

PropNex.com

PROP NEX RESEARCH Q2 2023

COMMERCIAL PROPERTY REPORT



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PROPNEX RESEARCH Q2 2023

OFFICE PROPERTY REPORT



Key Highlights

- **Recovery in sales** – sales momentum in the office market picked up steadily despite a slowing economy and elevated interest rates, as 87 deals worth \$566 million were done during the quarter, according to caveats lodged.
- **Moderating rentals** – office space rentals in the Central Region rose at a slower pace of 2.3% QOQ in Q2 2023, driven mainly by the Fringe Area
- **Spike in new completions** – in Q2 2023, nearly 18,000 sq m of office space was completed; about 159,000 sq m of new supply is slated for the second half of 2023.

Office Property Q2 2023

Overview

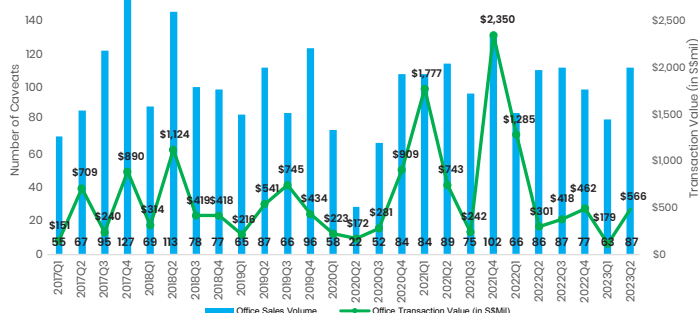
Office sales recovered in Q2 2023 following a muted first quarter, where the implementation of higher top marginal rates for buyer's stamp duty on commercial properties possibly put a drag on sales of office properties, as investors mulled the impact of the policy change. The pick up in activity in Q2 could also be partly due to shifting interest from residential properties to offices after the tightening of the additional buyer's stamp duty (ABSD) rates in April 2023 to stem investment demand for homes.

In addition, business sentiment has shown gradual improvement amidst the global economy showing signs of resilience despite headwinds. Meanwhile, Singapore averts technical recession in Q2 2023 as GDP grew by 0.7% year-on-year, based on advance estimates. The growth was anchored by the services sector, while manufacturing continued to put a drag on the economy during the quarter. Within the services sector, the info-comm, finance and insurance, and the professional services industries booked a slower 1.5% YOY growth in Q2 2023 compared to the 4.9% YOY increase a year ago.

Sales Transactions and Prices

- Prices of office space grew slightly in Q2 2023 after staying unchanged in the previous quarter. According to the URA office price index, prices of office space climbed by 1.0% QOQ in Q2, and were up by 1.9% YOY from Q2 2022.
- Growth of office prices was led by the Fringe Area, where office prices rose by 2.5% QOQ, building further on the 2.3% QOQ growth in the previous quarter. Meanwhile, prices in the Central Area grew by 0.7% QOQ in Q2 2023, rebounding slightly from the 0.4% QOQ dip in the previous quarter.

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



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

Table 1: Top 10 Office Deals by Quantum in Q2 2023

S/N	Location	Transacted Price (\$)	Area (sq ft)	Unit Price (\$ PSF)	Date of Sale
1	SOLITAIRE ON CECIL 148 CECIL STREET #17-XX, #18-XX, #20-XX	\$162,800,000	37,857	\$4,300	Apr-23
2	LIBERTY HOUSE 51 CLUB STREET	\$92,200,000	7,180*	\$12,842**	Apr-23
3	SOLITAIRE ON CECIL 148 CECIL STREET #16-XX	\$56,205,000	13,132	\$4,280	May-23
4	SOLITAIRE ON CECIL 148 CECIL STREET #07-XX to -XX	\$50,483,250	12,465	\$4,050	Jun-23
5	SUNTEC CITY 8 TEMASEK BOULEVARD #31-XX	\$13,797,200	4,058	\$3,400	Jun-23
6	SUNTEC CITY 7 TEMASEK BOULEVARD #29-XX	\$13,551,550	3,638	\$3,725	Apr-23
7	SUNTEC CITY 8 TEMASEK BOULEVARD #21-XX	\$12,943,599	3,498	\$3,700	May-23
8	SUNTEC CITY 8 TEMASEK BOULEVARD #24-XX	\$12,592,800	3,498	\$3,600	May-23
9	SUNTEC CITY 9 TEMASEK BOULEVARD #06-XX	\$12,568,610	4,349	\$2,890	May-23
10	SUNTEC CITY 8 TEMASEK BOULEVARD #35-XX	\$9,955,200	2,928	\$3,400	May-23

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

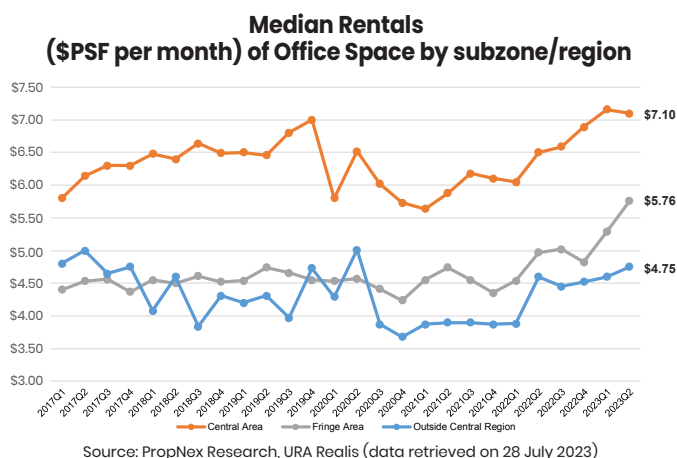
*Area indicated is the land area **Unit price reflected is based on the land area

- Sales activity for office properties picked up significantly in Q2 2023. Deals done during the quarter included a string of big-ticket purchases at the upcoming office building, Solitaire on Cecil.
- Based on caveats lodged, in Q2 2023, there were 87 office transactions, reflecting a 38.1% QOQ increase from 63 deals done in Q1.
- Meanwhile the total value of sales grew sharply by about 216% QOQ to \$566 million in Q2 2023, based on caveats lodged.
- Despite the comeback in Q2, on a half-yearly basis, sales were still down compared to the preceding half-year. In 1H 2023, 150 deals worth \$745 million were done, lower than 2H 2022 which saw 164 deals worth \$880 million being transacted. This is also the lowest half-yearly performance since 1H 2020, where \$396 million worth of office space from 80 deals were sold.
- The top caveated transaction in Q2 was the sale of 3 office floors at the Solitaire on Cecil in April. The top (20th) floor as well as the 17th and 18th floors were sold for a total of \$162.8 million (averaging \$4,300 psf on strata area). According to the marketing agent, the freehold project has sold out all 15 floors of its 20-storey development, as of June – three months after its official launch.
- The second largest caveated deal of Q2 was the \$92.2 million sale of Liberty House, an office building on Club Street. The 999-year leasehold 5-storey corner building sits on the cusp of the CBD and Chinatown. It enjoys dual-road frontage along Club Street and has a floor area of 28,876 sq ft, reflecting a unit price of \$3,193 psf on floor area.

Table 2: Price & Rental Index of Office Space in Q2 2023

Q2 2023	Price Index	QOQ%	YOY%	Rental Index	QOQ%	YOY%
Central Region	117.2	+1.0%	+1.9%	190.2	+2.3%	+15.4%
Central Area	115.2	+0.7%	+1.0%	191.0	+1.5%	+14.8%
Fringe Area	123.0	+2.5%	+4.5%	177.2	+8.1%	+15.7%

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



Rentals and Leasing Trends

- The URA office rental index showed that Central Region office rents grew for the 7th straight quarter in Q2 2023, rising at a slower pace of 2.3% QOQ – slowing from the 5.1% QOQ growth in Q1. The rental growth was largely led by the Fringe Area where rents rose by 8.1% QOQ, while rentals in the Central Area grew by 1.5% QOQ in Q2.
- Median monthly rentals in the Central Area moderated to \$7.10 psf in Q2, while that of office spaces in the Fringe Area grew to \$5.76 psf during the quarter. Rents in the Outside Central Region increased to \$4.75 psf in Q2, as per rental data.
- Cost-conscious occupiers may seek to lease instead of acquiring space amidst high borrowing costs. The sizable rental gap between the Fringe Area and Central Area offices also appealed to tenants looking to lower their overheads. Rental growth in the Fringe Area and Outside Central Region are expected to remain resilient while rentals of Central Area offices could soften as more supply comes on.

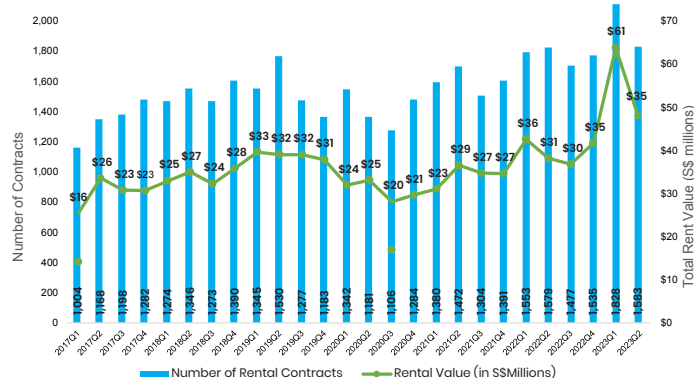
**Table 3: Median Rentals
of office space by area in Q2 2023**

Location	Median Rental (\$psf pm)	QOQ%
Anson/Cecil	\$6.70	↓ -5.6%
Marina Boulevard / Marina View	\$12.90	↓ -2.3%
Fringe area	\$5.76	↑ 8.5%
Raffles Place	\$10.52	↑ 1.1%
Orchard	\$7.88	↑ 9.4%

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

- According to URA Realis data, the volume of office rental transactions fell by 13.4% QOQ to 1,583 contracts in Q2 2023, from 1,828 contracts signed in Q1 2023. Meanwhile, total leasing value fell by 41.8% QOQ to about \$35.4 million in Q2.
- On a half-yearly basis, 3,411 office leasing contracts worth \$96.3 million were signed in 1H 2023 – the highest half-yearly contract volume and total contract value on record.

Office Leasing Contracts & Total Rental Value



Office Vacancies

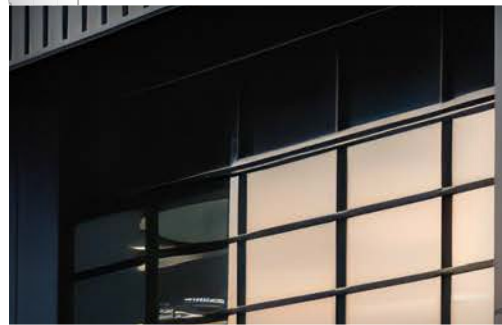
- Latest URA data showed that the island-wide vacancy rate of office space has tightened from 11.2% in Q1 2023 to 10.8% in Q2 2023.
- According to the URA, the amount of occupied office space increased by 30,000 sq m (nett) in Q2 2023, following the increase of 21,000 sq m in Q1 2023. Meanwhile, the total stock of office space decreased by 7,000 sq m (nett) in Q2 2023.
- In terms of supply, a total of 927,000 sq m gross floor area (GFA) of office space is in the pipeline as at the end of Q2 2023, compared with the 837,000 sq m GFA of space in Q1 2023.
- In 1H 2023, about 84,237 sq m of office space was completed. An estimated 159,000 sq m of office space is slated to enter the market in the second half of 2023.

Market Outlook

The office property segment should find support given the recent improvement in business sentiment and the modest GDP projections for 2023. However, downside risks remain with more office supply completions to come, and occupiers generally still cautious about expansions. The upcoming supply in 2H 2023 may weigh on occupancies and could rein in rental growth. Of note, IOI Central Boulevard, with 1.26 million sq ft of office space is expected to be completed in 2H – which has reportedly seen about half of its office space being pre-committed.

Apart from oncoming supply, some market observers have also cited an increase in shadow space – referring to space under lease but not utilised by the tenant – as companies right-size their commercial real estate. Such spaces could be marketed for lease in the near-term, or given up when the lease is due for renewal. These spaces could potentially add to available stock in the coming years.

INDUSTRIAL PROPERTY REPORT



Key Highlights

- **Growing rentals and prices** – Healthy demand for space has helped to drive rental and price growth, which climbed by 2.1% and 1.5% QOQ respectively in Q2 2023.
- **Improved occupancies** – The overall occupancy rate of industrial properties improved slightly in Q2 2023, rising to 89.1% from 88.8% in the previous quarter. In Q2, 167,000 sq m or 2.87 million sq ft of industrial space was completed.
- **Incoming supply** – In 2H 2023, a projected 6.7 million sq ft of industrial space is expected to enter the market. The influx of new supply could compress rental and price growth in the medium-term.

Industrial Property Q2 2023

Overview

Industrial property sales rebounded in Q2 2023 after a slow start in Q1, amid the challenging manufacturing environment and weaker external demand. Industrial space leasing demand continued to expand in Q2 which supported rental growth during the quarter.

Advance estimates released by the Ministry of Trade and Industry (MTI) showed that Singapore's manufacturing sector contracted by 7.5% year-on-year in the Q2 2023, deteriorating from the 5.3% contraction in the previous quarter.

According to the quarterly business sentiment survey published by EDB Singapore on 31 July, business sentiment amongst companies in the manufacturing sector for the next 6 months (from July to December 2023) has grown positive – possibly as companies are anticipating a recovery in China's factory activity, supported by government stimulus packages, as well as the drawing down of inventories to support demand in the next six months. However, rising operational costs will continue to weigh on industrialists.

Rents and Occupancies

- Occupancies for overall industrial properties recovered slightly in Q2 in spite of the addition to new supply during the quarter.
- Data from JTC showed that the overall occupancy rate ticked up to 89.1% (0.3 ppt QOQ) from 88.8% in Q1 2023. When compared against Q2 2022, occupancies were down by 0.9 ppt YOY in Q2 2023.
- In Q2, 167,00sq m or 2.87 million sq ft of industrial space was completed. An additional 624,00 sq m or 6.7 million sq ft of space is expected to be added to the total stock in the second half of 2023. Of the upcoming supply, single-user factories will comprise 61% of the space, while warehouses account for 22% and the remaining 17% will be for multi-user factories and business park space.
- The new completions to come could put an upward pressure on vacancies as supply may outpace demand for industrial space.
- Occupancies slipped for single-user factory (-0.1 ppt QOQ) and business park property segments (-0.7 ppt QOQ). Meanwhile, occupancies in multi-user factories grew by 1.0 ppt QOQ and were up by 0.7 ppt QOQ for warehouse in Q2 2023.

Industrial Rents and Occupancies Q2 2023

Q2 2023	Rents			Occupancies		
	Rental Index	QoQ % Change	YoY % Change	Occupancy Rate	QoQ%-pt Change	YoY%-pt Change
All Industrial	102.5	2.1	9.4	89.1%	0.3	-0.9
Multiple-User Factory	102.8	3.0	11.5	89.9%	1.0	0.5
Single-User Factory	105.4	1.2	7.8	88.6%	-0.1	-1.7
Business Park	116.3	1.3	3.7	80.6%	-0.7	-4.5
Warehouse	96.8	1.4	8.6	91.0%	0.7	0.1

Source: PropNex Research, JTC (27 July 2023)

- JTC said overall rentals rose by 2.1% QOQ in Q2 2023, with all segments posting growth over the previous quarter. This marks the eleventh straight quarter of growth since Q3 2020. On a year-on-year basis, rents were up by 9.4% in Q2.
- The quarterly growth in rentals was led by the multi-user factory and warehouse segments which grew by 3.0% QOQ and 1.4% QOQ, respectively, followed by business park (+1.3% QOQ) and single-user factory (+1.2% QOQ).
- The median rental of multi-user factories across most districts rose in Q2, except multiple-user factories in D17 (Loyang, Changi), D18 (Tampines) and D26 (Springleaf, Upper Thomson). Multiple-user factory spaces at D8 (Little India) saw the highest QOQ increase of 86.8% QOQ during the quarter, where factory units were leased at \$3.96 psf per month.

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

District	2023 Q1	2023 Q2	QOQ %
D3 Queenstown, Tiong Bahru	2.50	2.55	↑ 2.0%
D5 Pasir Panjang, Hong Leong Garden, Clementi New Town	1.89	2.01	↑ 6.3%
D8 Little India	2.12	3.96	↑ 86.8%
D12 Balestier, Toa Payoh, Serangoon	2.00	2.10	↑ 5.0%
D13 Macpherson, Braddell	2.20	2.30	↑ 4.5%
D14 Geylang, Eunos	2.43	2.50	↑ 2.9%
D16 Bedok, Upper East Coast, Eastwood, Kew Drive	1.40	1.43	↑ 2.1%
D17 Loyang, Changi	1.81	1.47	↓ -18.8%
D18 Tampines, Pasir Ris	1.98	1.90	↓ -4.0%
D19 Serangoon Garden, Hougang, Ponggol	2.16	2.44	↑ 13.0%
D20 Bishan, Ang Mo Kio	2.29	2.31	↑ 0.9%
D22 Jurong	2.00	2.03	↑ 1.5%
D23 Hillview, Dairy Farm, Bukit Panjang, Choa Chu Kang	2.25	2.29	↑ 1.8%
D25 Kranji, Woodgrove	2.03	2.03	↔ 0.0%
D26 Upper Thomson, Springleaf	1.80	1.79	↓ -0.6%
D27 Yishun, Sembawang	1.81	1.93	↑ 6.6%

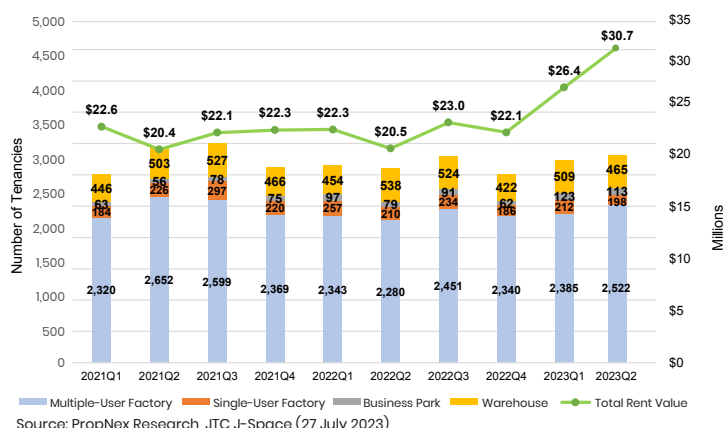
Source: PropNex Research, JTC J Space (27 July 2023)

Industrial Property Leasing Activity

- Overall leasing demand grew strongly in Q2 2023, with growths in both rental volume and total leasing value.
- In Q2 2023, there were 3,298 tenancies signed – representing an increase of 2.1% QOQ from 3,229 contracts in Q1 2023.

- Total rent value also grew in Q2 2023 by 16.4% QOQ to about \$30.7 million from the \$26.4 million recorded in Q1 – this breaks the record for highest leasing value achieved in a quarter. In the first half of 2023, some 6,527 tenancies worth \$57.1 million were signed.

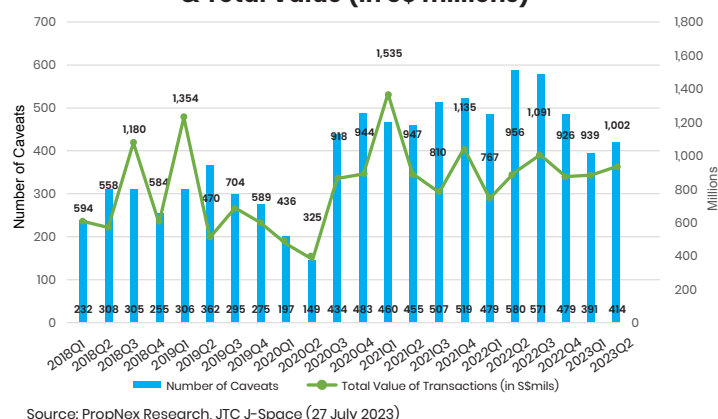
Number of Tenancies & Total Rent Value (\$ million)



Prices and Sales Transactions

- Sales volume climbed by about 5.9% QOQ to 414 deals in Q2 2023, from 391 transactions in Q1. Though, on a year-on-year basis, transactions fell by 28.6% from the 580 deals done in Q2 2022 – a record high for the number of industrial sales done on a quarterly basis.
- Of the 414 transactions in Q2 2023, 352 were for multiple-user factory space, accounting for about 85% of sales. This is followed by single-user factory space (35) and warehouse space (27).
- Overall sales value crept up during the quarter. Total value of deals crossed the \$1 billion mark, up by about 6.7% from \$939 million in the previous quarter. Total value of deals grew by 4.8% YOY from the same period last year.
- In the first half of 2023, some 805 industrial sales worth over \$1.94 billion were recorded – decent considering the weaker economic landscape.

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



- The overall industrial price index continued to rise in Q2 – up by 1.5% QOQ, matching the 1.5% QOQ increase in Q1. Overall prices were up by 6.9% YOY from Q2 2022. This is the eleventh consecutive quarter of growth since Q3 2020 – prices have gone up by 16.8% since then.
- The industrial price growth was led by single-user factory spaces which grew by 1.8% QOQ in Q2, while multi-user factory prices grew by 1.4% QOQ in Q2.

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

Location	2022 Q4	2023 Q2	QOQ %
D3 Queenstown, Tiong Bahru	587	722	↑ 23.0%
D5 Pasir Panjang, Hong Leong Garden, Clementi New Town	617	1,106	↑ 79.3%
D12 Balestier, Toa Payoh, Serangoon	1,062	1,044	↓ -1.7%
D13 Macpherson, Braddell	695	759	↑ 9.2%
D14 Geylang, Eunos	508	495	↓ -2.6%
D18 Tampines, Pasir Ris	338	338	↑ 1.2%
D19 Serangoon Garden, Hougang, Ponggol	625	625	↓ -4.2%
D20 Bishan, Ang Mo Kio	566	566	↓ -0.9%
D22 Jurong	300	300	↓ -0.3%
D23 Hillview, Dairy Farm, Bukit Panjang, Choa Chu Kang	433	433	↓ -7.9%
D25 Kranji, Woodgrove	434	434	↑ 9.0%
D26 Upper Thomson, Springleaf	592	592	↑ 5.6%
D27 Yishun, Sembawang	324	324	↓ -6.2%

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

- Price growth in multi-user factories was uneven across districts. The median price of multi-user factory units in D5 (Pasir Panjang) saw the highest QOQ increase of 79.3% QOQ in Q2, at \$1,106 psf in Q2. Meanwhile, the median price of multi-user factory spaces in D23 (Hillview) fell by 7.9% QOQ to \$433 psf.

Top 5 Best-Selling Industrial Multi-User Projects in Q2 2023

Project	Units Sold in Q2 2023	Average Unit Price (\$ PSF) in Q2 2023
OXLEY BIZHUB	11	\$625
ECO-TECH@SUNVIEW	11	\$183
MIDVIEW CITY	10	\$546
SYNERGY @ KB	10	\$380
MEGA@WOODLANDS	10	\$295

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

- The top-selling industrial projects in Q2 was Oxley Bizhub and Eco-Tech@Sunview – moving 11 units each at an average unit price of \$625 psf and \$183 psf, respectively.
- The top deal by quantum in Q2 2023 was the \$95-million sale of the Jurong Districentre in Pioneer Sector 3 in Jurong West. This sale was part of the bulk divestment by ESR Reit to Intertrust Group, an Amsterdam-based trust management company. The deal involved five industrial properties spread across the western and eastern parts of Singapore for a total consideration of \$313.5 million. The deal was completed in end-June 2023 and is one of the largest industrial bulk building sale this year.

- Three other top transactions in Q2 were also part of this bulk divestment – including the three warehouses at 6 Chin Bee Avenue, 30 Toh Guan Road, and EAC Building.

Top 5 Industrial Property Transactions by Quantum in Q2 2023

Location	Property Type	Transacted Price (\$)	Area (sq ft)	Unit Price (\$ PSF)
JURONG DISTRICT CENTRE 3 PIONEER SECTOR 3	Warehouse	95,000,000	511,841*	186**
6 CHIN BEE AVENUE	Warehouse	93,005,000	129,747*	717**
30 TOH GUAN ROAD	Warehouse	57,760,000	132,807*	435**
EAC BUILDING 4 CLEMENTI LOOP	Warehouse	37,620,000	200,460*	188**
KA PLACE 159 KAMPONG AMPAT	Multiple - user Factory	35,380,000	41,082*	861**

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

*Area denotes the land area, **Unit price reflected is based on the land area

Market Sentiment and Outlook

Industrial property demand remains resilient despite lingering economic uncertainties amidst a moderate outlook for the manufacturing sector. However, oncoming new supply could weigh on occupancies. In 2024, a large supply of 1.94 million sqm of industrial space is expected to be completed – which may take a while to be absorbed by the market.

Industrialists across most manufacturing clusters are cautiously optimistic over the medium-term, in anticipation of an improvement in demand and output, supported by China's gradual pick up in industrial activities. Over the long-term, demand for industrial space is expected to grow. In a bid to maintain Singapore's status as a manufacturing hub, the government has been providing incentives for manufacturing firms to set up and invest in Singapore. In July, Silicon Box, a semiconductor start-up opened a \$2.65 billion factory in Tampines. Silicon Box's new headquarters follows similar expansion plans in Singapore announced recently by its global peers namely, French semiconductor materials supplier Soitec, and American semiconductor equipment maker Applied Materials.

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