

Quick Stats

	Current	Change from last	
		Yr.	Qtr.
OFFICE			
Prime rents	\$10.50psf	↓	↓
Prime capital values	\$2,000psf	↓	↓
RESIDENTIAL			
Prime rents	\$4.10psf	↓	↓
Prime capital values	\$1,250psf	↓	↓
INDUSTRIAL			
Prime rents	\$1.33psf	↓	↓
Prime capital values	\$217psf	↓	↓
RETAIL			
Prime rents	\$34.9psf	↓	↓
Prime capital values	\$6,350psf	↓	↓

CB RICHARD ELLIS

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INVESTMENT SALES

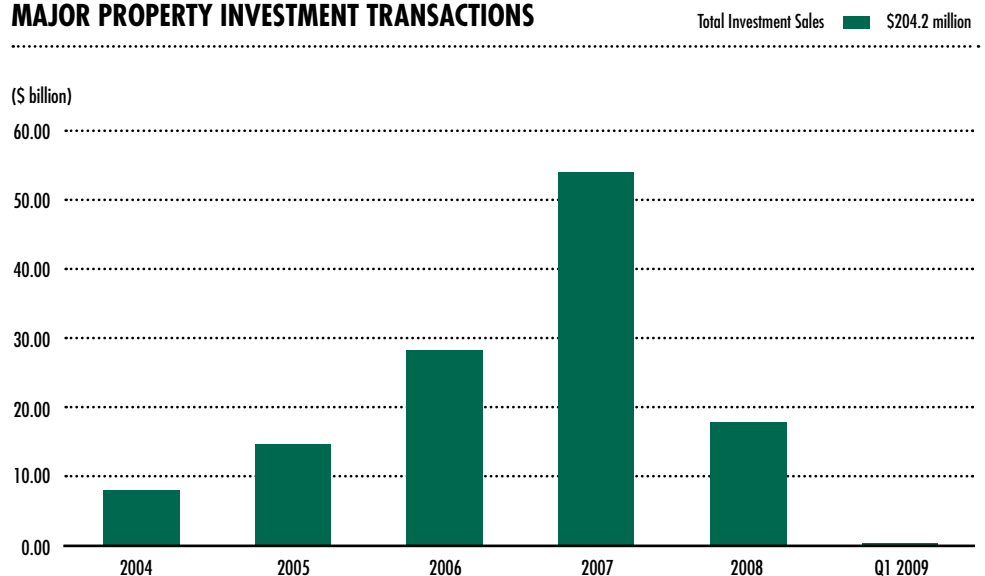
QUIET INVESTMENT SALES MARKET FOR NOW

The weakening economy and subdued market sentiment resulted in a quiet investment sales market in the first three months of 2009. Potential buyers and investors generally were content to remain on the sidelines, adopting a wait-and-see attitude in the expectation that property capital values would most likely continue to trend downwards over the course of the next six months. Therefore, the quarter was characterised by isolated individual transactions with the residential sector accounting for the most number of transactions. During the same period,

there were no public sales. In light of the prevailing climate, total investment sales amounted to \$204.2 million in the first quarter, a decline of 51.8% from the previous quarter and a fall of 97.7% from Q1 2008. The last time quarterly investment sales were lower was in Q1 1998 at \$49.28 million and in Q3 1998 at \$110.62 million.

Total residential investment sales including Good Class Bungalow (GCB) sales accounted for 56.2% of the quarter's total investment sales or \$114.7 million in transacted value.

MAJOR PROPERTY INVESTMENT TRANSACTIONS



Source: CBRE Research

This was 52.6% lower than the \$241.79 million residential investment sales recorded in the last three months of 2008. Three GCBs were sold during the quarter, namely at 28A Olive Road, 39 Cornwall Gardens and 8 Queen Astrid Gardens for a combined total of \$18.2 million. 8 Queen Astrid Garden sold for \$11.4 million in February, some 12.3% lower than the \$13.0 million previously transacted some 19 months ago in July 2007.

While there were no collective sales in Q1 2009, Fragrance Properties bought a 49,969-sf site in Pasir Panjang together with two units of strata-titled townhouses of 2,680 sf each for a total acquisition cost of \$25.0 million. With a freehold tenure and a plot ratio of 1.4, Fragrance intends to develop the land into a residential apartment building. The sale of development land will be rare this year with most developers not looking for sites and instead be concentrating on projects currently under construction. Since all government land sales (GLS) sites were moved to the Reserved List at end-2008, there have been no minimum bid applications from developers to activate any site, that have been accepted by the government.

The commercial investment market was relatively quiet, chalking up 37.9% of total investment sales in the quarter with \$77.3 million. The only major sale was for Le Mercier House at 65 Mohamed Sultan Rd for \$35.8 million or about \$900 psf on 39,000 sf of gross floor area. With a residential zoning and a plot ratio of 2.8, this site could be developed into a 15-storey residential building and the GFA increased to 52,000 sf (subject to approval from the authorities), translating to a price of \$688 psf/plot ratio. The buyer was Ka\$h International Pte Ltd. For the time being however, the building will continue to be used as an office/furniture store.

There was only one sale in the industrial sector, as 29 Loyang Crescent with a site area of 83,367 sf was sold in February for \$6.2 million or \$74 psf on land. This contribution of \$6.2 million made up 3.0% of total investment sales.

The REITs are not likely to make many new acquisitions in 2009 as dividend yields have increased significantly and it would be extremely challenging to make purchases that are yield accretive. In addition, obtaining financing would be difficult with banks not very keen on new loans. Some of the smaller REITs which are highly leveraged might attempt to sell their assets or introduce a rights issue to reduce their gearing.

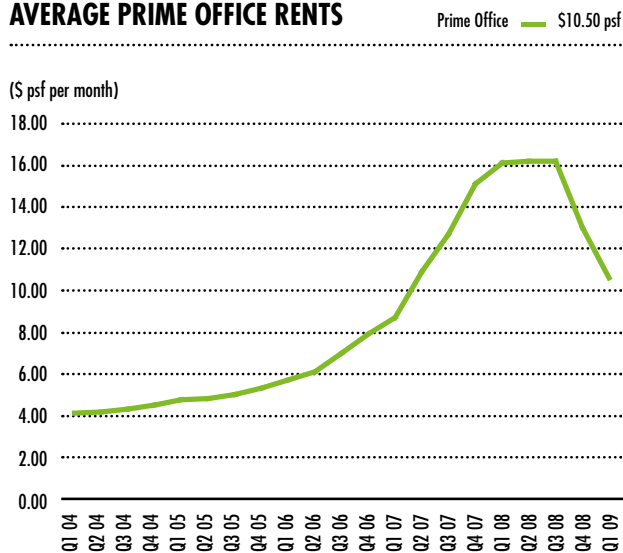
The year ahead will be a less active one for the investment sales market when compared to the highs witnessed in the last three to four years. The lack of volume will continue to feature until such time when price expectations between private investors, investment funds and sellers meet. The total investment sales for 2009 might be a similar revisit of 1998 levels when the total annual quantum was \$1.35 billion. The current economic conditions and cautionary environment notwithstanding, Singapore remains attractive to investors and is still a location that investors have confidence in. As the market corrects and price expectations close, opportunities would eventually be converted to deals.

OFFICE

A WEAKENING OFFICE MARKET IN 2009

Office rents continued to decline through the first quarter of 2009 against a background of a weakening economy and the wider financial crisis. Sentiment in the office leasing market deteriorated and the volume of new leasing transactions was thin

AVERAGE PRIME OFFICE RENTS



Source: CBRE Research

compared to the heady days of 2006 and 2007, when financial institutions were driving strong occupier demand. The priority for landlords during this quarter and likely for the rest of the current year will continue to be tenant retention.

With falling demand for office space, vacancy rates rose from January to March, but remained at manageable levels. In the core CBD comprising the micromarkets of Raffles Place, Marina Bay, Shenton Way and Marina Centre, the vacancy rate increased 2.3 percentage points from 4.6% at end-2008 to 6.9% by end-March 2009. In the decentralised markets, the vacancy rate climbed 2.9 percentage points to 5.7% in Q1 2009 from the 2.8% in Q4 2008. Similarly, Grade A vacancy also moved upwards from 0.9% at the end of 2008 to 2.9% by end-March. While the rise in vacancy was less than expected, the stock of shadow space is rising due to growing subletting activity. In due course, this will serve to further erode rentals.

A rare bright spot in an otherwise slow leasing market is the interest in decentralised locations

such as Mapletree Business City, where several big name tenants have leased a total of 570,000 sf of business park space with the likes of HSBC, Amex, Unilever and SAP committing large pre-lets. Over in Tampines, there was a good level of interest for office space in buildings such as the new Tampines Grande and Tampines Concourse as well as some existing buildings, as lower cost options proved to be attractive. The Tampines micromarket should be one of the few office micromarkets to perform in 2009.

Pre-lease momentum in new office developments has stalled over the past two quarters whilst the market adjusts and corporates grapple with more immediate challenges before even looking at long-term premises planning.

The sharp correction in prime and Grade A rents that commenced in the final quarter of 2008 continued into Q1 2009. Prime rents registered \$10.50 psf per month by end-March, a decrease of 18.6% from the \$12.90 psf per month at end-December 2008 and a fall of 34.4% from the same period a year ago. Grade A rents moved downwards in a similar fashion to average \$12.30 psf per month in Q1 2009 from \$15.00 psf per month in Q4 2008, reflecting a decline of 18.0% quarter-on-quarter and a decline of 34.0% year-on-year.

The swiftness within which the market is correcting is inevitably leading to some fairly robust renewal and rent review negotiations. Anxious landlords are seeking to shore up signing rents by offering extended rent-free periods within leases. Meantime, occupiers are demanding a high degree of flexibility within leases, including inclusion of rights such as subletting, surrender and even short-term lease extension periods.

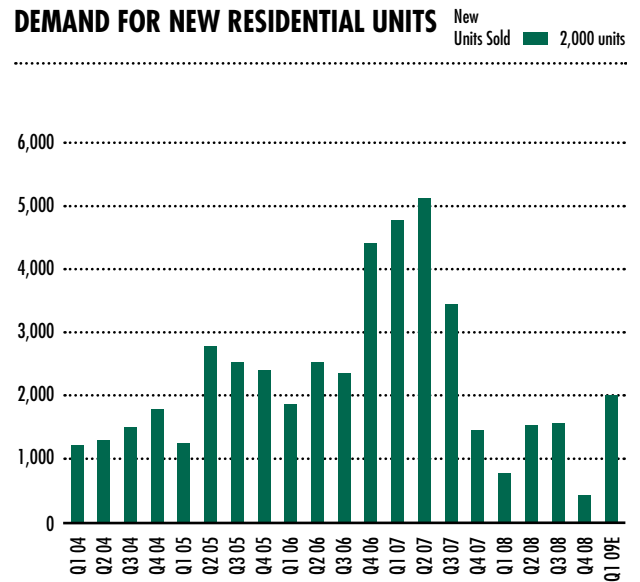
The office investment market was also subdued in the first quarter. The only notable sale of office space was in Suntec Tower 1, where the entire 32nd storey was sold for \$16.53 million. This translates to a price of about \$1,300 psf on the strata area of 12,712 sf.

In the near term, more of the same can be expected for the first half of 2009. The office leasing market will remain subdued due to the poor demand situation. It will remain difficult for occupiers to move on new space options given the lack of capital budgets in the current economic climate. Vacancies can be expected to rise sharply and there will be no arrest in the slide of rents. Towards the later half of the year, we do expect a few selective office deals to firm up in large measure due to the expected premises consolidation requirements arising from mergers and company restructuring. If and when some stability and level of confidence is restored, opportunistic occupiers will be in a strong position to move on the array of new developments scheduled to complete through the next 24 months. By then there will be no doubt that Singapore's relative, competitive position in terms of regional occupation costs will be restored.

RESIDENTIAL

AFFORDABLE PRICES PUSHED UP NEW HOME SALES

While various sectors of the property market were hit by the tide of economic uncertainty, the residential sector turned in the best performance in six quarters. New home take-up at between 2,000 and 2,200 units was the highest since the third quarter of 2007. The strong sales volume shows that some liquidity has returned to the market and underlying demand remains healthy.



Source: URA, CBRE Research
Note: Figures exclude executive condominiums

Wary of the impact of the economic recession on job security, as well as stricter bank loan approvals, buyers zoomed in on new homes that were affordably priced. Shoe-box units in city-fringe locations were popular. Projects such as Alexis, Nova 88 and The Mercury sold well, at prices ranging between \$900 psf and \$1,200 psf for unit sizes of 340 sf to 750 sf. The majority of them were sold at an absolute quantum of less than \$600,000. By the beginning of March, however, the popularity of larger family-sized units seemed to be catching on.

The projects with the highest number of units sold were Caspian (550 units sold), Alexis (293 units), Double Bay Residences (250 units) and The Quartz (178 units). All four of them are located in close proximity to MRT stations. Caspian also benefited from the government's imminent plans to develop business and recreational facilities in the Jurong area. Cashing in on the window of opportunity, prices of some of the ongoing launches were reduced to stimulate sales. The Quartz was one of them with the prices of the remaining 182 units reduced from

\$680 psf to \$590 psf. Others included Waterfront Waves, where the average price was reduced from \$800 psf to \$600 psf, Woodsville 28, from \$900 psf to \$750 psf and Kovan Residences, from \$880 psf to \$750 psf. However, in the high-end range, the number of transactions was few and far between. None of the new high-end projects were launched this quarter.

Preliminary estimates of the URA residential price index for the first quarter showed a decline of 13.8%, following a 6.1% fall in the previous quarter. We have observed that the average prices of new and relaunched projects in the quarter seemed to have corrected by 10.0% or more since December 08.

Affordability was the key factor which stood out among home buyers in the first three months of 2009. Several larger family-sized units of 800 sf to 1,200 sf in the mass market projects of Caspian, Double Bay Residences and The Quartz, priced at an average of \$590 psf to \$750 psf, with the absolute quantum of each unit priced upwards from \$600,000 were sold. A majority of the home buyers were HDB upgraders, many of whom have so far held back from buying when they were priced out of the market during the run-up of home prices in 2006-7. These upgraders would be looking at upgrading to bigger units at reasonable prices.

Two projects which made it to the market just before the quarter ended were The Arte @ Thomson and Mi Casa in Choa Chu Kang. Units in The Arte were previewed at an average price of \$880 psf. Sizes range from 1,055 sf for a two-bedroom unit to 1,873 sf for a four-bedroom unit. Mi Casa also featured family-sized units ranging from 990 sf to 1,300 sf, priced at \$625 psf on the average. Each project reportedly sold between 90 and 100 units.

Despite the improvement in sales momentum, developers were not keen to acquire development sites. None of the sites on the reserve list of the government's land sales programme have been triggered for the past five quarters. However, Fragrance Group bought a 49,969-sf development land together with two townhouses at Pasir Panjang Road for a total price of \$25.0 million. The government recently revised the development charge (DC) rates for non-landed residential sites for the six-month period starting from 1 March 2009. DC rates were reduced by between 7.1% and 30.0%, with the top end of the range affecting prime locations like Marina Bay, Sentosa, River Valley and Orchard Road. For now, it is unlikely that these reductions would stimulate land sales.

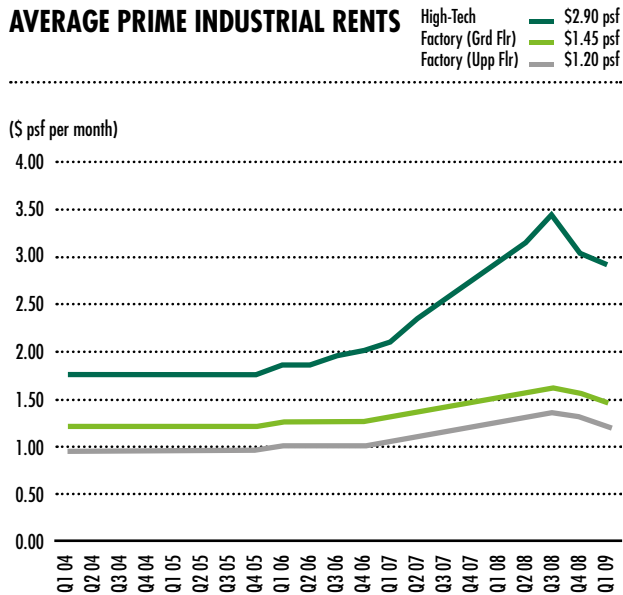
Year 2009 presents a window of opportunity where the gap between private home prices and HDB resale prices narrows. There might also be a group of potential buyers who benefited from the wave of collective sales in 2006-7 and are waiting for the right product at the right price. This could help to keep the sales momentum up while the Singapore economy remains in recession. In the second quarter, the market can look out for the launch of Ascentia Sky (348 units) in Alexandra, Illuminaire On Devonshire (72 units) and Oasis @ Elias (367 units).

INDUSTRIAL

CONTINUED DOWNWARD PRESSURE ON RENTS AND CAPITAL VALUES

The depressed global economy and trade continued to put downward pressure on rents and capital values of industrial properties. The investment market for industrial properties did not fare any better with only one transaction above \$5.0 million.

AVERAGE PRIME INDUSTRIAL RENTS



Source: CBRE Research

The Singapore government announced on Budget Day that a 40% rebate on property tax will be given to owners of industrial and commercial properties in a bid to reduce business cost. Several government bodies including JTC, HDB, SLA and NEA took the lead in announcing that they will pass on the savings to their tenants.

In January, JTC announced a 15% rental rebate for its 7,700 tenants. The government body will also lift the 50% cap on sub-letting its properties until 31 December 2011. This means that JTC's tenants are now allowed to sublet up to 100% of their space.

Monthly rent for hi-tech spaces fell by 3.3% q-o-q to \$2.90 psf during the first quarter. Besides the downturn in general economic conditions, the decline in rents for hi-tech buildings can be attributed to another factor. Office rents have come off their sharp upward climb, resulting in fewer office tenants looking at hi-tech buildings as an alternative space.

In Q1 2009, average monthly rents for ground and upper floor factory units fell by \$0.10 psf q-o-q

to \$1.45 psf and \$1.20 psf respectively. This is equivalent to the rental levels for factory space in Q4 2007. The average monthly rent for warehouses also decreased by \$0.10 psf q-o-q to \$1.40 psf for ground floor units and \$1.10 psf for upper floor units.

The declining rents were due to a slowdown in demand for industrial space. Consolidations and downsizing were the order of the day while expansions were the exception rather than the norm.

The average capital values for 60-year leasehold strata-titled factory units fell by about 10.0% q-o-q to \$250 psf for ground floor units and \$183 psf for upper floor units. The average capital values for freehold warehouses also decreased by 10.0% q-o-q to \$371 psf and \$325 psf for ground and upper floor units respectively.

The only investment transaction for industrial properties for the quarter was the sale of 29 Loyang Crescent for \$6.2 million (\$127 psf on GFA). The purpose-built waterfront facility comprises a warehouse, production area and office space. The property has a GFA of some 4,536 sm (48,826 sf). None of the industrial sites in the government land sales programme were launched for sale or awarded to any developer.

During the quarter, the four industrial REIT players did not make any purchases. The gap between the buyer and seller price expectations could be a factor in the lack of activity. Furthermore, the REITs are currently highly leveraged which might be a hindrance to securing bank loans for new purchases.

The government has revised the forecasted GDP downwards to -5% to -2% for 2009. Market conditions

are expected to remain bearish for the year with demand for industrial space staying on a downward trend. As such, rents and capital values are likely to continue decreasing in the coming quarter and possibly for the whole year. The investment sector for industrial properties is likely to remain weak for the rest of 2009. The REIT players are expected to make very few and selective purchases.

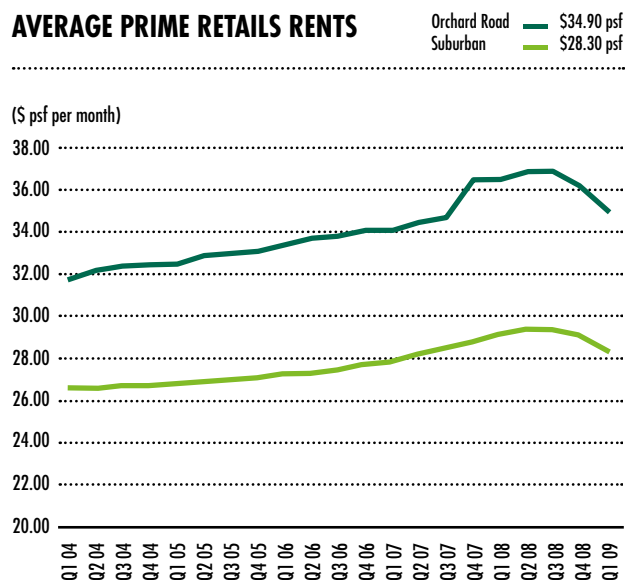
RETAIL

A REVITALISED ORCHARD ROAD AMID GLOOM

Poor consumer sentiment was evident in the first quarter of the year as a result of the weakening economy as well as shrinking tourist arrivals. With retailers feeling the brunt of the weakening economy, landlords have made tenant retention an important priority with several rental incentives such as increased rent-free periods and the passing of property tax rebates to tenants.

In spite of the economic conditions, Orchard Road will nevertheless be transformed this year with the completion of several new malls, revitalising Singapore's main shopping belt. The new malls, ION Orchard, Orchard Central and 313@Somerset and the refurbished Mandarin Gallery will introduce a slew of new retail brands as well as shopping concepts, providing a greater variety of products, F&B and lifestyle choices in the evolving retail landscape. New fashion brands such as Uniqlo, Cache Cache Paris, Custo Barcelona and Steve Madden will be opening stores in ION Orchard when it is completed, while adidas SLVR and Y3 will be opening at Mandarin Gallery. These malls will make their debut at the heels of the government's recent completion of the \$40-million makeover of Orchard Road. Moreover, Orchard Road will not be the only location where these new brands will

AVERAGE PRIME RETAILS RENTS



Source: CBRE Research

be establishing themselves. In suburban Tampines, Uniqlo, Click! and Cache Cache Paris will set up stores in the new Tampines 1, which is targeted to open in April 2009.

Food and beverage outlets continue to draw crowds into established malls as well as niche dining locations such as Dempsey. In the newly opened Jurong Point extension, Kopitiam set up Feast, a 17,000-sf restaurant style foodcourt. In business, science parks and hi-tech industrial locations, F&B outlets are also making their presence felt. These include Sarang at Science Park 1, Smoochies at 991B Alexandra Road, Steffi's at The Comtech in Alexandra and Koryo in Connexis Tower at the Fusionopolis.

Due to the overall business environment, retail rents have moderated further in the first quarter. Monthly Prime Orchard Road rents averaged \$34.90 psf, down 3.3% quarter-on-quarter from end-December 2008 and down 4.0% from the same period last year. Prime Suburban rents dipped to an average of \$28.30 psf per month in the first three months of

2009, reflecting a more moderate 2.4% quarter-on-quarter decline and a 2.7% year-on-year fall.

The retail environment will be a challenging one in the next six to 12 months as rents continue to ease, due to more subdued demand in the leasing market as well as the new mall completions expected in 2009. Prime Orchard Road rents could contract by some 15% to 20% for the whole of 2009. At the same time, rentals for suburban malls should be comparatively more resilient due to a ready catchment population, steady demand for basic goods sold at suburban malls and less competition from new supply, declining by 10% to 15%.

As tenant retention becomes increasingly critical to shopping malls, more landlords are likely to initiate rental incentives, and longer rent-free periods are expected to materialise in the next few months. Other forms of assistance can be in the form of training initiatives for mall tenants to improve customer service and product knowledge, and the stepping up of shopping centre advertising budgets that will enhance the retail environment. Notwithstanding the current economic woes, the year 2009 should bring forth many new brands, innovative trade mixes and retail concepts designed to give Orchard Road a fresh identity. Consumers can look forward to an increase in variety in product range as well as F&B choices.

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QUICK STATS TERMINOLOGY

PRIME RENTS

Average value derived from a basket of prime properties. Quoted on a per square foot net floor area and monthly basis.

PRIME CAPITAL VALUES

Valuation based average value derived from a basket of prime properties. For residential and retail, the basket is only of freehold properties. Quoted on a per square foot net floor area and strata basis (except for office values which are on an en bloc basis).

Prime properties are in the following locations:

OFFICE

Raffles Place, Marina Bay and Marina Centre

RESIDENTIAL

Districts 9, 10 & 11 (apartments/condominiums)

INDUSTRIAL

Ubi, Paya Lebar, Aljunied Road, MacPherson Road, Kallang Pudding, Henderson Road, Jalan Bukit Merah and Alexandra Road

RETAIL

Orchard Road (units on level with heaviest traffic)

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