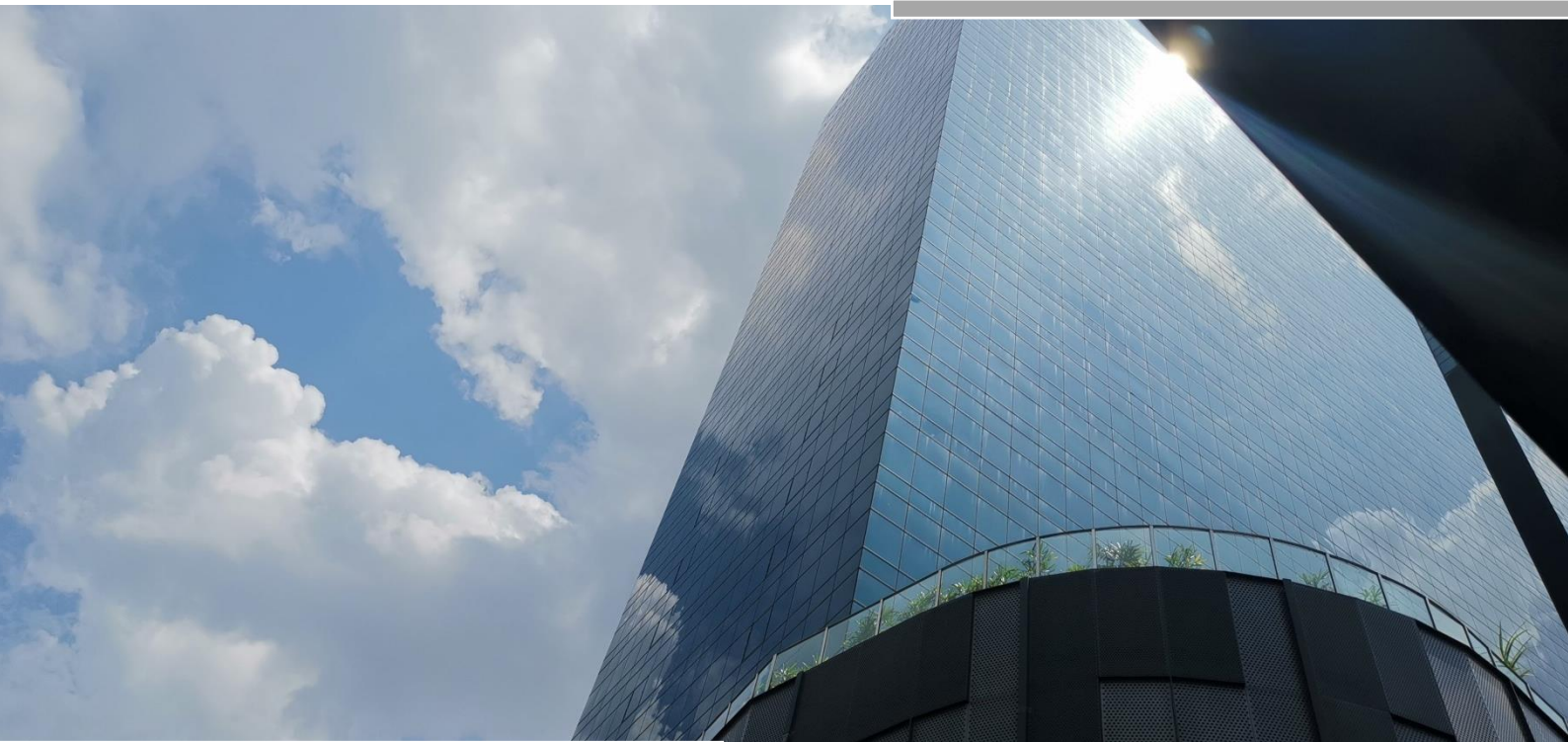


# OFFICE RENTS SOFTEN ON MUTED DEMAND IN Q4

## Office Market Trends Q4 2023



Vision Exchange

In Q4 2023, office rents softened due to muted demand amid elevated borrowing costs and economic uncertainties. On the other hand, more office sales were transacted as appraised values of office assets were reassessed and lowered to better align with their current market values.

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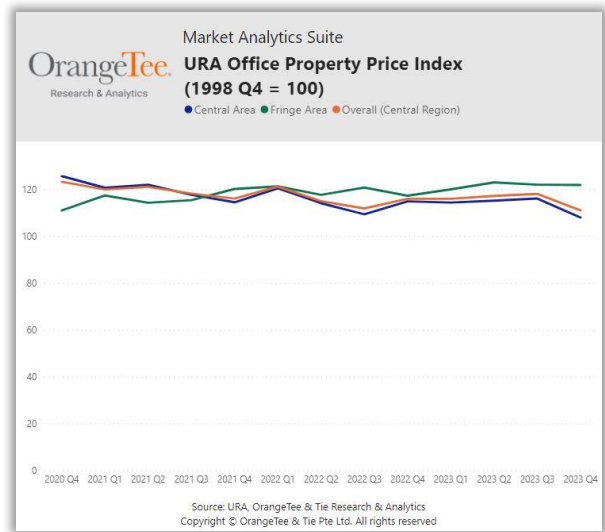
Mountbatten Square

## PRICE TREND

As interest rates have remained high for an extended period of time, the returns on office property investments have been notably lower than the costs for financing them. Consequently, many office property owners and investors had reassessed and lowered the appraised value of their properties to better align with their true market values.

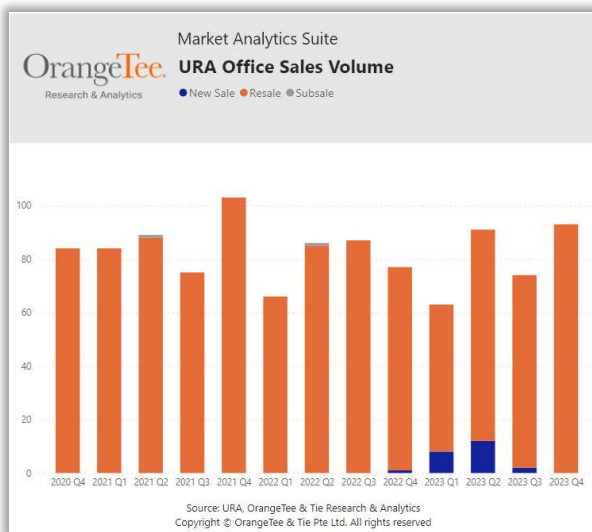
As a result, office prices saw a substantial dip in Q4 2023. Based on Urban Redevelopment Authority's (URA) data, the overall office price index plummeted 5.9 per cent quarter-on-quarter (q-o-q) to 111.1 from 118.1 in Q3 2023 (Chart 1) after two consecutive quarters of growth.

Chart 1 Overall prices fell by 5.9 per cent q-o-q



## SALES VOLUME

Chart 2 Overall office sales rebounded by 25.7 per cent



Sales transactions rebounded by 25.7 per cent to 93 units in Q4 2023 from 74 units in Q3 2023, owing to higher resales (Chart 2).

The number of resale transactions increased from 72 units in Q3 2023 to 93 units last quarter. No new office sales were recorded during this period.

Additionally, the total sales value recorded last quarter rose by 345.1 per cent to \$1.21 billion from \$271.4 million in Q3 2023.

Table 1 Top office sales in Q4 2023

S/N	Project Name	Address	Area (SQFT)	Transacted Price (\$)	Unit Price (\$PSF)
1	Shenton House	3 Shenton Way	36,250	538,000,000	NA
2	VisionCrest	103 Penang Road (10 units)	149,652	426,925,530	2,853
3	Suntec City	8 Temasek Boulevard #44-01/02	10,312	36,226,000	3,513
4	Suntec City	8 Temasek Boulevard #16-02	4,779	14,575,950	3,050
5	Samsung Hub	3 Church Street #10-04	3,186	12,493,433	3,921
6	Samsung Hub	3 Church Street #10-01	2,906	11,395,455	3,921

Source: URA, OrangeTee & Tie Research & Analytics

The significant increase in sales value was largely contributed by the enbloc sale of Shenton House for \$538 million. This is followed by a bulk sale at VisionCrest, where the office component amounted to a total of \$426.9 million (Table 1). Other major sales include two units at Suntec City and two units at Samsung Hub which changed hands for \$36.2 million, \$14.6 million, \$12.5 million and \$11.4 million respectively.

## RENTAL TRENDS

In light of the high interest rates and prevailing economic uncertainties, office space occupiers, especially those located within the Central Area, prioritized cost-saving strategies over moving to better-located offices or expanding their businesses. Many of them held on to their current spaces and focused on space optimization or right-sizing to lower overhead costs.

As a result, the overall rental volume showed a slight dip of 0.6 per cent to 1,416 units in Q4 2023 from 1,425 units in Q3 2023. A greater drop of 6.4 per cent q-o-q in the number of rental transactions was observed in the Central Area.

In contrast, more rental contracts were signed for offices in the Fringe Area and Suburban Area as rental volume rose by 5.1 per cent and 40 per cent q-o-q respectively. Some tenants may have chosen to relocate from prime locations to these regions to reduce costs.

Additionally, office rents grew at a slower rate of 0.3 per cent last quarter (Chart 4), compared to the 4.9 per cent growth in Q3 2023. By regions, office rents in the Central Area also grew slower by 0.5 per cent q-o-q to 201.9. This may be attributed to tenants' reluctance to pay higher rents, given the high operating costs and limited supply of new offices in prime locations. Conversely, office rents in the Fringe Area fell by 1.7 per cent q-o-q to 178.9.

Chart 3 Fewer rental contracts in Q4 2023



Chart 4 Overall rents grew slower by 0.3 per cent

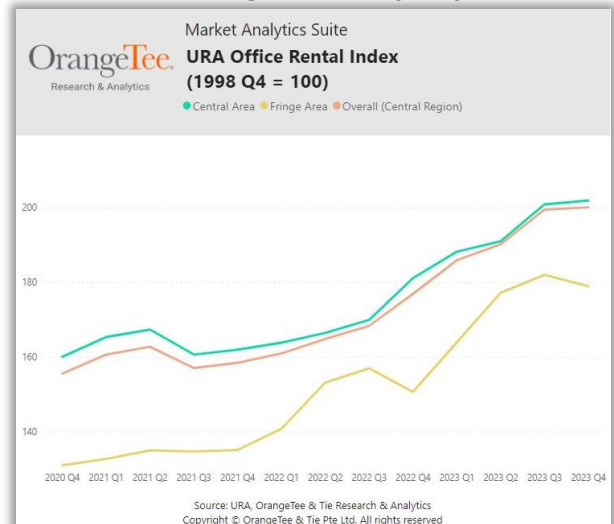




Table 2 Median rentals for Category 1 & 2 offices (Q3 2022 to Q4 2023)

Quarter	Category 1*		Category 2**	
	Median Rental (\$PSF PM)	Q-o-Q % Change	Median Rental (\$PSF PM)	Q-o-Q % Change
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%
Q4 2023	\$11.52	2.7%	\$6.04	2.2%

\*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 for Category 1 and 2 offices both increased by 2.7 per cent q-o-q to \$11.52 psf per month, and by 2.2 per cent q-o-q to \$6.04 psf per month, respectively (Table 2).

## STOCK AND OCCUPANCY

Similar to Q3 2023, the supply of new office spaces in Q4 2023 remains limited as there were no major office completions.

Although there was a modest increase in the overall available office space by 2,000 sqm in Q4 2023 (Chart 5), vacant office stock saw the lowest record of 800,000 sqm since Q4 2016.

Additionally, the vacancy rate for Category 1 offices dipped further to 7.5 per cent last quarter from 8 per cent in Q3 2023, owing to the tight supply of newly completed offices (Chart 6). This marks the lowest vacancy rate for Category 1 offices since Q1 2020 (at 7.2 per cent).

However, the vacancy rate for Category 2 offices increased slightly to 11 per cent from 10.9 per cent over the same period. This rate is still below the past four-year quarterly average (Q4 2019 to Q3 2023) of 12.4 per cent.

Chart 5 Change in available & occupied office spaces

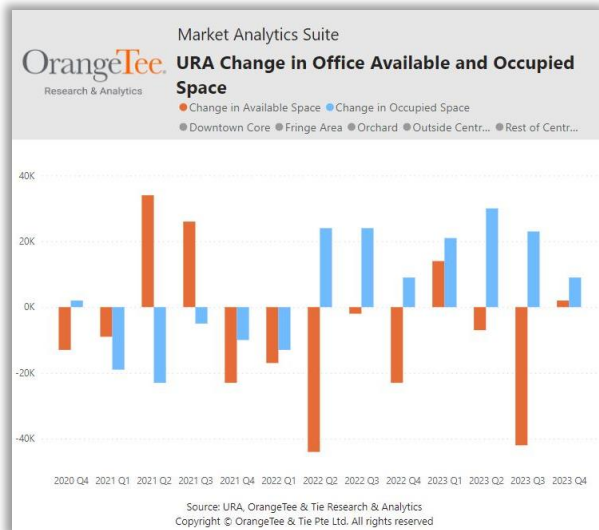


Chart 6 Tighter vacancy rate for Category 1 offices



## Office Market Summary

Indicators	2021 y-o-y	2022 y-o-y	2023 y-o-y	Q3 2023 q-o-q	Q4 2023 q-o-q
<b>Price Index (% Change)</b>					
Overall (Central Region)	-5.8%	-0.1%	-4.2%	0.8%	-5.9%
Central Area	-8.9%	0.3%	-6.0%	0.8%	-7.0%
Fringe Area	8.3%	-2.4%	3.9%	-0.8%	-0.1%
<b>Sales Volume (Units)</b>					
Total Sale (New Sales + Resale + Sub-sale)	351	316	321	74	93
New Sale	0	1	22	2	0
Resale	350	314	299	72	93
<b>Rental Index (% Change)</b>					
Overall (Central Region)	1.9%	11.7%	13.1%	4.9%	0.3%
Central Area	1.2%	11.9%	11.5%	5.2%	0.5%
Fringe Area	3.1%	11.6%	18.8%	2.7%	-1.7%
<b>Rental Volume (Units)</b>					
Overall	5,547	6,144	6,260	1,425	1,416
Central Area	3,987	4,407	4,384	1,014	949
Fringe Area	1,261	1,332	1,386	311	327
Suburban Area	299	405	490	100	140

Source: URA, OrangeTee & Tie Research & Analytics

## Outlook

The demand for strata-titled offices is likely to remain robust as many firms opt for smaller spaces to accommodate hybrid working arrangements. However, with the high possibility of borrowing costs remaining elevated until the second half of 2024, coupled with the uncertain economic conditions, office space investors and occupiers may continue to hold their reservations towards moving to better locations or expanding their businesses.

Office prices and rents are likely to grow slowly in 2024 as more completions enter the market this year. Some major completions include IOI Central Boulevard, which is expected to complete in Q1 2024, followed by Keppel South Central in Q2 2024, as well as Labrador Tower and Paya Lebar Green in the 2<sup>nd</sup> half of 2024.

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