



List

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INTERNATIONAL REALTY

BRIGHTER OUTLOOK AHEAD FOR OFFICE MARKET

COMMERCIAL MARKET WATCH H2 2021



February 2022

OFFICE MARKET MOVING OUT OF THE SHADOWS

• Singapore's economic expansion in 2021 beats forecast

The Singapore economy grew by 7.6% year-on-year (y-o-y) in 2021, higher than earlier estimates of 7.2%. According to the Ministry of Trade and Industry, GDP growth was mainly driven by the manufacturing, finance and insurance, and wholesale trade sectors.

Through the year, key office occupiers such as Information and Communications grew by 12.2%, Finance and Insurance grew by 7.4% while Professional Services grew by 4.4%. Indeed, given the continued global economic recovery, the Singapore's economy showed its resilience despite the Covid-19-related risks.

• Rents have turned a corner

The URA rental index for office space in the central region showed an uptick of 0.9% quarter-on-quarter (q-o-q) in Q4 2021, a reversal of the 3.5% decline in the previous quarter. For the whole of 2021, the rental index gained 1.9% after a contraction of 8.5% in 2020. Prime rents in the Marina Bay/Raffles Place were leading the turn around due to a flight to quality.

Data provided by URA shows that the median rents for Category 1 office buildings – defined as relatively modern or recently refurbished office building located in Downtown Core and Orchard Planning Area which command relatively high rentals and have large floor plate size and gross floor area – have inched up to \$10.50 psf in Q4 2021 from \$10.30 psf in the previous quarter. In total, prime office rents have gained 3% from a year ago.

• Occupier demand remained healthy

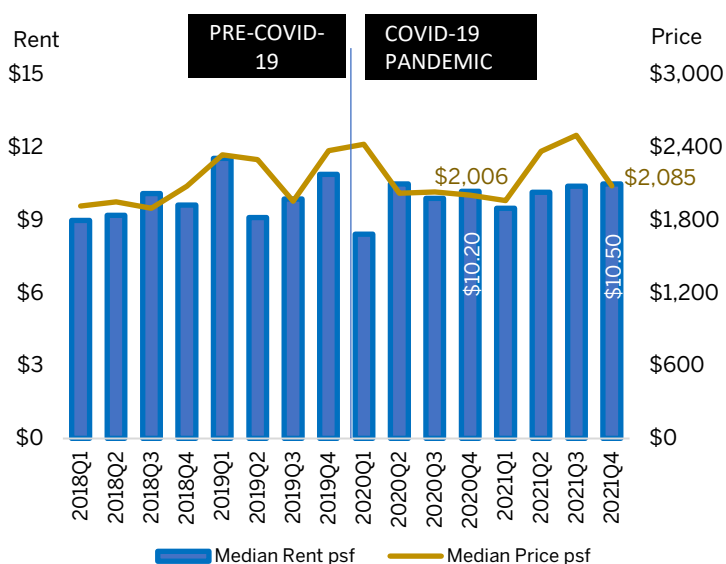
Office vacancy in the downtown area rose slightly to 14.1% in Q4 2021, compared to 13.8% in the previous quarter. The reduction in office space usage could be attributed to the ongoing reconfiguration and taking up of better quality but less space to facilitate flexible workplace arrangement.

While this is the highest vacancy rate since Q4 2017, we expect the situation to improve as occupier demand is gaining momentum. Moreover, there is a tighter supply of available space in the coming months as more ageing buildings are being withdrawn for redevelopment.

• Supply pipeline in the Downtown

Hub Synergy Point could be the only new commercial building in the Downtown expected to be completed in 2022. Guoco Midtown and IOI Central Boulevard Towers are slated for completion in 2023, followed by Shaw Towers in 2024.

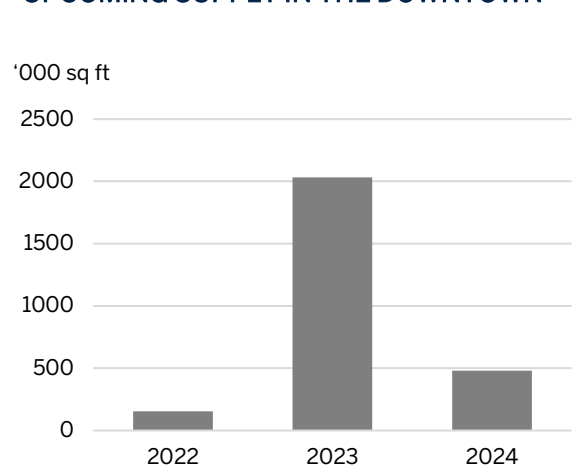
RENT & PRICE: DOWNTOWN CORE & ORCHARD



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.

UPCOMING SUPPLY IN THE DOWNTOWN



Source: URA, List SIR

• **Prices still in correction mode**

URA's Q4 2021 price index for office space showed that prices of office space in the central region fell by 1.8% q-o-q, a smaller reduction compared to the 2.4% decline in the previous quarter. Through the year, prices of office space contracted by 5.8%, moderating from a sharper 10.7% contraction in 2020.

Caveat data for transactions in the Downtown Core and Orchard planning areas showed a sharp drop from \$2,500 psf in Q3 2021 to \$2,085 psf in Q4 2021. The sharp fall was mainly due to a higher number of transactions of older office space in Beach Road, Cecil Street and Shenton Way. Collectively, prices of such prime office space reflected a fall of 4% y-o-y, moderating from a fall of 15% y-o-y in 2020.

• **Strata office market stepped up**

The fall in office prices bodes well for private wealth and family offices as well as small-and-medium enterprises looking to right-size their space requirements. As well, the lower prices of strata offices had shifted some investor interest from residential properties, which prices have risen by nearly 11% in 2021.

A total of 339 strata transactions were captured in the caveat data provided by URA, an increase of 61% over the 211 transactions in 2020. This number was also 13% higher than the 299 transactions in 2019, before the pandemic happened. The total value of the 339 transactions in 2021 was \$1.14b, almost double the value of \$603 mil in 2020.

Purchases by company – which includes local and foreign entities – made up 71% of the transactions. This proportion had been rising from steadily from over the past five years from 60% in 2017.

Going forward, as Singapore capitalises on its strength as a hub for businesses and innovation, it will attract more private wealth and family offices as well as enterprises in the digital field to set up offices here. Demand for strata offices looks set to grow and prices are likely to inch up due to the lack of new supply.

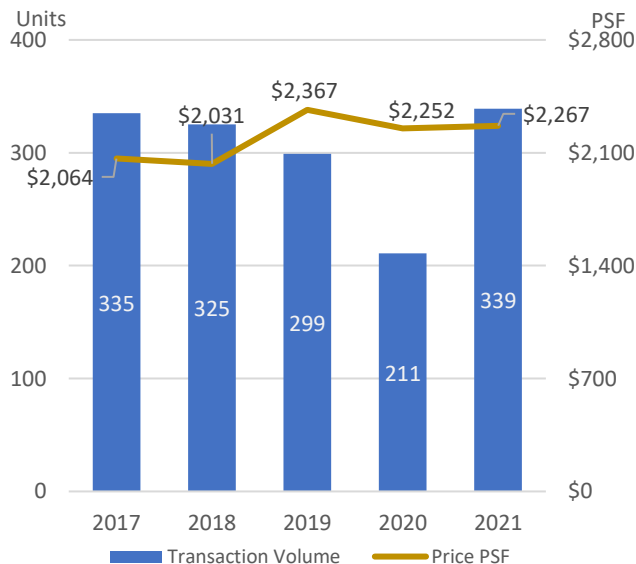
• **Office buildings remain prized assets**

Investors showed a strong appetite for high quality or premium Grade A office buildings in H2 2021 as rents began to rise and prices firmed up. The biggest deal was the sale of One George Street to JPMorgan Global Alternatives and Nuveen Real Estate for \$1.281b or \$2,875 psf on the net lettable space.

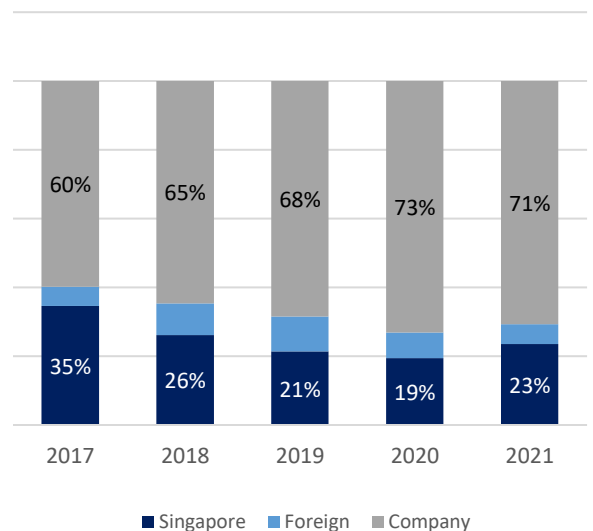
Other notable sales included 61 Robinson that was sold to Rivulets Investments for \$422.0 mil and PIL Building that was sold to TE Capital and LaSalle Investment Management for \$323.8 mil. The latter is likely to be redeveloped into a premium office building in due time.

The acquisition of office buildings is likely to remain active in 2022 as investors bang on growing leasing demand amidst limited new supply. This will drive prices further, especially those of Grade A office buildings.

STRATA OFFICE TRANSACTIONS



PROFILE OF STRATA OFFICE INVESTORS



Source: URA, List SIR
Note: Above figures were based on caveats downloaded from URA-Realis on 22 Feb 2022. Data exclude sales of office buildings.

Source: URA, List SIR

MAJOR TENANT MOVEMENT IN H2 2021

Date	Building	Tenant	Space taken (sq ft)	Remarks
Q4 2021	CapitaSpring	Millennium Capital	60,000	Relocating from UOB Plaza II
Q4 2021	CapitaSpring	Belgium-French Fintech	70,000	New lease
Q4 2021	CapitaSpring	Red Hat	57,500	Relocating from AXA Tower
Q4 2021	Guoco Midtown	Vitol	30,000	Relocating
Q4 2021	25 North Bridge Road	Lee & Lee	30,000	Relocating from SingLand Tower
Q4 2021	Plus	IWG/Regus	22,000	Expansion
Q3 2021	One Raffles Quay	L'Oreal Singapore	67,000	Relocating from One George Street
Q3 2021	One Raffles Quay	Capital International	58,000	Expansion
Q3 2021	MBFC Tower 2	CGS-CIMB	38,000	Relocating

HIGHLIGHTS OF OFFICE TRANSACTIONS IN H2 2021

Date	Informa	Description	Area (sq ft)	Price Mil	Rate \$ psf	Buyer
Strata Office Sales						
Jul-21		The Octagon #08	6,189	\$15.47	\$2,500	N.A.
Jul-21		GB Building #03 & #08	18,019	\$26.58	\$1,475	Dia-Globe (Singapore), jewellery wholesaler
Aug-21		Peninsula Plaza #23	1,776	\$4.44	\$2,500	N.A.
Sep-21		Crown At Robinson #10	592	\$2.03	\$3,429	N.A.
Sep-21		15 Scotts Road #06 & #07	8,643	\$31.93	\$3,695	A mix of local & foreign HNWI and family offices
Oct-21		Suntec City Tower 2 #06	14,381	\$33.08	\$2,300	Local investor
Oct-21		111 Somerset #06	1,023	\$2.71	\$2,650	N.A.
Nov-21		SBF Centre #19	667	\$2.08	\$3,117	N.A.
Dec-21		PS100 #08	420	1.068	\$2,544	N.A.
Significant Deals						
Sep-21		61 Robinson Road	141,958	\$422.00	\$2,973	Rivulets Investments
Oct-21		Crown At Robinson (35 strata office and 8 F&B shop units)	70,700	\$260.00	\$3,650	MYP (Mayapada Group)
Nov-21		One George Street	445,735	\$1,281.50	\$2,875	JPMorgan Global Alternatives & Nuveen Real Estate
Nov-21		PIL Building	107,000	\$323.80	\$2,198	TE Capital Partners & LaSalle Investment Management
Dec-21		Robinson 112	92,205	\$269.7	\$2,925	Alpha Eins (SG) Pte Ltd

Note: The above information was compiled by LSIR from URA, media reports and other relevant sources.



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Han Huan Mei
 Director, Research
 +65 6256 0606
 huanmei.han@listsir.sg

Office Address
 111 Somerset, #15-04
 TripleOne Somerset
 Singapore 238164