APRIL 2024

Office Q1 2024: Displaying its Mettle

Quarterly and Outlook | Singapore

INSIGHTS & RECOMMENDATIONS

- During Q1 2024, Core CBD Premium and Grade A rents rebounded 0.7% QOQ to SGD11.57 per sq ft, after two consecutive quarters of decline.
- This rebound in rents can be attributed to flight to quality as limited pockets of space were snapped up, and renewals were signed at increased rents.
- Average capital values of this segment remained flat at SGD3,100 per sq ft.
- Occupiers could take advantage of this uncertainty in the market in 1H 2024 to negotiate their requirements, or they might have to face positive rent reversions in future.
- Due to increasing competition, landlords should prioritize retaining tenants and consider more flexibility in rental negotiations; or offer more incentives to attract new tenants.

Core CBD Premium & Grade A Market

		1Q 2024	YE 2024F	HISTORICAL AVG 2019–23*
Demand	Net absorption was almost negligible at around 300 sq ft, a slowdown from the 4k sq ft in the previous quarter.	0 sq ft	0.78 mil sq ft	266,000 sq ft
Supply	There will be 1.26 mil sq ft of prime office space coming on stream in 2024 from the pending completion of IOI Central Boulevard Towers.	0 sq ft	1.26 mil sq ft	218,000 sq ft

		QOQ/ END Q1	YOY/ YE 2024F	HISTORICAL AVG 2019–23*
Rent	Rents have grown by 0.7% QOQ, after two consecutive quarters of decline.	0.7% SGD11.57	0 to 2.0% SGD11.49 to 11.72	SGD11.10
Vacancy	Vacancy remained at 2.6% from the previous quarter.	2.6%	+2.2pp 4.8%	3.4%
Capital Values/Yields	Capital values remain at SGD3,100 per sq ft, and are expected to remain resilient in 2024.	0.0% SGD3,100 psf	0 to 3% SGD3,100 to 3,200 psf	SGD2,961 psf

Source Colliers. 1 sq m = 10.764 sq ft. Note: Core CBD refers to the Raffles Place/New Downtown and Shenton Way/Tanjong Pagar precincts. Arrows represent the performance of the historical average relative to full year forecast.

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Singapore office rents have displayed their mettle with a rebound this quarter; given that office footprints have remained largely unchanged or that occupiers have right-sized, relocation and expansion moves could gradually pick up, especially towards the end of the year when the economy is poised to rebound and cost concerns recede

Leasing market and rents

Core CBD Premium and Grade A rents rebounded during 1Q 2024, on the back of flight to quality moves and renewals at increased rents.

Core CBD Premium & Grade A office rents rebounded 0.7% QOQ during 1Q 2024 (after two consecutive quarters of decline) to SGD 11.57 per sq ft, demonstrating the strength and resilience of the market.

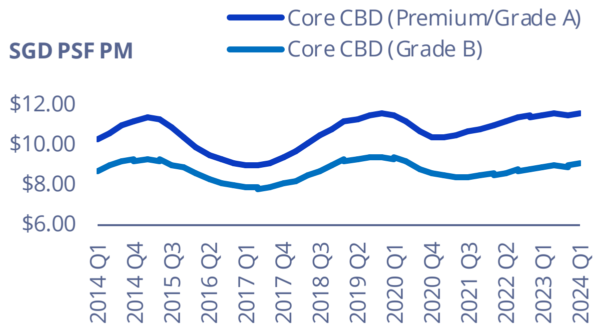
This growth in rents was driven by the Premium segment, particularly those at Raffles Place/New Downtown.

Limited pockets of quality space were snapped up at higher rents, while renewals were also signed at higher rates as tenants view that as a more economical option than relocating.

Nevertheless, it is a mixed market; while rental expectations have softened for buildings with persistent vacancies and high upcoming secondary spaces, quality buildings with good locations are still able to hold up, or even command higher rents. It has been observed that some landlords are more willing to offer more incentives to secure tenants.

Demand remains diversified, with consumer goods, law firms, and non-bank financial firms looking for space. Unlike the previous quarters, when technology firms were right-sizing, they are now maintaining status quo with potentially other avenues of growth, such as in Artificial Intelligence. Nonetheless, office demand remains muted, with occupiers prudent in spending and driving space optimization. Most still see the need to rationalize their footprint, but any move would depend on the corresponding savings.

FIGURE 1: *Core CBD gross effective rents*



Source: Colliers.

FIGURE 2: *Office rents and vacancy, 1Q 2024*

	Rents (S$ psf pm)	QoQ (%)	YoY (%)	Vacancy (%)
Core CBD Premium & Grade A	**11.57**	**0.7%**	**1.0%**	**2.6%**
Premium	12.49	0.5%	0.2%	2.3%
Raffles Place/ New Downtown	10.64	0.1%	0.8%	2.9%
Shenton Way/ Tanjong Pagar	9.70	0.4%	1.9%	3.3%
Fringe CBD Grade A	**9.97**	**0.7%**	**3.1%**	**2.7%**
*City Hall/Beach Road	10.11	0.7%	3.2%	3.2%
Orchard Road	9.51	0.8%	2.6%	0.4%
City Fringe	**8.12**	**0.0%**	**3.6%**	**0.7%**
Suburban	**5.20**	**0.8%**	**2.0%**	**7.4%**
***Core CBD Grade B**	**9.01**	**0.8%**	**1.6%**	**8.2%**
*Raffles Place	9.17	0.8%	1.9%	7.0%
Shenton Way/ Tanjong Pagar	8.67	0.7%	0.8%	3.3%
Fringe CBD Grade B	**8.17**	**0.9%**	**2.6%**	**6.3%**
City Hall/Beach Road	7.80	0.0%	0.3%	7.7%
Orchard Road	8.29	1.0%	3.4%	4.9%
City Fringe	**7.11**	**1.0%**	**3.0%**	**3.9%**
Suburban	**4.53**	**0.0%**	**0.0%**	**3.9%**

*Source: Colliers. Note: Average gross effective rents are benchmarked to a full-floor space in mid-zone level; conservative figure towards lower-end of rental range for a property. Effective rent refers to average rate payable over the lease term after accounting for incentives. *Revisions were made to these baskets in Q1 2023*

Rents in the Core CBD Premium & Grade A segment will likely be range bound and recover more meaningfully in the later part of the year with the economy.

According to the Monetary Authority of Singapore, the economy is projected to grow at 2.4% in 2024, a substantial improvement from the 1.1% recorded during 2023. As such, office demand and rents are likely to recover in tandem in the later part of the year.

Landlords may face increasing competition in the near term with the build-up of more space availability, thereby providing more options to tenants. In 2024, 1.26 mil sq ft of prime office space will come on stream from IOI Central Boulevard Towers, with the completion of Keppel South Central delayed to 2025 taking some pressure off overall CBD vacancy levels.

Further, the guidelines on flexible work arrangements will become compulsory for employers to follow in 2024. As such, more firms may right-size according to their work arrangements and corresponding space requirements.

Several buildings in the CBD Grade B segment have also undergone Asset Enhancement Initiatives (AEI), and thus are able to command higher rents and provide viable alternatives to tenants looking to be centrally located.

While interest rates have peaked and are expected to be lowered during 2024, occupiers are still taking a wait-and-see approach, managing financial risks in the current climate by holding back on capital investments and expansion plans. As such, office demand is set to remain muted in the near term.

Capital values and yields

Core CBD Premium & Grade A capital values remained flat in 1Q 2024

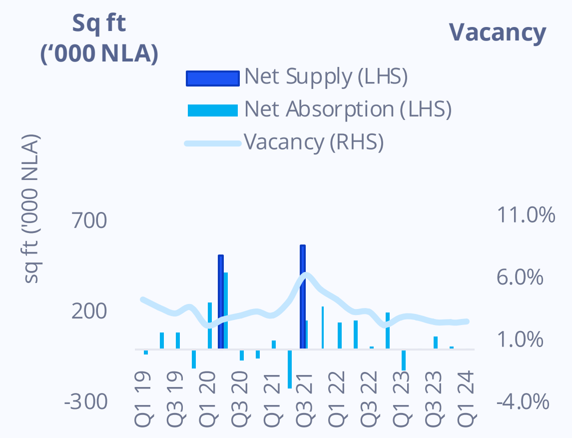
Due to the lack of transactional evidence and the strong holding power of asset owners, the average capital values for Core CBD Premium and Grade A offices remained flat at SGD3,100 per sq ft for 1Q 2024. With the growth in rents, net yields have expanded slightly by 3 bps, to 3.51%.

Office transactions in the quarter were muted, with only strata floors at GB Building and Vision Exchange transacting.

This trend is expected to continue as higher borrowing costs remain an obstacle to big-ticket Grade A assets; with a number having been unable to find buyers for an extended period of time. Deal size is expected to remain small, with higher interest in strata offices due to their more manageable quantum, and as buyers exhibit prudence with the higher cost of capital and uncertainty.

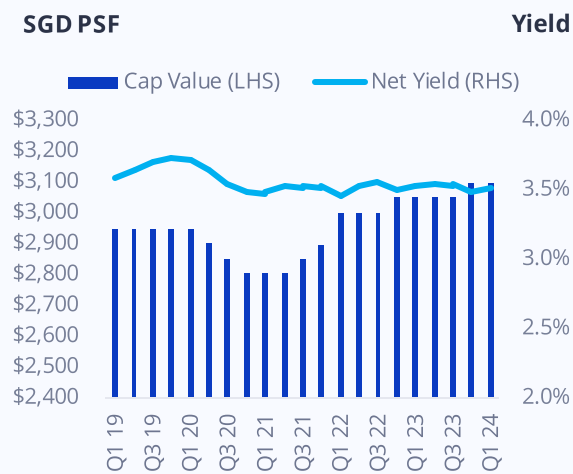
Nevertheless, this situation should improve as interest rates are potentially expected to ease in the second half of the year.

FIGURE 3: *Core CBD Premium & Grade A demand, supply and vacancy*



Source: Colliers.

FIGURE 4: *CBD Premium & Grade A capital values and yields*



Source: Colliers.

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