NUS National University of Singapore

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The future of the CBD

The rental gap between offices in the Central Area and the Fringe Area typically narrows during a downturn and widens during an upcycle. However, with Grade A offices popping up in the fringes – such as Paya Lebar – the narrowing of the rental gap has eased in recent years. Data from NUS' Institute of Real Estate and Urban Studies (IREUS) looks at how the pandemic played out last year. ***BY NISHA RAMCHANDANI***

During the pandemic, office rents came under pressure as demand waned, highlighted Lee Nai Jia, deputy director at IREUS.

- Rents in the Central Area (Downtown Core, Orchard, Outram, Newton, River Valley, Museum, Marina East, Marina South, Straits View, Rochor, Singapore River) fell by nearly

↓9%

year-on-year in Q4 2020.

- While rents in the Fringe Area (Central Region, excluding Central Area) dropped by

↓8.5%

- In comparison, office rents in the Central Area sank

↓19.2%

during the last office downcycle in Q1 2015 to Q2 2017.

- While rents in the Fringe Area contracted

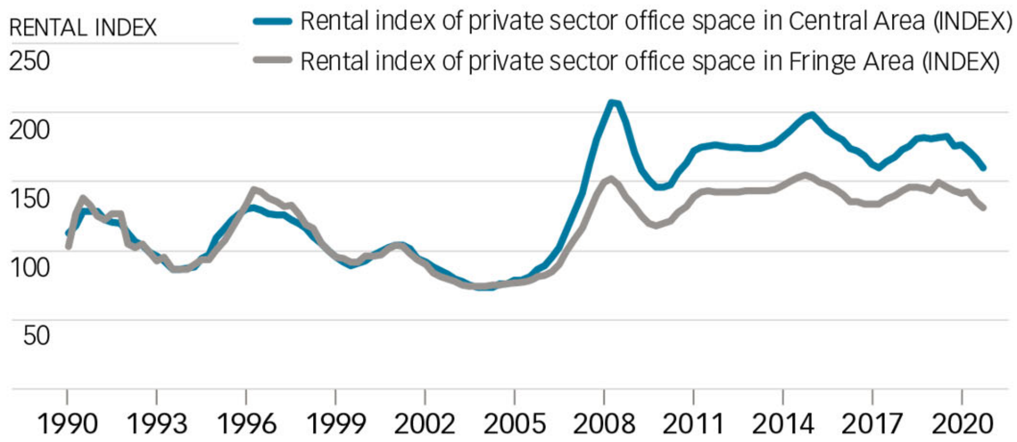
↓12.5%

The difference in rental decline in the current downcycle could be due to several factors, suggests Dr Lee.

- Companies prefer the attributes of the Central Business District (CBD) over the fringe areas, despite the potential cost savings
- The capex for their offices haven't been fully amortised as yet
- Firms want greater clarity on what offices will look like in the future before they act
- Companies may leverage co-working spaces or allow employees to WFH when leases expire

While Dr Lee still sees firms desiring a presence in the CBD in the future for purposes such as branding, reaping economies of scale, collaboration and strengthening company culture, companies may not need as much space as they did before. "It remains to be seen whether WFH may speed up decentralisation from the CBD," he added.

Rental gap evolving



Source: IREUS