

Office

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Stable office rents in Q2/2025

Notwithstanding global economic uncertainties, office rents in the CBD have remained relatively stable across various office grades and submarkets, supported by low vacancy rates and a limited pipeline of new office supply.

- In contrast to the subdued market conditions at the start of 2025, leasing activity picked up notably in Q2/2025, particularly within premium office buildings. This uptick reflects a more dynamic leasing environment, driven by tenant relocations and sustained interest in high-quality office spaces.
- Although there were no block transactions during the quarter, the strata sales market experienced a notable uptick in activity, with the number of deals rising from three in Q1/2025 to eleven in Q2/2025. This surge led to a doubling in the total value of strata investment sales, reflecting renewed investor interest in smaller-scale office assets.
- According to data compiled by Savills, the vacancy rate of CBD Grade A offices declined for the second consecutive quarter, contracting 0.7 of a percentage point (ppt) quarter-on-quarter (QoQ) to 7.0% in Q2/2025. Vacancy rates across all three office grades improved, with Grade A offices registering the steepest decline, falling 1.0 ppts to 6.2%.
- Driven by low vacancy rates and limited new office supply, CBD Grade A office rents remained resilient in Q2/2025. According to Savills, the average monthly rent for CBD Grade A offices rose for a fifth consecutive quarter, increasing 0.3% QoQ to S\$9.86 per sq ft. This marks a slight moderation from

the 0.4% growth recorded in Q1/2025, reflecting a more measured pace of rental increase.

- For 2025, the abruptness and the severity of the tariffs levied on regional economies may cause both new to market and existing businesses to delay taking up space. Over time, as the tariff rates get negotiated down, and become an accepted cost of doing business among exporters, corporate leaders will likely unwind from their current state of tension. For this reason, we believe that rents for CBD Grade A offices will remain flat in 2025 and rise by 2% in 2026.

“For the coming quarters, CBD Grade A space will be more affected by issues impacting business sentiment rather than the potential for AI to replace workers.”

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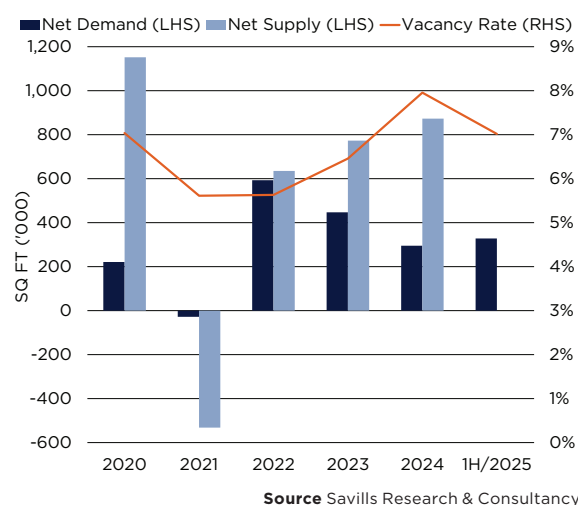
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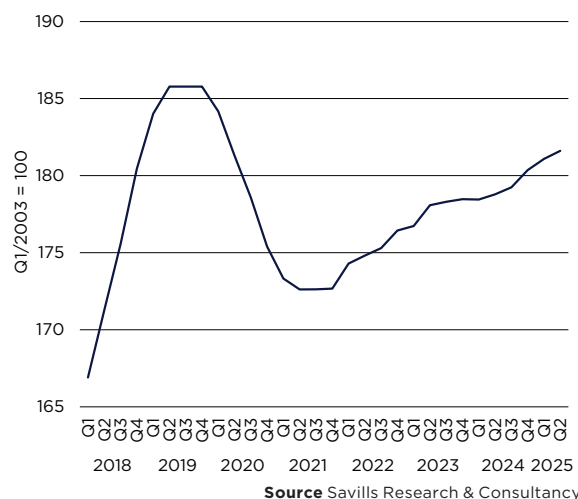
Savills plc
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GRAPH 1: Net Demand, Net Supply and Vacancy Rate of CBD Grade A Offices, 2020 to 1H/2025**TABLE 1: Micro-market Grade A Office Rents and Vacancy Rates, Q2/2025**

LOCATION	MONTHLY RENT (\$\$ PER SQ FT)	VACANCY RATE (%)
Marina Bay	13.00	11.1%
Raffles Place	10.16	7.5%
Shenton Way	9.04	4.3%
Tanjong Pagar	8.66	11.2%
City Hall	10.42	2.2%
Orchard Road	8.98	1.6%
Beach Road/Middle Road	8.10	4.7%

Source: Savills Research & Consultancy

GRAPH 2: Rental Indices of CBD Grade A Offices, Q1/2018 to Q2/2025**MARKET COMMENTARY**

Based on advance estimates by the Ministry of Trade and Industry (MTI), Singapore's economy grew by 4.3% year-on-year (YoY) in Q2/2025, building on the 4.1% expansion in the first quarter of 2025. On a QoQ seasonally adjusted basis, the Singapore economy grew 1.4%, reversing the 0.5% contraction in the previous quarter. As a result, Singapore's gross domestic product (GDP) growth for the first half of 2025 averaged 4.2% YoY. While the construction sector recorded lower YoY growth compared to in Q1/2025, the manufacturing sector and services producing industries experienced stronger performance. Within the services sectors, the cluster of sectors comprising the information & communications, finance & insurance and professional services sectors grew by 3.8% on a YoY basis in Q2/2025, up slightly from the 3.7% in the previous quarter. All sectors within the group expanded in the quarter. Growth in the information & communications was supported by continual strong demand for IT and digital solutions, while that in the professional services sector was led by the head offices & business representative offices segment. Separately, expansion in the finance & insurance sector was mainly attributed to banking activities and activities auxiliary to financial activities.

Compared to the relatively subdued activity at the start of the year, Q2/2025 saw a noticeable uptick in leasing activity, particularly in premium office buildings. With older buildings in the CBD potentially being slated for redevelopment, displaced tenants are expected to relocate, potentially boosting leasing momentum in the coming quarters. However, the market continues to face challenges due to the lack of strong demand drivers. Current leasing activity resembles a game of musical chairs, with tenants shifting locations rather than expanding footprints. This is occurring in the backdrop of April's US tariffs, which have largely been built into the expectations of market players. Office rents have remained stable, supported by low vacancy rates and a limited supply of new office space. The next major addition to the CBD office stock will be the redevelopment of Shaw Towers, which is expected to contribute over 400,000 sq ft of net lettable area (NLA). This is notably less than the 553,000 sq ft added by the recently completed Keppel South Central, and significantly less than the 1.26 million sq ft from IOI Central Boulevard Towers.

The office investment sales market showed signs of improvement in Q2/2025, despite activity being limited to strata transactions. While there were no block transactions, the strata sales market was more active, with deals rising from three in Q1 to eleven in Q2. This led to a jump in strata sales value, from S\$117.4 million in Q1 to S\$207.1 million

in Q2. However, due to the absence of block deals, the total office investment sales value declined for the second consecutive quarter, falling 14.6% QoQ. The largest transaction in Q2 was the sale of three office floors at 108 Robinson Road for S\$55.8 million. These floors were sold by PGIM Real Estate to Kwan Im Thong Hood Cho Temple. PGIM had acquired the property in April 2021 and began the process of strata selling them following a major refurbishment in mid-2023. In addition to the 8th, 11th, and 12th floors, the 4th and 6th floors were also sold during the quarter for S\$17.3 million and nearly S\$18.0 million, respectively. Remaining unsold units at 108 Robinson Road include a 6,727 sq ft duplex retail unit on the first two levels and the office floor on level 3. Separately, two strata transactions were recorded at SGX Centre 2, both sold by Shing Kwan (Pte) Ltd, owned by the family of SP Tao. The 15,027 sq ft of space on the top two levels of the 29-storey, 99-year leasehold building was acquired by Singapore-incorporated entities with shared shareholders. The total purchase price was S\$39.5 million, translating to S\$2,629 per sq ft based on strata area.

DEMAND AND VACANCY

From the data compiled by Savills, the vacancy rate of CBD Grade A offices declined for the second consecutive quarter, falling by 0.7 of a ppt QoQ to 7.0% in Q2/2025. Despite this quarterly improvement, vacancy rates were still 1.0 ppt higher YoY. In terms of gradings, office vacancies of all three grades declined, with the Grade A offices recording the steepest contraction of 1.0 ppts to 6.2% in the quarter. This was followed by Grade AAA offices, which saw vacancy rates falling by 0.6 of a ppt to 8.4% as occupancies of premium buildings such as Ocean Financial Centre, OUE Bayfront and the newer IOI Central Boulevard Towers improved. For this group of offices, this was the second consecutive quarter of decline. Similarly, vacancies of Grade AA offices fell for the second consecutive quarter as well by 0.4 of a ppt QoQ to 6.1%, the lowest since Q2/2024 when vacancies reached 5.4%. On a YoY basis, only Grade A offices registered declines in vacancy rates of 0.9 of a ppt on a YoY basis. For Grades AAA and AA buildings, their vacancies rose 2.8 ppts and 0.7 of a ppt YoY. For Grade AAA offices, this was largely due to the inclusion of IOI Central Boulevard Towers with over a million sq ft of NLA. Corresponding to the contraction in vacancy rates, net demand continued to improve, remaining in the positive territory for the third consecutive quarter. Net demand rose to 245,000 sq ft in Q2/2025, up from 83,000 sq ft in the first quarter of the year.

Vacancy rates for CBD Grade A offices improved across most micro-markets, except for Tanjong Pagar and Orchard Road. The

vacancy rate for the Tanjong Pagar micro-market rose 1.5 ppts to 11.2%, the highest since Q3/2023 when it stood at 12.0%. Meanwhile, Orchard Road experienced a marginal increase of 0.1 of a ppt QoQ in vacancy rates to 1.6% in the quarter. Vacancy rates of Grade A offices at the other micro-markets contracted between 0.3 of a ppt to 3.2 ppts in the quarter. While the other micro-markets saw continual declines in vacancy rates, City Hall was the only micro-market with vacancy rates declining after a 0.3 of a ppt increase in the previous quarter. In Q2/2025, vacancy rates of offices in City Hall declined 1.7 ppts to 2.2%, the lowest since Q2/2019 when vacancy rates fell to 2.1%.

Although office vacancy rates declined on a quarterly basis, it still rose on a YoY comparison, coming from the sharp increase in the Marina Bay micro-market. Vacancy levels in the latter area rose by 6.5 ppts from 4.6% in Q2/2024 to 11.1% in Q2/2025. Apart from Marina Bay, vacancy rates of offices in Raffles Place and Tanjong Pagar rose 0.4 of a ppt and 1.1 ppts YoY respectively. On the other hand, the remaining four micro-markets recorded yearly decreases in vacancy rates, the largest being from City Hall, which contracted 3.3 ppts. YoY declines in vacancy rates in the other micro-markets were between 1.1 ppts and 2.0 ppts.

RENTS

With low vacancy rates and a limited supply of new office space, overall rents for CBD Grade A office buildings remained resilient in Q2/2025. According to Savills, the average monthly rent for CBD Grade A offices rose for the fifth consecutive quarter, increasing 0.3% QoQ to S\$9.86 per sq ft. This was a slight moderation from the 0.4% growth recorded in Q1/2025, marking a slower pace of increase over the past two quarters. On a YoY basis, rents grew 1.6%, surpassing the 1.5% YoY growth in Q1 and representing the strongest annual increase since Q3 2023, when rents rose 1.7%.

While rents for Grade A recorded higher QoQ increase in the quarter, the rental growth of Grade AA offices slowed down for the second consecutive quarter, rising 0.2% QoQ to S\$10.78 per sq ft. Office rents of Grade AAA buildings remained unchanged at S\$13.05 per sq ft after four consecutive quarters of increase. Despite registering no QoQ growth, Grade AAA offices still posted the largest YoY increase, rising 2.4%,

compared to 1.9% for Grade AA and 1.1% for Grade A offices. The low vacancy rates and consistent demand for premium buildings have contributed to the stable and elevated rents in this segment. On the other hand, rents of Grade A offices rose for the fifth consecutive quarter by a larger 0.4% on a QoQ basis. In the previous quarter, growth came in at 0.2%.

Across the submarkets, three submarkets recorded no rental movement in Q2/2025. These included Beach Road/Middle Road, Orchard Road and Marina Bay. While this was the second consecutive quarter of no rental change for offices in Beach Road/Middle Road, it was the sixth consecutive quarter for Orchard Road. For Marina Bay, rents remained unchanged after four consecutive quarters of increase. The limited supply and low vacancies in these premium areas have supported stable rental performance. The remaining submarkets registered quarterly increases, with office rents in City Hall and Shenton Way growing at a faster rate than the previous quarter. Rents of offices in City Hall rose 1.1% QoQ to S\$10.42 per sq ft, the highest since rental data was tracked in Q2/2010. This was also the highest quarterly increase since Q2/2023 when rents grew 1.2%. For Shenton Way, Grade A office rents inched up 0.5% QoQ to S\$9.04 per sq ft in Q2/2025 after remaining unchanged in Q1/2025, which was the highest since Q2/2020 when rents reached S\$9.11 per sq ft. On the other hand, office rents in Tanjong Pagar and Raffles Place grew at a lower quarterly rate, by 0.1% to S\$8.66 and S\$10.16 per sq ft respectively.

OUTLOOK

Although the threat of Generative Artificial Intelligence replacing white collar workers looms large on the horizon, recent developments on that front have led us to believe that the risk of that leading to less demand for office space is low, for now. We agree that while tech companies have been relentless in their efforts to streamline their product and service lines, and in so doing, led to the significant culling of their workforce, the fact is that these developments have been mostly isolated within the industry. The implication is that the much-feared day of reckoning when AI could replace much of humans at work has been postponed. Researchers at

Carnegie Mellon University released a paper on 19 May 2025 showing that AI agents routinely got lost, took erroneous shortcuts, and failed at multi-step tasks that humans find simple. (Source: TheAgentCompany: Benchmarking LLM Agents on Consequential Real World Task (arXiv:2412.14161)) The study's findings add caution to expectations about AI's capacity to fully automate complex enterprise processes without human oversight.

For the layoffs taking place within the tech industry, these tend to affect business parks more than they do office space, particularly CBD Grade A buildings. While banks, high frequency traders, legal, shipping and other non-tech and non-start-up industries have been laying off workers, they affect a less substantial percentage of the workforce. These industries often take spatial root in CBD Grade A offices. For Singapore, given that the annual new supply of CBD Grade A office space for the years 2025 to 2027 is below the 10-year average, this submarket can easily manage the ebb and flow of office space demand arising from less jarring headcount reductions.

The more pressing issues facing the office market are still those which affect its fundamental drivers, namely matters concerning business conditions and operational costs. In this regard, the Liberation Day tariffs are still casting a pall of uncertainty over near-term business spend. In turn, this will affect decisions on office expansion and relocation with the likelihood of companies choosing to staying put and perhaps even reduce space. With new supply for the next few years coming in below the 10-year average, office space vacancies should hover around current levels and in doing so, we believe that rents will rise in line with general inflation, probably by 2% per annum in both 2026 and 2027. For 2025, the abruptness and the severity of the tariffs levied on regional economies may cause both new to market and existing businesses to delay taking up space. Over the next few quarters, as the tariff rates get negotiated down, and become an accepted cost among exporters, corporate leaders will likely unwind from their current state of tension. For this reason, we believe that rents for CBD Grade A offices are expected to remain flat in 2025.