

Office Market 2024 Mid-year Review & Market Outlook



Vision Exchange

Office rents rose in the second quarter of 2024 as many tenants opted to renew their leases at higher rates rather than incurring considerable expenses to relocate. Office prices also picked up in Q2 2024 as some investors chose to sell off some of their investments to manage high costs.





Mountbatten Square

SALES TRENDS

Overall office prices picked up in Q2 2024 after declining in the preceding quarter. In view of the prevailing high borrowing costs, some investors chose to sell some of their investments to manage high costs.

Based on data from the Urban Redevelopment Authority (URA), the overall office price index rose by 3.1 per cent quarter-on-quarter (q-o-q) to 113.2 in Q2 2024 from 109.8 in Q1 2024 (Chart 1), owing to some large divestment deals (Table 1).

Office prices within the Central Area and in the Fringe Area similarly increased by 3 per cent and 3.7 per cent, respectively.

Chart 1 Overall prices rose by 3.1 per cent q-o-q

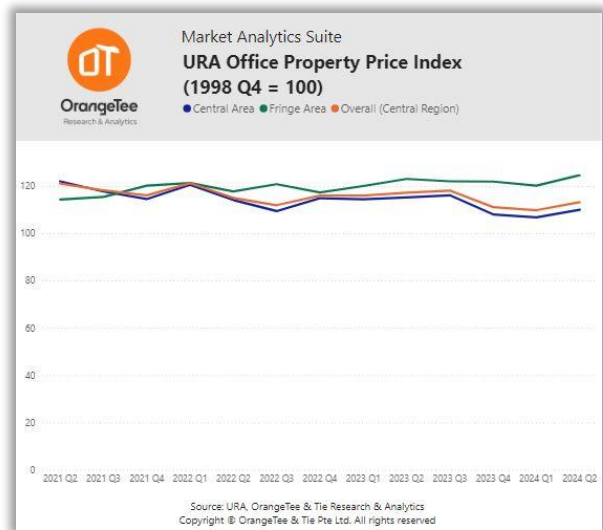
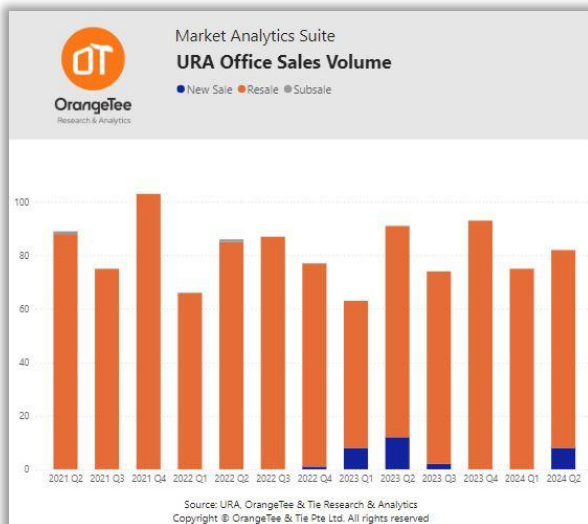


Table 1 Top office sales in Q2 2024

S/N	Project Name / Address	Floor Area (SQFT)	Transacted Price (\$)	Unit Price (\$PSF)
1	Mapletree Anson	383,812	775,000,000	2,019
2	20 Harbour Drive	138,630	160,000,000	1,154
3	Wilmer Place	7,650	26,500,000	3,464

Source: URA, OrangeTee & Tie Research & Analytics

Chart 2 Overall office sales volume picked up in Q2 2024



During the last quarter, there was an increase in office sales, primarily driven by transactions from the upcoming office, Solitaire at Cecil.

The number of transactions rose 9.3 per cent quarter-on-quarter (q-o-q) from 75 units in Q1 2024 to 82 units in Q2 2024. Out of these transactions, eight were new sales and the remaining 74 units were resale units.

RENTAL TRENDS

The higher-for-longer interest rates have led office tenants to approach leasing decisions with greater caution. Rather than seeking new space, many have chosen to focus on optimizing their current space and renewing their existing leases.

This trend resulted in a decrease in the number of new rental contracts signed in Q2 2024, with the rental volume declining by 4 per cent from 1,551 units in Q1 2024 to 1,489 in Q2 2024. Specifically, there was a 4.6 per cent decrease in rental transactions in the Central Area and a 7.3 q-o-q per cent decrease in the Fringe Area*, while the Suburban Area** experienced a 12 per cent increase in rental volume.

Conversely, office rents picked up last quarter, with the overall rental index growing by 3.1 per cent q-o-q (Chart 4). Office rents in both the Central Area and the Fringe Area similarly climbed higher in Q2 2024 by 2.4 per cent and 6.9 per cent q-o-q, respectively, probably due to more tenants choosing to extend their leases at higher rental rates, rather than incur relocation costs.

In the first half of 2024, there was a modest 1.3 per cent increase in rental rates, contrasting with the more substantial 7.5 percent and 4 per cent growth in 1H 2023 and 1H 2022, respectively. The slower rental growth can be attributed to landlords maintaining affordable rents to retain tenants.

*Fringe Area: Planning areas within the Central Region, excluding the Central Area

**Suburban Area: Planning areas outside the Central Region

Chart 3 Fewer rental contracts signed in Q2 2024

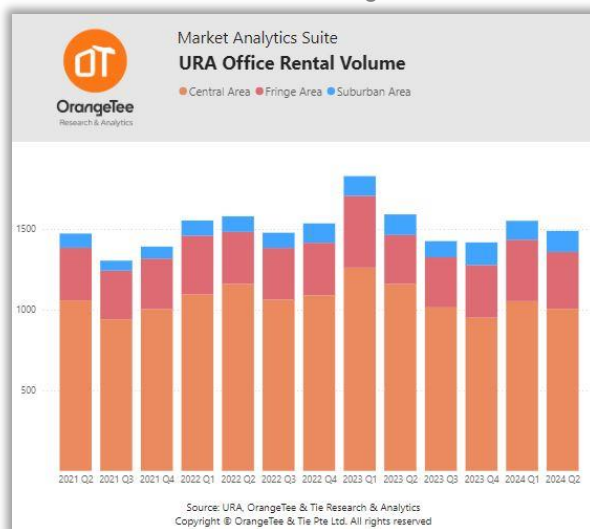
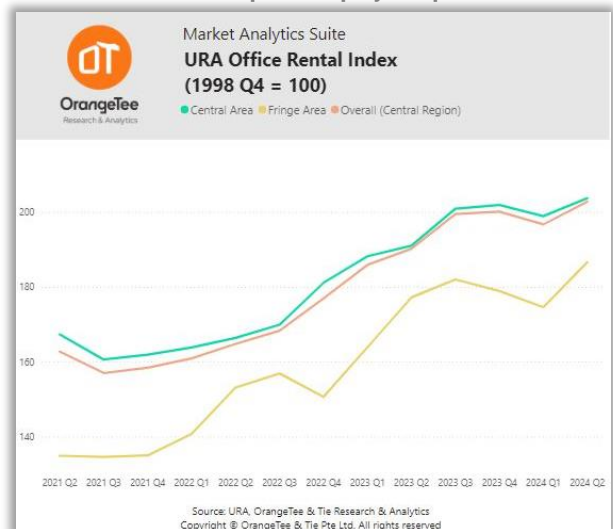


Chart 4 Overall rents picked up by 3.1 per cent



STOCK AND OCCUPANCY

During the second quarter of 2024, as per URA data, the market witnessed an addition of approximately 87,000 square meters of available office space, following a decrease of 41,000 square meters in Q1 of the same year (Chart 5). This increase can be attributed to the completion of Odeon Towers and the partial completion of IOI Central Boulevard Towers.

During the same period, there was a significant increase of 107,000 sqm in the total vacant office stock, following 10 consecutive quarters of decline. This increase is likely due to low occupancy of office spaces and new offices being introduced to the market.

Consequently, the vacancy rate for Category 1 offices increased from 7.9 per cent in Q1 2024 to 10.1 per cent in Q2 2024. Likewise, the vacancy rate for Category 2 offices rose from 10.3 per cent to 11.1 per cent during the same period (Chart 6).

In 1H 2024, the total vacant space rose by 75,000 sqm, surpassing the 46,000 sqm net increase in available office spaces. This indicates that potential buyers are displaying a cautious approach towards investing in new office spaces, likely due to the impact of high borrowing costs.

Chart 5 Change in available & occupied office spaces

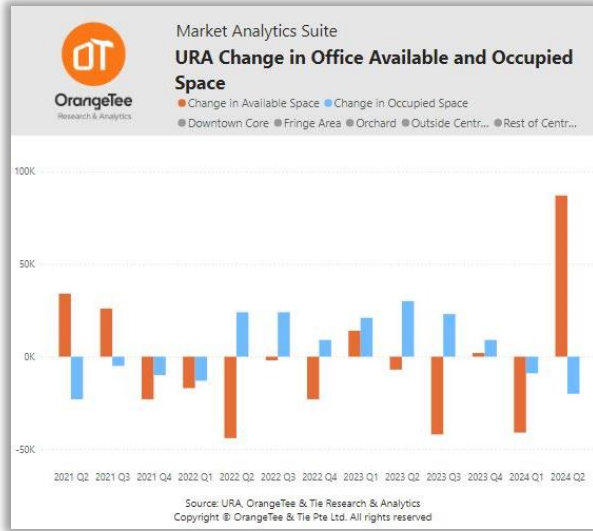
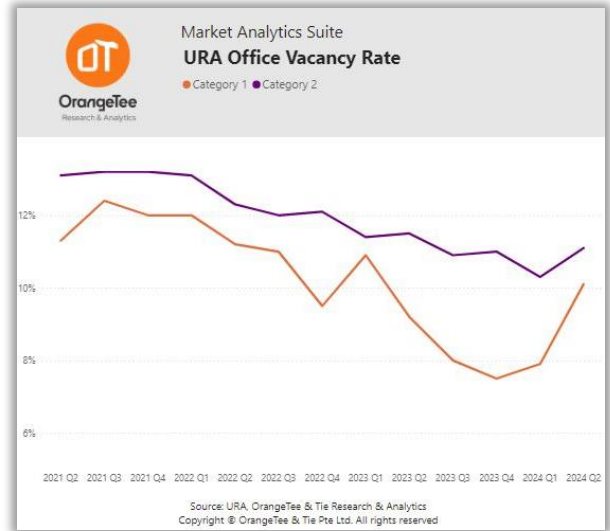
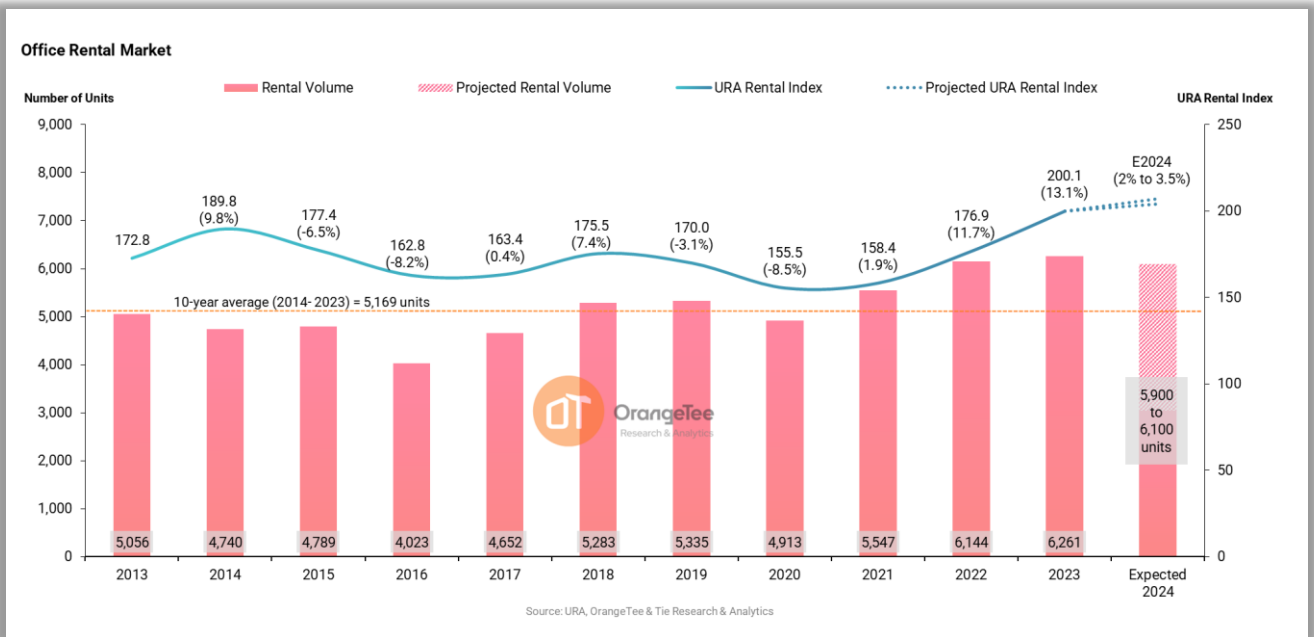


Chart 6 Vacancy rates of Cat 1 & 2 offices rose in Q2



MARKET PROJECTIONS



Office Market Summary

Indicators	2021	2022	2023	Q2 2024	1H 2024	Projection for 2024
Price Index (% Change)						
Overall (Central Region)	-5.8%	-0.1%	-4.2%	3.1%	1.9%	NA
Central Area	-8.9%	0.3%	-6.0%	3.0%	1.9%	NA
Fringe Area	8.3%	-2.4%	3.9%	3.7%	2.2%	NA
Sales Volume (Units)						
Total Sale (New Sales + Resale + Sub-sale)	351	316	321	82	157	NA
New Sale	0	1	22	8	8	NA
Resale	350	314	299	74	149	NA
Rental Index (% Change)						
Overall (Central Region)	1.9%	11.7%	13.1%	3.1%	1.3%	2% to 3.5%
Central Area	1.2%	11.9%	11.5%	2.4%	0.9%	NA
Fringe Area	3.1%	11.6%	18.8%	6.9%	4.3%	NA
Rental Volume (Units)						
Overall	5,547	6,144	6,261	1,489	3,040	5,900 to 6,100
Central Area	3,987	4,407	4,385	1,005	2,058	NA
Fringe Area	1,261	1,332	1,386	353	734	NA
Suburban Area	299	405	490	131	248	NA

Source: URA, OrangeTee & Tie Research & Analytics

Outlook

The office market is poised for significant shifts as anticipated rate cuts may prompt a surge in office space investments as well as business expansions. Moreover, the market is expected to see an influx of new office completions by the year's end, including the final phases of IOI Central Boulevard Towers, Labrador Tower, and Paya Lebar Green, adding over 140,000 square meters of office space. These developments are expected to sustain growth in office prices and rents for the remainder of the year, although incoming supply may moderate the pace of growth in the longer term. Overall, office rents may experience a modest increase of between 2 and 3.5 per cent in 2024.

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