

Creating Resilience

The Post-Pandemic Office - Beyond the CBD and Decentralisation

REPORT

CBRE RESEARCH
SINGAPORE

NOVEMBER 2023





Foreword

Not a new concept, office “decentralisation” was launched in the 1990s to bring jobs closer to homes, help ease traffic congestion, cut commuting time for workers, and offer alternative business locations for companies. On the other hand, the older CBD has been encouraged to transform into a mixed-use district, with not a greenfield office site in the CBD sold since 2017.

The tender launch of the maiden master developer site, the largest yet at 6.5-hectare and can be developed in two phases across 15 years, at Jurong Lake District (JLD), is envisioned to become the largest business district outside the CBD. It brings exciting opportunities but also raises questions about the future of the CBD.

This report aims to explore the factors vital for the success of a massive decentralisation. At the same time, the CBD’s office market will remain relevant and appealing to many multi-national corporations and local firms. CBRE Research advocates a holistic and balanced approach to preserve Singapore’s continued success as a key business hub.

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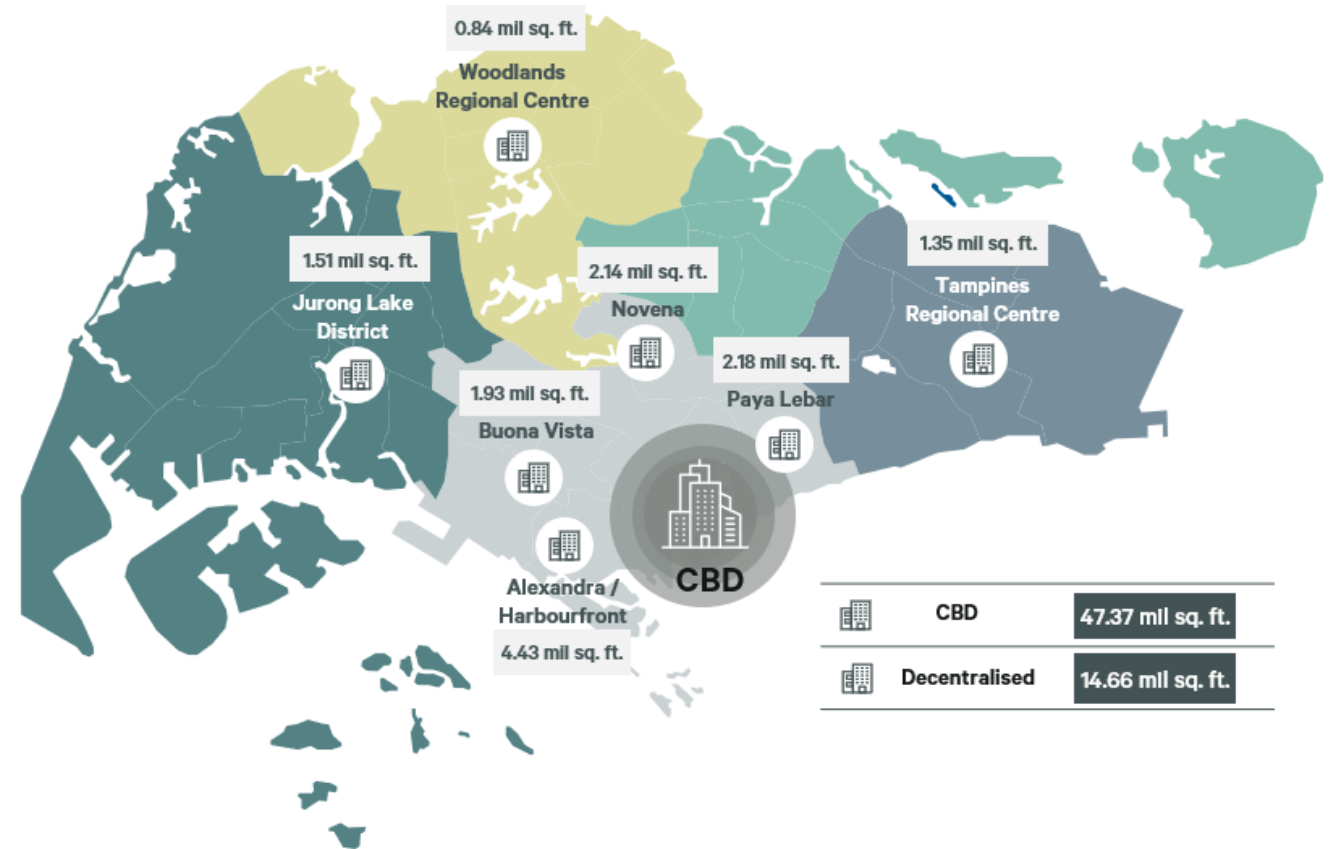
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Office landscape in Singapore

- The division between the CBD and decentralisation is part of a broader urban planning strategy to balance economic growth and create diverse work environments. The CBD has been the main employment hub in Singapore, with over 47.3 mil sq. ft. of office space concentrated in one commercial centre. That said, to reduce congestion in the CBD, decentralisation has been an ongoing strategy since 1991 to redistribute some economic activity to the suburbs.
- To bring jobs closer to homes, regional centres such as Woodlands, Tampines and Jurong East have been conceptualised. Other commercial nodes, such as Novena Fringe Centre and Paya Lebar Central have been developed into vibrant office clusters. As a result, the proportion of office stock in decentralised areas has grown significantly over the years. As at Q3 2023, decentralised stock has almost tripled from 25 years ago, accounting for 24% of total office stock today.
- A different type of renewal is taking place in the CBD. The government has not released any new greenfield sites since 2017. Instead, the CBD Incentive Scheme was introduced in 2019 to encourage the redevelopment of existing, older office buildings in the CBD into mixed-use developments with residential or hotel components. The aim is to inject a bigger live-in population and greater amenity mix. As the pandemic has shown, it is essential to create a 24/7 work-live-play environment, ensuring that valuable space is utilised at all times.

Figure 1: Current stock of major commercial centres and nodes in NLA (sq. ft.)



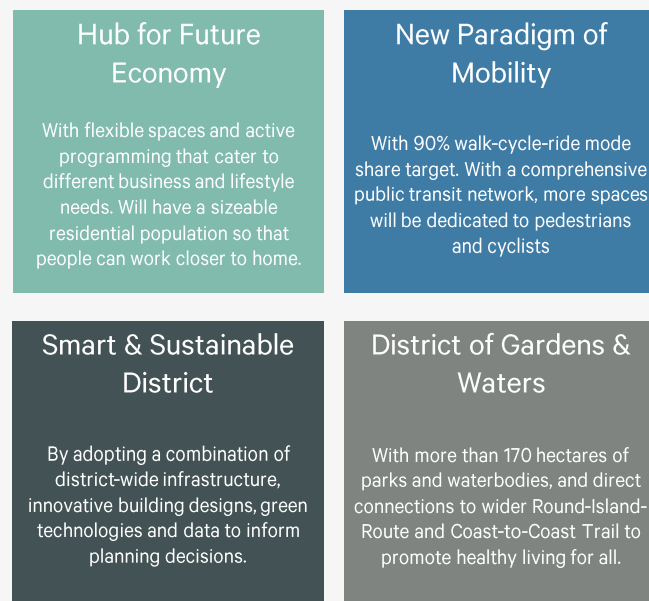
Source: CBRE Research, Q3 2023

Jurong Lake District – the second CBD?

- JLD is set to overtake Paya Lebar Central and eventually be the largest commercial district outside the CBD. JLD’s commercial stock is set to grow by 7 times, with plans for development over the next 30 years. JLD will be served by two new MRT stations and offer new development concepts and ways to integrate live, work and play. The attractive location near key transport links in this mature area is likely to be a key driver for both occupiers and investors.

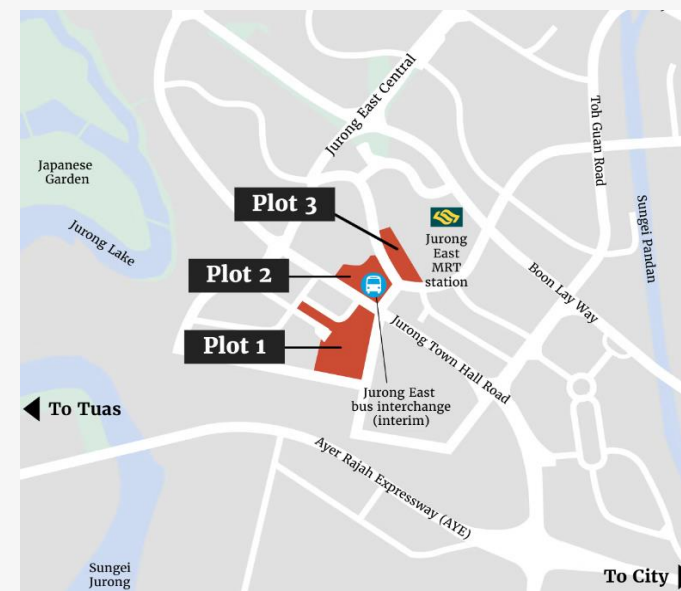
- More recently in Jun 2023, the government launched a 6.5-hectare site next to Jurong East MRT station in the H1 2023 GLS confirmed list. Slated to be sold to a master developer to build an integrated development. When completed, the site will hold more than 1,700 residential units and more than 146,000 sq. m. of office space, among complementary uses such as retail, hotel or community uses. The successful tenderer is required to build at least 70,000 sq. m. GFA of office space and 500 private housing units as part of the first phase but will have the flexibility to phase out the remaining supply over the next 10 to 15 years, according to market demand.

Figure 2: 4 key themes for the development of JLD



Source: URA, JLD, CBRE Research

Figure 3: Master development site at JLD



Source: JLD, CNA, CBRE Research

Timeline for JLD's transformation

Key developments over the years

- 2000 - JTC relocates to JTC Summit
- 2008 - Announcement of blueprint for Jurong Lake District
- 2012 – Opening of JCube
- 2013 - Opening of Westgate, Jem
- 2014 - Opening of Devan Nair Institute & Big Box
- 2015 – Opening of Ng Teng Fong General Hospital, Jurong Community Hospital and Genting Hotel Jurong
- 2017 – Completion of Jurong Gateway, Vision Exchange
- 2019 – Opening of Lakeside Garden
- 2022 – Completion of Perennial Business City
- 2023 – Announcement of new JLD site
- 2024 – Tender closing for new JLD site
- 2027 – Jurong East Integrated Transport Hub & New Science Centre
- 2028 – Possible completion for new JLD site
- 2029 – Jurong Region Line (JRL) will be completed in three phases from 2027 to 2029. The JRL Jurong East station is estimated to complete in 2028.
- 2030s – Cross Island Line

Figure 4: Current commercial developments surrounding JLD

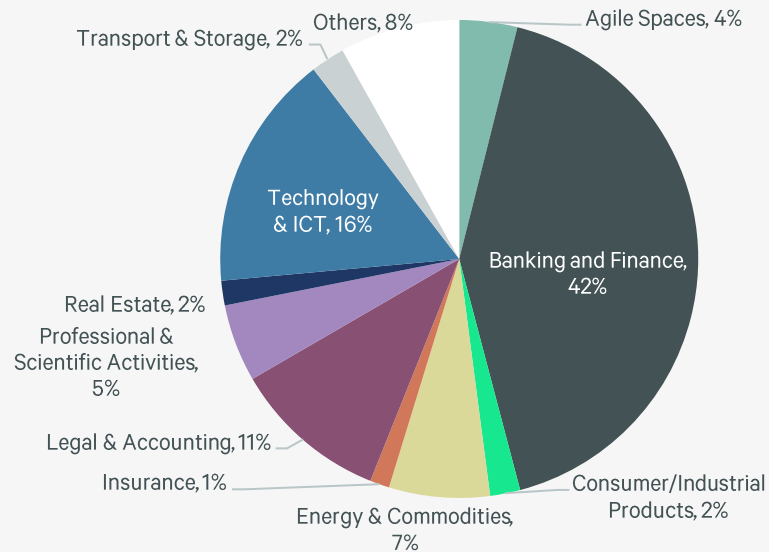


Source: GoogleEarth

A city of choice for occupiers

- Having a variety of locations in both the CBD and decentralised offices aims to provide a wide range of choices for office occupiers. Diversity in location options allow businesses to select spaces that align with their requirements.
- The CBD can be attractive to MNCs looking for a prime address as it offers a prestigious and central location. This tends to be prevalent in industries where competition for talent is more intense. Using Marina Bay submarket as an example, according to CBRE Research, occupiers such as banking & finance and technology & ICT are the largest users of office space in this location. Other sectors such as legal & accounting continue to actively seek space in the CBD as well.

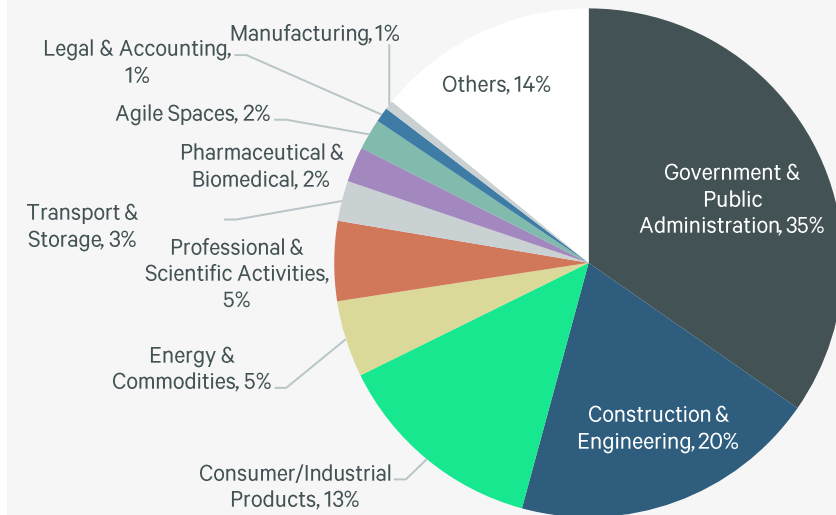
Figure 5: Occupier Profile for Marina Bay submarket (Top 10 Occupiers)



Source: CBRE Research, Oct 2023

- Decentralised areas offer cost-effective alternatives and appeal to end-users who prefer the convenience and lifestyle offered in suburban areas. Among buildings in Western Suburbs, the tenant profile is more diversified, consisting of sectors in construction & engineering, energy & commodities, consumer/industrial products and transport & storage. Government agencies have also been taking the lead to relocate to the Western Suburbs. It was reported that the *Ministry of Sustainability and the Environment* is in the process of evaluation for development of a new office tower in JLD (12 Science Centre Road). Should the agency eventually move, it will be part of a cluster of Government agencies based in the area and would collectively support the growth of Singapore's western business district.

Figure 6: Occupier Profile for Western Suburbs (Top 10 Occupiers)



Source: CBRE Research, Oct 2023

Case study 1: Paya Lebar – An evolving and dynamic commercial precinct with significant growth

- Paya Lebar precinct has seen rapid transformation under URA’s plan to create a vibrant decentralised commercial centre, interspersed with green spaces and enhanced connectivity.
- The commercial precinct has undergone significant growth and emerged as a prominent decentralised office location since 2018, following the completion of Paya Lebar Quarter (PLQ). Since its inception, it has been a landmark development of the precinct and has transformed Paya Lebar into a booming decentralised hub. It also appeals to occupiers who prefer to locate outside of the CBD.
- Today, achievable average rents within PLQ has risen by about 20% from \$7 psf/mth in 2018 with nearly full occupancies. With the relocation of Paya Lebar Air Base and upcoming *Paya Lebar Green*, the precinct is well positioned for future growth.

Figure 7: Office specifications of Paya Lebar Quarter

- Large-scale decentralised Grade A office, with over 0.9 mil. sq. ft. NLA across three towers. The project also comprises of a mall and a 429 units residential development.
- Directly integrated to Paya Lebar MRT Interchange and 15-20 min drive to CBD & Changi International Airport
- Diverse tenant mix with *NTUC Income, Bayer, Great Eastern, SMRT, Maersk, Skillsfuture*
- Strong ESG credentials and is built to institutional grade: BCA Green Mark Platinum, BCA Green Mark Pearl Award, International WELL Building Institute Core & Shell Gold

Source: CBRE Research, Q3 2023

Figure 8: Location of Paya Lebar Quarter

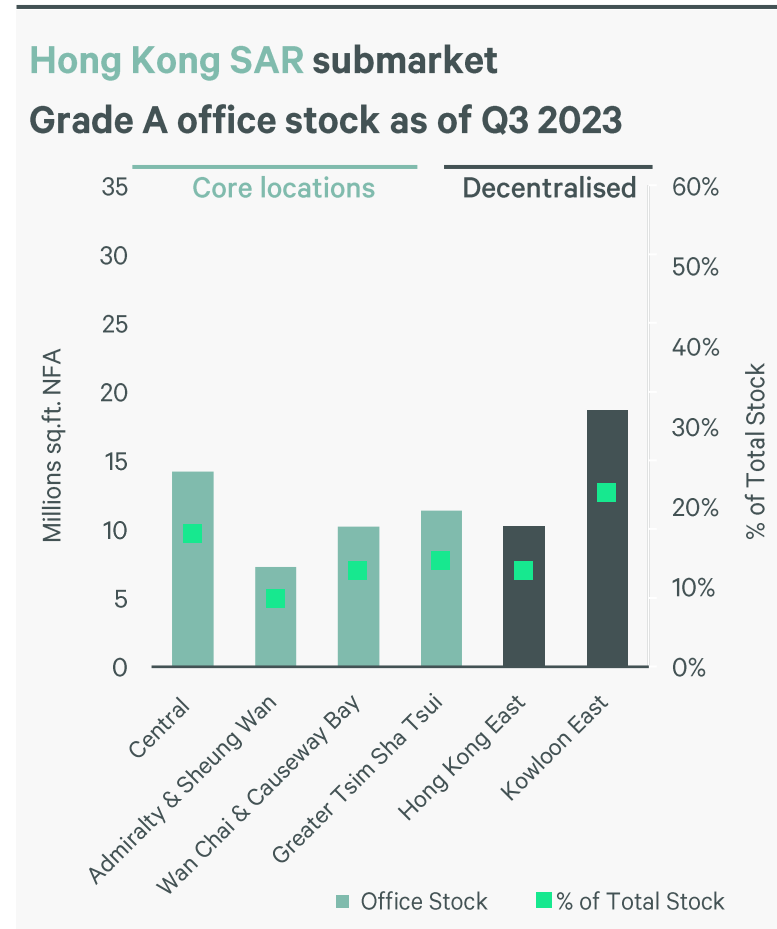


Source: CBRE

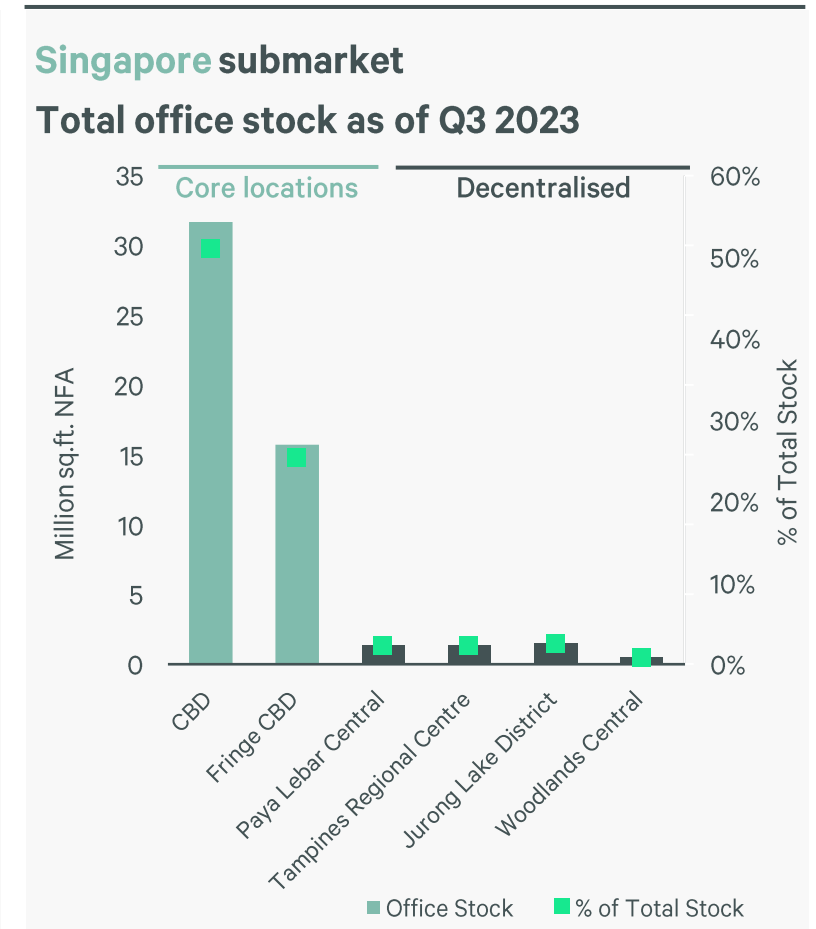
Case study 2: A comparison with Hong Kong

- Singapore and Hong Kong have a similar urban planning target to diversify work environments towards decentralised areas. That said, business nodes in Hong Kong are geographically more diverse, with at least one-third of the city's total Grade A office stock located in decentralised areas.
- Following recent infrastructure improvements and the addition of new supply, Kowloon East (located in the decentralised location) has overtaken Central CBD as the district with the largest volume of Grade A office stock.
- On the other hand, office space in Singapore is predominantly concentrated in the CBD, which is home to almost 80% of total stock (all grades).
- Moving forward, decentralisation could accelerate in Singapore as the government makes more commercial land sites available outside the CBD, along with new growth hubs like the Jurong Lake District.

Figure 9: Office stock by submarket



Source: CBRE Research, October 2023

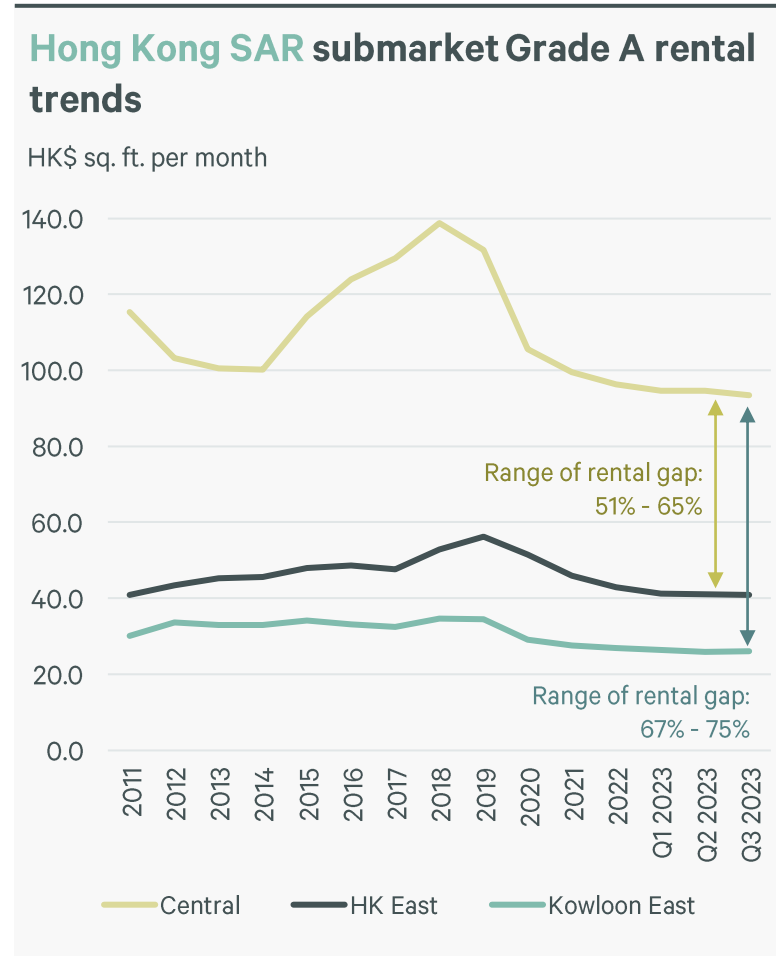


Source: CBRE Research, October 2023

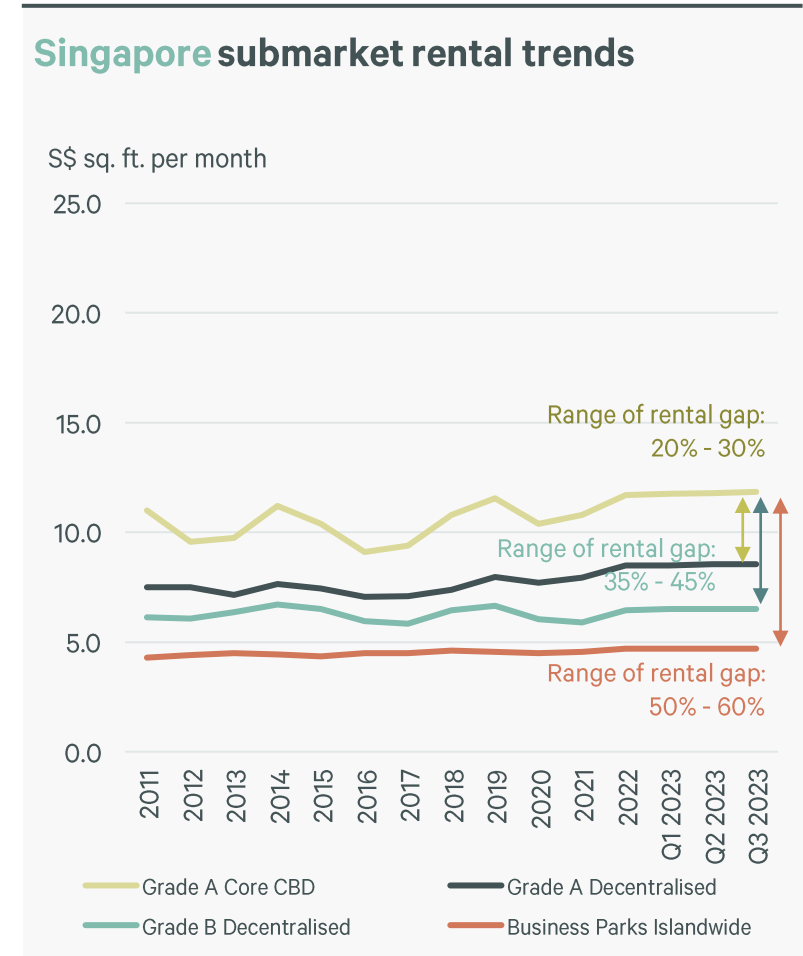
Case study 2: Hong Kong’s decentralised space a fraction of Central rents

- Despite undergoing a deep correction, Hong Kong Central’s Grade A rents remain the highest globally. Grade A rents in Central are currently about 40% higher than those in Singapore’s core CBD.
- Among Hong Kong office submarkets, rents achieved in decentralised areas are up to 75% lower than those in Central. The wide rent differential, among other reasons, has attracted many MNCs to decentralised areas. Recent examples include *Ernst & Young*, *Baker McKenzie* and *Julius Baer*.
- Recent years have seen the Singapore government encourage decentralisation, with such areas offering rental savings of up to 45%. However, for high quality space, this gap drops to 20-30%, which is much narrower as compared to Hong Kong.
- That said, Singapore has a large business park sector that can defray costs for companies with back-office infrastructure. The rental gap between average islandwide business park and Grade A Core CBD are between 50% - 60%. Business parks can be an attractive option for occupiers, provided they are able to meet the relevant qualifications and regulations.
- To motivate occupiers to relocate to Decentralised options at an organic pace, CBRE Research believes that there must be significant rental cost savings of 30% - 50%. However, to fill up a large-scale decentralised project quickly, a wider rental differential may be needed, especially if fit-out capex is considered.

Figure 10: Office rental trends by submarket



Source: CBRE Research, October 2023

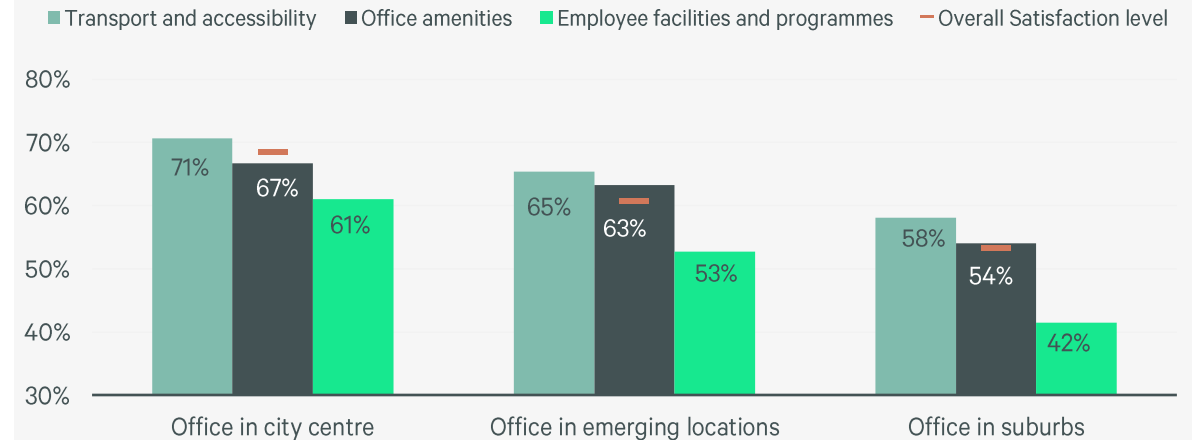


Source: CBRE Research, October 2023

Striking a balance with the CBD

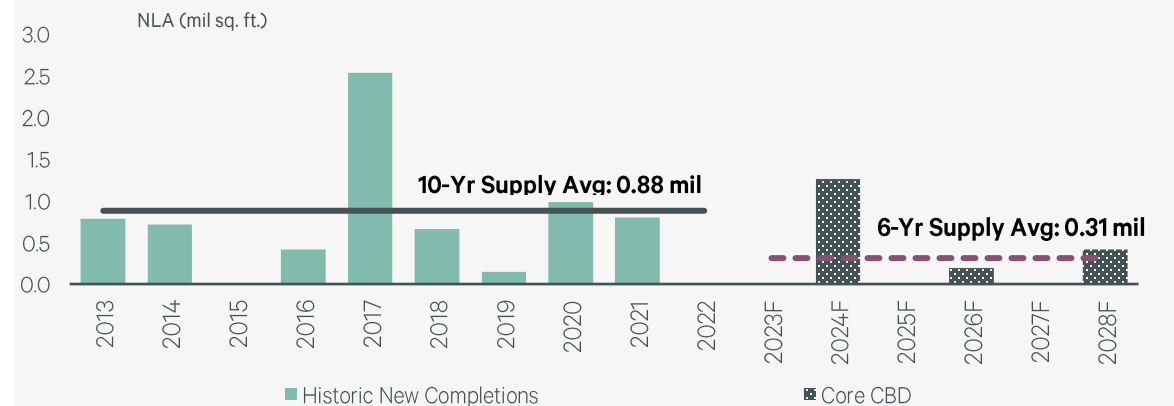
- While the government’s focus has been mainly on decentralisation, CBRE Research believes that a mixed approach is essential – to strike a balance and ensure that the CBD remains reachable and relevant to meet the needs of occupiers.
- Future supply in Core CBD will be extremely limited. As at Q3 2023, the 6-year future supply (from 2023 to 2028) in Core CBD is estimated to be 65% below the 10-year past completions. Furthermore, the potential take-up of the CBD Incentive scheme will likely lead to a long-term reduction of office supply, as it grants bonus gross floor area to property owners if the ageing buildings are redeveloped into mixed-use developments with residential or hotel components. This has been aggravated by the lack of government land sale sites in the CBD. Over the longer term, the office market could be moving in the direction of a severe supply crunch by 2030, if there continues to be a lack of meaningful new supply in the CBD.
- CBRE Research opines that a complete focus on the decentralised agenda could be a disconnect from corporates’ preference to be in prime and core locations. CBRE’s 2022 Singapore Live-Work-Shop survey found that the CBD remains as the most sought-after office location as employees are more satisfied with the transport and accessibility that a city centre location can offer, as compared to the decentralised and fringe areas. This also aligns with a wider and global trend that a central office location is essential with talent retention and recruitment initiatives.
- In the longer term, the CBD will remain relevant as a focal point of activity due to its centralised location and extensive access infrastructure. A decentralisation strategy needs to be supplemented by an injection of supply in the CBD - to ensure the competitiveness of Singapore’s commercial scene and to provide more choices for future occupiers.

Figure 11: Overall satisfaction with office location and attributes among Singapore occupiers



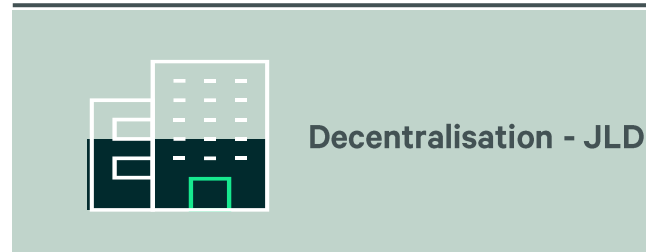
Source: CBRE Singapore Live-Work-Shop Report 2022

Figure 12: Historical completions and future supply in the CBD

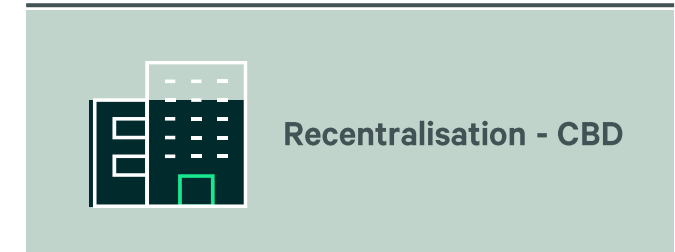


Source: CBRE Research, Q3 2023

Summary & Recommendations



- JLD seeks to offer a cost-effective office location to existing and new growth industries. Establishing a diversified demand pool will help mitigate the economic fluctuations that can affect office take-up during a downturn.
- Aside from new set-ups, to motivate occupiers to relocate to Decentralised options at an organic pace, CBRE Research believes that there must be significant rental cost savings of 30% - 50%. However, to fill up a large-scale decentralised project quickly, a wider rental differential may be needed, especially if fit-out capex is considered.
- The new JLD site has the potential to do well if designed and planned well with efficient floor plates and ESG-certified features, specifications that are highly sought after by occupiers. Ample groundwork has been laid with significant transport infrastructure, retail amenities and strong residential catchment. The new Jurong Region Line station and Integrated Transport Hub will only amplify its strength.



- Take-up of the CBD Incentive scheme will lead to a long-term reduction in office supply. Coupled with the lack of new greenfield sites in the CBD, tight supply in the submarket is expected to drive rents up in the medium to long term.
- Given occupier's preference for flight to quality in core locations, a complete decentralisation strategy would be insufficient.
- It needs to be supplemented by an injection of supply in the CBD, as it is set to remain as the focal point of commercial activity. This is to ensure the competitiveness of Singapore's commercial scene and to provide more choices to future occupiers.

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