

GROWING INTEREST IN STRATA-TITLED OFFICE SPACES

Office Market Trends Q2 2023



Vision Exchange

Sales activities increased last quarter as more investors diverted their buying interest to strata-titled offices. The office rental market, on the other hand, experienced slower growth on macroeconomic challenges and more completions.

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PRICE TREND

Since the Additional Buyer's Stamp Duty (ABSD) was increased for residential properties, some investors turned their attention to office strata-titled units. Buyers do not need to pay the ABSD when they purchase commercial properties.

Moreover, foreign buyers who purchase strata office assets or buildings zoned for commercial use, do not need to obtain a purchasing approval under the revised Residential Property Act (RPA).

Office prices rose last quarter, possibly due to the increased buying interest. Based on the Urban Redevelopment Authority's (URA) data, the office price index climbed 1.0 per cent quarter-on-quarter (q-o-q) to 117.2 in Q2 2023, after staying stagnant in the preceding quarter (Chart 1).

Chart 1 Overall prices increased by 1 per cent q-o-q

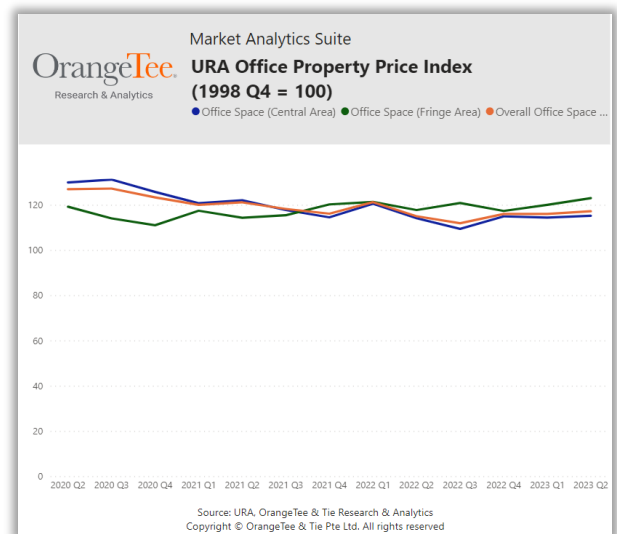
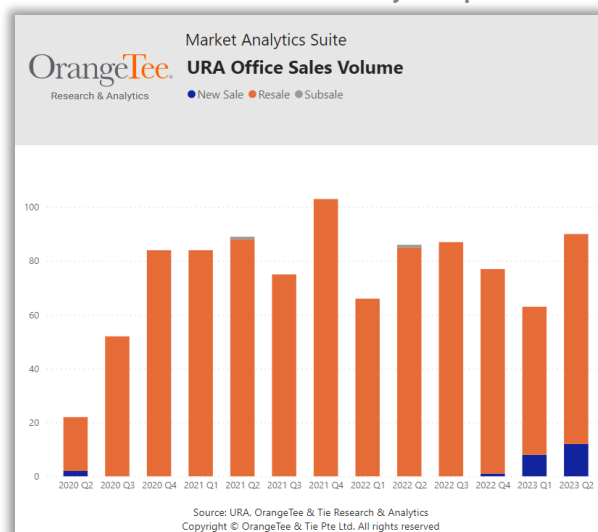


Chart 2 Overall sales volume rose by 42.9 per cent



SALES VOLUME

Sales transactions rebounded by 42.9 per cent from 63 units in Q1 2023 to 90 units in Q2 2023 (Chart 2), propped up by higher sales in the secondary market.

Resales comprised 86.7 per cent or 78 of the total 90 transactions last quarter. The balance of 12 units were new sales transactions at Solitaire On Cecil, a freehold strata-titled office.

The total sales value yielded last quarter rose by 216.7 per cent to \$568.1 million from \$179.4 million in Q1 2023.

Table 1 Top office sales in Q2 2023

S/N	Project Name	Address	Area (SQFT)	Transacted Price (\$)	Unit Price (\$PSF)
1	Liberty House	51 Club Street	7,180	\$92,200,000	\$12,842
2	Solitaire On Cecil	148 Cecil Street #18-XX	13,487	\$57,925,000	\$4,295
3	Solitaire On Cecil	148 Cecil Street #17-XX	13,132	\$56,270,600	\$4,285
4	Solitaire On Cecil	148 Cecil Street #16-XX	13,132	\$56,205,000	\$4,280
5	Solitaire On Cecil	148 Cecil Street #20-XX	11,238	\$48,604,400	\$4,325

Source: URA, OrangeTee & Tie Research & Analytics

The biggest contributions were from Liberty House, which changed hands for \$92.2 million, followed by four strata units at Solitaire On Cecil sold for S\$48.6 million to S\$57.9 million each or between \$4,280 psf to \$4,325 psf (Table 1).

RENTAL TRENDS

Office space occupiers seem more conservative in their expansionary plans, owing to inflationary pressures, higher borrowing costs and growing macroeconomic uncertainties. More focused on space optimisation and right-sizing their office needs to manage costs.

As a result, rental volume decreased by 13 per cent from 1,828 units in Q1 2023 to 1,591 units in Q2 2023 (Chart 3). Volumes may have dropped as tenants opted for longer leases, especially offices at good locations. Some may want to maintain a good relationship with their landlords to safeguard their goodwill.

Rental prices similarly grew at a slower pace last quarter. The overall rental index rose by 2.3 per cent q-o-q to 190.2 in Q2 2023 (Chart 4), down from the 5.1 per cent gains in Q1 2023. By regions, the rental index for offices in the Fringe Area rose faster by 8.1 per cent q-o-q to 177.2, compared to the Central Area at 1.5 per cent q-o-q in Q2 2023 to 191. This may be attributed to more tenants relocating to the Fringe Area to lower overhead expenses. By categories, the median rentals for Categories 1 and 2 offices both increased by 6.7 per cent q-o-q to \$11.49 psf pm and \$6.19 psf pm, respectively (Table 2).

Chart 3 Fewer rental contracts were recorded

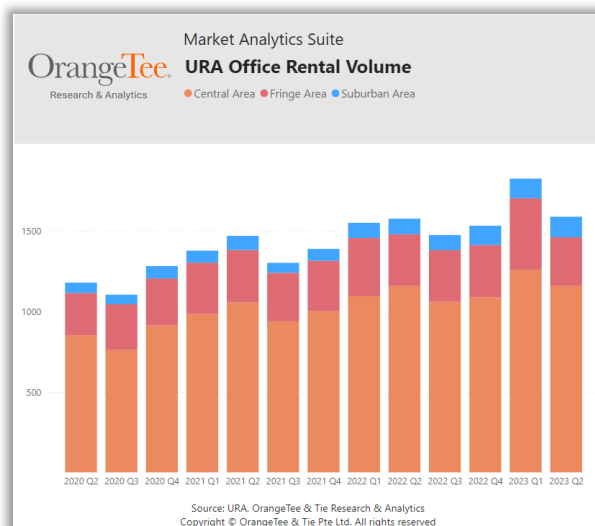


Chart 4 Smaller rental price growth of 2.3 per cent

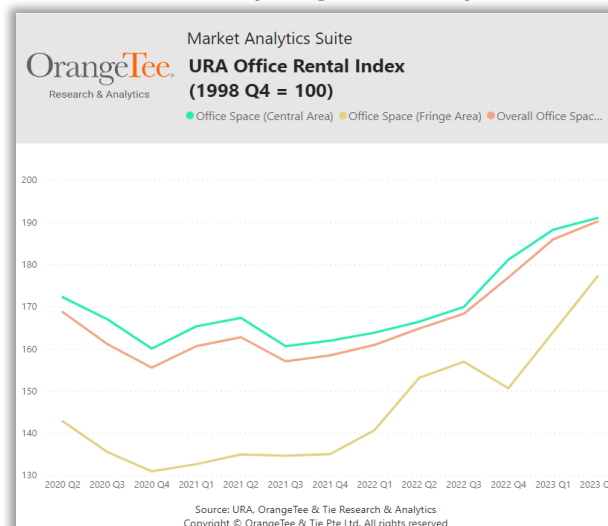


Table 2 Median rentals for category 1 & 2 offices in 2022 & 1H2023

Quarter	Category 1*		Category 2**	
	Median Rental (\$PSF PM)	Q-o-Q % Change	Median Rental (\$PSF PM)	Q-o-Q % Change
Q1 2022	10.25	1.6%	5.32	3.9%
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%

Source: URA, OrangeTee & Tie Research & Analytics

*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.

STOCK AND OCCUPANCY

Based on URA statistics, supply of new office spaces has been limited since Q3 2020 pandemic period.

However, there was an intermittent release of new supply in the second and third quarters of 2021. One major source of supply came from the new office development at CapitaSpring.

This year, another new development, Guoco Midtown, was completed in Q1 2023. There were no new major office completions recorded in URA Realis database. As a result, the overall available space dipped by 7,000 sqm in Q2 2023 (Chart 5).

Owing to a lack of new supply, the vacancy rate for Category 1 offices dipped from 10.9 per cent in Q1 2023 to 9.2 per cent in Q2 2023 (Chart 6). This is the lowest vacancy rate since Q3 2020 at 8.8 per cent.

For Category 2 offices, vacancies rose marginally by 0.1 percentage point from 11.4 per cent in Q1 2023 to 11.5 per cent in Q2 2023. This rate is still below the past three-year quarterly average (Q2 2020 to Q1 2023) of 12.7 per cent.

Chart 5 Available & occupied office spaces

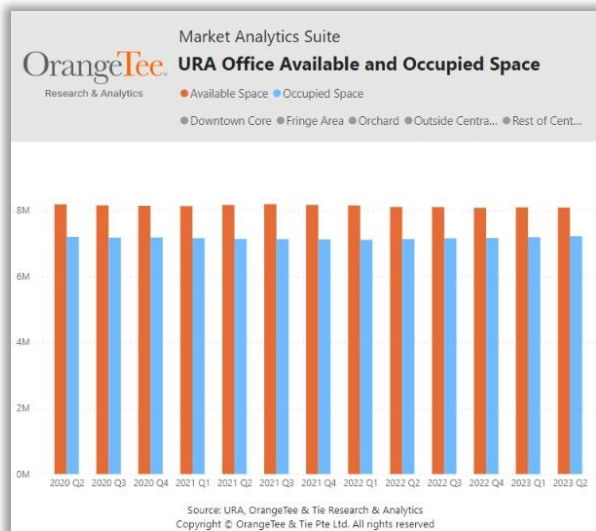
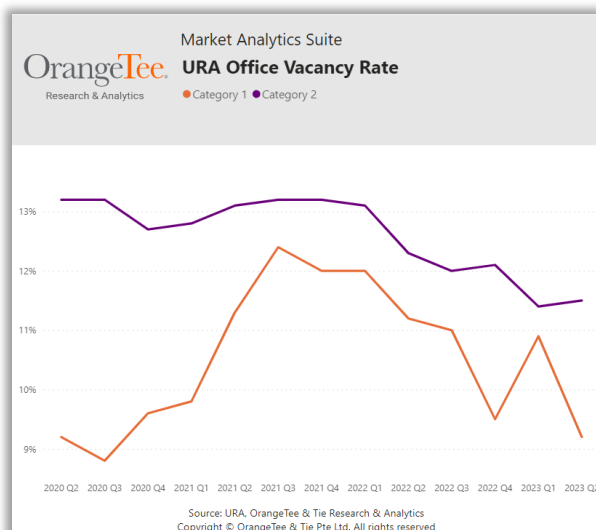


Chart 6 Vacancy rates for Category 1 & 2 offices



Office Market Summary

Indicators	2020 y-o-y	2021 y-o-y	2022 y-o-y	Q1 2023 q-o-q	Q2 2023 q-o-q
Price Index (% Change)					
Overall (Central Region)	-10.7%	-5.8%	-0.1%	0%	1.0%
Central Area	-10.8%	-8.9%	0.3%	-0.4%	0.7%
Fringe Area	-7.6%	8.3%	-2.4%	2.3%	2.5%
Sales Volume (Units)					
Total Sale (New Sales + Resale + Sub-sale)	217	351	316	63	90
New Sale	14	0	1	8	12
Resale	203	350	314	55	78
Rental Index (% Change)					
Overall (Central Region)	-8.5%	1.9%	11.7%	5.1%	2.3%
Central Area	-9.0%	1.2%	11.9%	3.9%	1.5%
Fringe Area	-8.5%	3.1%	11.6%	8.8%	8.1%
Rental Volume (Units)					
Overall	4,913	5,547	6,144	1,828	1,591
Central Area	3,495	3,987	4,407	1,261	1,160
Fringe Area	1,168	1,261	1,332	445	303

Source: URA, OrangeTee & Tie Research & Analytics

Outlook

Given the recent ABSD hike for residential property purchases, investment demand for offices in the CBD, especially strata-titled units, may remain robust. However, interest rates may stay elevated, coupled with external demand possibly weakening for the rest of the year. Therefore, office space occupiers may remain cautious and refrain from undertaking major expansionary plans.

General office prices and rents may moderate in the second half of 2023 as more supply is expected. For instance, IOI Central Boulevard Towers, with 1.26 million sqft in office area, is slated for completion in the third quarter of this year and will form the bulk of the supply for 2H 2023.

As more tenants opt for space optimisation and rightsizing, some unused space may be given up eventually at the end of the lease term.

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