

Q2 2022 QUARTERLY REPORT
**COMMERCIAL
REPORT**
PROPNEX RESEARCH



CYAN HO
CEA No. : R042852G

Q2 2022 QUARTERLY REPORT OFFICE PROPERTY RESEARCH REPORT

Report prepared by PropNex Research



Key Highlights

- **Robust transaction activity** – the commercial market was abuzz with sales activity, with a number of high-profile commercial buildings being transacted during the quarter.
- **Growing rentals** – rentals of office space rose by 2.4% QOQ as more workers return to the workplace and as more firms are looking to expand.
- **Limited new completions** – in 2H 2022, an estimated 431,000 sq ft of office space is expected to be complete – the limited incoming supply will help support prices and rentals of office spaces in the near-term, though the office market may soften in 2023 to 2025 where a large office supply gets completed.

Office Property Q2 2022

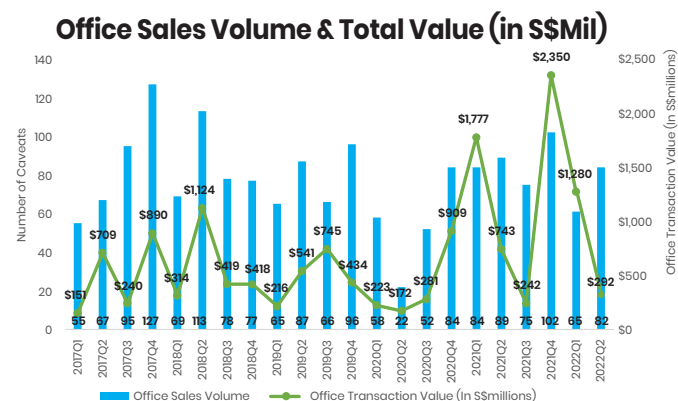
Overview

The growth momentum in the Singapore office market persisted in Q2 2022 despite the rising uncertainty over feeble global economic growth and rapidly rising inflation, amid the protracted conflict in Ukraine, China's zero-Covid stance, and supply chain disruptions. The sustained interest in Singapore office properties was underpinned by tight office supply and the still healthy economic conditions in the city-state. The government has maintained its 2022 GDP growth forecast at 3% to 5%, with growth likely to be at the lower end of the projected range. In Q2 2022, Singapore's economy grew 4.8 per cent year-on-year, according to advance estimates released by the Ministry of Trade and Industry (MTI).

Office leasing demand, particularly for Grade A CBD space remained resilient driven by the tight supply of office space, and expansions as firms position themselves for business recovery with Singapore's transition to living with Covid-19 and the removal of most pandemic restrictions.

Sales Transactions and Prices

- Prices of office space fell in Q2 2022, sharply reversing the growth in the first quarter. According to the URA office price index, prices of office space contracted by 5.1% QOQ in Q2 2022, compared to the 4.4% growth in Q1 2021. The tumble in prices was largely attributed to softening in prices of Central Area offices, which declined by 5.3% QOQ.
- In Q2 2022, there were 82 sales transactions, reflecting a 26% QOQ increase from the 65 deals done in Q1 2022, based on caveats lodged.
- While there was an uptick in transaction volume, the total value of caveated transactions dropped substantially in Q2 2022.



Source: PropNex Research, URA Realis (27 July 2022)

Top 10 Office Deals by Quantum in Q2 2022

S/N	Location	Transacted Price (\$)	Area (sq ft)	Unit Price (\$ PSF)	Date of Sale
1	NEHSONS BUILDING 24 PECK SEAH STREET	\$111,100,000	13,819*	\$8,040**	15-Jun-22
2	MERCHANTS BUILDING 76 SOUTH BRIDGE ROAD	\$20,400,000	5,436*	\$3,753**	14-Apr-22
3	SUNTEC CITY 7 TEMASEK BOULEVARD #28-XX	\$13,346,320	4,069	\$3,280	20-Apr-22
4	SUNTEC CITY 8 TEMASEK BOULEVARD #24-XX	\$11,000,000	3,498	\$3,144	08-Apr-22
5	SUNTEC CITY 9 TEMASEK BOULEVARD #17-XX	\$9,176,310	3,337	\$2,750	21-Apr-22
6	PLUS 20 CECIL STREET #06-XX, XX	\$7,983,040	2,626	\$3,040	18-Apr-22
7	CHINATOWN POINT 133 NEW BRIDGE ROAD #18-XX	\$4,600,000	2,347	\$1,960	26-May-22
8	SUNTEC CITY 7 TEMASEK BOULEVARD #28-XX	\$4,511,100	1,367	\$3,300	18-Apr-22
9	EON SHENTON 70 SHENTON WAY #07-XX, XX, XX	\$4,100,000	1,765	\$2,323	09-May-22
10	CHIAT HONG BUILDING 110 MIDDLE ROAD #07-XX, XX, XX	\$4,018,692	3,584	\$1,121	06-May-22

Source: PropNex Research, URA Realis (27 July 2022)

*Area indicated is the land area

**Unit price reflected is based on the land area

- Based on caveats lodged, the total value of transactions in Q2 2022 amounted to slightly over \$292 million, tumbling from the staggering \$1.28 billion worth of sales recorded in Q1 2022.
- The top caveated transaction was the \$111.1 million purchase of the aged 9-storey office property, Nehsons Building, by a unit of Kajima Holdings, who is said to have plans to redevelop it into a mixed-use development.
- While the total caveated transaction values were down, the office sales market was far from quiet, with a number of large office deals being done that were not captured in caveat data. These included the sale of the NTUC Income building, Westgate office tower, and Singtel's Comcentre building.
- The Income At Raffles is a 37-storey, 999-year leasehold office asset, sold by NTUC Income Insurance Co-operative in late June to Bright Ruby Resources for slightly over \$1 billion. Meanwhile, Westgate Tower, a 20-storey office tower, in Jurong East was sold by Sun Venture Group to US-based fund manager, AEW for \$675 million.
- It was also announced that Singtel's HQ, Comcentre in Exeter Road will be redeveloped into a \$3-billion office project. The telco and Lendlease have agreed to establish a joint venture company which will be 49 per cent owned by Lendlease, whom will pay \$1.63 billion to Singtel for the land cost of the development in or around 2024. Singtel will own the remaining 51 per cent stake in the JV.

Price & Rental Index of Office Space in Q2 2022

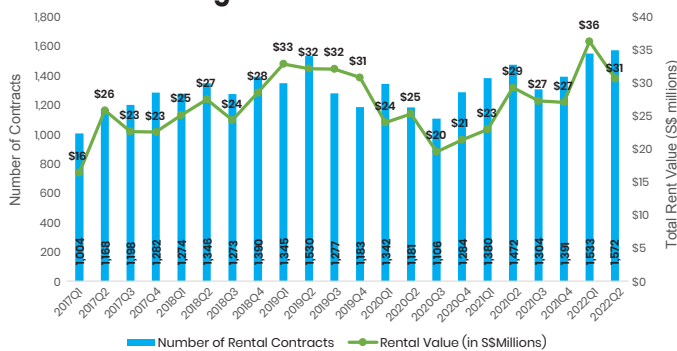
Q2 2022	Price Index	QOQ%	YOY%	Rental Index	QOQ%	YOY%
Central Region	115.0	-5.1%	-5.0%	164.8	2.4%	1.3%
Central Area	114.1	-5.3%	-6.5%	166.4	1.6%	-0.5%
Fringe Area	117.7	-3.0%	3.0%	153.1	8.8%	13.5%

Source: PropNex Research, URA (27 July 2022)

Rentals and Leasing Trends

- The URA office rental index showed that office rents grew by 2.4% in Q2 2022, accelerating from the 1.6% growth in Q1 2022. The increase was largely led by rental growth in fringe area office spaces which grew by an impressive 8.8% QOQ.
- According to URA Realis caveat data, the number of office rental transactions scaled to a new high, with 1,572 contracts signed in Q2 2022 – though total leasing value fell by 14.7% QOQ to \$30.9 million in Q2 2022 after hitting an all-time high in Q1, where \$36.2 million worth of leasing contracts were signed

Office Leasing Contracts & Total Rental Value



Source: PropNex Research, URA Realis (27 July 2022)

- Rentals continued to tick up amid the economic recovery, the relaxation of safe management measures and reopening of international borders – boosting confidence among landlords and office occupiers. Limited office supply completions kept occupancies stable and lifted rentals.

Median Rentals of office space by area in Q2 2022

Location	Median Rental (\$psf pm)	QOQ%
Anson/Cecil	\$6.22	↑ 9.1%
Raffles Place	\$9.50	↑ 5.6%
Marina Boulevard / Marina View	\$11.80	↓ -1.7%
Orchard	\$7.29	↓ -1.5%
Fringe area	\$4.97	↑ 9.5%

Source: PropNex Research, URA Realis (27 July 2022)

Office Vacancies

- Latest URA data showed that the island-wide vacancy rate of office space has tightened from 12.8% in Q1 to 12.0% in Q2 2022.
- Vacant Private Sector Office Space island-wide stood at 882,000 sqm (nett) as at Q2 2022, down from the previous quarter where vacant private office space stood at 952,000 sqm.

- According to the URA, the amount of occupied office space increased by 24,000 sqm (nett) in Q2 2022, following the decrease of 13,000 sqm (nett) in Q1 2022. Meanwhile, the total stock of office space fell by 44,000 sqm (nett) in Q2 2022.
- In terms of supply, there was a total of 868,000 sqm gross floor area (GFA) of office space in the pipeline as at the end of Q2 2022, compared with the 834,000 sqm GFA of space in Q1 2022.
- In the first half of 2022, about 32,672 sqm of office space was completed and an estimated 40,000 sqm of office space is expected to enter the market in 2H 2022, which should stabilize occupancies and rentals in the near-term. However, in 2023, the anticipated spike in the supply of completions – estimated at 227,000 sqm – may potentially weigh on rentals and occupancy rates.

Market Outlook

Office properties, including strata offices, will continue to be sought after by investors, including institutional investors, high net worth individuals and family offices – despite the global economic headwinds and growing interest rates. They will be buying into an office market that looks on track to grow further this year, riding on active demand from occupiers such as the tech sector, limited completions and post-pandemic recovery optimism.

The back-to-work push will also support space demand as companies review hybrid working arrangements and as more workers head back to the workplace. Occupiers are also expected to favour newer office buildings with good quality specifications to provide a better work environment for workers to entice them back to the office. A prominent theme unfolding in the office market is the redevelopment of older buildings in the CBD, which saw office stock being withdrawn from the market, thereby helping to prop up rentals.

Building owners appear to be keen to redevelop ageing office developments into mixed-used assets to seek potential upside to capital values and gross floor area. In a ministerial reply from MND, as at 5 April this year, the URA has received 12 outline applications under the CBD Incentive Scheme, of which 8 have been given in-principle approval. Some developments which have received in-principle approval under the CBD Incentive Scheme include 8 Shenton Way (Former AXA Tower), New Port Tower (Former Fuji Xerox Building) and Tower 15 on Hoe Chiang Road.

Q2 2022 QUARTERLY REPORT

INDUSTRIAL PROPERTY REPORT

Report prepared by PropNex Research



Key Highlights

- **Rising rentals and prices** – Strong manufacturing performance and user demand especially in logistics sector, helped to drive rental and price growth, which grew by 1.5% QOQ each in Q2 2022.
- **Improving occupancies** – overall occupancy rate of industrial properties tightened in Q2 (90%) from the previous quarter (89.8%) despite the significant number of new completions added to the overall industrial stock. In the first half of 2022, over 7.05 million sq ft was added to overall industrial stock.
- **Incoming bulky supply** – in 2H 2022, an estimated 16.8 million sq ft of industrial space is expected to be completed. The bulky upcoming supply will moderate any market exuberance in the near-term. From 2023, the tapered pipeline supply may help support rentals and price growth in the medium-term.

Industrial Property Q2 2022

Overview

The Singapore industrial market has been a beneficiary of the strong manufacturing sector performance. According to the advance estimates released by the Ministry of Trade and Industry (MTI), the manufacturing sector grew by 8.0% YOY in Q2 2022, extending the 7.9% expansion in the previous quarter. This has contributed to Singapore's GDP growth of 4.8% YOY in Q2 2022.

MTI noted that the electronics and precision engineering clusters continued to record strong output growth, driven by sustained global demand for semiconductors and semiconductor equipment respectively. This has helped to mitigate declines in the biomedical manufacturing and chemicals clusters. The manufacturing sector is expected to turn in a positive showing this year. The government has maintained its 3% to 5% economic growth forecast for Singapore in 2022.

Rents and Occupancies

- Robust demand from expanding businesses helped to tighten occupancies for overall industrial properties in Q2 2022 amidst a large amount of new completions.
- Data from JTC showed that the overall occupancy rate rose to 90.0% (+0.2 ppt QOQ) after slipping to 89.8% in Q1 2022. When compared against Q2 2021, occupancies were down by 0.2 ppt YOY in Q2 2022.
- In Q2 2022, about 322,000 sq m or 3.4 million sq ft of industrial space was completed. Together with the 333,000 sq m or 3.6 million sq ft of space completed in Q1 2022, the first half of 2022 saw over 655,000 sq m or 7.05 million sq ft of space being added to the total stock. This was the highest half-yearly stock addition since 2017.
- Occupancy rates across several industrial property segments posted a QOQ increase in occupancy rates with the highest increase in Multi-user factory space (+0.6 ppt QOQ) and Warehouse space (+0.6 ppt QOQ). Meanwhile Single-user factory spaces and business park spaces saw marginal slips in occupancy rates by -0.1 ppt and -0.5 ppt QOQ respectively.

- Occupier demand for logistics space have surged due to an increase in stockpiling activity over food security concerns, disrupted access to raw materials and supply chain shocks. Recent monetary policies such as the strengthening of the Singapore dollar has spurred industry players such as F&B operators and manufacturers to aggressively stockpile their inventories to pre-empt any disruptions to business operations.
- JTC noted that overall rentals rose by 1.5% QOQ in Q2 2022, with all segments posting growth over the previous quarter. On a year-on-year basis, overall rents were up by 3.4% in Q2 2022.
- The quarterly growth in rentals was led by the Multi-user factory and Warehouse segment which grew by 2.1% QOQ, followed by Single-user factory space (+0.4% QOQ) and Business park space (+0.2% QOQ).

Industrial Rents and Occupancies Q2 2022

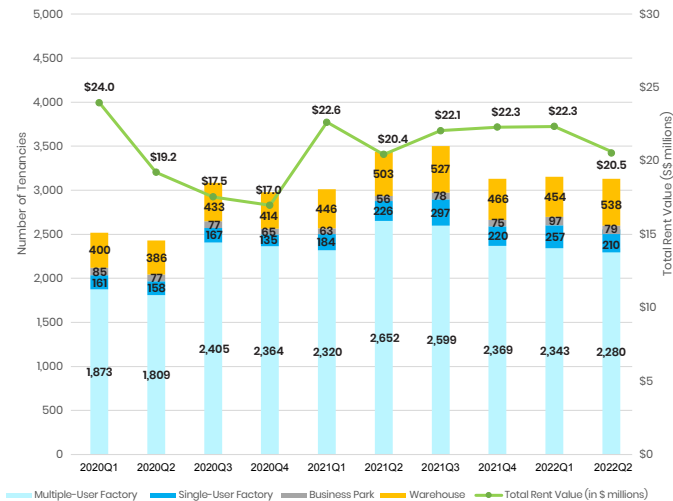
Q2 2022	Rents			Occupancies		
	Rental Index	QoQ % Change	YoY % Change	Occupancy Rate	QoQ % Change	YoY % Change
All Industrial	93.7	1.5	3.4	90.00%	0.2	-0.2
Multiple-User Factory	92.2	2.1	3.7	89.40%	0.6	-0.3
Single-User Factory	97.8	0.4	2.1	90.30%	-0.1	-0.6
Business Park	112.1	0.2	-0.1	85.10%	-0.5	0.3
Warehouse	89.1	2.1	5.7	90.90%	0.6	0.7

Source: PropNex Research, JTC (28 July 2022)

Industrial Property Leasing Activity

- While rentals have grown, overall leasing demand softened in Q2 2022, likely due to the increased stock additions over the last 6 months.
- In Q2 2022, there were 3,107 tenancies – representing a slip of 1.4% QOQ from 3,151 contracts in Q1 2022. Total rent value fell in Q2 2022 by 8.1% QOQ to \$20.53 million from about \$22.34 million in Q1 2022.
- There were several bright spots, namely in the Warehouse segment where some 538 leasing contracts were signed, setting the record for the highest quarterly number of contracts achieved for this property segment amidst the surging demand for warehouse space.

Number of Tenancies & Total Rent Value (in S\$ millions)

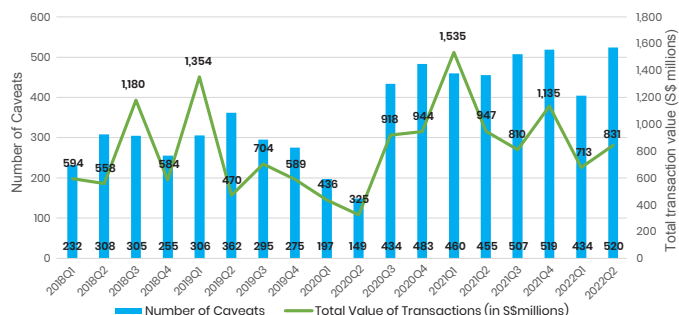


Source: PropNex Research, JTC J-Space (28 July 2022)

Prices and Sales Transactions

- The buoyant economy and expanding manufacturing output have contributed to positive sentiment in the market, leading to a sustained rebound in industrial prices in Q2 2022, rising by 1.5% QOQ, and 5.2% YOY, following the 2.1% QOQ increase in Q1 2022. This is the seventh consecutive quarter of price growth since Q3 2020.
- Sales volume grew by 19.8% QOQ to 520 deals in Q2 2022, from 434 transactions in Q2 2021. On a year-on-year basis, transactions were up by 14.3% from the 455 deals done in Q2 2021.
- Of the 520 transactions in Q2 2022, 455 were for multiple-user factory space, accounting for about 87.5% of sales. This is followed by warehouse space (34) then single-user factory space (31).

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



Source: PropNex Research, JTC J-Space (28 July 2022)

- Overall sales value amounted to about \$831 million, up by about 16.5% from the \$713 million in the previous quarter. For the first half of 2022, 954 deals were done, amounting to over \$1.54 billion worth of sales in the industrial market.

Notable Industrial Property Transactions by Quantum in Q2 2022

Location	Property Type	Transacted Price (\$)	Area (sq ft)	Unit Price (\$ PSF)
VICTORY CENTRE 110 LORONG 23 GEYLANG	Multiple-user Factory	90,000,000	67,945*	1,325**
NASACO TECH CENTRE 49 CHANGI SOUTH AVENUE 2	Single-user Factory	30,800,000	117,979*	261**
X, X KIAN TECK DRIVE	Single-user Factory	18,800,000	118,761*	158**
3X CHANGI NORTH CRESCENT	Single-user Factory	17,692,940	91,873*	193**
CFM BUILDING 4 ANG MO KIO AVENUE 12	Single-user Factory	13,350,000	28,206*	473**
X KAKI BUKIT CRESCENT	Multiple-user Factory	13,000,000	18,935*	687**
1X KIAN TECK CRESCENT	Single-user Factory	10,800,000	44,030*	245**
4X GENTING ROAD	Single-user Factory	9,900,000	4,369*	2,266**
LOYANG INDUSTRIAL ESTATE 1X LOYANG LANE	Single-user Factory	9,800,000	74,954*	131**
LOYANG INDUSTRIAL ESTATE 3X LOYANG CRESCENT	Single-user Factory	9,600,000	69,394*	138**

Source: PropNex Research, JTC J-Space (28 July 2022)

*Area indicated is the land area

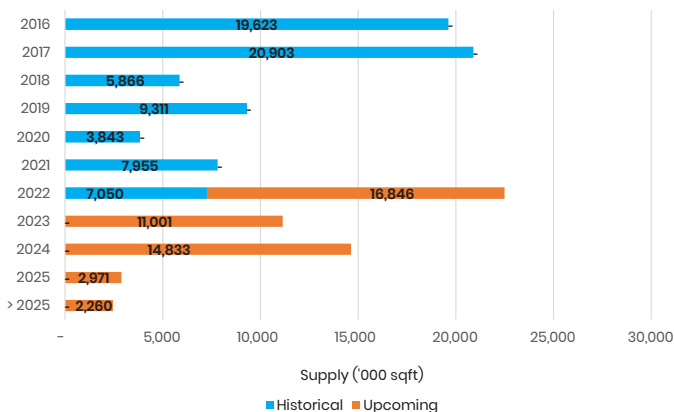
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- In Q2 2022, the top 10 transactions largely consisted of building sales.
- The top deal done in Q2 2022 was for Victory Centre, a 60-year-leasehold 7-storey ramp-up light industrial building, located at 110 Lorong 23 Geylang. Sold by Fragrance Group for \$90 million to an entity linked to LaSalle Investment Management. The building is located at the corner of Sims Drive and Aljunied Road, just 5 minutes away from the Aljunied MRT station.
- The property has a gross floor area of about 170,000 sq ft and zoned as Business 1. The land was purchased from the URA by Fragrance Group, which completed the property's development in 2015. The building offers over 80 units, averaging about 1,600 sq ft each.
- A key attraction of Victory Centre is that it is not under the purview of JTC Corporation, and is not restricted by JTC's policies on assignment of lease and sub-letting – which would attract tenants who are ineligible for JTC sites.
- Another key investment draw of this asset is that the URA sold the site with the condition that the development not be strata-subdivided for sale in the first 10 years upon receiving its Temporary Occupation Permit (TOP). When the 10-year deadline expires in 2025, the new owner may consider applying for strata subdivision and selling the strata units.

Stock and Upcoming Supply

- JTC noted that based on approval plans as at the end of June 2022, about 1.57 million sqm or 16.8 million sq ft of industrial space is set to be completed in the 2H 2022.
- Of these, about 43% of the supply is single-user factory space, while multiple-user factory space accounts for another 30% of the supply. The remaining 27% of the upcoming stock will comprise of warehouse and business park space
- Aside from the bulky incoming supply completions for 2H of 2022, which would temper price and rental growth, PropNex expects the thinner supply pipeline from 2023 onwards to support price recovery and rental growth – especially for Warehouse and Business Park space.

Supply of Industrial Space ('000 sqft)



Source: PropNex Research, JTC (28 July 2022)

Market Sentiment and Outlook

Singapore's growth outlook remains intact with the government forecasting 3% to 5% GDP growth for 2022. This will likely be supported by healthy global trade and manufacturing sector performance, which will benefit the industrial market. Electronics, food technology, e-commerce and logistics segments will continue to spur industrial space demand this year.

The government has said that Singapore's economy is not at risk of a recession next year. That said, some downside risks persist. Given Singapore's open economy status, several risks bear watching including the ongoing war in Ukraine and occasional Covid-19 lockdowns in China, which have fed higher commodity prices and inflation – leading to monetary tightening by central banks around the world. The rate hikes by the US Federal Reserve has also sparked concerns of an impending US recession, which will dampen business confidence. Some industrialists may decide to be prudent and hold back on expansion plans for now.

As international borders reopen, more workers could return to Singapore which may help to alleviate the manpower crunch in the construction sector. Should construction activities kick into a higher gear, this could potentially ramp up industrial supply completions that may impact occupancies.

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