

SINGAPORE Office

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Constrained supply pushes office rents higher

KEY TAKEAWAYS

- Limited office supply, rather than stronger demand, continued to drive rental growth despite moderate leasing activity and constrained occupier options.
- According to data compiled by Savills, the vacancy rate of CBD Grade A offices declined for the fourth consecutive quarter, falling by 0.7 of a percentage point (ppt) quarter-on-quarter (QoQ) to 4.9% in Q3/2026, the lowest vacancy rate since Q1/2020, when vacancy stood at 4.3%.
- Low vacancy of offices gave landlords greater confidence in their rental expectations, resulting in broad-based rental growth. Consequently, average CBD Grade A office rents rose for the 10th consecutive quarter, increasing by 1.4% QoQ to a record high of S\$10.56 per sq ft in Q3/2026.
- While the outlook for the Grade A CBD office market remains decidedly bullish, two risks stand out. One is the risk of the AI investment theme unwinding fast. The second is the price of downstream petroleum products skyrocketing. However, should these risks fail to materialise, the current supply-demand imbalance is likely to persist. We expect Grade A CBD office rents to rise 5% in 2026 and 5%-7% in 2027.

MARKET COMMENTARY

Based on advance estimates from the Ministry of Trade and Industry (MTI), Singapore's economy grew by 5.4% year-on-year (YoY) in the third quarter of 2026, moderating from the 6.2% growth in the previous quarter. On a QoQ seasonally adjusted basis, the GDP expanded by 1.1%, slowing down from the 1.5% growth in Q2/2026.

While the goods producing industries continued to grow on a YoY basis, the rate of growth eased from 10.9% in Q2/2026 to 7.3% in Q3/2026, brought about by a slowdown in expansion of the manufacturing sector from 12.9% to 7.5%. Within the manufacturing sector, output growth were recorded in the electronics, precision engineering, transport engineering and general manufacturing clusters, which outweighed the decline in the chemicals and biomedical manufacturing clusters.

On the other hand, the YoY growth of the services producing industries maintained at 5.2% in the quarter. Within the services-producing industries, the cluster comprising information & communications, finance & insurance, and professional services grew by 4.3% YoY in Q3/2026, moderating from the 5.1% expansion in the previous quarter. This was also the slowest yearly growth for the past three quarters of 2026. Growth in the information & communications sector was led by the IT & information services

segment, while the professional services segment was largely supported by the architectural & engineering, technical testing & analysis services segment. The finance & insurance sector also continued to grow, which was driven by the fund management and banking services segments.

In recent quarters, there has been a continual increase in office rents, which was attributed to supply constraints, rather than a ramp up in demand. While there are pockets of spaces taken up by the fintech and technology companies, there has not been any significant demand drivers for office leasing. Demand was constrained by the lack of supply and uncertain economic conditions. Due to lack of available space,



Supply constraints in the Grade A CBD office market are restricting occupier growth.

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higher rents across the board, as well as high fit out and reinstatement capex, companies are motivated to move out of their current locations, unless they need significantly more space. However, even if they wanted much more space, it may be difficult for companies to find them due to the tightness in the supply of CBD Grade A offices. In this tight market situation (which will only ease in 2028 when large developments such as The Skywaters and One Comcentre are completed), rents are expected to continue escalating.

With the absence of big-ticket block transactions, office investment sales volume slumped from S\$2.87 billion in Q2/2026 to S\$74.1 million in Q3/2026, which was from the strata office deals. While majority of the significant office deals were concluded in the first half of the year, the office investment market took a backseat in the third quarter of 2026. In addition to the lack of block transactions, there was also a slowdown in the office strata sales market, with eight deals in Q2/2026 falling to six in Q3/2026. The largest strata office transaction in the quarter was the sale of a freehold strata office unit spanning 6,415 sq ft at Southpoint for nearly S\$19.4 million, which translated to S\$3,016 per sq ft. The last transaction at the development was in January 2023 when selected units amounting to 10,893 sq ft was sold for S\$32.68 million, working out to approximately S\$3,000 per sq ft.

DEMAND AND VACANCY

According to data compiled by Savills, the vacancy rate for CBD Grade A offices declined for the fourth consecutive quarter, falling by 0.7 of a ppt QoQ to 4.9% in Q3/2026. While this was a smaller decline than the 1.0 ppt contraction recorded in the previous quarter, it marked the lowest vacancy rate since Q1/2020, when overall vacancy stood at 4.3%. On a YoY basis, the vacancy rate declined by a more significant 2.1 ppts.

Across the three office sub-grades, vacancy rates fell across the board in Q3/2026, with Grade AA buildings recording the most notable decline. The vacancy rate for Grade AA offices fell for the second consecutive quarter, dropping 1.0 ppt to 7.5%, the lowest level since Q2/2025 when vacancy rate was 6.1%. The limited availability of premium office space in Grade AAA buildings may have prompted some occupiers to seek alternatives in Grade AA developments, particularly newer assets offering high-quality specifications at a more competitive cost. This has contributed to the continued reduction in vacancy rates within the Grade AA segment. In addition, persistently low

vacancies in Grade AAA buildings have strengthened landlords' pricing power, encouraging some tenants to consider Grade AA space as a more cost-effective alternative with minimal compromise in building quality and amenities.

Similarly, vacancy rates for Grade AAA offices declined for the seventh consecutive quarter, falling from 3.1% in Q2/2026 to 2.2% in Q3/2026. This was the lowest vacancy rate recorded since Q1/2011, when vacancy stood at 1.3%. The decline reflects the continued absorption of available space within premium office developments, particularly newer buildings that have attracted occupier demand. Vacant floors have generally been leased up quickly, resulting in limited availability and strong occupancy levels across the segment. Following the completion of IOI Central Boulevard Towers in Q2/2024, Keppel South Central in Q1/2025 and Shaw Towers in Q2/2026, the next big wave of CBD office completions is not expected until 2028, when major developments such as The Skywaters and One Comcentre (Strictly speaking, One Comcentre is not located within the CBD. However, it sits immediately adjacent to the CBD, and most market observers would regard it as a CBD office building.) are scheduled for completion. As such, vacancies for Grade AAA offices are expected to remain tight over the coming year.

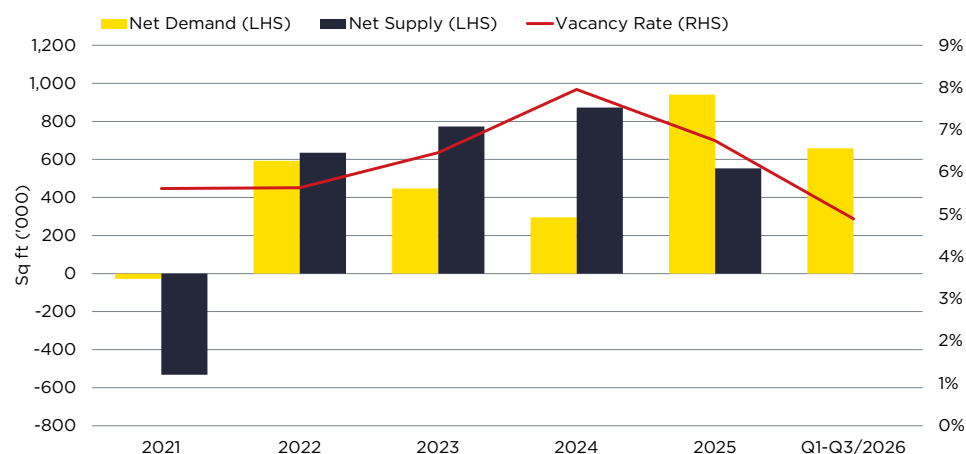
While Grade A offices also recorded a decline in vacancy rates during the quarter, the reduction was more modest, with vacancies falling by 0.2 of a ppt from 5.8% in Q2/2026 to 5.6% in Q3/2026. This followed a flat performance in the previous quarter. Although available office space in the CBD remains limited, the

tightest market conditions continue to be concentrated within the highest tier buildings, particularly the Grade AAA segment. Occupiers of Grade A buildings tend to be more cost-conscious and may respond to rising rental costs by relocating to lower-specification buildings, decentralised office locations or business parks. Some firms may also evaluate regional alternatives that offer lower operating costs. Nevertheless, vacancy rates for Grade A offices still remain relatively low and are broadly comparable to pre-pandemic levels.

Across the seven CBD micro-markets, four recorded QoQ declines in vacancy rates, while the remaining three saw increases. The largest increase was observed in the Beach Road/Middle Road micro-market, where vacancy rates rose for the fourth consecutive quarter by 0.5 of a ppt, from 8.0% in Q2/2026 to 8.5% in Q3/2026. This was largely attributable to higher vacancies within older Grade A office buildings. The other micro-markets that recorded increases were Orchard Road and City Hall, with vacancy rates edging up by 0.1 of a ppt to 1.4% and 0.4 of a ppt to 3.7%, respectively. For City Hall, this marked the fourth consecutive quarter of rising vacancy rates, while Orchard Road recorded a marginal increase after remaining unchanged in the previous quarter.

The remaining four micro-markets registered declines in vacancy rates ranging from 0.1 of a ppt to 1.5 ppts in Q3/2026, with Tanjong Pagar recording the largest improvement. Vacancy rates in Tanjong Pagar fell for the third consecutive quarter, declining by 1.5 ppts to 17.8%, the lowest level since Q2/2025 when

FIGURE 1: NET DEMAND, NET SUPPLY AND VACANCY RATE OF CBD GRADE A OFFICES, 2021 – Q3/2026



Source: Savills Research & Consultancy

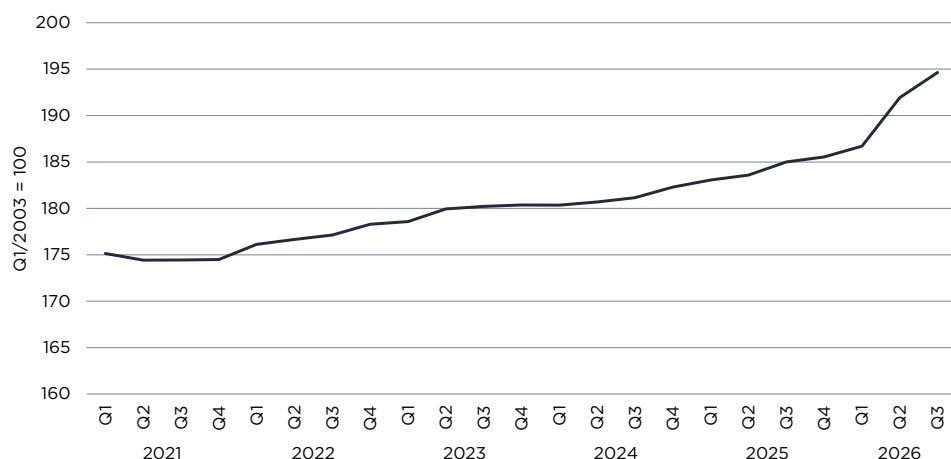
vacancy stood at 11.2%. This was largely driven by the continued leasing up of Keppel South Central, which obtained Temporary Occupation Permit (TOP) in Q1/2025. Meanwhile, vacancy rates in Marina Bay declined by 1.2 ppts QoQ, from 3.3% in Q2/2026 to 2.1% in Q3/2026, the lowest since Q3/2011 when vacancies stood at 1.7%. Beyond leasing activity at the relatively new IOI Central Boulevard Towers, occupancy levels also improved across other premium office buildings in the micro-market, with vacancies in many buildings falling below 5%.

RENTS

As vacancy rates in the Grade A office market remain low, the leasing market has increasingly become a landlord's market. Landlords now enjoy stronger bargaining power, as occupiers have limited relocation options due either to the scarcity of premium office space in prime CBD micro-markets or the significant capital expenditure required for fit-out and reinstatement works. As a result, landlords have generally been successful in achieving their rental expectations, driving office rents higher across the market. The sustained decline in vacancy rates has underpinned rental growth, with Grade A CBD office rents rising for ten consecutive quarters. In the reviewed quarter, overall Grade A office rents expanded 1.4% on a QoQ basis to the record high of S\$10.56 per sq ft. On a YoY basis, office rents were 5.2% higher, the largest yearly growth since Q3/2019 when rents rose 6.4%.

Rents of Grade AAA offices rose 1.7% QoQ to S\$13.83 per sq ft in Q3/2026, the fastest since Q1/2019 when rents increased 3.6% on a QoQ basis. This figure was also the highest in record, surpassing the previous high of S\$13.75 per sq ft that was set in Q1/2015. The quarterly increase in

FIGURE 2: RENTAL INDEX OF CBD GRADE A OFFICES, Q1/2021 – Q3/2026



Source: Savills Research & Consultancy

the quarter was also faster than the 1.4% recorded in the previous quarter. As such, since the last trough in Q4/2021 when Grade AAA rents fell to S\$12.24 per sq ft due to sluggish demand during the Covid period, rents have risen 13.0%. For the first three quarters of 2026, rents expanded 3.5%. This showed the resilience of the premium office buildings in the CBD.

In a similar light, rents of Grades AA and A offices also expanded further in Q3/2026 correspondingly. Nevertheless, the pace of growth slowed down from 2.8% and 3.4% in Q2/2026 to 2.3% and 0.7% respectively in the reviewed quarter. As such, rents of Grade AA offices rose from S\$11.38 per sq ft in the previous quarter to S\$11.64 per sq ft in Q3/2026, while that of Grade A offices grew from S\$9.29 per sq ft to S\$9.35 per sq ft. Both the figures were also of record high. Compared to the last trough, Grade AA office rents have risen 11.5% and Grade A

office rents have grown by a close 11.4%.

On a YoY basis, rental growth for offices of all grades extended in Q3/2026. The largest growth came from Grade AA offices, increasing 6.1%, the highest since Q3/2019 when rents rose 6.8%. For Grade A offices, rents grew 5.1% YoY. Rents of Grade AAA offices recorded a larger YoY growth of 3.7% in the quarter, as compared to the 3.0% in the previous quarter.

Across the CBD submarkets in Savills' basket, all the micro markets were observed to have QoQ rental increases of between 0.2% and 2.5% in the quarter. The largest increase was observed in Beach Road/Middle Road, where rents grew 2.5% QoQ from S\$8.34 per sq ft to S\$8.55 per sq ft. This was the second consecutive quarter of increase and was a faster pace of growth than the 1.5% in the previous quarter. Similarly, office rents in Marina Bay also recorded a higher increase in the quarter, growing 2.0% in Q3/2026 as compared to the 1.8% in Q2/2026. This has been the 10th consecutive quarter of increase, leading to rents increasing to S\$13.95 per sq ft, surpassing the previous record high of S\$13.75 per sq ft that was recorded in Q1/2015.

OUTLOOK

In a market where Grade A CBD office supply is constrained, it is difficult to accurately gauge the full extent of occupier demand. Unless one has visibility over all serious leasing enquiries, it is impossible to determine with a greater degree of accuracy how much office space demand would have materialised in the absence of supply constraints. This appears to be the situation currently facing the market.

With 658,000 sq ft of net absorption recorded in the first three quarters of this year, compared with 853,000 sq ft during the same period in 2025, the decline in

TABLE 1: MICRO-MARKET GRADE A OFFICE RENTS AND VACANCY RATES, Q3/2026

LOCATION	MONTHLY RENT (\$ PER SQ FT)	VACANCY RATE (%)
Marina Bay	13.95	2.1%
Raffles Place	10.85	4.1%
Shenton Way	9.59	6.2%
Tanjong Pagar	9.55	17.8%
City Hall	11.22	3.7%
Orchard Road	9.50	1.4%
Beach Road/Middle Road	8.55	8.5%

Source: Savills Research & Consultancy

take-up may not only be attributable to weaker occupier demand, it could also be due to the limited availability of suitable space. In other words, demand may also have become constrained by a supply ceiling.

A similar situation could emerge in 2027 when new Grade A CBD office completions are expected to be even lower. Newport Tower is the only Grade A CBD office development scheduled for completion next year, but the amount of new office space it will introduce is relatively modest. Against this backdrop, occupiers seeking expansion or relocation opportunities may continue to face a shortage of quality space, particularly in prime CBD micro-markets.

Consequently, rental growth could accelerate further as landlords capitalise on the scarcity of available space. The Grade A CBD office market is therefore expected to tighten even more in 2027, with vacancy rates remaining low and upward pressure on rents likely to persist.

From Q1/2016 to Q4/2025, the average vacancy rate for overall Grade A CBD offices stood at 6.3%. With the vacancy rate reaching just 4.9% in Q3/2026, market conditions are considerably tighter than the long-term norm, suggesting that rents are likely to ratchet higher in 2027.

Table 2 compares the Q3/2026 vacancy rates across the various grades of CBD office buildings against their respective averages recorded between Q1/2016 and Q4/2025. Other than Grade AA buildings, vacancy rates across the remaining grades are below their long-term averages. Most notably, the vacancy rate for Grade AAA buildings is significantly lower than the historical average of 6.4% over the same period.

TABLE 2: VACANCY RATES OF GRADE A CBD OFFICES, Q1/2016 – Q3/2026

GRADE	AVERAGE Q1/2016 TO Q4/2025	Q3/2026
AAA	6.4%	2.2%
AA	6.2%	7.5%
A	6.2%	5.6%
Overall Grade A	6.3%	4.9%

Source: Savills Research & Consultancy

The implications are noteworthy. Grade AAA buildings are typically occupied by firms with strong pricing power within their respective industries, including leading financial institutions, professional services firms, and multinational corporations that generate high-value economic activity and well-paying jobs. With vacancies in this segment at exceptionally low levels, occupiers seeking to expand within their preferred grade of space are likely to encounter increasing difficulties.

Looking ahead to 2027, constraints are expected to extend beyond the availability of physical space. As landlords gain greater pricing power, rental growth could accelerate, placing upward pressure on occupancy costs. At the margin, this may result in some degree of demand destruction, particularly among cost-sensitive occupiers. Alternatively, tenants may adapt by altering workplace strategies, including increasing space utilisation efficiency, adopting hybrid working arrangements, or relocating part of their operations to co-working facilities.

New market entrants and rapidly expanding firms, especially technology start-ups, are likely to be the most affected. Faced

with rising occupancy costs and limited availability of quality space, these occupiers may increasingly turn to flexible workspace solutions or remote-working arrangements rather than committing to conventional office leases. Consequently, while demand for premium CBD office space is expected to remain robust, realised take-up may become increasingly constrained by a combination of limited supply and rising rental costs.

While the outlook for the Grade A CBD office market remains decidedly bullish, two risks stand out. The first is the concentration of capital and investor sentiment around the AI trade, which could lead to a broader slowdown in business investment if expectations are not realised. The second is the possibility of a sharp escalation in downstream petroleum prices, which would place upward pressure on inflation and business costs. However, should these risks fail to materialise, the current supply-demand imbalance is likely to persist. Consequently, we forecast Grade A CBD office rents to rise by around 5% in 2026, followed by a further 5% to 7% increase in 2027. This would mark a continuation of the current rental upswing driven by tight market conditions and a limited supply pipeline.



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