

PRICES AND RENTS GROW AMID TIGHT SUPPLY

Office Market Trends Q3 2023



Artist Impression of Vision Exchange

Office prices and rents climbed further in Q3 2023 as supply of office space remains tight. On the other hand, fewer sales and rental transactions were recorded due to economic uncertainties and high borrowing costs.



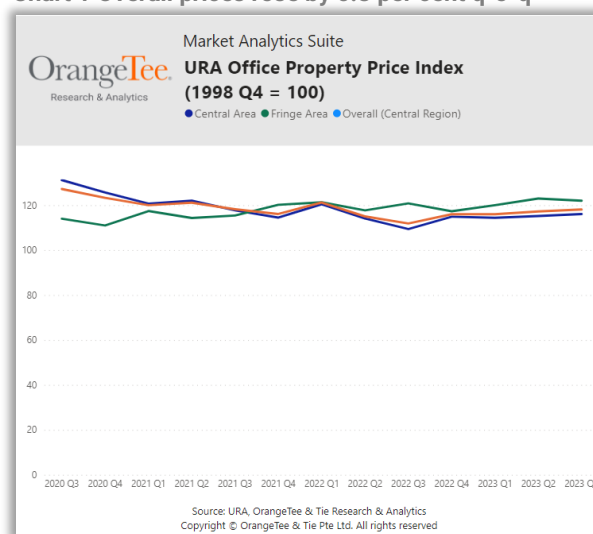
Mountbatten Square

PRICE TREND

The recent hike in the Additional Buyer's Stamp Duty (ABSD) on residential properties purchases seemed to have diverted some investor interest to strata-titled units. However, price growth was hampered by the higher-for-longer interest rate environment, which have caused buyers to be more prudent in their investment decisions.

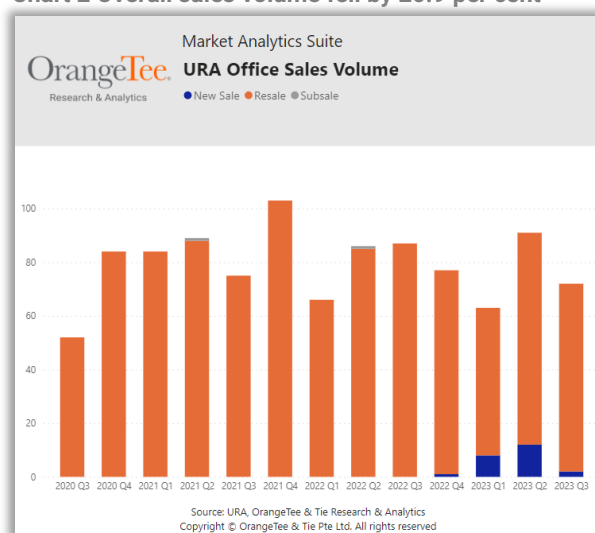
Prices of office space grew at a slower rate last quarter. Based on Urban Redevelopment Authority's (URA) data, the overall office price index rose by 0.8 per cent quarter-on-quarter (q-o-q) to 118.1 in Q3 2023 from 117.2 in Q2 2023 (Chart 1). This was slower than the 1.0 per cent q-o-q increase from Q1 2023 to Q2 2023.

Chart 1 Overall prices rose by 0.8 per cent q-o-q



SALES VOLUME

Chart 2 Overall sales volume fell by 20.9 per cent



Fewer sales were transacted in the last quarter due to the high borrowing costs. The overall sales volume dipped by 20.9 per cent to 72 units in Q3 2023 from 91 units in Q2 2023 (Chart 2).

Resales constituted the bulk of transactions, making up 97.2 per cent, or 70 units of the total 72 transactions. The remaining 2 transactions were strata-titled units on the 14th and 10th floors of the new freehold office, Solitaire On Cecil.

The total sales value dipped by 52.8 per cent to \$268.5 million in Q3 2023 from \$569.3 million in Q2 2023.

Table 1 Top office sales in Q3 2023

S/N	Project Name	Address	Area (SQFT)	Transacted Price (\$)	Unit Price (\$PSF)
1	Solitaire On Cecil	148 Cecil Street #14-XX to XX	12,465	\$52,054,000	\$4,176
2	Solitaire On Cecil	148 Cecil Street #10-XX to XX	12,465	\$51,184,000	\$4,106
3	Nomu	20 Handy Road #03-XX	6,329	\$23,988,888	\$3,790
4	Suntec City	9 Temasek Boulevard #06-XX	7,029	\$16,518,150	\$2,350
5	Suntec City	9 Temasek Boulevard #19-XX	3,746	\$11,612,600	\$3,100
6	Suntec City	7 Temasek Boulevard #08-XX	4,037	\$11,502,600	\$2,850

Source: URA, OrangeTee & Tie Research & Analytics

The biggest contributions came from the two bulk sales at the upcoming freehold office, Solitaire On Cecil, transacted for a total sum of \$103.2 million. This is followed by Nomu, a freehold strata-titled office, which changed hands for \$24 million, and three strata-titled units at Suntec City which sold for \$16.5 million, \$11.6 million and 11.5 million respectively (Table 1).

RENTAL TRENDS

Owing to the uncertain economic conditions and high borrowing costs, existing office space occupiers were hesitant to relocate to better locations or expand their businesses further. Many renewed their existing leases or focused on space optimization to manage high overhead costs. As a result, the number of rental transactions fell by 10.6 per cent to 1,422 units in Q3 2023 from 1,591 units in the preceding quarter (Chart 3). The downward trend was similarly observed in the Central Area and Suburban Area, where transactions fell by 12.8 per cent q-o-q and 22.7 per cent q-o-q, respectively.

In contrast, the rental volume in the Fringe Area rose by 2.6 per cent from 303 units in Q2 2023 to 311 units last quarter. This may be attributed to some tenants relocating from Prime Locations to the Fringe Area to reduce overhead expenses.

Despite lower rental transactions, office rental index grew faster by 4.9 per cent to 199.5 last quarter from 190.2 in Q2 2023 (Chart 4), compared to the 2.3 per cent increase in the preceding quarter. By regions, the office rental index in the Central Area rose by 5.2 per cent q-o-q to 200.9, compared to the Fringe Area at 2.7 per cent q-o-q to 182 in Q3 2023. Rental prices in central locations held firm as landlords were unwilling to accept lower rents given the tight supply and high operating costs.

Chart 3 Number of rental contracts dipped further

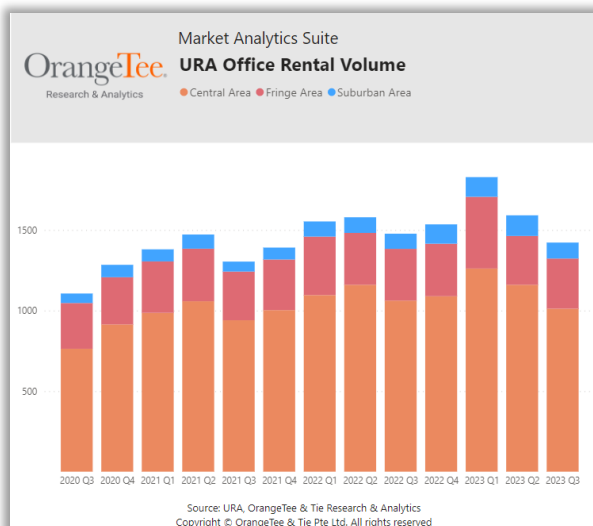


Chart 4 Overall rents grew by 4.9 per cent

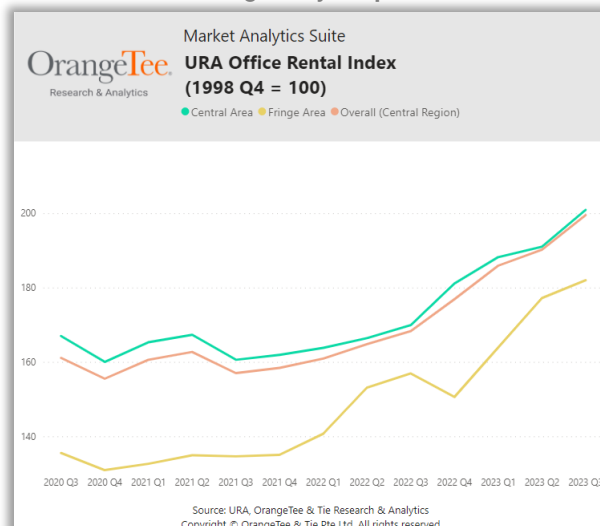


Table 2 Median rentals for Category 1 & 2 offices from Q2 2022-Q3 2023

Quarter	Category 1*		Category 2**	
	Median Rental (\$\$PSF PM)	Q-o-Q % Change	Median Rental (\$\$PSF PM)	Q-o-Q % Change
Q2 2022	\$10.09	-1.6%	\$5.41	1.7%
Q3 2022	\$10.66	5.6%	\$5.57	3.0%
Q4 2022	\$10.75	0.8%	\$5.70	2.3%
Q1 2023	\$10.77	0.2%	\$5.80	1.8%
Q2 2023	\$11.49	6.7%	\$6.19	6.7%
Q3 2023	\$11.22	-2.3%	\$5.91	-4.5%

*Category 1 offices are those located in core business areas in Downtown Core and Orchard planning areas/relatively modern or recently refurbished.

**Category 2 offices are the remaining offices not under Category 1.

Source: URA, OrangeTee & Tie Research & Analytics

By categories, median rentals fell by 2.3 per cent q-o-q to \$11.22 psf per month for Category 1 offices and 4.5 per cent q-o-q to \$5.91 psf pm for Category 2 offices in Q3 2023 (Table 2).

STOCK AND OCCUPANCY

Based on URA Realis data, supply of new office spaces continues to be limited in Q3 2023 as there were no new office completions.

Some older commercial buildings were redeveloped into residential homes under the Central Business District (CBD) incentive scheme and the Strategic Development Incentive (SDI) scheme.

As a result, the overall available space dipped by 42,000 sqm in Q3 2023 (Chart 5). This is the third largest drop in available office space. The biggest and second largest drops occurred in Q3 2014 and Q2 2022, respectively.

Owing to the lack of new supply and removal of some old office developments, the vacancy rate for Category 1 offices dipped further from 9.2 per cent in Q2 2023 to 8.0 per cent in Q3 2023 (Chart 6), the lowest vacancy rate since the start of the Covid-19 pandemic in Q1 2020.

Vacancy rate also fell for Category 2 offices by 0.6 percentage points, from 11.5 per cent in Q2 2023 to 10.9 per cent in Q3 2023, the lowest vacancy recorded since Q4 2016.

Chart 5 Change in Available & Occupied office spaces

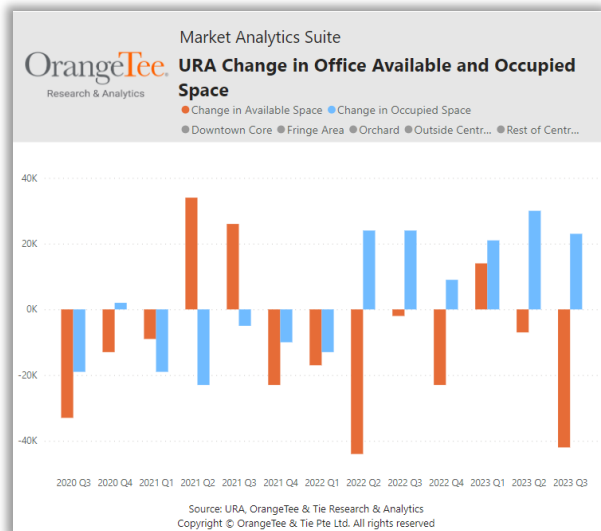
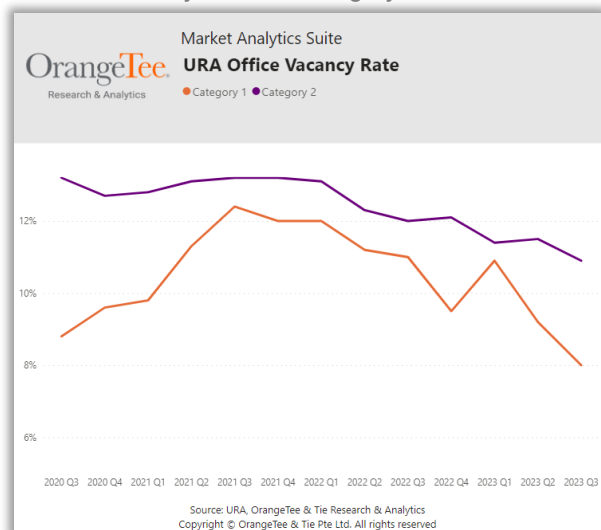


Chart 6 Vacancy rates for Category 1 & 2 offices



Office Market Summary

Indicators	2020 y-o-y	2021 y-o-y	2022 y-o-y	Q2 2023 q-o-q	Q3 2023 q-o-q
Price Index (% Change)					
Overall (Central Region)	-10.7%	-5.8%	-0.1%	1.0%	0.8%
Central Area	-10.8%	-8.9%	0.3%	0.7%	0.8%
Fringe Area	-7.6%	8.3%	-2.4%	2.5%	-0.8%
Sales Volume (Units)					
Total Sale (New Sales + Resale + Sub-sale)	217	351	316	91	72
New Sale	14	0	1	12	2
Resale	203	350	314	79	70
Rental Index (% Change)					
Overall (Central Region)	-8.5%	1.9%	11.7%	2.3%	4.9%
Central Area	-9.0%	1.2%	11.9%	1.5%	5.2%
Fringe Area	-8.5%	3.1%	11.6%	8.1%	2.7%
Rental Volume (Units)					
Overall	4,913	5,547	6,144	1,591	1,422
Central Area	3,495	3,987	4,407	1,160	1,012
Fringe Area	1,168	1,261	1,332	303	311
Suburban Area	250	299	405	128	99

Source: URA, OrangeTee & Tie Research & Analytics

Outlook

As interest rates continue to stay elevated, office space investors and occupiers may continue to adopt a conservative approach in their business expansion plans. However, demand for strata-titled offices in prime locations may stay resilient as supply remains limited.

Prices and rents may hold firm for the rest of this year as there are no major office completions on the cards. Moving forward, overall prices and rents may moderate as several office projects are expected to be completed next year. Major completions include IOI Central Boulevard and Keppel South Central in the Central Region, as well as Labrador Tower and Paya Lebar Green outside the Central Business District (CBD).

Please contact us for research inquiries.
For sales enquiries, please contact your preferred OrangeTee agents.



Christine Sun
Senior Vice President
christine.sun@orangetee.com



Timothy Eng
Assistant Manager
timothy.eng@orangetee.com



Yuvana Mahendran
Research Analyst
yuvanalakshmi.m@orangetee.com