risen in importance as core occupier sectors

While CBD office demand has historically been broad-based, driven by the core sectors of financial services, professional services, energy and shipping, this has shifted to technology and flexible workspace operators in recent years. In 2018, we estimate technology and flexible workspace accounted for 75% of net absorption. We expect this trend to continue in 2019.

TMT currently accounts for 12% of occupied space in the CBD, versus the 8% that we reported for end-2018. While this partly reflects a review of the data using broader samples, it also reflects genuine organic growth. A major driver of technology expansion has been the Singapore government's aim to build a Smart Nation and a Smart Financial Centre where technology is used to increase efficiency, reduce business risks and costs, and create new opportunities. Today, technology has expanded in importance, as cloud computing and artificial intelligence become more widespread.

Flexible workspace has grown rapidly in the past three years, providing flexible and scalable space not just for startups and small firms, but increasingly large MNCs. It now occupies about 4% of the total CBD Grade A office space. Developers and landlords are increasingly receptive to partnering third party operators such as IWG, Justco or WeWork, or setting up their own flexible workspace to offer alternatives to their tenants.



Technology and flexible workspace accounted for the bulk of net absorption in 2018.

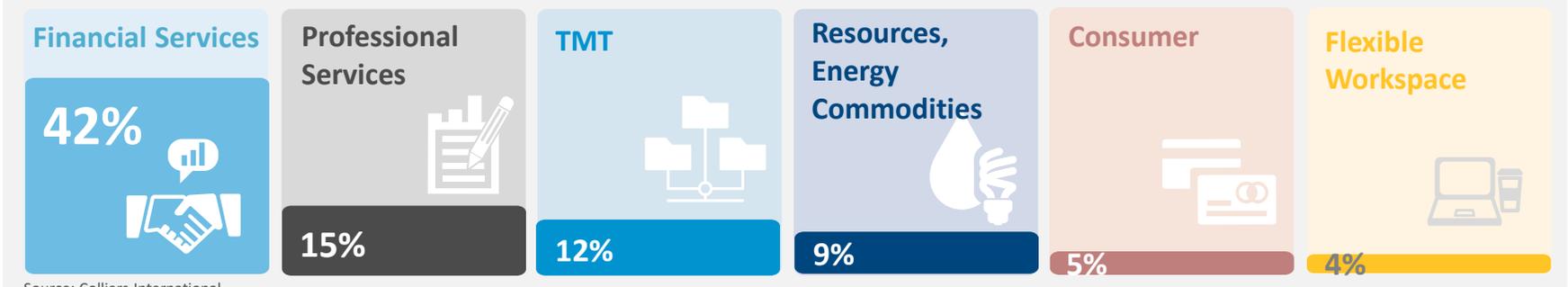
Occupier demands have evolved from the sole consideration of price/rent, location and basic amenities.

### Redefining space needs

As the business operating environment becomes increasingly challenging and sophisticated with the influx of technology, occupier demands have also evolved from the sole considerations of location, price/rent and basic amenities. Occupiers increasingly value the following attributes:

- > **Flexibility.** This includes lease and space flexibility. The availability of flexible workspace within the same building to allow a company to expand and shrink its footprint at short notice has become a key consideration for occupiers. Occupiers appreciate the flexibility of directly correlating headcount to real estate costs, and moving away from long-term, fixed contracts, via flexible leasing strategies such as the Colliers-led *Flex and Core*<sup>TM</sup>.
- > **Space efficiency.** This is especially important with rising rents. Typically, larger and regularly shaped floor plates allow for higher efficiency.
- > **Wellness and lifestyle amenities** such as gyms, bicycle stands and other cycling facilities, and relaxing green communal areas.
- > **Tenant experience.** Factors that can affect the tenant experience include the building lobby and facade, availability of food and beverage (F&B) and retail amenities, and receptionist and concierge services.
- > **Good accessibility and transport infrastructure** means easy and fast access to employees, suppliers, distribution channels, clients and other stakeholders.

Figure 1: Top six occupier sectors as a proportion of CBD Premium and Grade A office



Note: *flex and core* refers to the combination of flexible workspace (flex) and conventional office space (core). Refer to our flexible workspace report "Breaking New Ground" dated 11 Sep 2018.

## CURRENT CONCENTRATION

### Financial sector moving; flexible workspace and TMT growing, consumer remains in Orchard

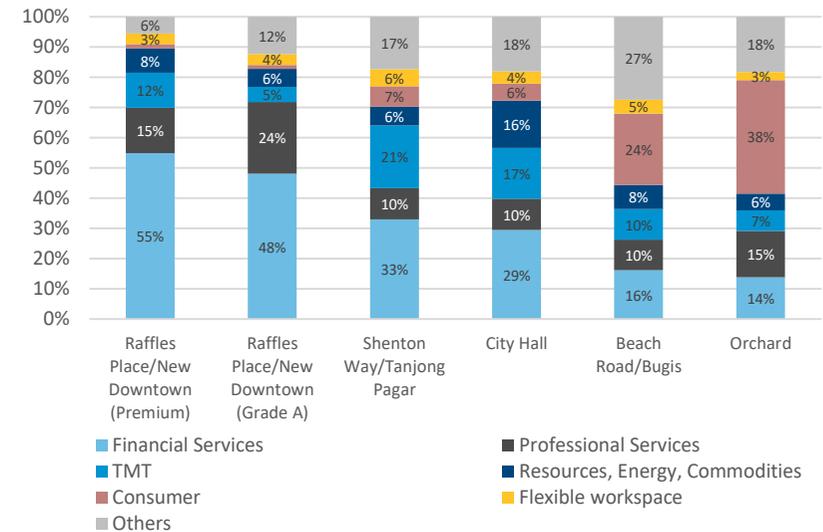
Based on Colliers' research on the occupier profile in each CBD micro-markets, the top six sectors in the CBD are financial services (accounting for 42% of occupied office space), professional services (15%), technology, media and telecommunications (TMT, 12%), resources/energy/commodities (9%), consumer (5%), as well as flexible workspace (4%). We quantified the top six sectors' concentration in each micro-market.

- > **Financial services.** Historically, the majority of the financial companies have been located in Raffles Place. With the shift of major banks and financial institutions into the newer premium buildings in New Downtown over the past decade, the Raffles Place/New Downtown (Premium) micro-market has grown to a 55% exposure to the financial sector. Raffles Place/New Downtown (Grade A) buildings, on the other hand, have a 48% exposure.
- > **TMT and flexible workspace.** TMT and flexible workspace have been growing and accounted for most of the net absorption in 2018 and 2019 so far. In particular, [flexible workspace stock has more than tripled since 2015](#). TMT and flexible workspace operators have the highest presence in Shenton Way/Tanjong Pagar, occupying 21% and 6% of the Grade A micro-market respectively.
- > **Professional services.** Professional services include legal and consulting firms, real estate companies, and executive search firms. Professional services companies have the highest presence in Raffles Place/New Downtown (Grade A) accounting for 24% of occupied space.
- > **Resources, energy and commodities.** Basic and natural resources firms, energy related companies such as oil & gas and coal companies, as well as commodities firms are most concentrated in City Hall accounting for 16% of occupied space.
- > **Consumer.** Consumer companies are concentrated in Orchard (38% of space) given that many have a retail shop in this micro-market.

Existing clusters signal favourable conditions relevant to each sector.

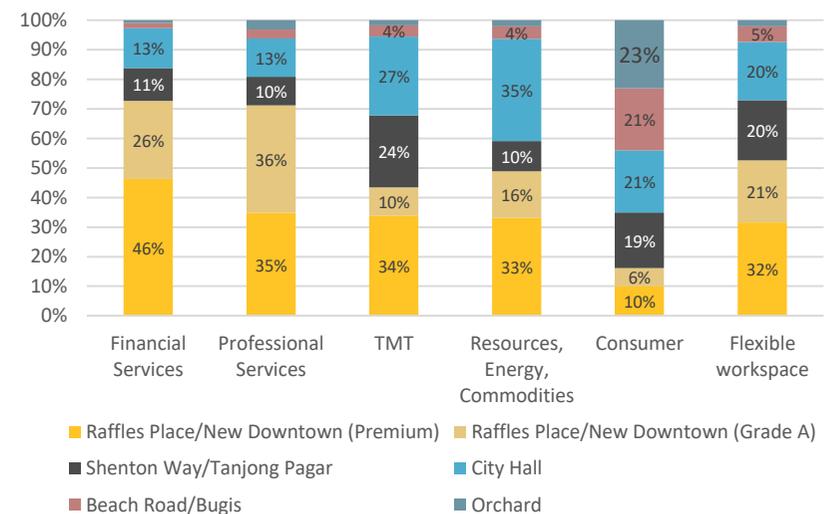
Financial services gravitate towards new buildings with large floor plates and premium specifications, and are less sensitive to rents.

Figure 2: Singapore CBD Grade A micro-markets by sector exposure



Source: Colliers International

Figure 3: Sector exposure by Singapore CBD Grade A micro-markets



Source: Colliers International

Figure 4: Ranking in terms of market concentration for each sector

	Financial Services	Professional Services	TMT	Resources, Energy, Commodities	Consumer	Flexible workspace
Highest Concentration	Raffles Place/ New Downtown (Premium)	Raffles Place/New Downtown (Grade A)	Shenton Way/Tanjong Pagar	City Hall	Orchard	Shenton Way/ Tanjong Pagar
	Raffles Place/New Downtown (Grade A)	Raffles Place/New Downtown (Premium)	City Hall	Raffles Place/New Downtown (Premium)	Beach Road/Bugis	City Hall
Lowest Concentration	Shenton Way/Tanjong Pagar	Orchard	Raffles Place/New Downtown (Premium)	Beach Road/Bugis	Shenton Way/Tanjong Pagar	Beach Road/Bugis

Source: Colliers International

Besides existing clusters, we consider availability of current and future office stock, accessibility and rents to determine the top locations for the respective occupier sectors.

## RECOMMENDATIONS OF MICRO-MARKETS FOR OCCUPIERS

### Ranking micro-markets based on Colliers' key criteria

We rank the micro-markets for each of the top six sectors based on four criteria, namely, presence of an existing cluster, availability of quality office stock considering vacancy and known future supply, public transport accessibility, and rents.

Our results show a match of Raffles Place/New Downtown (Premium) as the top office location for financial services companies, given very strong existing cluster (55% exposure) and availability of premium Grade A stock. Raffles Place/New Downtown (Grade A) is the top location for professional services firms given highest sector concentration (24%) and excellent accessibility. Shenton Way/Tanjong Pagar, which has a relatively more well-balanced sector exposure and attributes for our criteria, is ideal for TMT and

flexible workspace operators for its modern new builds and high accessibility. Resources, energy and commodities firms are best located in City Hall where cluster concentration is considerably higher (16%) relative to other micro-markets, while enjoying good accessibility. Orchard remains the preferred office location for the consumer sector (38% exposure) given the proximity to distribution channels.

Notably, Shenton Way/Tanjong Pagar has seen an elevation of image and average rents with the recent addition of new buildings including Guoco Tower, Frasers Tower and UIC Building. Shenton Way/Tanjong Pagar is also a key beneficiary under the CBD Incentive Scheme<sup>1</sup> revealed in the URA Draft Master Plan 2019<sup>1</sup>, which seeks to rejuvenate the precinct.

While Beach Road/Bugis and City Hall micro-markets do not seem as competitive now, we believe these two neighbouring precincts could become more vibrant with redevelopment and rejuvenation. Guoco Midtown and the redevelopment of Shaw Tower are due to be completed in 2022 and 2023 respectively. On that note, Orchard, which has not seen new office development for many years, and is welcoming 9 Penang Road by the end of 2019.

Note: Under the CBD Incentive Scheme proposed in the URA Draft Master Plan 2019, old buildings that satisfy specific criteria and redeveloped into mixed-use developments in key strategic areas can enjoy a 25%-30% lift in gross plot ratio.



We recommend landlords to upgrade their portfolios, and actively explore flexible workspace offerings.

Government initiatives such as URA incentive schemes and ongoing rejuvenation should drive re-ratings of micro-markets.

Investors should refer to the rental growth prospects for each micro-market, adjusted for their risk profile.

## RECOMMENDATIONS FOR LANDLORDS

### Landlords and developers should upgrade their office portfolios

With changing occupier demands and occupier profiles in Singapore's CBD micro-markets, landlords should consider the following options to upgrade their portfolios:

- > **Asset Enhancement Initiatives or redevelopments.** For redevelopments that satisfy the criteria, the CBD Incentive Scheme can be utilized to enhance the gross plot ratio.
- > **Focus on long term building needs.** Whether it's a new development or refurbishment, landlords should consider long term building needs such as floorplates size, facilities and materials used for the interior design.
- > **Adjust lease terms.** Lease terms can also be revisited to include more flexibility or shorten the tenure period.
- > **Set aside space for facilities.** Notably, in the case of Guoco Midtown, the landlord has set aside adequate facilities, including several green areas and retail/F&B offerings, as well as 15% of office net lettable area set aside for flexible and adaptable spaces to allow tenants the flexibility to expand or contract headcounts without relocating or renovating their main offices.
- > **Active building and tenant management.** Through active building and tenant management, landlords can keep abreast of tenants' needs and provide timely occupier solutions. More activities and programs can also be organized to encourage tenant mixing and involvement.
- > **Include flexible workspace.** Landlords can include a flexible workspace element either by setting up partnerships with flexible workspace operators or host their own flexible workspace.

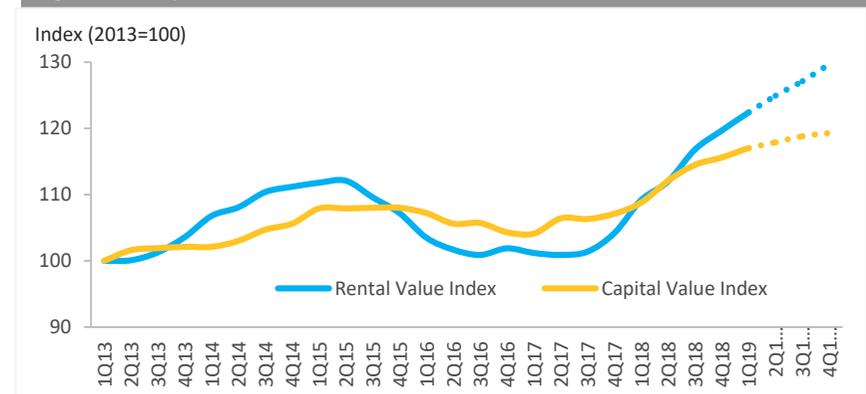
## RECOMMENDATIONS FOR INVESTORS

### Shenton Way/Tanjong Pagar provides best rental growth on a 3 to 5 year horizon; City Hall and Beach Road/Bugis rents to see stronger growth beyond 2022

We expect CBD Grade A office rent to grow 8% in 2019 and 5% in 2020 given tight supply and high pre-commitments. We expect supply in 2019-2021 to average 614,000 sq feet (57,000 sq metres) p.a., or 2% of stock, versus 5% for the last five years. This should keep vacancy tight in 2019-2021.

Driven by redevelopment and rejuvenation in the area, as well as growth in the TMT sector, rents in Shenton Way/Tanjong Pagar could grow at the fastest rate on a three and five year horizon. New buildings such as Frasers Tower, Guoco Tower and UIC Building completed in 2016-2018 had raised the image and rents of the micro-market. Redevelopments including Afro-Asia Building and CPF Building (to be named ASB Tower) should raise rents further in 2020 when they are completed. Additionally, rental growth could be further supported by withdrawal of existing stock for redevelopment as landlords adopt the URA incentive scheme.

Figure 8: Capital values should trail rents



Source: Colliers International

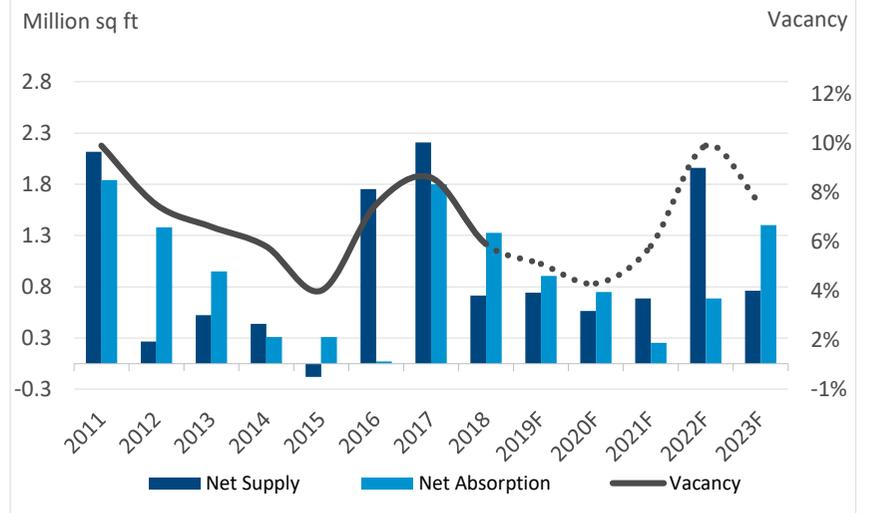
Note: According to Colliers proprietary data for investment sales of more than SGD5 million.

Driven by a continuous flight to quality and tight vacancy, rental growth in Raffles Place/New Downtown Premium Grade A buildings could remain high. We believe it would be the fastest growing micro-market in 2021 - 2023 when the area becomes more developed with adequate amenities. In particular, we believe rents in the City Hall and Beach Road/Bugis micro-markets could grow faster than historical average (2.1% and 3.7% CAGR respectively for 2013-2018) beyond 2022, given upcoming rejuvenation in the precinct; Guoco Midtown and the redevelopment of Shaw Tower are due to be completed in 2022 and 2023, respectively.

### Capital values to trail steady rental growth

Driven by robust transactions of SGD4.4bn (USD3.2bn) in 2018 and SGD2.1bn (USD1.5bn) in 2019 year-to-date, the average imputed capital value of CBD Grade A office properties rose 7.9% in 2018, and a further 1.2% QOQ and 7.6% YOY in Q1 2019 to SGD2,453 (USD1,811) per sq foot. Going forward, we anticipate capital values to trail our projected rent growth in 2019-2021, mainly due to the hefty weight of global capital directed towards gateway cities. This should keep yields largely stable over the same period before rents start to decline in 2021.

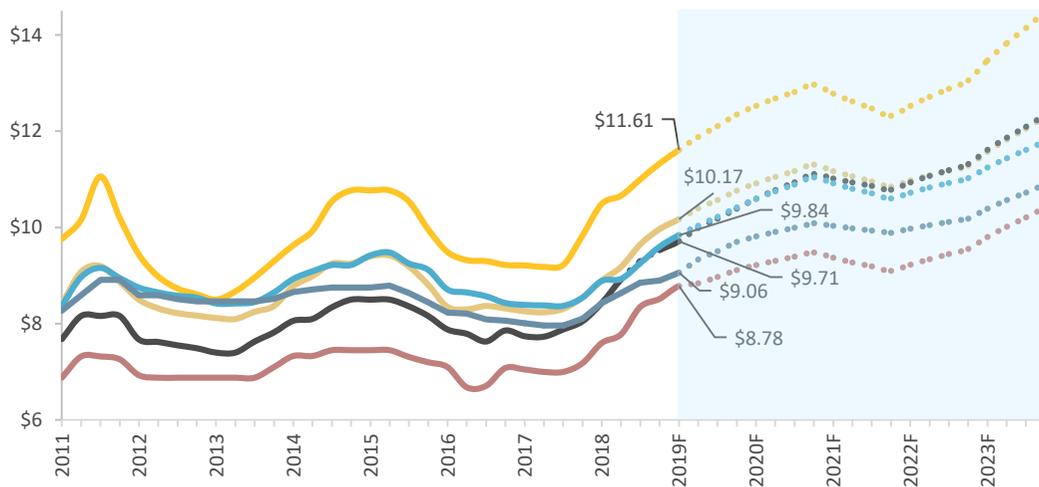
Figure 6: CBD Grade A net absorption, supply and vacancy



Source: Colliers International

On a 3-5 year horizon, Shenton Way/Tanjong Pagar offers the strongest rent outlook. On a longer term, City Hall and Beach Road micro-markets look promising.

Figure 7: Singapore micro-market rental CAGR (SGD per sq foot per month)

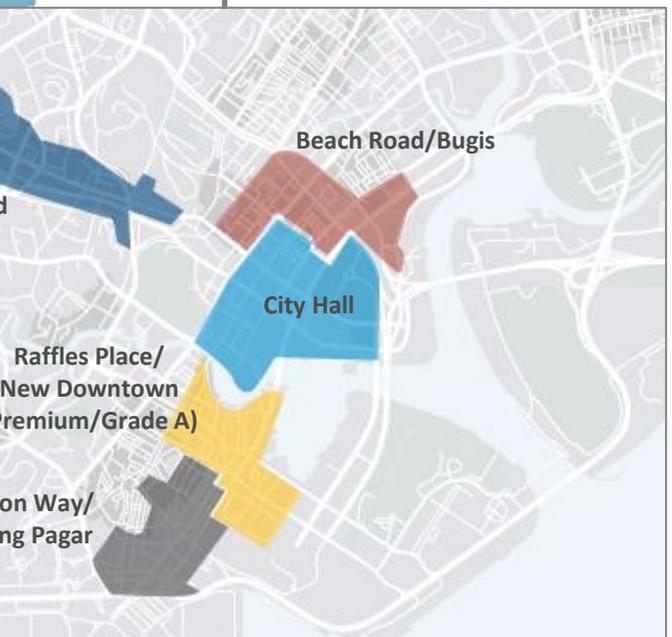
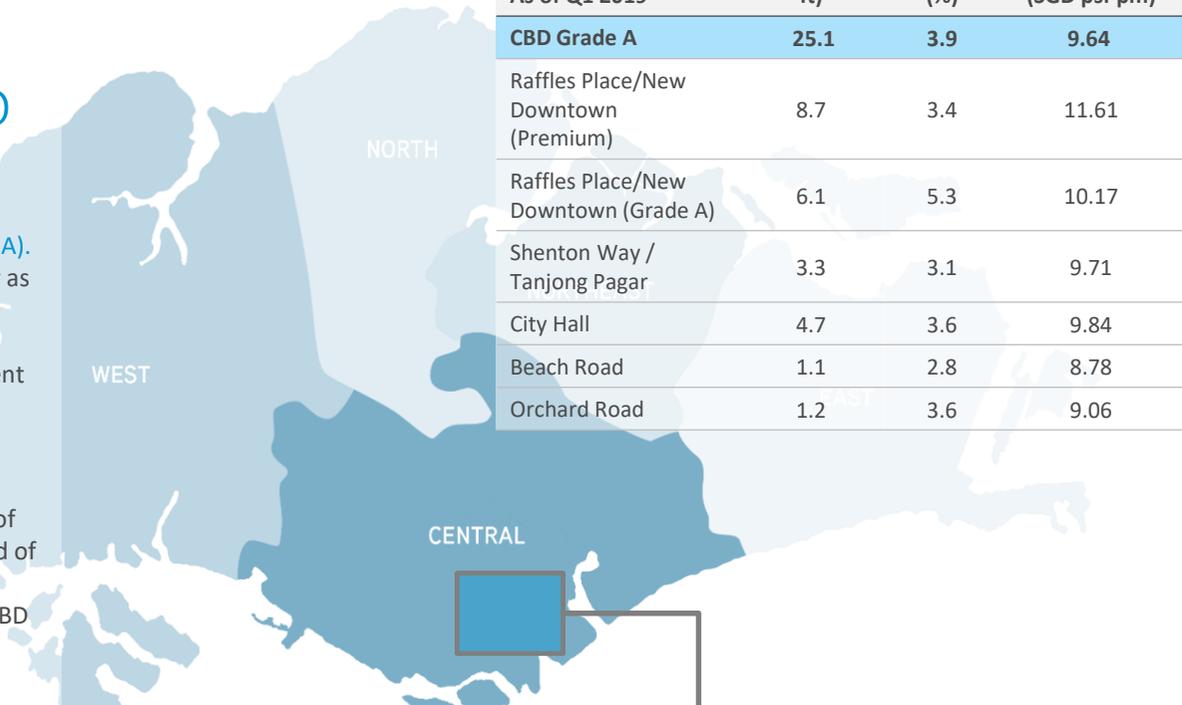


Micro-market	Rent Growth		
	3-yr CAGR	5-yr CAGR	2021F-2023F CAGR
Raffles Place/ New Downtown (Premium)	2.8%	4.9%	8.0%
Raffles Place/ New Downtown (Grade A)	2.9%	4.1%	6.0%
Shenton Way/Tanjong Pagar	4.2%	5.1%	6.5%
City Hall	3.4%	4.0%	5.0%
Beach Road/Bugis	2.2%	3.9%	6.5%
Orchard Road	3.6%	3.9%	4.5%

Source: Colliers International.  
Note: USD1 to SGD1.35 as of 31 Mar 2019.

## APPENDIX: COLLIERS' CBD OFFICE MICRO-MARKETS

- > **Raffles Place/New Downtown (Premium and Grade A).** Raffles Place was strategically important historically as it was the birthplace of Singapore's commercial development. Today, it is still Singapore's premier financial district featuring some of its most prominent buildings. The extension into Marina Bay or New Downtown brings more premium buildings and solidifies the city's financial hub status.
- > **Shenton Way/Tanjong Pagar.** Located at the south of Raffles Place, Shenton Way/Tanjong Pagar is a blend of old and new, with conserved shophouses alongside new skyscrapers. It is also a key beneficiary of the CBD Incentive Scheme, with potentially more mixed use redevelopment.
- > **City Hall.** Located on the northern side of the Marina Reservoir, City Hall is a vibrant arts and cultural district, with clusters of modern offices, retail, entertainment and hotel developments. Its proximity and accessibility to Raffles Place/New Downtown is enhanced by the Esplanade Bridge and the Bayfront Bridge.
- > **Beach Road/Bugis.** A natural extension from the City Hall area and flanked by the historical conservation districts of Kampong Glam, we envisioned the Beach Road/Bugis micro-market to be a new growth area with more mixed developments and improving connectivity.
- > **Orchard.** Orchard is the main shopping district in Singapore and is positioned as Singapore's main retail and entertainment belt. Apart from office towers and shopping malls, there are also luxury residential developments and hotels.



As of Q1 2019	Available Stock (million sq ft)	Vacancy (%)	Average Gross Effective Rents* (SGD psf pm)
<b>CBD Grade A</b>	<b>25.1</b>	<b>3.9</b>	<b>9.64</b>
Raffles Place/New Downtown (Premium)	8.7	3.4	11.61
Raffles Place/New Downtown (Grade A)	6.1	5.3	10.17
Shenton Way / Tanjong Pagar	3.3	3.1	9.71
City Hall	4.7	3.6	9.84
Beach Road	1.1	2.8	8.78
Orchard Road	1.2	3.6	9.06

Source: Colliers International \*Benchmarked to a full-floor space in mid-zone level; conservative figure tending towards lower-end of rental range for a property. Effective rent refers to average rate payable over the lease term after accounting for incentives.

## Primary Authors:

### **Shirley Wong**

Associate Director | Research | Singapore  
+65 6531 8567  
[shirley.wong@colliers.com](mailto:shirley.wong@colliers.com)

### **Tricia Song**

Director and Head | Research | Singapore  
+65 6531 8536  
[tricia.song@colliers.com](mailto:tricia.song@colliers.com)

## For further information, please contact:

### **Rick Thomas**

Executive Director and Head | Occupier Services | Singapore  
+65 6531 8592  
[rick.thomas@colliers.com](mailto:rick.thomas@colliers.com)

### **Jerome Wright**

Director | Capital Markets & Investment Services | Singapore  
+65 6531 8683  
[jerome.wright@colliers.com](mailto:jerome.wright@colliers.com)

### **Govinda Singh**

Executive Director | Valuation & Advisory Services | Singapore  
+65 6531 8566  
[govinda.singh@colliers.com](mailto:govinda.singh@colliers.com)

### **Jonathan Wright**

Director | Flexible Workspace Services | Asia  
+852 2822 0577  
[jonathan.wright@colliers.com](mailto:jonathan.wright@colliers.com)

### **Tang Wei Leng**

Managing Director | Singapore  
+65 6531 8688  
[weileng.tang@colliers.com](mailto:weileng.tang@colliers.com)

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