MARKET IN MINUTES
Savills Research

Office

Office rents show resilience

The slowdown in the global economy and market uncertainties has led to a lull in new office leasing deals over the past few quarters. However, with vacancies remaining tight, landlords do not see any urgent need to reduce rents.

- More challenging global business conditions have resulted in more job layoffs in Singapore and companies remaining cautious on their relocation plans within the city. While some firms may stay put to avoid incurring capital expenditure, others may opt to take up less space in buildings with more efficient layouts.
- After a surge in block transactions in the previous quarter, the number of large office investment deals fell to zero in the quarter under review. For the lower quantum strata office transactions, the number of deals was similar to Q2/2024 levels. Nevertheless, the total transaction value (strata deals) in Q3/2024 was higher than in the second quarter.
- According to data compiled by Savills, the vacancy rate of CBD Grade A offices in Q3/2024 inched up slightly by 0.2 of a percentage point (ppt) on a quarter-on-quarter (QoQ) basis to 6.2%, extending the marginal uptick of 0.1 of a ppt in the previous quarter.
- With occupancies of CBD Grade A office buildings remaining tight, landlords are keeping their rents firm, with no motivation to lower. As a result, average monthly rents of CBD Grade A offices in Savills basket have risen for a second consecutive quarter by 0.3% QoQ to S$9.70 per sq ft in Q3/2024.
- While demand may remain weak until 2026, rents for CBD Grade A space may still hold firm. If there is any downside, it may prove limited. The reason is that vacancy rates in these offices are likely to remain below 8% as new supply in the CBD is expected to spike this year at 1.3 million sq ft Net Lettable Area and thereafter fall to about 1 million sq ft in 2025 and 0.2 million sq ft in 2026. Unless there are unforeseen structural shifts brought on by the adoption of AI, our forecast for CBD Grade A rental movement for 2024 is 0% to 1% and -1% to 1% for 2025.

"With limited budgets for fit-outs, the relative immobility of tenants is benefiting landlords in lease negotiations."

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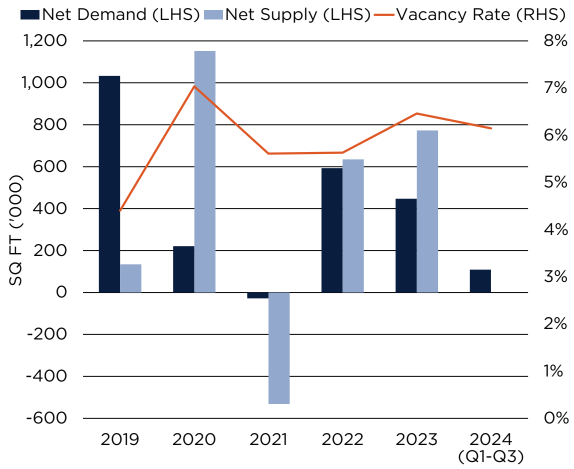
GRAPH 1: Net Demand, Net Supply and Vacancy Rate of CBD Grade A Offices, 2019 to Q3/2024



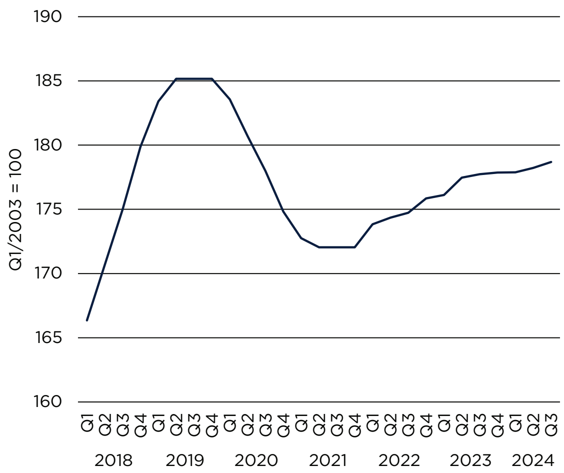
Source Savills Research & Consultancy

TABLE 1: Micro-market Grade A Office Rents and Vacancy Rates, Q3/2024

LOCATION	MONTHLY RENT (S$ PER SQ FT)	VACANCY RATE (%)
Marina Bay	12.70	4.4%
Raffles Place	10.04	8.5%
Shenton Way	8.94	5.4%
Tanjong Pagar	8.56	9.5%
City Hall	10.17	4.8%
Orchard Road	8.98	2.2%
Beach Road/ Middle Road	8.06	7.4%

Source Savills Research & Consultancy

GRAPH 2: Rental Indices of CBD Grade A Offices, Q1/2019 to Q3/2024



Source Savills Research & Consultancy

MARKET COMMENTARY

According to the advance estimates by the Ministry of Trade and Industry (MTI), Singapore's economy expanded 4.1% year-on-year (YoY) in Q3/2024, further extending the 2.9% growth in the second quarter of the year. On a QoQ seasonally adjusted basis, the Singapore economy expanded by 2.1% in the quarter, faster than the 0.4% growth in the previous quarter. The expansion in Q3/2024 was brought about by growth in both the goods and services producing industries. While the YoY growth in the construction sector and services producing industries slowed down, the 7.5% expansion in the manufacturing sector came after two consecutive quarters of YoY declines and was the highest since Q4/2021 when there was a 16.0% YoY growth. Improvement in the sector was led by output expansions across all manufacturing clusters except for the biomedical manufacturing cluster.

With the services sectors, the group of sectors comprising the information & communications, finance & insurance and professional services sectors grew 4.3% YoY, moderating from the 5.4% growth in the previous quarter. All sectors within the group expanded in the quarter. The expansion in the information & communications sector was mainly supported by the IT & information services segment, while the professional services sector was largely driven by the head offices & business representative offices segment. The finance & insurance sector also grew on the back of an expansion in activity across all segments, particularly in banking, activities auxiliary to financial services and funds management.

The office leasing market has remained relatively quiet in the past few quarters as companies remain cautious when considering relocation. While some green shoots were seen with an improvement in office leasing activity in this quarter, net new demand remains weak. More challenging business conditions have also led to more job cuts, with layoffs concentrated in the tech industry. These included large multinational firms such as Dyson and Samsung, which have laid off staff globally, with Singapore not being spared. Furthermore, the high operating costs in Singapore have also led to some firms relocating to lower-cost countries, retaining a small office here for client-facing purposes. While some may stay put in their existing locations to avoid incurring capital expenditure, others may take up less space in buildings with more efficient layouts. Separately, with the completion of IOI Central Boulevard Towers and tenants gradually moving into the development, there may be higher vacancies at some office buildings which previously housed large occupiers.

On the investment sales front, following a surge in block transactions in the previous quarter, the investment market slumped in Q3/2024 with the absence of large-scale block transactions. Hence, office investment sales in the quarter comprised only sales of strata titled offices. The number of strata deals remained similar to the previous quarter, with nine transactions. Nevertheless, the total transaction value, amounting to S$286.3 million, was higher in Q3/2024. The largest deal in the quarter was for the office units on the ninth and tenth storeys in Tong Building with a transacted price of S$68.5 million, working out to a unit price of S$4,987 per sq ft based on the total strata area of 13,734 sq ft. These two levels, owned by See Hoy Chan Realty and See Hoy Chan Land, were acquired by The Hour Glass, being near to the luxury watch retailer's corporate offices in the same building. Separately, buyers are showing greater enthusiasm for freehold office projects, such as Solitaire On Cecil, 108 Robinson Road, and 6 Raffles Quay in Singapore's CBD, as well as the abovementioned Tong Building. The limited supply of these properties supports capital preservation and appreciation, further enhancing their appeal among long-term investors.

DEMAND AND VACANCY

From data compiled by Savills, the vacancy rate of CBD Grade A offices inched up marginally, by 0.2 of a ppt to 6.2% in Q3/2024, extending the slight uptick of 0.1 of a ppt in the previous quarter. Compared against the same period a year ago, vacancy rate of overall CBD Grade A offices continued trending downwards for the third consecutive quarter, this time, by a larger 0.7 of a ppt compared to the 0.3 of a ppt for the past two quarters. Other than the vacancy rates of Grade AAA offices declining 1.0 ppts QoQ to 4.9%, vacancy rates of Grades AA and A offices rose in the quarter by 1.1 ppts and 0.3 of a ppt to 6.0% and 7.6% respectively. For Grade AA offices, this was the second consecutive quarter of increase. The increase in vacancy rate of CBD Grade A offices corresponded to net demand remaining in the negative territory by -54,000 sq ft. In the second quarter, it was -20,000 sq ft. As such, the net demand for the first three quarters of 2024 totalled 109,000 sq ft, lower than the 319,000 sq ft in the same period last year.

By location, most of the submarkets recorded quarterly declines in vacancy rates in the quarter, with the exclusion of Raffles Place and Beach Road/Middle Road. Vacancy rates of Grade A offices in Raffles Place and Beach Road/Middle Road were observed to increase over 1.0 ppts QoQ in Q3/2024, with a growth of 1.4 ppts and 1.6 ppts to 8.5% and 7.4% respectively. For Raffles Place, this was due to relocation of the larger tenants into the newly completed IOI Central Boulevard Towers, such as Amazon, which has occupied significant amounts of spaces across various locations. For Beach Road/Middle Road, the increase in vacancy rates was a result of higher vacancies from Duo Tower, Bugis Junction Towers and Gateway East. Vacancy rates in the other submarkets registered QoQ decreases in vacancy rates ranging from 0.2 of a ppt and 0.9 of a ppt. The largest decline in vacancy rate was from Shenton Way, with a contraction of 0.9 of a ppt. For Tanjong Pagar, the decrease of 0.6 of a ppt in the quarter was the fifth consecutive quarter of decline.

On a YoY basis, the fall in vacancy rates of four submarkets was outweighed by the increase in vacancy rates of the remaining three submarkets, leading to overall higher vacancy rates of CBD Grade A offices compared to Q3/2023. The decline in vacancy rates ranged from 1.4 ppts to 4.6 ppts, while the growth in vacancy rates were between 0.2 of a ppt and 1.4 ppts. The largest YoY increase in vacancy rate came from Raffles Place.

RENTS

Apart from certain office buildings that have higher vacancy rates due to some of its tenants moving to the newly completed IOI Central Boulevard Towers, Grade A office occupancies in the CBD have largely remained tight. This has led to landlords keeping firm in their rents, with no motivation of lowering asking rents. As such, the average monthly rents of CBD Grade A offices in Savills basket continued trending up for the second consecutive quarter, at around the pace as the last quarter. For Q3/2024, rents rose by 0.3% QoQ to S$9.70 per sq ft. In Q2/2024, office rents inched up by 0.2% QoQ to S$9.67 per sq ft after having remained flat in the first quarter. Compared to the same period a year ago, office rents grew by 0.5%.

By grades, QoQ growth was recorded for offices of all grades for the second consecutive quarter. Rents of both Grade AAA and AA offices rose 0.4% QoQ to S$12.79 per sq ft and S$10.58 per sq ft respectively in Q3/2024. As offices continue to remain low vacancies with leases of major tenants mainly ending next year, there is no pressing need for landlords to reduce rents to attract new tenants from entering. In a similar light, rents of Grade A offices also inched up 0.1% QoQ to S$8.59 per sq ft, relatively similar to the 0.2% increase in the previous quarter.

Across the submarkets, two of the submarkets registered no rental change, while the remaining five submarkets saw rental increase in Q3/2024. Rents of Grade A offices in Orchard Road and Shenton Way remain unchanged. The other submarkets registered quarterly increases in office rents, ranging from 0.2% to 0.5%. The submarkets with the largest growth were City Hall and Tanjong Pagar, with rents increasing 0.5% QoQ, higher than the 0.4% and 0.2% respective rates of growth in the previous quarter. This was the second consecutive quarter of increase for both submarkets. For City Hall, the two consecutive quarters of growth came after a slight dip of 0.1% in Q1/2024.

OUTLOOK

The third quarter was another quarter of relative inactivity in the leasing market with few large leases concluded. In the Grade A CBD space, although most multinationals that take up large areas have leases which expire in 2025 and 2026, they still do not have the budget for fitouts which would provide them the flexibility to move to new buildings or downgrade. From the period just before the pandemic to date, the cost of reinstatement has skyrocketed by over a multiple of two and this adds further resistance to the ability of tenants to relocate. The option left is for tenants to rightsize.

This rightsizing is however not because of hybrid working as much of that had already taken place in 2023 and 2024 with the bulk of excess or shadow space already absorbed. The impact on office space usage will be from the reorganisation of technology firms as the emphasis shifts to artificial intelligence. The rollout of artificial intelligence products from large tech firms will percolate to adoption by businesses which is likely to lead to a rationalisation of work forces which will impact office space usage.

While demand may remain weak until 2026, rents for CBD Grade A space may still hold firm. If there is any downside, it may prove limited. The reason is that vacancy rates in these offices are likely to remain below 8% as new supply in the CBD is expected to spike this year at 1.3 million sq ft Net Lettable Area and thereafter fall to about 1 million sq ft in 2025 and 0.2 million sq ft in 2026. Unless there are unforeseen structural shifts brought on by the adoption of AI, our forecast for CBD Grade A rental movements for 2024 is 0% to 1% and -1% to 1% for 2025.