



COMMENTARY

Commentary: COVID-19 will reshape the Singapore office property market outlook



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Businesses have made that leap to remote working, which has major implications for office space in Singapore and could accelerate trends already underway, says Sing Tien Foo.



An almost deserted Shenton Way, which is situated in the Central Business District, usually sees heavy traffic during the day (Photo: Jeremy Long)

SINGAPORE: For most workers in Singapore, it has been weeks since they last saw their colleagues, possibly even months since they set foot in their office.

That may be our reality for a bit longer. Companies must continue to allow staff to work from home where possible, the Ministry of Health said on Sunday (May 3), even as the country prepares to reopen the economy and allow workplaces to reopen if strict rules are adhered to.

Reinforcing the message, Minister for Trade and Industry Chan Chun Sing said that same day working from home will continue to be the norm even as circuit breaker measures are eased.

Social media giant Twitter just this week also announced they would allow some staff to work from home indefinitely.

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WILL OFFICES BE DONE AWAY WITH?

Downtown office space could be massively reshaped by COVID-19.

More than 80 per cent of the Singapore workforce telecommute today. Current demand has been culled, with knock-on effects for building management, mass transport and F&B in the vicinity.

Yet the completed office space in the country increased by a net 33,000 sq m over this first quarter. Office rents dipped by 0.8 per cent, while prices fell by 4 per cent, as the islandwide vacancy rate of office space rose to 11 per cent, according to the Urban Redevelopment Authority.



View of the central business district in Singapore, Apr 13, 2020.

There are opposing forces shaping whether remote working will displace the need for huge office spaces.

On the one hand, working in the same physical location offers opportunities for face-to-face interactions and business collaboration, which have been cited as vital ingredients for creativity and innovation.

Leases also create inertia. Decades of longstanding corporate practices cannot be easily undone.

On the other hand, the advent of Internet, the smartphone and social media has demonstrated how technological changes can have irreversible and permanent impact on workplaces.

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After incurring sunk costs in retooling businesses that enable that telecommuting reality, and as habits surrounding remote working deepen, telecommuting may become the new normal, putting downward pressure on commercial real estate space needs in the long run.

Proponents of remote working also cite boosts to productivity, deep focus and time-savings for bandwidth-starved office workers who now no longer need to commute – on top of office rental cost savings for firms.

DOWNSIZING OF OFFICES, OFFICE SPACE MOVING AWAY FROM THE CBD

After the circuit breakers are lifted, firms requiring some level of segregation as part of business continuity plans may lower their footprint within the Central Business District (CBD) to reduce a high workforce concentration in one location and look elsewhere for branch offices at the very least, accelerating a trend already underway.



Changi Business Park is a business and research hub with an emphasis on freight, aviation technology and machine learning.

For years, banks and financial institutions have relocated non-essential backroom operations elsewhere. Changi Business Park has been a popular area attracting many banks including Citi, DBS, JPMorgan, UBS and more.

More mature districts, such as Fusionopolis at One North and Pasir Panjang areas, are gradually evolving into technology innovation and enterprise clusters. Tech giants like Google and Cisco have moved into Mapletree Business City II.

Plans are underway for more business parks. The Punggol Digital District, which saw its [ground-breaking in January](#), hopes to draw cybersecurity and data analytics firms to Northeast Singapore.

Even the big boys in traditional sectors have responded to this lure of office spaces outside the CBD. Oil giant Shell houses its regional headquarters today at The Metropolis at Buona Vista. Daimler Group has relocated from Centennial Tower in Marina Centre to Westgate Tower in Jurong East.

Government agencies have also moved away from downtown. The Agri-Food and Veterinary Authority (AVA) and the Building and Construction Authority (BCA) moved to JEM, while the CPF Board long sold its CPF Building at Robinson Road in favour of moving to Novena.

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Some will use the time to rethink office space design, taking a leaf from property consultancy firm CBRE's book. They moved their main office out of 6 Battery Road to Paya Lebar Quarter and used the shift to set up a new "living lab" to showcase various "occupier experience" technologies to their clients.

ACCELERATING REDEVELOPMENT OF CBD

If companies adjust their office space footprint after the COVID-19 outbreak blows over, landlords will be pressed to act. We may see the transformation of the CBD from a single-use district dominated by office use to a more diversified and mixed-use district.

This change won't be out of the ordinary. Older office buildings along Shenton Way, Cecil Street and Robinson Road, once considered prime financial streets in the 1970s and 1980s, have been redeveloped into mixed and residential uses.



An office worker wearing a face mask in Singapore on Apr 7, 2020. (Photo: Reuters/Edgar Su)

One Shenton was previously Robina House, EON Shenton was previously Marina House, and V on Shenton was previously UIC Building just to name a few.

When firms shrink their real estate space in CBD, landlords of old buildings will finally be nudged to pull them down and put up new developments, in line with the URA Master Plan that projects a shift away from office and commercial spaces towards residential and mixed use in that downtown core.

DATA CENTRES WILL SEE A BOOST

Much has been said about how COVID-19 has catalysed changes in the workplace but the trend of firms leveraging cloud technologies to store information, run software and base entire systems also deserves treatment.

Singapore, the world's third most competitive data centre market, has seen the growth of data centres supporting a rapid pace of digitalisation.

Apart from negating the need for firms to build their own private centralised data storage servers and maintain a larger office footprint, data centres assure smaller firms of business continuity and minimisation of disruptions.

Interestingly, Keppel Data Centre REIT, the only data centre REIT listed on the Singapore Exchange, has surged by 30.7 per cent, higher than the average market correction since the massive drop in March.

This recovery has been led by warehouse and logistic REITs with a 44 per cent increase since March. Meanwhile, stock prices of office and diversified REITs, on average, recovered by 19.3 per cent and 16 per cent respectively – suggesting investors are still bullish about the future of workspaces.

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THE IMPACT ON COWORKING SPACES IS STILL UNCLEAR

What about coworking spaces, which have expanded rapidly in Singapore? After all, JustCo, WeWork and homegrown office providers have increased their footprint in recent years.

Many have temporarily shuttered their common areas and shared facilities amid circuit breaker measures that require people to keep safe distances and work from home.

Many commentators have said the coronavirus could kill WeWork and the coworking space industry, but I am less certain.



People working in a co-working space (Photo: Unsplash/Shridhar Gupta)

When the dust has settled in a post-COVID-19 world, we may see some firms leverage coworking spaces for more flexible space planning and lease tenures.

Coworking firms may also shift towards having a combination of private offices and dedicated spaces in lieu of the big, open-plan places that have come to define this sector.

Meanwhile, landlords of office buildings, such as Guoco Midtown, may shift the rigid leasing model that locks tenants into a fixed space over a long lease term to one that offers flexible lease tenure and adaptable space.

The pandemic has been a wake-up call pressing firms to rethink their business models. It may do the same too for landlords with large office properties in their portfolios.

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