Singapore | September 2021

Research

Singapore office rents: a long runway for growth

01 Introduction

Singapore's Grade A CBD office rent posted its first uptick in 2Q21 following five consecutive quarters of correction due to the impact of the COVID-19 pandemic.

We are optimistic that Grade A office rents will stay on a growth trajectory over the next few years, potentially clocking a total gain of 25-30% between 2021 and 2025.

This paper discusses the basis for this optimistic take by addressing common questions about the relevance of offices post-COVID, and discusses the new drivers of demand for Singapore's office space.

02 CBD Grade A office supply reaching a steady state

Singapore's CBD today is densely built and a fresh injection of office supply from greenfield sites is probably only possible on the reclaimed land on Marina Bay. These sites are only available for development through the Government Land Sales Programme.

However, the government has set its priority on developing suburban hubs to bring jobs closer to homes. Thus, we expect little or no office land releases in the CBD for the next decade.

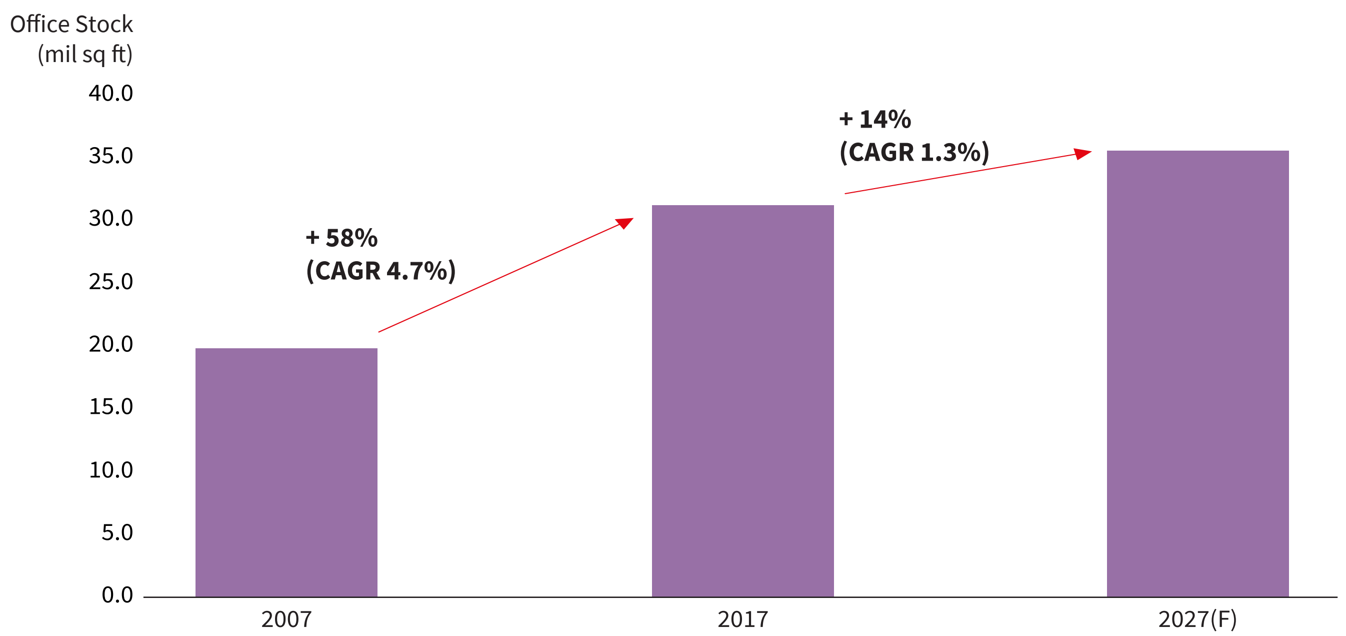
Instead, the government will continue to encourage the rejuvenation of the CBD to reduce office space and increase more homes and hotels. This is with a view to transform the CBD into a vibrant and thriving hub that throbs 24-7.

Hence, Guoco Midtown and Central Boulevard Towers will likely be the last of fresh office injections that Singapore's CBD will welcome over the next decade. Beyond that, new office buildings in the CBD will only be realised through the redevelopment of old buildings, which may result in a reduction in office spaces as more are converted to mixed-uses.

Consequently, the growth in the CBD Grade A office stock is estimated to plunge, from 58% (or CAGR of 4.7%) recorded in the ten years between 2007 and 2017 to 14% (or CAGR of 1.3%) in the ten years from 2017 to 2027. We expect CBD Grade A office stock to hold relatively steady from 2027 onwards, should there be no further land releases for office developments in the CBD.

Figure 1

The sharply slowing growth in CBD Grade A office stock



Source: JLL Research

03
Office demand growth to outstrip supply

While Singapore's CBD office market is set to remain relatively stable in the coming decades, demand is poised for continued growth and could outstrip supply in the medium- to long-term.

Our confidence for demand growth is underpinned by the following factors.

3.1
Office will remain the primary place of work

Contrary to concerns that an increasing adoption of hybrid working will reduce the relevance of offices, JLL's Worker Preferences Barometer points to offices becoming more important now than ever as the centre of the work ecosystem.

JLL Worker Preferences Barometer comprises a series of three surveys conducted in April 2020, October 2020 and March 2021, questioning more than 300 employees in Singapore about their feelings about homeworking and its impact on their work priorities , performance and well-being.

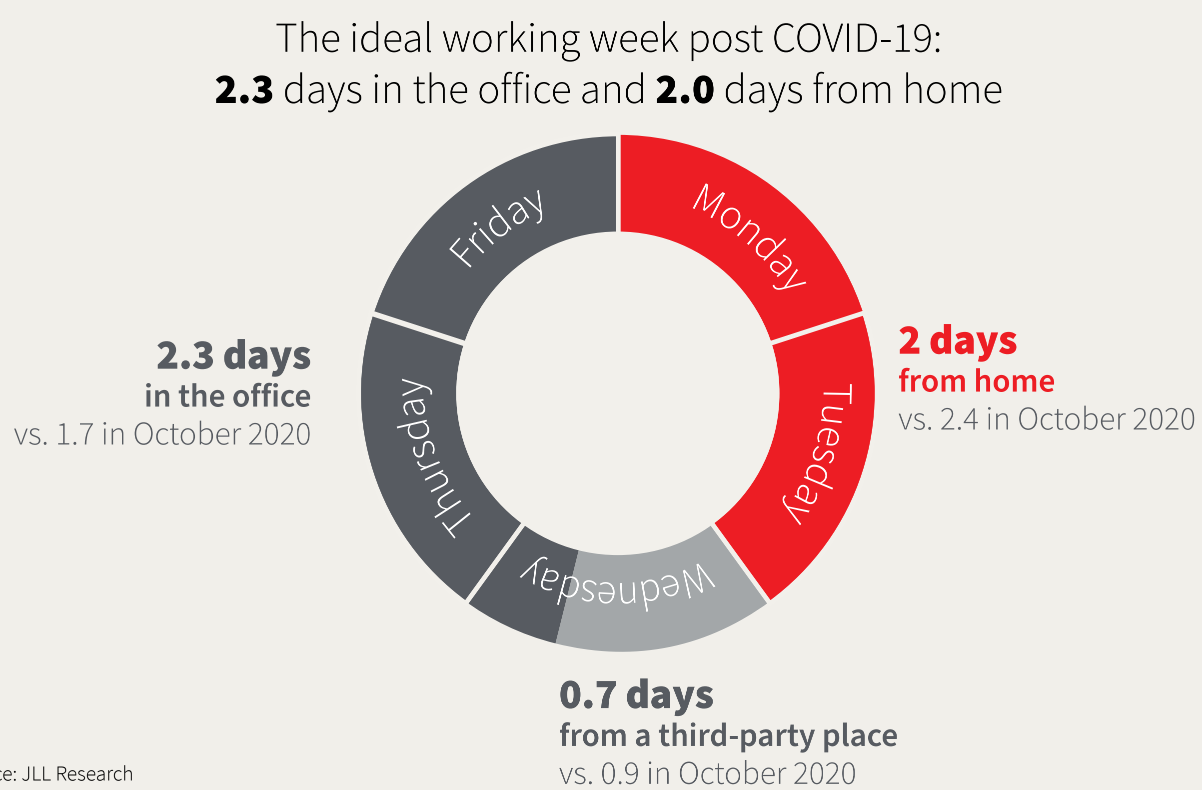
The barometer shows workers are experiencing an increased amount of virtual fatigue, or burn out, and want to return to the office more. They are craving face-to-face human interactions with colleagues and are missing that change of scenery one gets from working and living in different places.

Accordingly, the ideal number of days that employees would like to work from the office has risen from 1.7 days in the October 2020 survey, to 2.3 days in the March 2021 survey. At the same time, the ideal number of days they would like to work from home fell to 2.0 days in the March 2021 survey, from 2.4 days in the October 2020 survey.

Long-lasting homeworking is taking a heavy social and mental toll on the workforce with at least one in two employees struggling to achieve boundaries and manage the mental load.

> The office appears to be a tool to structure people's lives, creating a more balanced working life anchored in healthy routines, including break times and more clearly defined working hours; but just as importantly, it also offers opportunities to socialise.

Figure 2
Singapore workers' ideal work week



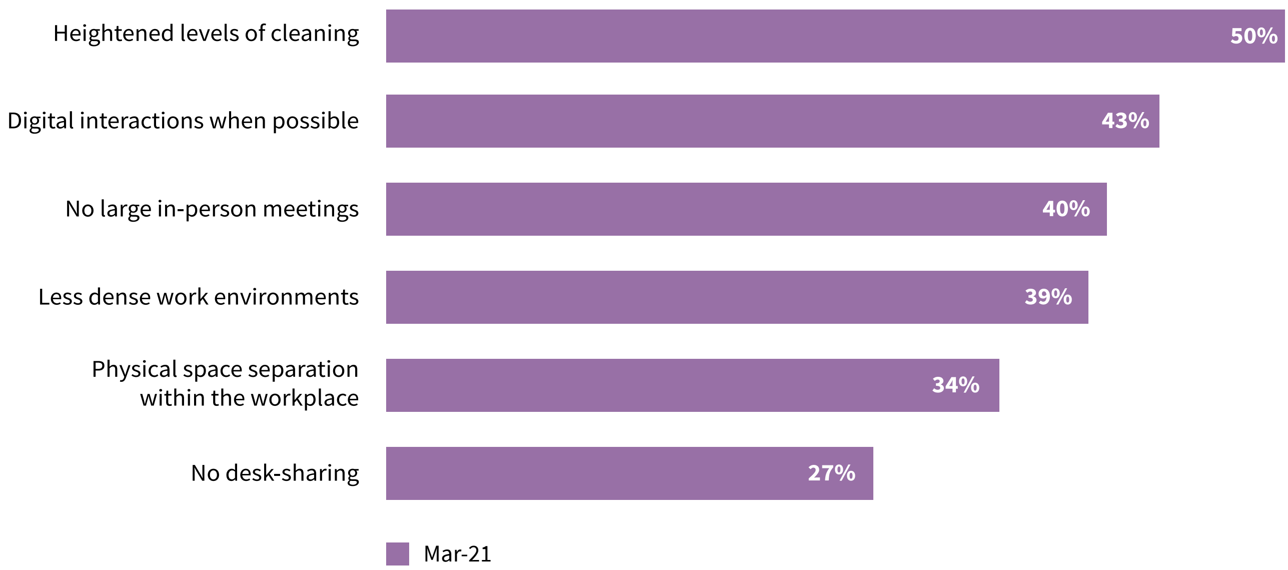
Source: JLL Research

3.2
Offices will need to de-densify

The barometer further shows that future offices will also have to cater to new working practices developed over the course of the pandemic such as the option to work remotely and observing safe-distancing. Two in five employees expect to continue to leverage on digital interactions whenever possible, and want less density and more physical separation in their workplaces of the future, while one in four does not want to share desk anymore.

In short, there is a need for offices to de-densify, which will help to offset some of the space occupiers plan to give up as they pivot towards hybrid working.

Figure 3
New Healthy Habits Singapore Workers Deemed Critical Post COVID-19



Q. Which new habits & work routines will remain crucial for you after COVID-19?

Source: JLL Research

3.3

Singapore – a safe place to live and operate during the pandemic

Singapore's pragmatic and effective approach to handling the COVID-19 pandemic has earned praises from World Health Organisation. In fact, Bloomberg has ranked the city-state as the safest place to be in Asia in its August 2021 COVID-19 Resilience ranking.

Singapore is already a popular location to set up offices due to its business-friendly offerings and conducive operating environment. The added assurance that it is a stable place in which to operate, and a safe place where expatriates/employees can live during the pandemic will further boost Singapore's competitive edge in attracting businesses to locate in Singapore or strengthen their presence here.

Figure 4
Bloomberg COVID-19 Resilience Ranking, August 2021

Rank	Economy
1	Norway
2	Netherlands
3	Finland
4	Ireland
5	Austria
6	Belgium
7	Germany
8	Singapore
9	Switzerland
10	Spain

3.4
Singapore is a lure for technology firms

In KPMG's 2021 global ranking of leading technology hubs outside of Silicon Valley/San Francisco, Singapore has retained its top spot, pulling ahead of cities like New York, Tel Aviv and Beijing.

Figure 5
Cities seen as leading technology innovation hubs over the next four years (outside Silicon Valley/San Francisco)

Rank	Economy
1	Singapore
2	New York City / Tel Aviv
4	Beijing
5	London
6	Shanghai
7	Tokyo
8	Bengaluru
9	Hong Kong
10	Austin/Seattle

Source: KMPG Industry Technology Survey, 2021

Hence, it is not surprising that, according to the Singapore Economic Development Board (EDB), 80 of the top 100 global tech companies and more than 4,000 home-grown and international start-ups from around the world have already established their operations in Singapore.

Those that have set up offices or expanded their presence in Singapore in the last 18 months amid the raging COVID-19 pandemic include Alibaba, Amazon, ByteDance/TikTok, iQiyi and Tencent.

In particular, Singapore has emerged as a popular base for Chinese tech companies seeking to build a more globalised image as well as to tap on expansion opportunities in Southeast Asia, which, with its rising middle-class population and surging tech adoption rate, would help to power the companies' business growth in the next decade.

We are upbeat that more technology firms will be heading to our shores, and many who are already here will strengthen their presence in the decade to come. This optimism is backed by the Government of Singapore's relentless efforts at widening the country's competitive edge as a global technology hub.

Figure 6
Supportive Policies for Tech Sector

New 5G roll out	New Digital Economy Agreements	Smart Nation Initiatives

Growing digital economy

New Tech. Pass	Tech @SG	Six local universities

Access to talents

New SG IP Fast Track	Intellectual Property Office of Singapore	Best IP protection in Asia*

Intellectual Property (IP) Protection

EDBI	Startup SG Tech	IRAS' Tax Exemption Schemes

Availability of funding

Source: Various websites, JLL Research
* World Economic Forum Global Competitiveness Report 2019

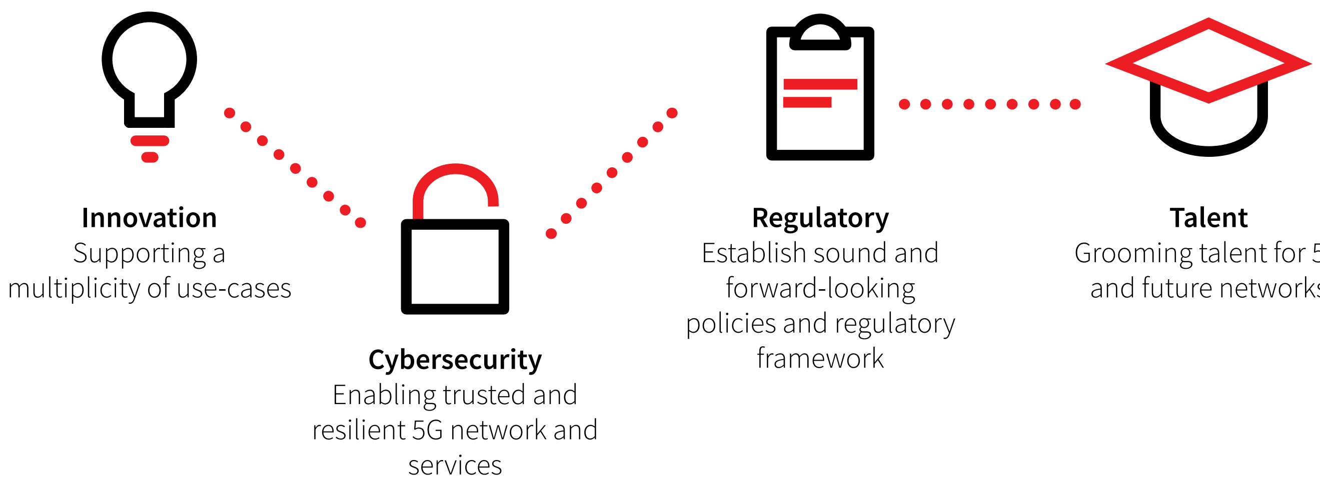
Some of the more recent initiatives include:

5G Roll out

Despite the pandemic, the government pushed ahead with the development of Singapore's fifth generation (5G) mobile internet infrastructure so that we can be on track to offer nationwide 5G coverage by 2025. The 5G roll out will be a key enabler for the next wave of growth of Singapore's digital economy, offering faster speeds, larger and more reliable networks as compared to the 4G services today.

Figure 7

Four Focus Area in Singapore 5G Ecosystem



Source: IMDA

Digital Economy Agreements

A Digital Economy Agreement (DEA) is a treaty that establishes digital trade rules and digital economy collaborations between two or more economies[1]. The DEAs will help to establish common frameworks and rules for cross-border electronic commerce so as to facilitate digital trade, enable trusted data flows and build trust in digital systems to develop more opportunities for participation in the digital economy.

As of August 2021, Singapore has concluded negotiations on two DEAs:

- Digital Economy Partnership Agreement (DEPA) with Chile and New Zealand (which entered into force on 7 January 2021); and
- Singapore-Australia Digital Economy Agreement (SADEA) (which entered into force on 8 December 2020).

Singapore is also currently also in negotiations with the Republic of Korea on a Korea-Singapore Digital Partnership Agreement (KSDPA) and the United Kingdom on a UK-Singapore Digital Economy Agreement (UKSDEA).

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[1] Source: Ministry of Trade and Industry (https://www.mti.gov.sg/Improving-Trade/Digital-Economy-Agreements)

Tech.Pass

Launched in January 2021, this is a visa that allows established foreign technology entrepreneurs, leaders or technical experts from around the world to come to Singapore to perform frontier and disruptive innovations.

This builds on the earlier Tech@SG programme, which is aimed at developing a strong base of technology companies and a talent pool to ensure Singapore remains globally competitive.

Figure 8

Tech.Pass and Tech@SG

	Tech.Pass	Tech@SG
Objective	Allows established foreign tech entrepreneurs, leaders or technical experts to come to Singapore to perform frontier and disruptive innovations	Offers fast-growing tech companies that are newly expanding into Singapore and the region greater certainty of having their Employment Passes (EP) approved
Who can apply	Individual candidates	Companies
Administrator	Economic Development Board	Economic Development Board and Enterprise Singapore
Start of Scheme	January 2021	January 2020
Quota	500	Each qualifying company will have a cap of up to 10 EP applications considered favourably by Ministry of Manpower
Validity	First-time candidates: 2 yrs One-time renewal: 2 yrs	First-time candidates: 2 yrs One-time renewal: 3 yrs
Eligibility Criteria	The foreign professional needs to: • Have a last drawn, fixed monthly salary (in the last 1 year) of at least SGD 20,000 • Have at least five cumulative years of experience in a leading role in a tech company with a valuation/market cap of at least USD 500 million or at least USD 30 million funding raised • Have at least five cumulative years of experience in a leading role in the development of a tech product that has at least 100,000 monthly active users or at least USD 100 million annual revenue	The company needs to: • Incorporate a business entity in Singapore with the Accounting and Corporate Regulatory Authority (ACRA) • Have a digital or technology offering as the core business product or service • Secure more than USD 10 million (cumulative) in investment funding in the past 36 months • Received funding (no minimum amount) from a programme-recognised investment firm in the past 36 months • Ensure candidates meet the EP requirements

Source : JLL Research/Economic Development Board

SG IP Fast Track Programme

Recognising the importance of a speedy patent-grant process to support innovators and enterprises as they build and manage their IP portfolio and commercialise their creations, the Intellectual Property Office of Singapore offers several fast-track options, the latest being the SG IP Fast Track programme – a pilot programme that will end on 29 April 2022.

Under this programme, the accelerated timelines for the different types of intellectual properties are:

- Patent applications can be granted in as fast as six months.
- Straightforward trademark applications can be registered in as fast as three months. Other trademark applications can be registered in as fast as six months.
- Registered design applications can be registered in as fast as one month.

3.5
The Growing Fintech Industry

Singapore is establishing itself as a leading ASEAN capital and talent pool for fintech. According to a joint Oliver Wyman and Singapore FinTech Association report titled, *Singapore Fintech Landscape 2020 and Beyond*, the city-state has seen more than a ten-fold growth in the number of fintechs established here between 2015 and 2020.

And according to the Monetary Authority of Singapore (MAS), there are already over 1,000 fintech firms as well as more than 40 innovation labs working in Singapore. It is also worthwhile to note that China's insurance giant, Ping An, picked Singapore as its headquarters for its fintech subsidiary, OneConnect.

Figure 9

Key Facts about Singapore's Fintech Industry

>10 times **Growth in the number of Fintechs between 2015 and 2020**	**>40%** **Of Southeast Asia Fintechs are based in Singapore**
>100 **Incubators**	**40+** **Innovation Labs**
150+ **Venture Capital Investors**	**~30** **Corporate Investors**

Source : Singapore Fintech Landscape 2020 and Beyond by Oliver Wyman & Singapore Fintech Association

Singapore's fintech industry is expected to continue to grow with the slated opening of Singapore's first four digital banks. Additionally, the growing adoption of e-services, including e-commerce, e-gaming, e-learning and telemedicine, will proliferate the use of digital payments and boost the growth of the fintech industry. The government is also building up a green fintech ecosystem to bring together the power of finance and technology to tackle the challenges in the green finance space so as to develop Singapore's position as a leading green finance centre.

Figure 10

Key milestones to attract Fintech firms to Singapore

2014 – 2015 – 2016 – 2017 – 2018 – 2019 – 2020 – 2021 – 2022 – 2023

Introduction of FSTI
The MAS introduced the Financial Sector Technology and Innovation Scheme (FSTI) in Jun 2015 to support the creation of a vibrant ecosystem for innovation in the financial sector. Funding for 2015 to 2020: SGD 225 million.

Payment Services Act
The Payment Services Act was introduced to set out the regulatory framework for payment services to strengthen consumer protection and promote confidence in the use of e-payments.

COVID-19 Support Package
In Apr 2020, the MAS announced a SGD 125 million support package for the financial and FinTech sectors to deal with the immediate challenges from COVID-19 and position for the recovery and future growth.

MAS-SFA-AMTD FinTech Solidarity Grant
In May 2020, the MAS jointly launched another SGD 6 million grant to help Singapore-based fintech firms maintain their operations, retain their employees and continue to innovate to create opportunities for growth.

Enhanced FSTI 2.0
In Aug 2020, the MAS announced the enhanced FSTI 2.0 with additional funding of SGD 250 million from 2021 to 2023.

Award of Four Digital Bank Licences
In Dec 2020, the MAS awarded Singapore's first four digital bank licences. The four digital banks are expected to start business from early 2022.

Source: MAS, SFA, JLL Research

3.6
A growing hub for family offices and wealth management

Singapore is becoming increasingly popular as a location to set up family offices. Based on statistics released by Handshakes after studying data from the Accounting and Corporate Regulatory Authority, the number of family offices that opened in Singapore has grown significantly in the last three years, from only eight in 2017 to 221 in 2020.

Recent new entrants include Hong Kong multi-family office, Raffles Family Office, and Google co-founder Sergey Brin's Bayshore Global Management. The family offices of billionaire British inventor James Dyson, hedge fund manager Ray Dalio and Haidilao co-founder Shu Ping reportedly also have a presence in Singapore.

To cement Singapore's position as a choice location for family offices, several initiatives were launched and the key ones include:

- **January 2020**: The Variable Capital Company (VCC) framework as well as the VCC Grant Scheme was launched. The VCC allows flexible fund structures similar to those in Cayman Islands, Dublin and Luxembourg. The grant scheme will help defray some of the costs involved in incorporating or registering the VCC in Singapore.
- **March 2020**: The Global Investor Programme (GIP) was changed to encourage family offices. The GIP scheme was first launched in 2004 to grant Singapore Permanent Resident (PR) status to eligible global investors who intend to drive their business and investment growth from Singapore.

  Prior to 2020, only established business owners with substantial business track record and successful entrepreneurial background were able to qualify for the scheme. However, from March 2020, the GIP was expanded to allow next-generation business owners and founders of fast-growing companies from selected industries, as well as family office principals, to also apply for PR status through the scheme.
- **July 2020**: The MAS launched a skills map to train more family office advisors and will fund 95% of fees.
- **December 2020**: The MAS announced plans to widen the scope of permissible fund managers to allow Single Family Offices to manage VCCs. If approved, this could open the door for more Single-Family Offices (SFOs) to build a presence in Singapore.

Figure 11
Key features and benefits of the Variable Capital Company

- Greater flexibility in issuance and redemption of shares as well as payment of dividends out of capital
- VCC is treated as a single entity for tax purposes and also eligible for tax exemption
- Enhanced safeguards by segregation of assets and liabilities in each sub-fund
- VCC must be managed by a fund manager regulated by MAS
- Can be used for all traditional and alternative strategies, and structured as either open-ended or closed-end fund
- Foreign corporate entities can re-domicile to Singapore as VCCs

Source: MAS

Figure 12

Qualifying Criteria for the Global Investor Programme

<table>
<tr><th>Established Business Owners</th><th>Next Generation Business Owners</th><th>Founders of Fast-Growth Companies</th><th>Family Office Principals</th></tr>
<tr>
<td>a. Possess at least 3 years of entrepreneurial and business track record;
b. Run a company with an annual turnover of at least SGD 200 million in the year immediately preceding the application, and at least SGD 200 million per annum on average for the three years immediately preceding the application;
c. Have at least 30% shareholding in the company, if the company is privately held.</td>
<td>a. Immediate family should have at least 30% shareholding or is the largest shareholder in the company;
b. Company's annual turnover must be at least SGD 500 million in the year immediately preceding the application, and at least SGD 500 million per annum on average for the three years immediately preceding the application;
c. Be part of the management team of the company (e.g., C-suite / Board of Directors).</td>
<td>a. Be a founder and one of the largest individual shareholders of a company with a valuation of at least SGD 500 million;
b. Company must be invested into by reputable Venture Capital / Private Equity firms.</td>
<td>a. Possess at least 5 years of entrepreneurial, investment or management track record;
b. Have net investible assets of at least SGD 200 million.
(Note: Net investible assets include all financial assets, such as bank deposits, capital market products, collective investment schemes, premiums paid in respect of life insurance policies and other investment products, excluding real estate.)</td>
</tr>
<tr><td colspan="4">Engage in one or more of the 25 industries listed by EDB including Chemicals, Consumer Business, Electronics, Energy, Engineering Services, Family Office & Financial Services, Logistics & Supply Chain Management, Media & Entertainment, Healthcare, Professional Services, Technology, etc.</td></tr>
<tr>
<td colspan="3">Investment Options:
• Option A: Invest SGD 2.5 million in a new business entity or in the expansion of an existing business operation; or
• Option B: Invest SGD 2.5 million in a GIP fund that invests in Singapore-based companies; or
• Option C: Invest SGD 2.5 million in a new or existing Singapore-based single family office having Assets-Under-Management of at least SGD 200 million.</td>
<td>Invest SGD 2.5 million in a new or existing Singapore-based single family office having Assets-Under-Management of at least SGD 200 million.</td>
</tr>
</table>

Source: EDB

3.7
Economic growth to spur business expansions

Singapore's economy expanded by 14.7% y-o-y in 2Q21, extending the 1.5% y-o-y growth recorded for 1Q21. The 2Q21 performance was achieved on the back of the low base set in 2Q20 when Singapore's economy was paralysed by the Circuit Breaker measures implemented from 7 April to 1 June 2020.

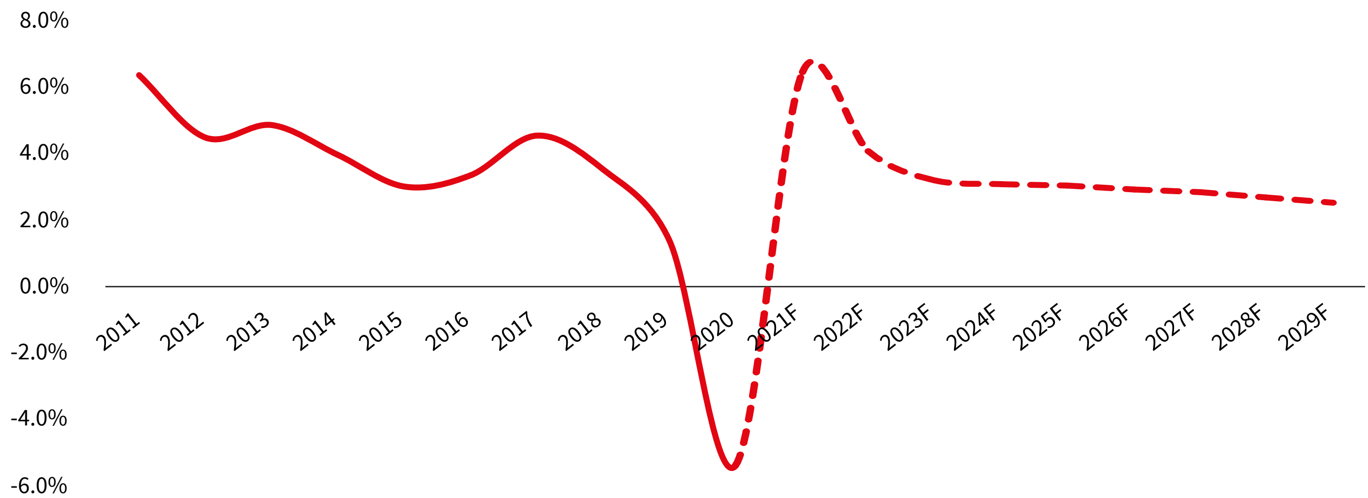
Notwithstanding, the remarkable progress made in the national vaccination programme is paving the way for the country to transit to living with COVID-19 in its midst, possibly starting with the opening of borders to vaccinated travellers, and allowing larger groups to gather and dine in food and beverage outlets, from as early as September 2021. As of 27 August 2021, 79% of the population has completed a full vaccination regimen, i.e., received both doses or one dose for recovered individuals.

Against this backdrop, the Ministry of Trade has upgraded Singapore GDP forecast for 2021 to 6-7% as of August 2021, up from 4-6% previously. Thereafter, Oxford Economics is projecting that Singapore's economy would stay on the growth trajectory at annual growth ranging between 2.5-4.0% between 2022 and 2029.

Continued growth in Singapore's economy would translate to growth in demand for office space to accommodate the growing headcounts as businesses increase hiring to cope with business expansions.

This, together with the rapid expansion of the new economy sectors, such as tech, fintech and asset management, will spur the growth of supporting professional services such as legal, marketing and accounting, and contribute to overall demand for office space.

Figure 13
GDP growth



OE forecast downloaded as of 10 Aug 21
Source: Singstats, Oxford Economics

3.8
Rejuvenation of CBD

The CBD Incentive Scheme, introduced as part of Master Plan 2019 to incentivise owners to redevelop old office buildings into mixed-use or residential or hotel developments, has accelerated the revitalisation of Singapore's CBD.

The Shenton Way/Tanjong Pagar sub-market, in particular, is expected to see a higher number of new developments over the next few years, starting with the redeveloped Keppel Towers in 2024, as well as the redeveloped Fuji Xerox Towers and AXA Tower in 2026. These new developments will not only contribute to the available Grade A office options in the area but also add on more residential units, hotel rooms, serviced apartments and retail spaces to enhance the vibrancy of the locality.

A refreshed, vibrant and future-ready CBD will strengthen Singapore's position as a leading global city for talent, business and investment.

Figure 14
CBD Incentive Scheme

Eligibility criteria: Building age must be at least 20 years from date of last Temporary Occupation Permit and current land use must be predominantly office developments only.

Location	Minimum site area
Anson	1,000 sqm
Cecil street Robinson Road, Shenton Way, Tanjong Pagar	• 1,000 sqm for corner sites • 2,000 sqm for all other sites

Allowable Land Uses & Max. Allowable Increase in Development Intensity

Location	Proposed land use	Maximum allowable intensification*
Anson Cecil Street	Residential with Commercial at 1st storey	30%
	Commercial & Residential	25%
	Hotel	25%
Robinson Road, Shenton Way, Tanjong Pagar	Commerical with 40% non-commercial uses such as residential	25%
	Commercial & Residential	25%
	Hotel	25%

* Master Plan 2019 GPR or Approved GPR, whichever is higher.
Source: URA

04 Conclusion

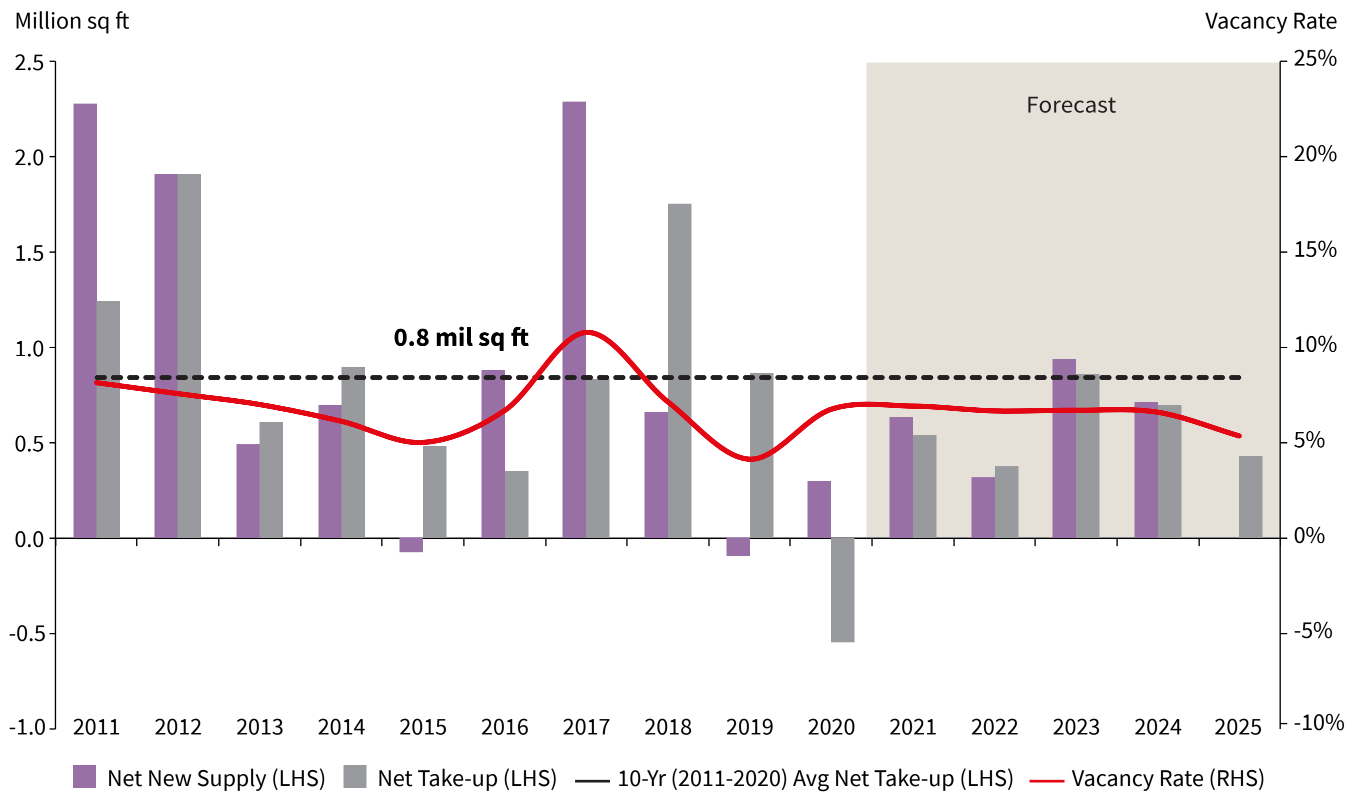
Underpinned by these drivers and accounting for marginal impact from the pivot towards hybrid working, we project demand for Grade A CBD office space to average 0.6 million sq ft per annum between 2021 and 2025.

While this is 25% below the 0.8 million sq ft that the market recorded in the ten years between 2011 and 2020, it is 20% above the 0.5 million net new supply we foresee entering the market per annum from 2021 to 2025.

With demand for Grade A CBD office space expected to clock a CAGR of nearly 2% against 1.3% for supply, vacancy rate could inch towards the frictional level of 5% by 2025 and potentially support rent growth of 25-30% between 2021 and 2025.

Figure 15

CBD Grade A Office Demand, Supply & Vacancy



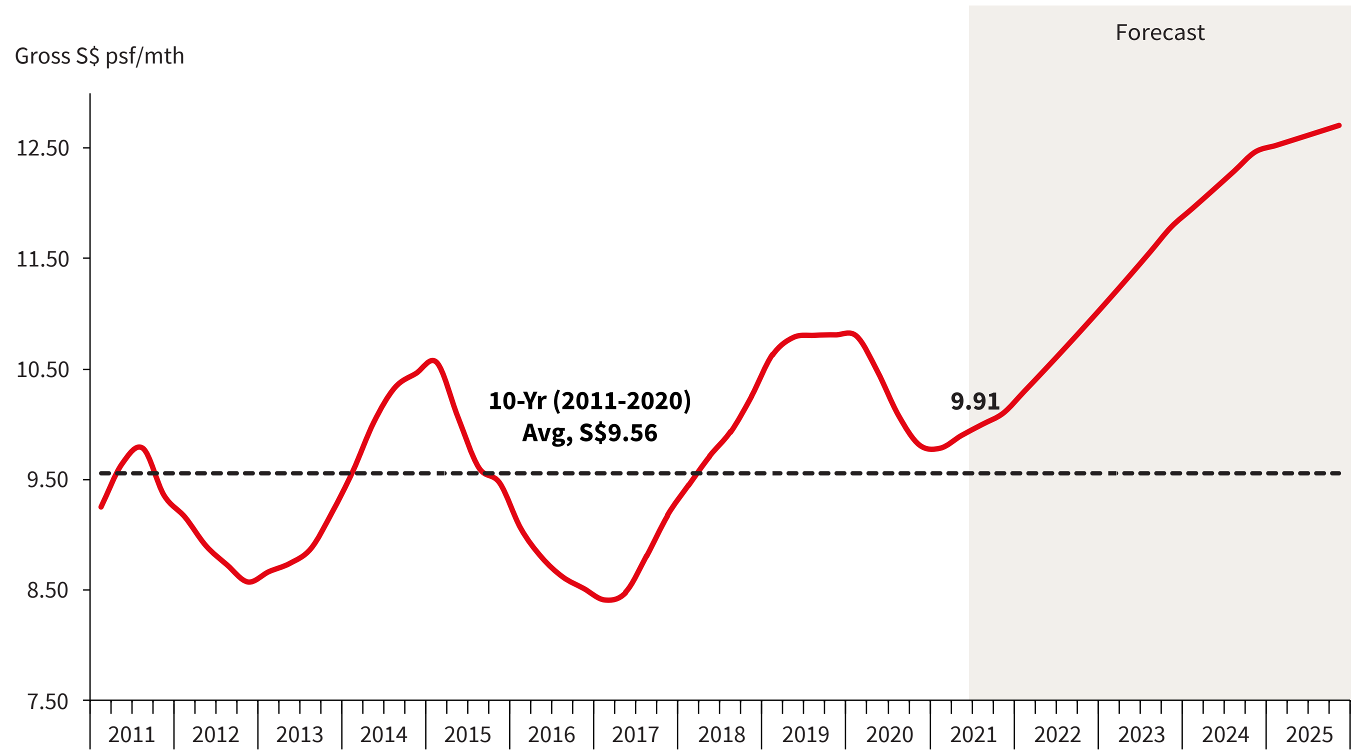
Source: JLL Research

Beyond that, assuming continued economic growth, Grade A CBD office rents could hold firm until the market sees a fresh injection of land supply. This will likely occur only from 2027 onwards if the government sells an office site in 2022, most likely outside the CBD

Hence, we are upbeat that Singapore Grade A office rents will have a good upward run from now until 2026, at the very least.

Figure 16

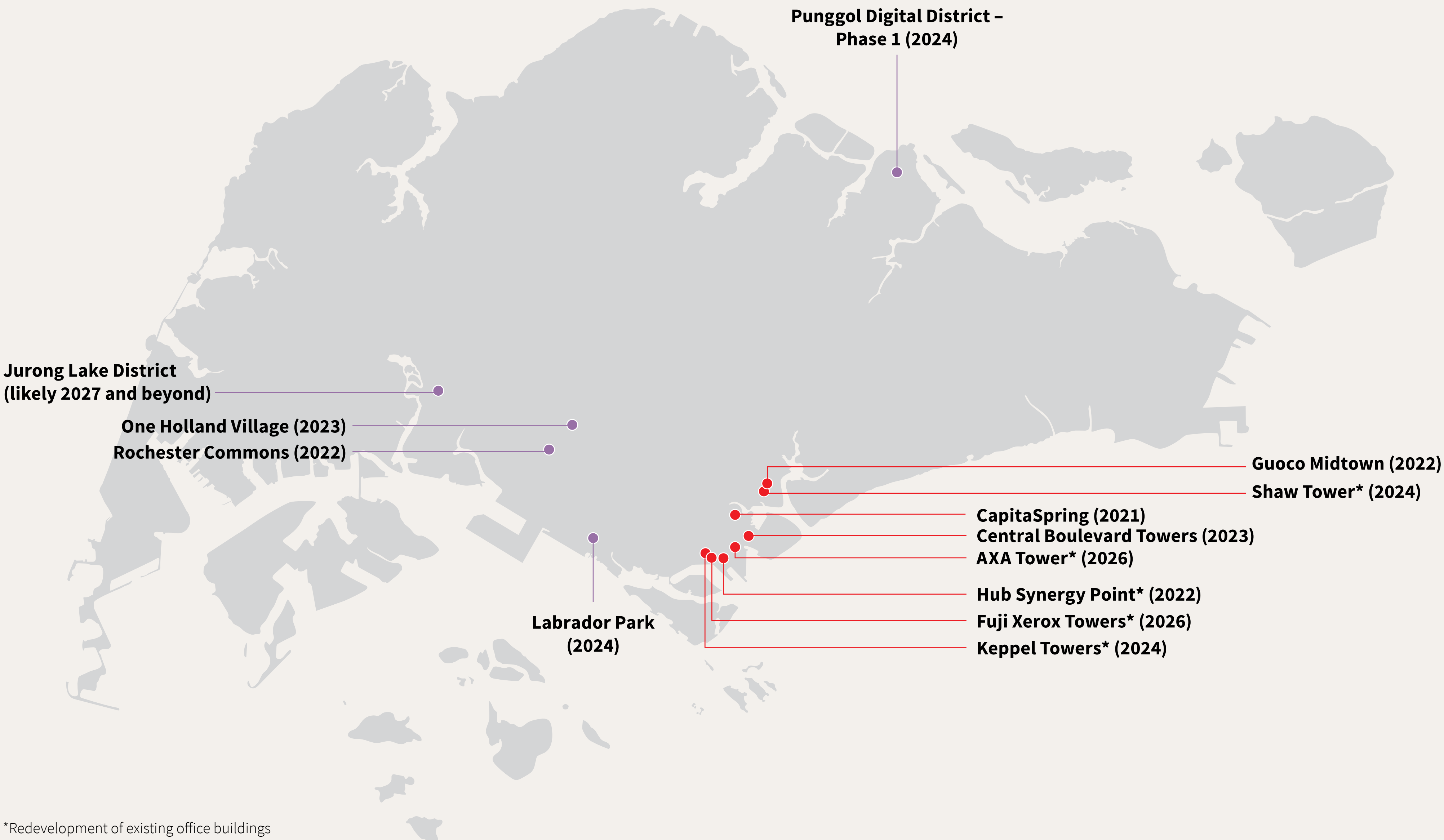
CBD Grade A Office Rents



Source: JLL Research

Figure 17

Upcoming office supply (2021 to 2027)



*Redevelopment of existing office buildings
Source: JLL MapIT

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