Technology firms transforming the office landscape in Southeast Asia

10 September 2018

Regina Lim
In Southeast Asia, strong underlying socio-economic trends underpin the growth potential for the online economy, which is expected to grow by four times to USD 200 billion by 2025. Technology companies have been growing rapidly over the last decade in Southeast Asia but their expansion has accelerated over the last three years. In this report, we highlight how technology companies are transforming the office markets in Southeast Asia cities:

- Technology hardware manufacturers have been operating in Southeast Asia for decades. In the last ten years, internet companies started to enter Southeast Asia and in the last two years, e-commerce companies started to expand rapidly. We think in the next decade, e-commerce companies will continue to grow, together with flexible work spaces’ coworking operators. Gaming and e-sports platforms may become a source of future growth.

- Technology companies have become a key office occupier in Southeast Asia, taking up 15-20% of total gross office leasing volume compared to 5-10% just three years ago. We continue to expect technology companies to take up 15-25% of gross office leasing volumes and Southeast Asia office demand to grow 6% annually for the next decade.

- We highlight the top five technology companies with the largest footprint in Southeast Asia: Alibaba, Facebook, Google, Sea and Wework. Each of these companies currently take up between 20,000 to 50,000 sqm of office space in total in Southeast Asia, spread amongst three to five cities. In many cases, they have grown their headcount by 30-50% CAGR over the last 5-10 years. While most have a regional headquarters in Singapore, e-commerce companies also take up significant office space to serve the large domestic consumer markets of Indonesia, Thailand and Vietnam.

- Flexible office spaces in Southeast Asia have grown by circa 40% CAGR in the last three years and now take up 2% of office stock, compared to 0.5-1.0% in 2015. The largest stock of flexible work space is in Singapore, followed by Manila and Jakarta. JLL predicts that as much as 30% of corporate portfolios could be flexible space by 2030.

- Regionally, technology companies’ location preferences are influenced by access to talent pools, supportive government policy and access to customers. These provide for an innovative eco-system conducive for collaboration and start-ups. Within each city, we find that technology companies emphasize the need for transport connectivity, integrated developments incorporating live, work and play elements and building prominence and signage. Due to expansion and technology needs, these companies are often the earliest tenants to pre-commit to brand new buildings.
Internet economy expected to grow to USD 200bn by 2025, from USD 50bn in 2017

Southeast Asia is the third largest contributor to the Asia Pacific economy after China and Japan. Strong underlying social-economic trends underpin the growth potential for technology companies in the region. Southeast Asian economies as well as personal consumption growth are forecast to grow at 5% annually till 2020, exceeding global growth of just 3.5%. Urban population in Southeast Asian cities is growing by circa 2.2% annually and the middle income population is increasing by 70 million or 9% CAGR by 2020.

Fig 1: Personal consumption growth CAGR 2018-2022

![Graph showing personal consumption growth CAGR 2018-2022 for Vietnam, Philippines, Indonesia, Malaysia, Thailand, and Singapore.]

Source: IMA Asia

In a May 2016 report, Google and Temasek Holdings predicted the online economy in Southeast Asia would grow at a compound annual growth rate of 20% till 2025. In the following 18 months, Google-Temasek estimated the online economy has outpaced this projection by growing 27% CAGR to USD 50 billion by Dec 2017. Users in Southeast Asia are highly engaged, spending 3.6 hours per day on mobile internet, more than any other region in the world. Users in Thailand and Indonesia lead the world with 4.2 hours and 3.9 hours per day.

Fig 2: Middle income household population (millions)

![Graph showing middle income household population for 2015 and 2020 for Indonesia, Malaysia, Thailand, Philippines, and Vietnam.]

Source: Brookings Institute

By comparison, users in the U.S. spend an average of 2.0 hours per day. The Google-Temasek study indicated that Southeast Asia’s internet economy could be worth over USD 200 billion by 2025. E-commerce is expected to be the fastest growing segment, predicted to grow at 30% CAGR in the next 5-10 years to reach USD 88 billion by 2025. In the last two years, this segment had doubled to USD 11 billion by 2017 from USD 5.5 billion in 2015.

Fig 3: Online economy size (USD billions)

![Graph showing online economy size for 2015, 2017, and 2025 for Indonesia, Thailand, Philippines, Malaysia, Vietnam, and Singapore.]

Source: Google/Temasek Holdings

Fig 4: E-commerce market USD billions

![Graph showing e-commerce market USD billions for 2015 and 2025 for Indonesia, Thailand, Philippines, Malaysia, Vietnam, and Singapore.]

Source: Google and Temasek Holdings
Technology firms transforming the office landscape in SEA

Due to the market potential, technology companies have attracted significant investments for their expansion in Southeast Asia. In 2017, the Southeast Asia’s technology sector attracted over USD 6 billion of financing, up from about USD 300,000 in 2012, according to data from CB Insights. We expect the sector to continue to grow in tandem with market penetration as well as strong investments from global technology giants. In tandem, we find that technology companies have become a key office occupier group in the region in the last five years. We estimate that these companies leased around 15-20% of total gross office leasing volumes in Southeast Asia, compared to 5-10% just three years ago.

Fig 5: Estimated gross office space leased by technology companies

Source: JLL estimates

In Singapore, most of the technology companies have expanded and relocated into new premises over the last five years. For example, Google relocated to Mapletree Business City from Asia Square in late 2016, after expanding rapidly from 24 employees in 2007 to over 1,000 employees in 2017. While technology companies have consistently grown in more developed cities like Singapore, the acceleration in office take-up in the last three years has occurred in Jakarta, Bangkok, Manila and Ho Chi Minh City.

Fig 6: Southeast Asia net office take-up and GDP growth

Source: IMA Asia, JLL estimates

We expect technology companies to continue to expand in Southeast Asia, potentially taking up 15-25% of annual gross office leasing volume for the next decade. This contributes significantly to the growth in occupied office space, which we estimate at 6% annually across Southeast Asia, amid annual GDP growth of around 5%.
Internet companies have already expanded, e-commerce companies are accelerating their growth and e-sports could be the next large mover

Technology **hardware manufacturers** such as Dell, intel, Apple, Ericsson and Siemens have been operating in the region for decades. In the last ten years, **internet companies** such as Google, Amazon and Facebook started to operate in Southeast Asia. For instance, Google started its Singapore office with just 24 people in 2007 but this Asia Pacific headquarters has grown to over 1,000 employees by 2017.

In the last two years, investments into **e-commerce companies** in Southeast Asia accelerated. For instance, Singapore-based Sea, which operates Garena gaming and e-sports platform and Shopee e-commerce site just raised over USD 1 billion in 2017 through an initial public offering and a further USD 575 million in June 2018. Tencent, China’s largest video games and social media operator has been investing in Garena for several years. In early 2018, Alibaba increased its investment in Lazada by USD 2 billion, bringing its total investment to date to USD 4 billion. This was in addition to its USD 1 billion investment in Tokopedia, which operates in Indonesia.

As **gaming and e-sports** markets grow in Southeast Asia, we believe gaming companies such as Garena, Ubisoft, Quest Drop and Blizzard will start to expand quickly. The number of personal computer and mobile gamers in Southeast Asia is projected to reach 400 million by 2021, according to Niko Partners.

Both international and local **coworking companies** are also rapidly increasing their presence in Southeast Asia, at pace with the global trend. WeWork acquired Spacemob as part of its entry into Southeast Asia in August 2017 and has been expanding at a breakneck pace since then. Justco launched in Singapore in 2015 and expanded into Bangkok and Jakarta.
Where are the largest technology companies in Southeast Asia?

We find that the largest global technology companies in Southeast Asia currently take up between 20,000 sqm and 50,000 sqm in total, spread amongst three to five cities:

- All of them have some presence in Singapore, Bangkok and Jakarta.

- In many cases, the companies have grown their headcount by 30-50% CAGR over the last 5-10 years.

- **Internet companies** Google and Facebook have most of their office footprint in Singapore, which acts as a regional headquarters and a base for marketing, sales, and research and development operations.

- **E-commerce companies** such as Sea (which operates Garena, Shopee and Airplay) and the Alibaba group (which operates Lazada, Alipay and UC Web) are operating out of more locations in Southeast Asia and take up substantially more office space in Jakarta than Singapore, followed by Bangkok. We believe these companies are set up to serve the large and growing domestic markets of Indonesia, Thailand and Vietnam where personal consumption expenditure is growing by over 6% annually.

- **Coworking and flexible spaces**: While Regus has a large presence in Singapore, WeWork has been expanding rapidly across Southeast Asia in the last year. Based on their expansion track record globally, we think Wework is likely to have a presence in most of the six Southeast Asia cities within the coming twelve months. In addition, the company is likely to grow in the number of locations within each city as well.

---

**Fig 7: Where are the largest technology companies in Southeast Asia?**

Source: JLL estimates
The growth of flexible and coworking space

In Southeast Asia, flexible work spaces have grown by circa 40% CAGR in the last three years and how take up 2% of the office stock, from 0.5-1.0% in 2015. Singapore enjoys the highest penetration rate, with flexible work spaces taking up 4.2% of JLL island-wide office stock. The growth of flexible work spaces in Southeast Asia is in line with the rapid growth in Asia Pacific, where flexible space stock recorded a compound annual growth rate of 35.7% in 2014-2017, much higher than in the United States (25.7%) and Europe (21.6%) over the same period.

Flexible space appears to be more cost-effective than traditional office space in Singapore. Our initial estimates show that a workstation in a typical flexible space in Singapore could be up to 50% cheaper than a workstation in a traditionally leased office. But coworking space is often much denser than traditional office space. When adjusted for density and like-for-like costs, the cost differentials decrease substantially, or disappear altogether. In Singapore, when density is taken into account, traditional leases cost only about 5% more than flexible space leases.

Source: JLL estimates

JLL predicts that as much as 30% of corporate portfolios could be flexible space by 2030. What initially began as a platform for freelancers and startups, flexible space providers are now tailoring their offering to accommodate corporate users. These corporate users are experimenting with coworking via pilot schemes. Key drivers behind corporate demand for flexible spaces include (1) flexibility to accommodate headcount changes; (2) convenience with plug-and-play one-stop service; (3) fostering collaboration and innovation; (4) sense of community from activities and events and (5) cost effectiveness.
Developers investing in coworking and flexible spaces

A key sign that flexible spaces and coworking will be a permanent feature of corporate portfolios is the investment by developers into the sector across Southeast Asia:

**Singapore**

Most of the large developers have invested or formed joint ventures with flexible space operators: City Developments Limited with Distrii; Capitaland with Collective Works; Frasers Property and GIC with JustCo, Ascendas-Singbridge and Keppel Land have set up their own brands, i.e. thebridge and KLOUD respectively.

**Jakarta**

Sinarmas and other large local developers are investing in co-working and/or incubator space.

**Kuala Lumpur**

UOA Development Berhad has invested in Komune, a co-working operator that has come up with a new way of paying for its coworking space and services using its own currency: K$.

**Vietnam**

Indochina Capital, the owner of Indochina Plaza Hanoi Grade A office in Hanoi, invested in Toong, Vietnam’s largest coworking company in 2017. Toong has also signed a strategic partnership with CapitaLand to develop work spaces in more locations. Son Kim Land has head-leased Empress Building and located their first coworking space- Empress Business Centre- within the building. Trung Thuy Group, the owner of Miss Ao Dai and Dreamplex Building opened Dreamplex.
Regional locational preferences

In our report “Tech firm office location choice – how does it work in Asia Pacific?” dated January 2017, the top selection criteria on which technology companies base their choice of city locations are (1) access to talent pools (2) supportive government policy (3) cost of rent (4) access to customers (5) proximity to amenities such as food and beverage and hotels (6) proximity to transportation links and (7) infrastructure. We think these criteria very much hold true in Southeast Asia and our conversations with technology companies indicate that they thrive in environments where there is a conducive eco-system for start-ups that help the pollination of ideas and collaboration.

**Singapore** is probably the strongest example, with the best access to talent pools given the liveability of the city and high education levels. The government is investing heavily to nurture an innovation and start-up eco-system matching that of San Francisco. Initiatives range from entities that match entrepreneurs to industry partners to develop tech innovations (is. SGInnovate), fundings (eg. RIE2020 Plan) and physical space to house early stage start-ups (eg. JTC LaunchPad @ One-North). According to Start-Up Genome’s Global Startup Ecosystem Report 2017, Singapore overthrew Silicon Valley as the world’s No. 1 city for start-up talent. According to EDB, the number of start-ups in Singapore have more than doubled in the last decade to an estimated 55,000.

In **Malaysia**, the Malaysia Digital Hub is a program under Malaysian Digital Economy Corporation (MDEC). The program acts as a platform for start-ups to grow and co-exist in a digital ecosystem. It provides start-ups with growth opportunities in the form of tax incentives and funding structure, intellectual property protection, market access intervention, foreign talent pool, and facilitation from foreign knowledge entrepreneurs. Start-ups can improve their networking and collaboration with founders and clients at the global stage. They also benefit by acquiring knowledge on how to expand their businesses, reduce operating costs by centralising operations in one core space, obtaining guidance from experts, as well as improving their soft skills. The program also features some local private colleges to help start-ups access talent. The Malaysia Digital Hub has attracted participation among venture capitalists, seed accelerators, talent builders, and start-ups.

The **Vietnamese** government has also established a number of funds at State and provincial/city level to support startups such as the SME Development Fund, the National Technological Fund, the Credit Guarantee Fund and the Ho Chi Minh City Startup Innovation Fund. In addition, the government introduced laws that support small- and medium-sized enterprises in 2017-2018. The policy supports SMEs, start-ups and innovative enterprises that have high growth potential by providing special tax and loans.

In the last two years, both **Indonesia and Thailand** have become more business friendly with their respective governments prioritising the easing of bureaucracy and the cutting of red tape. Indonesia has climbed the World Bank’s Ease of Doing Business rankings over the last three years to 72th from 109th previously, while Thailand’s ranking improved to 26th from 49th. Setting up businesses has become easier and regulations surrounding foreign investment in certain industries have been loosened. In 2017, the government released the Indonesia E-Commerce Road Map aimed at accelerating e-commerce growth in Indonesia.

**Fig 10:** Ease of doing business ranking

<table>
<thead>
<tr>
<th>Country</th>
<th>Rank</th>
<th>↓</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>US</td>
<td>7</td>
<td>1</td>
</tr>
<tr>
<td>Malaysia</td>
<td>18</td>
<td>24</td>
</tr>
<tr>
<td>Thailand</td>
<td>26</td>
<td>49</td>
</tr>
<tr>
<td>Vietnam</td>
<td>68</td>
<td>90</td>
</tr>
<tr>
<td>Indonesia</td>
<td>72</td>
<td>109</td>
</tr>
<tr>
<td>China</td>
<td>78</td>
<td>84</td>
</tr>
<tr>
<td>India</td>
<td>100</td>
<td>113</td>
</tr>
<tr>
<td>Philippines</td>
<td>103</td>
<td>130</td>
</tr>
</tbody>
</table>

Source: World Bank
City locational preferences

In the developing cities in Southeast Asia, key unique attributes include intense traffic congestion and a severe lack of city infrastructure. While these are gradually improving, technology companies located in Bangkok, Jakarta, Manila and Kuala Lumpur have shown a clear preference for city locations with strong amenities that contribute towards talent retention with the following attributes:

1. Connectivity, preferably with mass rapid transit links
   An example is Kuala Lumpur, where technology companies have chosen to be located in the city’s fringe instead of Kuala Lumpur City Centre, due to the fringe district’s seamless connectivity to the airport and other parts of the city via the mass transit transport.

2. Integrated developments incorporating live, work and play elements in the same project with food and beverage, hotels, retail, fitness and entertainment amenities
   In particular in Jakarta, where the mass rapid transit links have not been built, many tech occupiers have strong preferences for accessible locations and convenient micro-locations such as restaurants, bars, coffee shops, gyms etc in the building or nearby in order to attract and retain talent.

3. Prominence of signage on building façade
   E-commerce companies are especially conscious of using their office premises as a marketing tool by insisting on prominent signage on the buildings they occupy. As a result, they tend to gravitate towards buildings in prime locations with a wide frontage, with clear lines of sight from major roads or expressways.

4. New buildings with contiguous space for fast expansion and quality finishing and specifications:
   Technology companies are often the earliest tenants to pre-commit to brand new buildings in Southeast Asian cities, as older buildings do not have contiguous space required for their steep expansion. Due to the nature of their business, they also tend to prefer brand new towers with high specifications. In particular, internet companies and e-commerce firms are heavily reliant on internet connectivity and place high importance on buildings with fiber optic connections. Technology companies also prefer office buildings with large and flexible floor plates. Backup power is also one of the requirements for uninterrupted business operations. Other requirements include power redundancy, chilled water for server cooling and high ceilings.
City clusters

In Singapore and Jakarta, technology firms have located their operations in the prime CBD areas. In Singapore, while technology firms may qualify to locate their activities in business parks outside the CBD, most firms still prefer the prestige and presence the CBD provides.

In Jakarta, technology firms are scattered throughout the CBD in buildings of varying quality from some of the best premium grade buildings in town to older grade B projects. There has been a massive volume of office supply since 2015, and plenty more is in the pipeline. Rents have fallen due to the increased supply, so technology firms have plenty of affordable office choices.

In Kuala Lumpur, technology companies used to locate themselves mostly in the city centre. More recently, demand has shifted towards KL Fringe due to the introduction of mass transit infrastructure. These firms are largely concentrated in KL Sentral, Mid Valley and Bangsar South.
Technology firms transforming the office landscape in SEA

In Bangkok, technology companies are fanned throughout traditional office locations along mass transit lines. Being in prime buildings with great location and transit connection helps in talent recruitment and creates a good image for tech occupiers. As most, if not all, of the physical occupancy needs of these firms can be addressed by newer buildings adhering to market-going requirements, tech firms tend to go into upcoming office towers with available contiguous space.

However, we observe a distinct sprawl Northbound along the MRT line, as gaming companies, online payment operators and hardware providers choose to locate in the less traditional business areas. While they have enjoyed lower rents in the past, rent escalation and their steep expansion has seen them moving further away while occupying larger space.

Map: Locations of Bangkok Tech Firms- Sporadic but transit driven

Source: JLL Research Thailand
In **Manila**, most technology companies prefer CBD areas such as Makati CBD in Makati City and Bonifacio Global City in Taguig City, followed by Ortigas CBD encompassing Pasig City and Mandaluyong City. These areas remain as the preferred locations of these companies due to the public transport accessibility of these districts.

**Legend**
- Hardware providers
- Internet companies
- Gaming companies
- Coworking
- E-commerce

Source: JLL Markets Philippines
Technology firms transforming the office landscape in SEA

Author
Regina Lim
Head of Capital Markets Research, Southeast Asia
Regina.lim@ap.jll.com

With contributions from:
Veena Loh
Head of Research, Malaysia
Veena.Loh@ap.jll.com

Andrew Gulbrandson
Head of Research, Thailand
Andrew.Gulbrandson@ap.jll.com

Tay Huey Ying
Head of Research, Singapore
Hueyying.Tay@ap.jll.com

Janlo de los Reyes
Head of Research, Philippines
Janlo.Delosreyes@ap.jll.com

James Taylor
Head of Research, Indonesia
James.Taylor@ap.jll.com

Trang Le
Head of Research, Vietnam
Trang.Le@ap.jll.com

© 2018 Jones Lang LaSalle IP, Inc. All rights reserved.