

PROPnex RESEARCH
Q1 2023

COMMERCIAL PROPERTY REPORT



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PROPnex RESEARCH Q1 2023

OFFICE PROPERTY REPORT

Key Highlights

- Cautious buying sentiment – sales momentum in the office market slowed down significantly amidst concerns of a global recession and as interest rates remained elevated. Only 51 deals worth \$116 million were done during the quarter, according to caveats lodged.
- Buoyant rental market – overall rentals of office space rose by 5.1% QOQ on healthy office space demand and tighter vacancies, especially for office space in the fringe areas.
- Spike in new completions – in Q1 2023, over 66,000 sq m of office space was completed. Despite the projected 178,000 sq m of new supply in the next 9 months of 2023, rentals are expected to remain resilient owing to robust leasing demand from occupiers.

Office Property Q1 2023

Overview

Office leasing demand eased in Q1 2023, as macroeconomic uncertainties likely led occupiers to becoming more cautious in expanding their office footprint and holding off relocation plans for now. Nevertheless, rentals continued to post growth in Q1, supported by tight office supply.

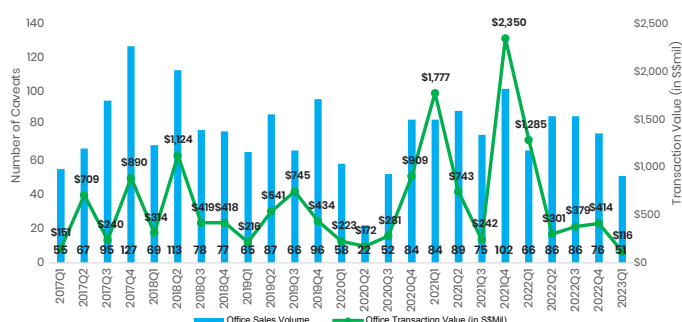
According to advance estimates, the Singapore economy grew by 0.1% year-on-year in Q1 2023, slower than the 2.1% growth achieved in the previous quarter. Separately, the Monetary Authority of Singapore also offered a downbeat assessment of growth, noting that Singapore's GDP growth is projected to moderate significantly, in line with the global goods and investment cycle downturn.

In addition, in February this year, the government has raised the top marginal Buyer's Stamp Duty rate for commercial properties, which meant an increase in stamp duty payable for higher-value commercial properties. This could have led to a pull-back in sales, especially for big-ticket acquisitions, as investors and occupiers digest the new measures.

Sales Transactions and Prices

- Prices of office space were flat in Q1 2023. According to the URA office price index, prices of office space were unchanged from the previous quarter, where it climbed by 3.7% QOQ in Q4. Office prices were down by 4.3% YOY from in Q1 2022.
- Office prices in the Fringe Area grew by 2.3% QOQ, reversing the 2.9% decline in the previous quarter. Meanwhile, prices in the Central Area slipped by 0.4% QOQ in Q1 2023, after rising by 5% QOQ in the previous quarter.

Office Sales Volume & Total Value (in S\$Mil)



Source: PropNex Research, URA Realis (data retrieved on 28 April 2023)

Top 10 Office Deals by Quantum in Q1 2023

S/N	Location	Transacted Price (\$)	Area (sq ft)	Unit Price (\$ PSF)	Date of Sale
1	PLUS 20 CECIL STREET #07-XX, XX, XX	\$14,950,000	5,059	\$2,955	Mar-23
2	SUNTEC CITY 7 TEMASEK BOULEVARD #09-XX	\$11,707,300	4,037	\$2,900	Feb-23
3	SLF BUILDING 510 THOMSON ROAD #09-XX	\$9,000,000	9,451	\$952	Jan-23
4	SUNTEC CITY 9 TEMASEK BOULEVARD #06-XX	\$8,600,000	3,003	\$2,864	Mar-23
5	EON SHENTON 70 SHENTON WAY #16-XX, XX, XX	\$4,300,000	1,765	\$2,436	Mar-23
6	PLUS 20 CECIL STREET #07-XX	\$3,871,200	1,238	\$3,127	Mar-23
7	OXLEY TOWER 138 ROBINSON ROAD #21-XX	\$3,663,450	1,163	\$3,151	Mar-23
8	OXLEY TOWER 138 ROBINSON ROAD #15-XX	\$3,500,000	1,206	\$2,903	Mar-23
9	OXLEY TOWER 138 ROBINSON ROAD #17-XX	\$3,288,000	1,173	\$2,802	Jan-23
10	PAYA LEBAR SQUARE 60 PAYA LEBAR ROAD #07-XX	\$2,820,000	1,259	\$2,239	Mar-23

Source: PropNex Research, URA Realis (data retrieved on 28 April 2023)

- Amidst economic uncertainties and rising interest rates, sales activity for office spaces fell by nearly a-third in Q1 2023 – the second consecutive quarter of decline. In Q1 2023, there were 51 office transactions, reflecting a 33% QOQ drop from 76 deals done in Q4 2022, based on caveats lodged.
- Meanwhile the total value of sales fell sharply by about 72% QOQ to \$116 million in Q1 2023, based on caveats lodged. It is the lowest quarterly sales value since Q2 2009 where \$49.5 million worth of office sales were recorded.
- The top caveated transaction in Q1 was the \$14.95 million sale of three office units on the 7th floor of the 99-year leasehold Grade A commercial building, PLUS in the CBD. The sale price reflected a unit price of \$2,955 psf against a floor area of 5,095 sq ft.
- Another sizable deal was reportedly done although no caveats were lodged. The 12th floor of an upcoming project Solitaire on Cecil was sold for \$52.3 million (\$4,196 psf on strata area) in March – marking the largest deal in terms of quantum in 2023. Based on caveat data, there were no building sales during the quarter.

Price & Rental Index of Office Space in Q1 2023

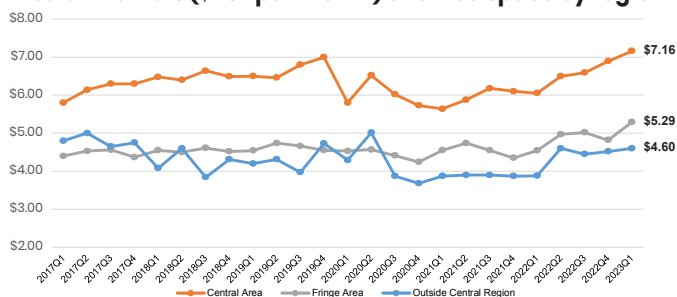
Q1 2023	Price Index	QOQ%	YOY%	Rental Index	QOQ%	YOY%
Central Region	116.0	0.0%	-4.3%	185.9	+5.1%	+15.5%
Central Area	114.4	-0.4%	-5.1%	188.2	+3.9%	+14.9%
Fringe Area	120.0	+2.3%	-1.1%	163.9	+8.8%	+16.5%

Source: PropNex Research, URA (data retrieved on 28 Oct 2022)

Rentals and Leasing Trends

- The URA office rental index showed that office rents grew for the 6th straight quarter in Q1 2023, rising by 5.1% QOQ – following the 5.1% QOQ growth in Q4 2022. The rental growth was led by Fringe Area rentals which grew by 8.8% QOQ, while rentals in the Central Area grew by 3.9% QOQ in Q1.

Median Rentals (\$PSF per month) of Office Space by region



Source: PropNex Research, URA Realis (data retrieved on 28 April 2023)

- Median monthly rentals in the Central Area grew to \$7.16 psf in Q1, while that of office spaces in Fringe Area grew to \$5.29 psf during the quarter. Meanwhile rents in the Outside Central Region inched up to \$4.60 psf in Q1, as per rental data.
- Limited office completions during the quarter have helped to keep occupancies stable and lifted rentals, especially for CBD Grade A office space.

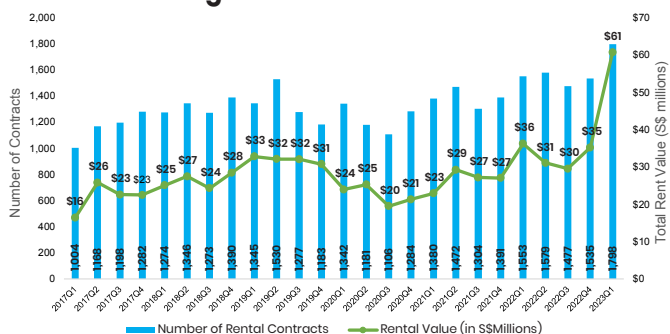
Median Rentals of office space by area in Q1 2023

Location	Median Rental (\$psf pm)	QOQ%
Anson/Cecil	\$7.03	↑ 14.3%
Marina Boulevard / Marina View	\$13.20	↑ 12.0%
Fringe area	\$5.29	↑ 9.5%
Raffles Place	\$10.17	↑ 1.1%
City Hall	\$6.51	↓ -1.4%

Source: PropNex Research, URA Realis (data retrieved on 28 April 2023)

- According to URA Realis rental data, the volume of office rental transactions grew by 17% QOQ to 1,798 contracts in Q1 2023, from 1,535 contracts signed in Q4 2022 – this is the highest quarterly office leasing volume on record.
- Meanwhile, total leasing value surged by 72.5% QOQ to about \$61 million in Q1 2023 – the highest quarterly rental value on record. With economic uncertainties as well as rising borrowing costs and higher taxes to buy commercial properties, more MNCs and corporate tenants are opting to lease commercial spaces, instead of acquiring offices to manage cost and mitigate risks.

Office Leasing Contracts & Total Rental Value



Source: PropNex Research, URA Realis (data retrieved on 28 April 2023)

Office Vacancies

- Latest URA data showed that the island-wide vacancy rate of office space has tightened slightly from 11.3% in Q4 2022 to 11.2% in Q1 2023.
- According to the URA, the amount of occupied office space increased by 21,000 sq m (nett) in Q1 2023, following the increase of 9,000 sq m in Q4 2022. Meanwhile, the total stock of office space rose by 14,000 sq m (nett) in Q1 2023.
- In terms of supply, a total of 837,000 sq m gross floor area (GFA) of office space is in the pipeline as at the end of Q1 2023, compared with 872,000 sq m GFA of space in the previous quarter.
- In Q1 2023, about 66,247 sq m of office space was completed, with an estimated 178,000 sq m of office space due to enter the market in the next 9 months of 2023. The spike in new completions are expected to weigh on occupancies.

Market Outlook

Given the global economic headwinds, office sales could be muted in the near-term. In the leasing market, the limited supply completion in the city, with two projects coming up (Guoco Midtown in Bugis area, and IOI Central Boulevard Tower near Raffles Quay), as well as the tight vacancy rate should help to support prime office rents, which could see a marginal growth this year.

In April 2023, the government has hiked Additional Buyer's Stamp Duty (ABSD) rates, with more punitive ABSD rates for foreigners, entities and investors interested to purchase residential properties. In particular, the ABSD rate for foreigners has been revised to 60% from 30%, while the ABSD rate for entities and trusts has increased from 35% to 65%. With this revision in rates, it is likely that more foreign investors may shift their focus from investing in residential properties to commercial properties which are not subjected to ABSD.

However, with concerns over the health of the global economy and slower GDP growth in Singapore, occupiers and commercial property investors are expected to remain cautious. That said, Singapore continues to be a highly attractive destination for companies, given its business-friendly policies and excellent connectivity. In 2022, Singapore attracted a record \$22.5 billion in fixed asset investments, driven by the electronics sector.

PROPnex RESEARCH Q1 2023

INDUSTRIAL PROPERTY REPORT

Key Highlights

- **Growing rentals and prices** – Healthy demand for space has helped to drive rental and price growth, which grew by 2.8% and 1.5% QOQ respectively in Q1 2023.
- **Softening occupancies** – The overall occupancy rate of industrial properties continued its downward trend, dipping to 88.8% in Q1 from the previous quarter (89.4%) amidst new completions which boosted the overall industrial stock. In Q1 2023, over 3.8 million sq ft was added to overall industrial stock.
- **Incoming supply** – In the next 9 months of 2023, a projected 10.3 million sq ft of industrial space is expected to enter the market. The influx of new supply will likely compress rental and price growth in the medium-term.

Industrial Property Q1 2023

Overview

Industrial property sales put up a lacklustre performance in Q1 2023, amid the challenging external demand and the slowing manufacturing sector. Industrial space leasing, meanwhile, ticked up in Q1 2023 and helped to keep rentals stable during the quarter.

Advance estimates released by the Ministry of Trade and Industry (MTI) showed that Singapore's manufacturing sector contracted by 6% year-on-year in the Q1 2023, worsening from the 2.6% contraction in the previous quarter.

In January 2023, the EDB Singapore said that business sentiments in the manufacturing sector remain negative, as companies experience slowing demand for manufactured goods, amidst continued supply chain challenges and operational cost pressures.

Rents and Occupancies

- Occupancies for overall industrial properties declined slightly in Q1 2023 amidst an injection of new industrial spaces during the quarter.
- Data from JTC showed that the overall occupancy rate slipped to 88.8% (-0.6 ppt QOQ) from 89.4% in Q4 2022. When compared against Q1 2022, occupancies were down by 1 ppt YOY in Q1 2023.
- In Q1, 357,000 sq m or 3.8 million sq ft of industrial space was completed. An additional 954,000 sq m or 10.3 million sq ft of space is expected to be added to the total stock in the next 9 months of 2023. Of the upcoming supply, single-user factories will comprise 62% of the space, while warehouses account for 21%, and the remaining 17% will be for multi-user factories and business park space.
- The fresh completions could push up vacancies in the near-term as supply may outpace demand for industrial space.
- Occupancy rates slipped across most industrial property segments, with the highest quarterly decrease in warehouse space (-1.4ppt QOQ). Occupancies in single-user and multi-user factories fell by 0.4 ppt and 0.2 ppt QOQ respectively. Meanwhile, business parks saw the occupancy rate fall by 1.2 ppt QOQ in Q1 2023.

Industrial Rents and Occupancies Q1 2023

Q1 2023	Rents			Occupancies		
	Rental Index	QoQ % Change	YoY % Change	Occupancy Rate	QoQ%-pt Change	YoY%-pt Change
All Industrial	100.4	2.8	8.8	88.8%	-0.6	-1.0
Multiple-User Factory	99.8	3.0	10.5	88.9%	-0.2	0.1
Single-User Factory	104.1	3.0	6.9	88.7%	-0.4	-1.7
Business Park	114.8	0.6	2.6	81.3%	-1.2	-4.3
Warehouse	95.5	2.9	9.4	90.3%	-1.4	0.0

Source: PropNex Research, JTC (27 April 2023)

- JTC said overall rentals rose by 2.8% QOQ in Q1 2023, with all segments posting growth over the previous quarter. This marks the tenth straight quarter of growth since Q3 2020. On a year-on-year basis, rents were up by 8.8% in Q1 2023.
- The quarterly growth in rentals was led by the multi-user factory and single-user factory segments which both grew by 3.0% QOQ each, followed by the warehouse segment (+2.9% QOQ) and Business Park segment (+0.6% QOQ).
- The median rental of multi-user factories across most districts rose in Q1, except multiple-user factories in D8 (Little India), D18 (Tampines) and D19 (Serangoon, Hougang, Ponggol). Multiple-user factory spaces at D17 (Loyang, Changi) saw the highest QOQ increase of 20.7% during the quarter, where factory units have been leased at \$1.81 psf per month.

Median transacted rentals (\$PSF PM) of Multi-user factories

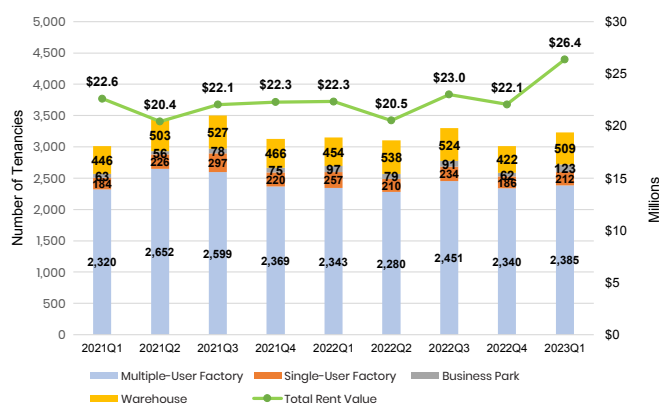
Location	2022 Q4	2023 Q1	QOQ %
D3 Queenstown, Tiong Bahru	2.49	2.50	↑ 0.4%
D5 Pasir Panjang, Hong Leong Garden, Clementi New Town	1.79	1.89	↑ 7.4%
D8 Little India	2.84	2.12	↓ -25.4%
D12 Balestier, Toa Payoh, Serangoon	1.90	2.00	↑ 5.3%
D13 Macpherson, Braddell	2.10	2.20	↑ 4.8%
D14 Geylang, Eunos	2.34	2.43	↑ 3.8%
D16 Bedok, Upper East Coast, Eastwood, Kew Drive	1.40	1.40	↔ 0.0%
D17 Loyang, Changi	1.5	1.81	↑ 20.7%
D18 Tampines, Pasir Ris	2.15	1.98	↓ -7.9%
D19 Serangoon Garden, Hougang, Ponggol	2.20	2.16	↓ -1.8%
D20 Bishan, Ang Mo Kio	2.11	2.29	↑ 8.5%
D22 Jurong	1.93	2.00	↑ 3.6%
D23 Hillview, Dairy Farm, Bukit Panjang, Choa Chu Kang	2.16	2.25	↑ 4.2%
D25 Kranji, Woodgrove	1.85	2.03	↑ 9.7%
D26 Upper Thomson, Springleaf	1.69	1.8	↑ 6.5%
D27 Yishun, Sembawang	1.77	1.81	↑ 2.3%

Source: PropNex Research, JTC J Space (27 April 2023)

Industrial Property Leasing Activity

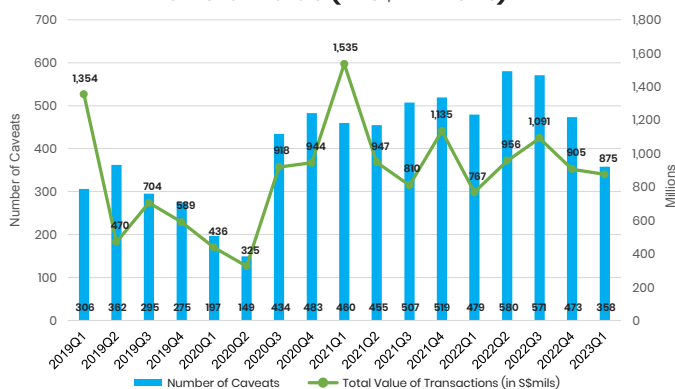
- Overall leasing demand rose significantly in Q1 2023, with growths in both rental volume and total leasing value – despite the slow down in the economy and manufacturing activity.
- In Q1 2023, there were 3,229 tenancies signed – representing an increase of 7.3% QOQ from 3,010 contracts in Q4 2022. Total rent value also grew in Q1 2023 by 19.5% QOQ to about \$26.4 million from some \$22.1 million in Q4 2022 – this is the highest quarterly leasing value achieved on record.

Number of Tenancies & Total Rent Value (\$ million)



Source: PropNex Research, JTC J-Space (27 April 2023)

Industrial Property Transactions & Total Value (in \$S millions)



Source: PropNex Research, JTC J-Space (27 April 2023)

Prices and Sales Transactions

- Sales volume fell by about 24.3% QOQ to 358 deals in Q1 2023, from 473 transactions in Q4. On a year-on-year basis, transactions fell by 25.3% from the 479 deals done in Q1 2022. Q1's sales volume is the lowest sales tally since Q2 2020 where 149 deals were transacted.
- Of the 358 transactions in Q1 2023, 318 were for multiple-user factory space, accounting for about 89% of sales. This is followed by warehouse space (20) and single-user factory space (20).
- Overall sales value also fell during the quarter. Total value of deals amounted to about \$875 million, down by about 3.4% from \$905 million in the previous quarter. Total value of deals grew by 14% YOY from the same period last year.
- Despite the slowdown in sales activity, the overall industrial price index continued to rise in Q1 – up by 1.5% QOQ, slowing slightly from the 1.7% QOQ increase in Q4. Overall prices were up by 6.9% YOY from Q1 2022. This is the tenth consecutive quarter of growth since Q3 2020 – prices have gone up by 15% since then.
- The industrial price growth was led by multi-user factory spaces which grew by 2.1% QOQ in Q1, while single-user factory prices inched up by 0.9% QOQ in Q1. Prices of multi-user factories were up by 8.4% YOY in Q1 2023.

Median transacted unit price (\$PSF) of Multi-user Factories

Location	2022 Q4	2023 Q1	QOQ %
D3 Queenstown, Tiong Bahru	566	587	↑ 3.7%
D5 Pasir Panjang, Hong Leong Garden, Clementi New Town	588	456	↓ -22.4%
D12 Balestier, Toa Payoh, Serangoon	958	1,062	↑ 10.9%
D13 Macpherson, Braddell	785	700	↓ -10.8%
D14 Geylang, Eunos	487	533	↑ 9.4%
D16 Bedok, Upper East Coast	226	289	↑ 27.9%
D17 Loyang, Changi	167	197	↑ 18.0%
D18 Tampines, Pasir Ris	338	338	↔ 0.0%
D19 Serangoon Garden, Hougang, Ponggol	602	640	↑ 6.3%
D20 Bishan, Ang Mo Kio	536	566	↑ 5.6%
D22 Jurong	282	285	↑ 1.1%
D23 Hillview, Dairy Farm, Bukit Panjang, Choa Chu Kang	388	422	↑ 8.8%
D25 Kranji, Woodgrove	455	433	↓ -4.8%
D26 Upper Thomson, Springleaf	596	524	↓ -12.1%
D27 Yishun, Sembawang	320	317	↓ -0.9%

Source: PropNex Research, JTC J Space (27 April 2023)

- Price growth in multi-user factories was uneven across districts. The median price of multi-user factory units in D16 (Bedok, Upper East Coast) saw the highest QOQ increase of 27.9% in Q1, at \$289 psf in Q1. Meanwhile, the median price of multi-user factory spaces in D5 (Pasir Panjang) fell by 22.4% QOQ to \$456 psf.

Best-Selling Industrial Multi-User Projects in Q1 2023

Project	Units Sold in Q1 2023	Average Unit Price (\$ PSF) in Q1 2023
MIDVIEW CITY	15	\$562
WEST CONNECT BUILDING	13	\$313
VERTEX	12	\$541
OXLEY BIZHUB	10	\$622
UB POINT	9	\$462

Source: PropNex Research, JTC J-Space (27 April 2023)

- The top selling industrial project in Q1 was Midview City in Sin Ming, Bishan – moving 15 units at an average unit price of \$562 psf.
- The top deal by quantum in Q1 2023 was the \$142 million sale of the Cycle and Carriage Building at Alexandra. This sale was part of the portfolio divestment by automobile distributor Jardine Cycle & Carriage (JC & C) to M&G Real Estate group. The divestment included a sales-leaseback agreement – where JC & C will continue to occupy the showroom spaces. The deal was completed in March this year and came up to a total price of \$333 million – one of the largest industrial portfolio divestments on record.

- Three other top transactions in Q1 were also part of this portfolio divestment – including the Mercedes-Benz Center, 209 Pandan Gardens, and 188 Pandan Loop.

Top 5 Industrial Property Transactions by Quantum in Q1 2023

Location	Property Type	Transacted Price (\$)	Area (sq ft)	Unit Price (\$ PSF)
239,241 ALEXANDRA ROAD	Multiple-user Factory	142,000,000	107,611*	1,320**
MERCEDES-BENZ CENTER 301 ALEXANDRA ROAD	Single-user Factory	131,000,000	100,183*	1,308**
J'FORTE 26 TAI SENG STREET	Single-user Factory	98,767,600	70,926*	1,393**
209 PANDAN GARDENS	Single-user Factory	46,000,000	319,342*	144**
188 PANDAN LOOP	Single-user Factory	14,000,000	213,150*	66**

Source: PropNex Research, JTC J-Space (27 April 2023)

*Area indicated is the land area

**Unit price reflected is based on the land area

Market Sentiment and Outlook

The pessimistic manufacturing outlook, electronics downcycle, and weaker global demand will likely weigh on the industrial property market in the coming quarters. However, the impact is expected to be uneven, with sectors such as logistics, precision engineering, agri-food technology, and biomedical sectors remaining as potential bright spots in the industry.

Post-pandemic and amidst geopolitical tensions between major powers, industrialists have re-doubled efforts to building supply chain resilience to avoid any business disruptions, and this will support the warehouse segment. Meanwhile, Singapore's push for food security and the digitisation and automation of manufacturing processes, will benefit high-tech industrial space.

In 2022, Singapore attracted \$22.5 billion of investment commitments, with two-thirds coming from the electronic sector. It is possible that the industrial property sector could see more market activity as these investment plans are fully implemented in the coming years.

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