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SINGAPORE

PROPNEX RESEARCH Q4 2021

COMMERCIAL REPORT

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OFFICE PROPERTY Q4 2021

Office Property Q4 2021

Overview

In Q4 2021, Singapore's economy continued to grow strongly amid improving global and trade outlook. Based on advance GDP estimates, the Singapore economy grew strongly by 5.9% YOY and 2.6% QOQ in Q4 2021. Based on these estimates, the economy has grown by 7.2% for the full year, according to the Ministry of Trade and Industry (MTI). The economy is projected to grow by 3% to 5% in 2022.

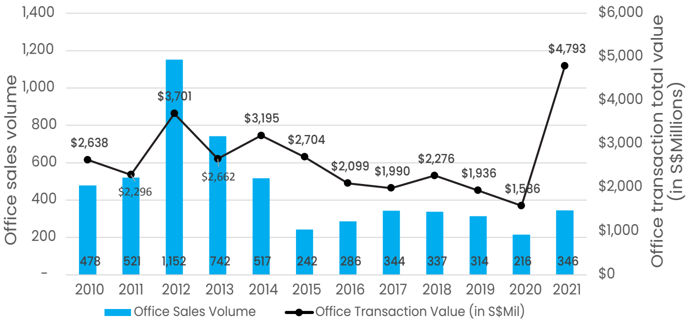
The office property market ended the year on a strong note with several big-ticket deals inked during the quarter. Market observations suggest that demand for office space is expected to remain buoyant with a number of businesses looking to expand against a backdrop of the global economic recovery and limited availability of prime office space.

Rentals are expected to grow at a faster pace in 2022, which could further pique the interest of investors in Singapore's prime office assets and drive capital value. The economic expansion along with Singapore's commitment towards the reopening of its economy and its borders, will boost the office market's investment and occupier demand in 2022.

Sales Transactions and Prices

- According to the URA office price index, the prices of office space contracted by 1.8% QOQ in Q4 2021, continuing the downward trend from the 2.4% contraction in Q3 2021 – the slip in prices was largely attributed to the Central Area office prices which contracted by 2.7% QOQ. For the whole year, office prices have contracted by 5.8%.
- Based on caveats lodged, the total value of transactions in Q4 2021 surged to $2.03 billion, up sharply from $241.9 million in Q3 2021. This took 2021 sales to $4.79 billion, which does not capture deals for which caveats were not lodged. The total value of deals transacted in 2021 has surpassed the last peak in 2012, where values hit $3.7 billion.
- In Q4 2021, there were 98 sales transactions, reflecting a 30.6% QOQ increase from the 75 deals done in Q3 2021. For the whole year, there were 346 office sales – the highest since 2014.

Office Sales Volume & Total Transaction Value (in S$mil)



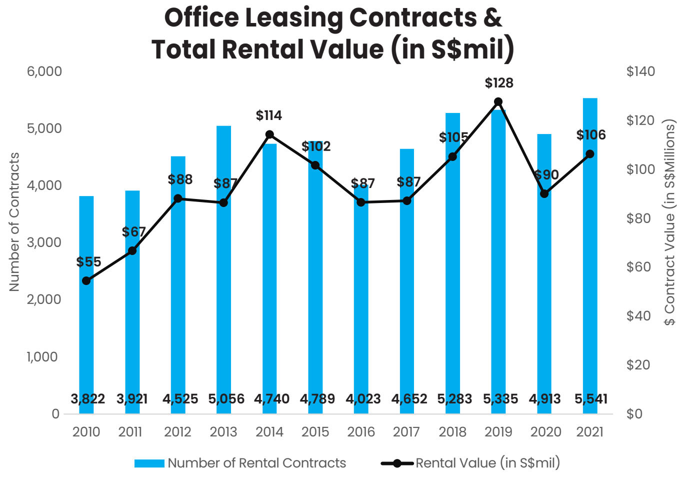
Source: PropNex Research, URA Realis (28 January 2022)

- The highlight of Q4's office transactions was the divestment of the 23-storey Grade A office building on One George Street by OGS LLP – a limited liability partnership, of which CapitaLand Commercial Trust (CCT) owned 50 per cent of – to SG OGS, a private firm, in mid-November for $1.28 billion. Just a month later, the building was then acquired from SG OGS by a joint venture between JPMorgan Global Alternatives and Nuveen Real Estate for $1.29 billion. A caveat has yet to be lodged for the second deal, and should it be included – it brings the total value of office investment deals in Q4 to more than $3.3 billion.
- Based on caveats, the next biggest office deal of Q4 was the sale of 112 Robinson, a 14-storey freehold commercial building on 112 Robinson Road for $269.7 million. The purchase price works out to $2,925 per square foot based on a net lettable area (NLA) of 92,205 sq ft. The buyer is Alpha Eins (SG) Pte Ltd, an entity of Munich-based family office AM Alpha. The 112 Robinson deal is believed to be the family office's first direct real estate acquisition in Singapore.

Top 10 Office Deals by Quantum in Q4 2021

Location	Transacted Price ($)	Area (SQFT)	Unit Price ($ PSF)
ONE GEORGE STREET 1 GEORGE STREET	$1,281,488,125	60,243	$21,272
ROBINSON 112 112 ROBINSON ROAD	$269,699,625	9,794	$27,537
CROWN AT ROBINSON 140 ROBINSON ROAD #18-06 ETC	$257,500,000	70,676	$3,643
SUNTEC CITY 9 TEMASEK BOULEVARD #06-01,02,03	$33,076,300	14,381	$2,300
SUNTEC CITY 8 TEMASEK BOULEVARD #36-02	$16,000,000	4,833	$3,311
SOUTHPOINT 200 CANTONMENT ROAD #07-02	$16,000,000	8,019	$1,995
INTERNATIONAL PLAZA 10 ANSON ROAD #34-08 ETC	$13,700,000	7,072	$1,937
SBF CENTER 160 ROBINSON ROAD #12-05,06,07	$9,367,000	2,756	$3,399
SHENTON HOUSE 3 SHENTON WAY #24-01,02,03	$7,398,888	4,747	$1,559
FENG MING BUILDING 288 JALAN BESAR	$6,700,000	1,112	$6,026

Source: PropNex Research, URA Realis (28 January 2022)



Source: PropNex Research, URA Realis (28 January 2022)

Rentals and Leasing Trends

- Despite activities in the year-end being typically slower, due to the seasonal lull, the leasing market in Q4 2021 fared relatively well compared to the same period in the last couple of years.
- The URA office rental index showed that rents inched up by 0.9% in Q4 2021, reversing from the 3.5% decline in Q3 2021. For the whole of 2021, office rentals have grown by 1.9%
- According to Realis data, the number of office rental transactions rose by 6.2% QOQ to 1,385 contracts in Q4 2021. On a YOY basis, the number of rental contracts was up by 7.9%.
- Total rental value contracted slightly by 0.7% QOQ to $27.0 million in Q4 2021. However, on a YOY basis, overall leasing value grew by 26.6% from $21.3 million in Q4 2020.
- 2021 was the year of "flight-to-quality" where a number of occupiers seized the chance to relocate to a better location or space with better specifications. Many occupiers also conducted space-rationalisation reviews in view of more workers telecommuting.
- Rentals have recovered strongly on the back of the economic recovery and Singapore's steady roll out of the vaccination programme – both of which has helped to boost the confidence among businesses and office occupiers. Delays in office supply completions due to construction disruptions has kept office supply fairly tight and rentals firm.
- For 2022, demand for office space will likely be primarily led by tech and finance institutions as well as corporates that are increasing headcounts for business expansion, as the global economy return to normalcy. As of January 2022, 50% of the workforce are allowed to return to their workplace, bring more buzz to the office districts.
- Some leasing trends that may gain traction in 2022 include co-working, offices that allow flexible space configurations as well as offices with green features and high-quality air filtration systems.

Office Vacancies

- Latest URA data showed that the island-wide vacancy rate of office space has decreased slightly. Vacancies dipped to 12.8% as of Q4 2021 from 12.9% in the previous quarter.
- Vacant Private Sector Office Space island-wide declined to 952,000 sqm (nett) as at Q4 2021, down from 967,000 sqm in Q3 2021. The bulk of vacant space in Q4 was located in the Downtown Core at 533,000 sq m.
- According to the URA, the amount of occupied office space fell by 10,000 sqm (nett) in Q4 2021, following the decrease of 5,000 sqm (nett) in Q3 2021. Meanwhile, the stock of office space decreased by 23,000 sqm (nett) in Q4 2021.
- In terms of supply in the pipeline, there was a total of 786,000 sqm gross floor area (GFA) of supply as at end of Q4 2021, compared with the 755,000 sqm GFA of space in Q3 2021.
- In 2022, the limited incoming office supply – estimated at 78,000 sqm - should help to support occupancies in the near-term. At the same time, there may be an uptick in leasing demand from occupiers that have been displaced from buildings that are slated for redevelopment, such as AXA Tower and Fuji Xerox Towers.

Market Outlook

Looking ahead, office prices and rentals are expected to continue to recover in 2022, in light of limited Grade A new office supply and the positive economic outlook.

While the prospects in the office property market are generally looking up, there are some downside risks including the impending interest rate hikes and rising inflation, potential emergence of new virus variants, supply chain disruptions as well as China's economic slowdown.

Growth in the office market may also be uneven, with investors and occupiers being more selective; prime office assets that have higher specifications and located in choice locations may be more sought after, compared to Grade B office spaces or buildings outside the downtown core.

INDUSTRIAL PROPERTY Q4 2021

Industrial Property Q4 2021

Overview

Despite the slight slowdown in Q4 2021, the industrial property market has had an exceptional year in terms of price growth and leasing activity, against the backdrop of the recovering economy.

Based on advance estimates, the Singapore economy grew for the fourth straight quarter, rising by 5.9% YOY in Q4 2021. In 2021, Singapore's GDP grew by 7.2%, according to the Ministry of Trade and Industry (MTI). The manufacturing sector led the growth in Q4 2021, expanding by 14% YOY. Growth during the quarter was supported by output expansions in all clusters.

In addition, the recent strong non-oil domestic exports (NODX) performance and continued expansion Singapore's manufacturing Purchasing Managers' Index (PMI) suggest that the manufacturing and export environment had been key pillars of growth in Q4 2021.

Singapore's economy is projected to grow by 3% to 5% in 2022. Downside risks to watch will include global monetary policy tightening, potential emergence of new virus variants and China's economic slowdown.

JTC noted that any rise in occupancy rates of industrial spaces are likely to be moderated by new completions in 2022, although some delays are still expected in completions.

Rents and Occupancies

- Occupancies for overall industrial properties remained stable in Q4 2021 amidst tight supply and resilient demand.
- Data from JTC showed that the overall occupancy rate stood at 90.1% in Q4 2021 unchanged from the previous quarter. When compared against Q4 2020, occupancies were up by 0.2 percentage-points (ppt) in Q4 2021.
- The stable occupancies were likely due to the persistent delays in new completions, as worksite activity continued to be weighed down by labour constraints, due to border restrictions on the entry of migrant workers. While construction has picked up since 2H 2021, completions are slow – only about 11,000 sqm of industrial space was added to the available stock in Q4 2021, compared to the increase of 228,000 sqm in Q3 2021.
- Despite overall occupancies being flat, some industrial property segments posted a QOQ decline: Warehouses (-0.1 ppt QOQ); and Single User Factory space (-0.1 ppt QOQ).
- Business park spaces saw improved occupancies in Q4 2021, growing by 0.2% ppt QOQ, whereas the Multiple-User Factory segment saw a 0.4% ppt QOQ growth in the occupancy rate.
- JTC noted that overall rentals rose by 0.2% QOQ in Q4 2021, with all segments, except Business Parks, posting growth over the previous quarter. On a year-on-year basis, overall rents are up by 2% in Q4 2021.

Industrial Rents and Occupancies Q4 2021

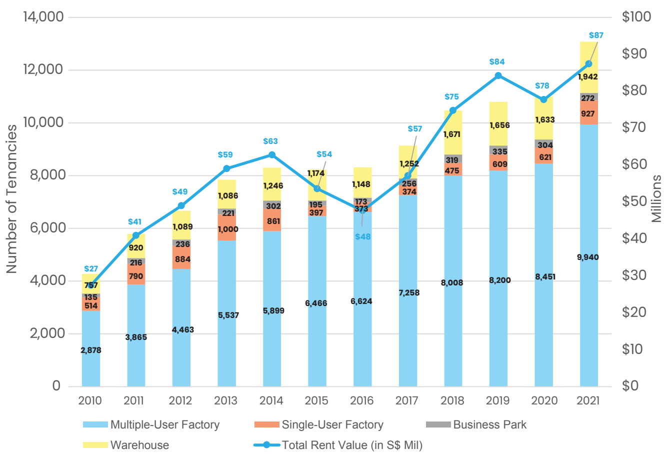
	Rents			Occupancies		
Q3 2021	Rental Index	QoQ % Change	YoY % Change	Occupancy Rate	QoQ % Change	YoY % Change
All Industrial	91.4	0.2	2.0	90.1%	0.0	0.2
Multiple-User Factory	89.5	0.3	2.5	90.2%	0.4	1.7
Single-User Factory	97.1	0.7	1.7	90.6%	-0.1	-0.4
Business Park	119.9	-0.5	-0.2	84.5%	0.2	-1.3
Warehouse	86.0	0.4	2.7	90.0%	-0.1	0.1

Source: PropNex Research, JTC (27 January 2022)

Industrial Property Leasing Activity

- While leasing demand softened slightly in Q4 2021 owing to the year-end seasonal lull, industrial leasing activity for the whole of 2021 hit new highs due to the recovering economy and expanding output across all sectors.
- In Q4 2021, there were 3,130 tenancies – representing a 10.6% decrease from 3,501 contracts in the previous quarter. For 2021, a record 13,081 tenancies were inked.
- Total rent value grew slightly in Q4 2021, growing by 1.1% QOQ to $22.3 million from about $22.05 million in Q3 2021. For the full year, total leasing value amounted to $87.4 million, surpassing the recent peak in 2019 which recorded a rental value of $84.2 million.

Number of Tenancies & Total Rent Value ($ million)



Source: PropNex Research, JTC (27 January 2022)