

OFFICE MARKET RESPONDS TO THE CHANGE OF TIDES

COMMERCIAL MARKET WATCH 2022

• Economy

The Ministry of Trade and Industry (MTI) said Singapore’s economy grew by 3.6% in 2022, moderating from the 8.9% growth in 2021. The growth was mainly driven by the wholesale trade, other services and information & communication services.

The second half of 2022 moved slower as business confidence was tampered by fears of an economic downturn due to the protracted war in Russia-Ukraine and rising number of laid-offs in the tech sector and related-industries. Slower activity in the fourth quarter points to significant risks ahead for the city-state in 2023 as global demand weakens and inflationary pressures weigh.

• Increased demand

Nevertheless, 2022 had been a good year for the office market with increased demand from tech companies, co-working operators and private wealth management businesses, filtering down across all sectors. Some of the MNCs relocated from Hong Kong to Singapore due to the latter’s political stability and neutrality, especially amid intensifying geopolitical tensions in the region and China’s zero-Covid policy.

• Prime office rents

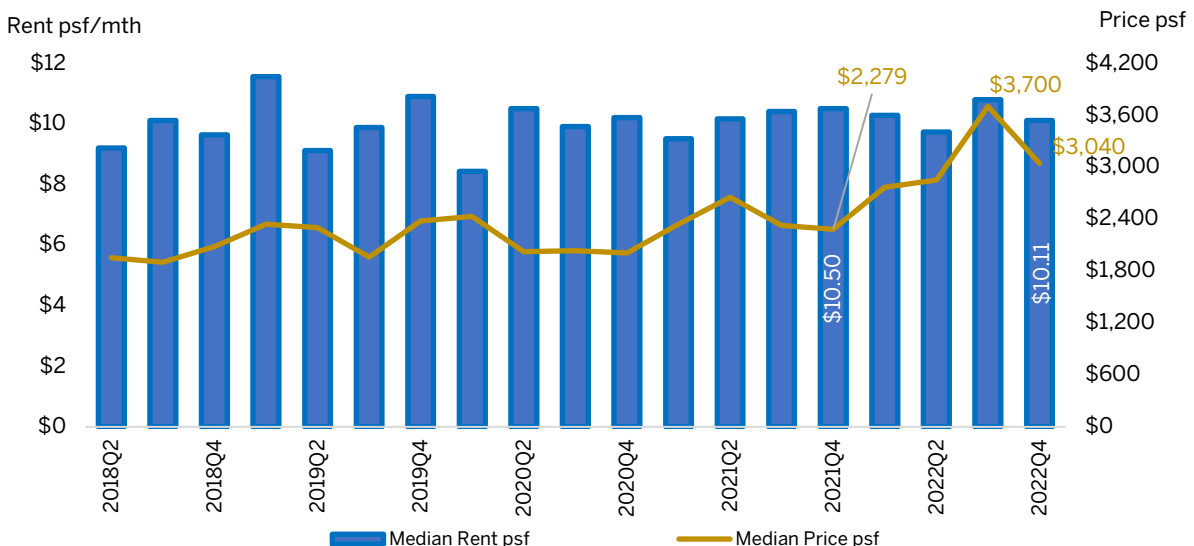
As supply tightened and demand strengthened in 2022, the rental market moved to landlords’ favour. Rents were also boosted by a fight to quality as new leases were signed with new buildings like Midtown Modern and IOI Central Boulevard Towers.

Data provided by URA shows that the median rents for Category 1 office buildings – defined as office space in buildings located in core business areas in Downtown Core and Orchard Planning Area which are relatively modern or recently refurbished, command relatively high rentals and have large floor plate size and gross floor area – softened slightly from \$10.50 psf in 2021Q4 to \$10.11 psf in 2022Q4, a contraction of 3.7% on year.

• Prime capital values

Investors’ appetite for office space persisted through the year and demand did not seem to be affected by the heightened inflation, geo-political tensions and looming recession in major economies. Caveats lodged for prime office space showed that the median in the Downtown Core and Orchard area peaked in 2022Q3 at \$3,700 psf. This hike of 62% from the \$2,279 psf registered in 2021Q4 could be attributed to some landmark office deals at 15 Scotts, Samsung Hub and Suntec City. But in the final quarter, as more negative news of the global economy emerged, prices of office space scaled back to close at \$3,040 psf for the year.

RENT & PRICE: DOWNTOWN CORE & ORCHARD



Source: URA, List SIR

Note: Category 1 office buildings are those located in core business areas in Downtown Core and Orchard Planning Area which are relatively modern or recently refurbished, command relatively high rentals and have large floor plate size and gross floor area.

• **Strata office market remained vibrant**

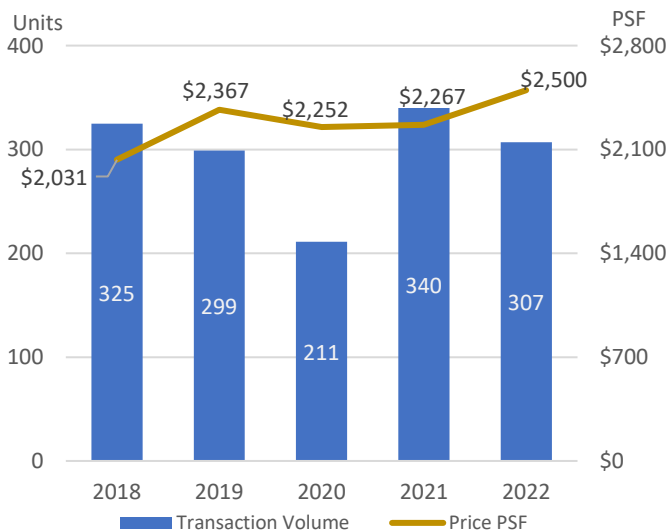
URA’s caveat data showed a total of 307 strata office transactions in 2022. Although this was 10% lower than the 340 transactions in 2021, the average price of strata office registered a rise of 10% to \$2,500 psf from \$2,267 psf in 2021. The total value of the 307 transactions in 2022 was \$1.085bn, 5% lower than the value of \$1.144b in 2021.

Purchases by company – which includes local and foreign entities – made up 74% of the transactions. Purchases by Singaporeans and foreigners made up 21% and 5% respectively.

The most significant transaction of the year was the purchase of two floors in Springleaf Tower at \$53.92 mil (\$2,510 psf) by Esteel Enterprise. This was followed closely by a full floor at Samsung Hub that was sold to a Singapore-incorporated company for \$53.10 mil (\$4,050 psf).

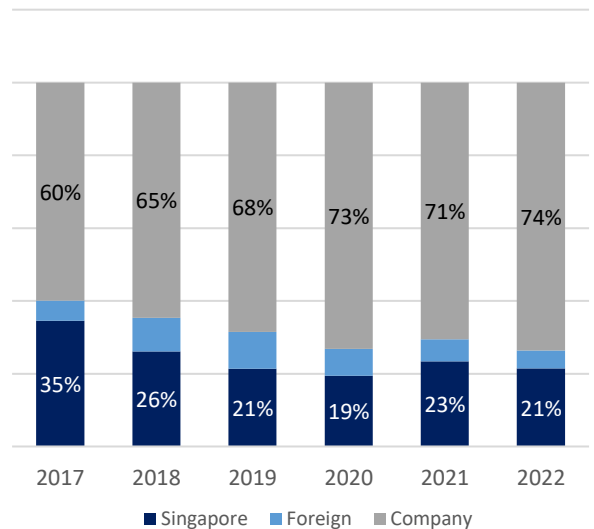
We expect the support for strata office units to continue as more private wealth and family offices set up offices here. Moreover, URA’s latest ruling which disallows the strata subdivision of the commercial component in properties located in the Central Business District (CBD) and Orchard Road corridors will limit future supply of strata office units. This will make existing strata office units valuable and more sought after by investors and end-users. Demand for strata offices looks set to grow and prices are likely to head north due to the lack of new supply.

STRATA OFFICE TRANSACTIONS



Source: URA, List SIR
 Note: Above figures were based on caveats downloaded from URA-Realis as at Mar 27, 2023. Data exclude sales of office buildings.

PROFILE OF STRATA OFFICE INVESTORS



Source: URA, List SIR

SIGNIFICANT STRATA OFFICE TRANSACTIONS

Property	Transacted Price (\$)	Area (SQFT)	Unit Price (\$ PSF)	Sale Date	Remarks	Tenure
SPRINGLEAF TOWER #28 & #29	53,924,840	21,485	2,510	Nov 2022	Buyer: Esteel Enterprise	99-year
SAMSUNG HUB #08	53,099,550	13,111	4,050	Jul 2022	Sold to a Singapore-incorporated company	999-year
15 SCOTTS #04	49,000,000	13,735	3,568	Oct 2022	Sold by S'pore Institute of Management to Cortina Holdings	Freehold
SOUTHPOINT #12	43,000,000	16,038	2,681	Dec 2022	NA	Freehold
SUNTEC CITY (Twr 2) #31	41,148,050	12,282	3,350	Aug 2022	Buyer: from Fujian	99-year
SUNTEC CITY (Twr 1) #44	39,700,000	10,312	3,850	Sep 2022	Buyer: a Singapore-incorporated entity owned by Thai national Phucherlin Klongkitjakon	99-year
SUNTEC CITY (Twr 2) #30	38,750,000	11,744	3,300	Jun 2022	Buyer: S'pore permanent resident of Chinese descent	99-year
SPRINGLEAF TOWER #31	27,392,100	10,742	2,550	Nov 2022	NA	99-year
15 SCOTTS #03	23,000,000	5,770	3,986	Dec 2022	NA	Freehold

Source: URA, List SIR
 Note: Above figures were based on caveats downloaded from URA-Realis on Mar 27, 2023. Data exclude sales of office buildings.

• Shadow space expected to rise

In the face of weakening global economy and a slowdown in the tech sector, it is widely anticipated that office leasing activity will shrink in 2023. The recent mass layoffs and reduction in headcounts in the tech sector has led to an increase in shadow space – defined as excess space on an existing lease that a tenant would like to give up by finding a replacement tenant for the landlord. This will put pressure on rents in 2023.

A redeeming factor is that tenants who are displaced from older office buildings scheduled for refurbishment or redevelopment, such as Clifford Centre, Cross Street Exchange and PIL Building, will help to boost the leasing momentum in the coming months

• Future Supply in the Downtown Core

Two office developments were completed in the second half of 2022. they were Hub Synergy Point (154,000 sq ft) at Anson Road and Guoco Midtown (775,000 sq ft) at Beach Road.

IOI Central Boulevard Towers (1.26 mil sq ft) is targeting to be completed in the first half of 2023. In 2024, Keppel Towers (618,000 sq ft) and Odeon Towers extension (40,000 sq ft) are expected to be completed.

• Outlook

On the outlook of the global economy, the International Monetary Fund (IMF) warned that 2023 will be a tougher year as one third of the world economy could be in recession with the simultaneous slowdown of the United States, European Union and China. Interest rates are expected to rise further to fight the ongoing inflation. The government's GDP growth forecast for 2023 is maintained at "0.5 to 2.5 per cent". With the tech sector set to take a breather, leasing activity is likely to be more broad-based in 2023 with demand coming from co-working operators, non-banking financial institutions and others.

SPACE LIKELY TO BE FREED UP (2022Q4 TO 2023H1)

	Company	Location	Size (sq ft)
1	Amazon	Asia Square	100,000
2	Amazon	Capital Square	80,000
3	Amazon	One George Street	45,000
4	Bank of Singapore	Republic Plaza	45,000
5	BASF	Suntec City	30,000
6	Boehringer Ingelheim	The Concourse	38,000
7	Google	Alexandra Technopark	344,000
8	KPMG	Hong Leong Building	100,000
9	Netflix	Marina One West Tower	30,000
10	Shopee	Rochester Commons	200,000
11	Standard Chartered Bank	MBFC Tower 1	190,000
12	Sumitomo Mitsui (SMBC)	Centennial Tower	80,000
13	Toyota Tsusho	Parkview Square	35,000

Source: List SIR, EdgeProp – "Tech layoffs: How badly will the office market be hit?"



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