Quick Stats

	Current	Change from last Yr.	Change from last Qtr.
OFFICE			
Prime rents	$8.60psf	↓	↓
Prime capital values	$1,700psf	↓	↓
RESIDENTIAL			
Prime rents	$4.00psf	↓	↓
Prime capital values	$1,150psf	↓	↓
INDUSTRIAL			
Islandwide rents	$1.28psf	↓	↓
Capital values	$199psf	↓	↓
RETAIL			
Prime rents	$33.90psf	↓	↓
Prime capital values	$5,780psf	↓	↓

INVESTMENT SALES

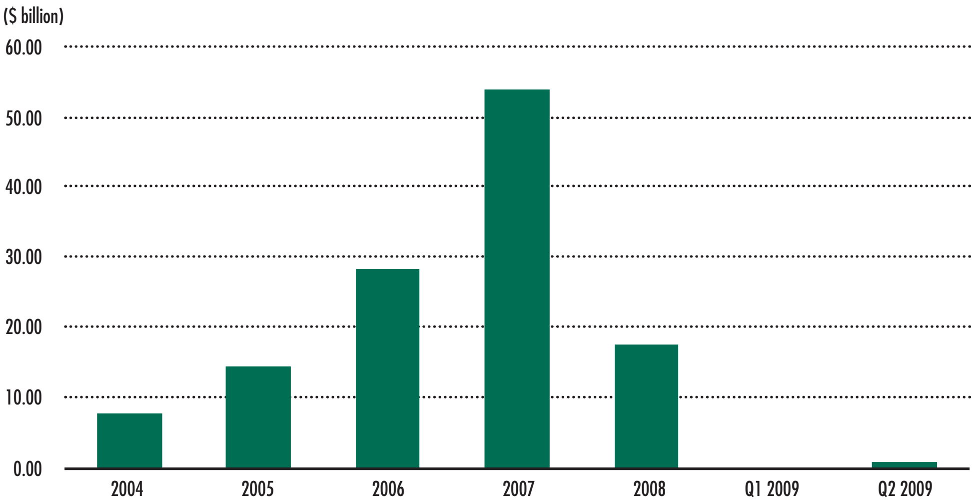
A RETURN OF ACTIVITY IN THE INVESTMENT SALES MARKET

A sharp recovery in the stock market led to an improvement in sentiment, and in turn led to increased activity in the investment sales market during the second quarter. The residential market witnessed a substantial increase in buying activity, fueled by a buoyant stock market. In other sectors of the property market, buyers and investors no longer remained on the sidelines resulting in selective acquisitions. With the pick up in sentiment, total investment sales amounted to $1.09 billion in the second quarter, an increase of 296.7% from the previous quarter but still a fall of 77.6% from Q2 2008. During the same period, there was just one public sale from the award of a hotel GLS (government land sale) site at Short Street.

The total residential investment sales including Good Class Bungalow (GCB) sales accounted for 66.8% of the quarter's total investment sales or $725.56 million in transacted value. This was an encouraging 384.0% higher than the $149.91 million residential investment sales recorded in the first quarter. In addition to a growing number of high-end residential condominium sales, GCB sales also

MAJOR PROPERTY INVESTMENT TRANSACTIONS

Total Investment Sales $1.09 billion



Source: CBRE Research

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rose significantly with 14 such transactions. This included the sale of 2 Binjai Rise and 217 Jervois Road for $19.8 million each and 2A Ridley Park for $30.0 million. There were only three GCB transactions in Q1 2009.

Small-sized land parcels were acquired by Fragrance Properties and World Class Venture, a subsidiary of Aspial, in the second quarter. Fragrance Properties bought a 26,130-sf site at Balestier Road for a total acquisition cost of $29.8 million ($408 psf/plot ratio). With a freehold tenure and a plot ratio of 2.8, Fragrance intends to develop the land into an apartment building. World Class Venture bought a row of shophouses at East Coast Road to develop into residential apartments. With a plot ratio of 1.4 and a site area of 23,813 sf, the purchase price of $10.6 million translates to $318 psf/plot ratio. World Class Venture also acquired an 11,228-sf site in Dunearn Road for $6.9 million or $439 psf/plot ratio. Should the momentum of sales in the residential market continue the way it has, developers are expected to selectively trigger well-located residential parcels from the GLS Reserved List in the next six months.

Three office buildings were sold during the quarter, bringing activity into what was previously a quiet commercial investment market. There was a total of $266.44 million in commercial transactions, representing 24.5% of total investment sales. Parakou Building at Robinson Road was sold to a subsidiary of Cathay Organisation for $81.4 million or about $1,280 psf on 63,580 sf of net floor area, while Anson House was sold to a group of high-net worth individuals at a price of $85.0 million or $1,117 psf on 76,127 sf of net lettable area. VTB Building in Robinson Road was sold to Yi Kai and the Fission Group for $71.0 million or $1,061 psf on the 66,888 sf of net lettable area. It was reported that the site would be redeveloped as a residential project.

There were six investment transactions in the industrial sector, accounting for $58.86 million or 5.4% of total investment sales for the quarter. Most of the buyers are end-users.

The only public sale for the quarter consisted of the URA tender for a 99-year leasehold hotel site at Short Street, which closed on 10 June with 14 valid bids received. Fragrance Assets Pte Ltd submitted the highest bid of $15.5 million ($353 psf/plot ratio) which is some 75.6% higher than the trigger price of $8.8 million ($201 psf/plot ratio). The site has a maximum gross floor area of 4,077 sm (43,885 sf).

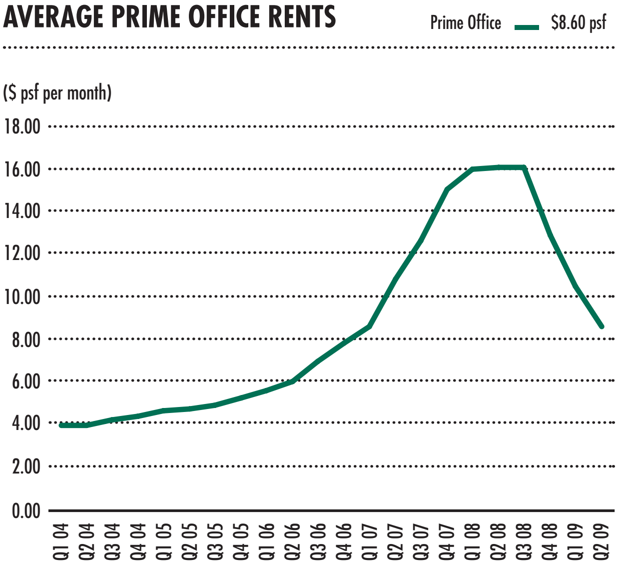
The first movers of commercial real estate investments were private Asian investors, as this group of buyers have less issues with financing, funding their purchases mainly with equity and a comparatively smaller amount of debt. These investors are willing to buy at current prices which they deem reflect an attractive discount from the peak. Their sweet spot is $20 million to $85 million and their focus is office and/or residential investments. The institutional investors are mostly adopting a wait-and-see strategy for Singapore judging that the fundamentals are weak and better opportunities will arise in six to 12 months' time. Given that sentiment has improved, the investment sales market should continue to be moderately active. Investment sales for 2009 has exceeded the previous estimate of $1.35 billion and should exceed the $2.0-billion mark by the end of the year.

OFFICE

PACE OF RENTAL DECREASE EASES AS STABILITY RETURNS

While office rents fell for the third consecutive quarter, the rate of rental decline showed signs of

AVERAGE PRIME OFFICE RENTS



Source: CBRE Research

easing as sentiments improved and the economy stabilised.

Prime office rents averaged $8.60 psf/month in the second quarter, reflecting a 18.2% q-o-q decrease. This is a slight moderation from the 18.6% q-o-q drop seen in Q1 2009. Similarly Grade A rents averaged $10.15 psf/month, reflecting a decline of 17.5% q-o-q. Grade A rents fell 18.0% in Q1 2009. Both prime and Grade A rents fell 33.3% and 32.3% respectively in the first half of 2009.

Whilst the economy is still technically in a recession, the office leasing market was far more active in the second quarter. It is clearly a tenants' market and landlords are necessarily having to be highly competitive. We are seeing greater incentives such as capital expenditure contribution to attract or retain quality tenants. Tenants that took up space this quarter included those from the insurance and healthcare sectors as well as government-related companies.

Takeup has been negative for the past two quarters and is likely to remain in negative territory this quarter and through the balance of 2009. Whilst there appears to be an improved employment outlook, there is still a time lag between retrenchment exercises and the disposal/release of excess office space. The impact of downsizing will be felt in the office sector for at least the next six months.

Offices in the Core CBD area saw higher vacancies as tenants downsized or relocated to lower costs options. The vacancy rate for the Core CBD micromarket rose almost doubled from 4.6% in Q4 2008 to 8.5% in Q2 2009. Raffles Place alone saw a 2.2 percentage point increase in vacancy rate. Over in the east, the Tampines micromarket also saw a jump in vacancy rate. But this was primarily due to the recent completion of Tampines Grande and Tampines Concourse. Grade A vacancy rose to 3.6% in Q2 2009, up from 2.9% in the past quarter. Going forward, vacancies are likely to rise sharply when major developments like MBFC, 71 Robinson Road, and 50 Collyer Quay are completed.

It was estimated that there will be some 460,000 sf (equivalent to the NLA of OUB Centre) of shadow space available for sub-lease. The quantum of shadow space will probably peak in the next six months. Sub-lease space competes with primary vacant space from landlords and tends to have a dampening effect on rents as sub-lessors often offer space at a discount.

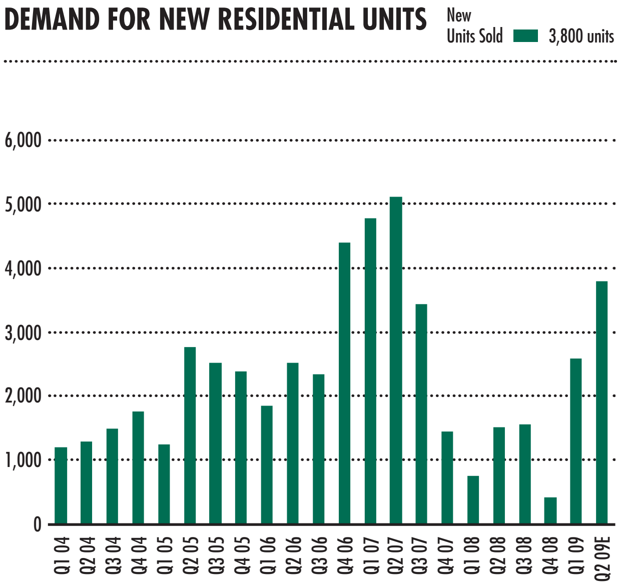
There is 8.3 million sf of new space in the development pipeline between Q2 2009–2013. It seems certain that supply will outstrip demand and we foresee islandwide vacancy rates above double-digits over the next few years. About 81.6% of the known supply from Q2 2009–2013 will be Grade A offices. This would effectively double the current Grade A stock of 6.69 million sf to 13.48 million sf. This sector could face the greatest pressure on occupancy rates.

Demand will be severely constrained and occupancy levels will continue to fall. With sizeable projects completing (1.9 million sf of office space by end-2009), leasing deals will remain highly competitive. Tenant retention will become even more critical to existing landlords. Nonetheless, we expect the rate of rental decline to ease from the dramatic falls since September 2008. Corporations do seem to have a greater handle on headcount issues as well as clarity on corporate strategy. This is encouraging occupiers to revisit premises planning. Many who have been holding off decisions on premises in the past quarters will probably act in the near future.

There were three major enbloc office building transactions in Q2 2009. Parakou Building was sold for $81.4 million, some 36.4% less than what the seller New Star Asset Management Group paid for in May 2007. Anson House was sold for $85.0 million, 34.4% less than what the Macquarie paid for it in December 2007. VTB Building was sold to Yi Kai and Fission Group for $71.0 million in June 2009.

It is likely to be a busy H2 2009 for the office leasing market. New lease transaction volume will be higher with a focus on lower costs and better value options. The best occupiers' deals may well emerge in the next six to twelve months before market recovery is at hand.

DEMAND FOR NEW RESIDENTIAL UNITS



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

RESIDENTIAL

SURGE IN NEW HOME SALES DUE TO STRONG SENTIMENT

The stock market rally which began in mid-March brought about a surprising turn of market sentiment from pessimistic to optimistic almost overnight. Coupled with strong liquidity and developers' discounts, the sale of new homes surged to levels similar to the market peak in 2007. Based on the strong sales activity of several new and relaunched projects, it is estimated that 3,800–4,000 units have been sold in the second quarter, much higher than the 2,596 units sold in the previous quarter. Back in 2007, the average number of new homes sold per quarter was 3,700.

Pent-up demand was demonstrated in the mass-market, mid-tier and prime segments. Located in Outside Central Region (OCR), mass-market projects were priced between $580 psf and $780 psf. They included Caspian ($580 psf), Mi Casa ($625 psf), Double Bay Residences ($650 psf), Kovan Residences ($720 psf) and 8 @ Woodleigh ($780 psf). The projects in OCR chalked up total sales of 1,400–1,500 units during the second quarter, similar to around 1,700 units in the previous quarter. The mid-tier projects were mostly located in the Rest of Central Region (RCR) and priced between $900 psf and $1,000 psf. Examples of these included The Arte ($900 psf), The Mezzo ($903 psf) and IResidences ($900 psf). Some 1,200–1,300 new homes in the RCR were sold in the second quarter, much higher than the 730 units sold in the first quarter. In the prime segment, two relaunched projects started the ball rolling when the developer gave a 16%–20% discount from their original launch prices back in mid-2008. The Wharf Residences (from $1,500 psf to around $1,190 psf) and Martin Place Residences (from $1,700 psf to around $1,420 psf) sold 168 units and 240 units respectively during the quarter. By the end of the quarter, a nearby project, One Devonshire, was launched at $1,700 psf–$2,000 psf and around 130 of the 152 units were sold.

We also observed a significant increase in the volume of resale homes and sub-sales in the secondary markets. Based on caveats lodged to date, it is likely that close to 2,000 resale homes and 600 sub-sales changed hands during the quarter, almost double the respective number of units sold in the first quarter. The caveats lodged to date also showed a majority of HDB-addressed buyers in both the primary and secondary markets. 64.6% of the buyers in the primary market were HDB upgraders, up from 43.9% in 2008; and 49.0% of those in the secondary market were HDB upgraders, up from 34.2% in 2008.

The median price of non-landed homes sold in the second quarter was higher than that in the first quarter. For new 99-year leasehold projects, the median price registered in the second quarter was $788,000, 13.2% higher than the median of $696,000 previously. For new freehold non-landed properties that were sold, it was $928,000, 26.6% higher than first quarter's $733,000. In the sub-sales segment, the median price in the second quarter was $1,000,000, 12.2% higher than the median of $891,000 in the first quarter. The median prices of secondary sales – $777,000 versus $740,000 – reflected a smaller increase of 5.0% from the first quarter. The downward residential price trend seemed to have been reversed despite the weak economic environment.

The second quarter also saw more interest in land banking among developers. The Fragrance Group bought Hang Tat Garden in Balestier Road for $29.8 million or $408 psf/plot ratio. This 26,130-sf site can yield 50-60 new homes. The Aspial Group bought two sites which can yield a total of 40-50 new homes. One of them, at East Coast Road, with a land area of 23,813 sf, was purchased at $10.6 million or $318 psf/plot ratio. The other is an 11,228-sf site situated at Dunearn Road. The price of $6.9 million reflects $439 psf/plot ratio.

The government released its land sales programme for the second half of 2009. Among the 19 residential sites offered on the reserve list, four of the sites will be of interest to developers. These are at Bishan Street 14 (close to Bishan Station), Serangoon Avenue 3 (Lorong Chuan Station), Dakota Crescent (Dakota Station) and Bartley Road/Lorong How Sun (Bartley Station).

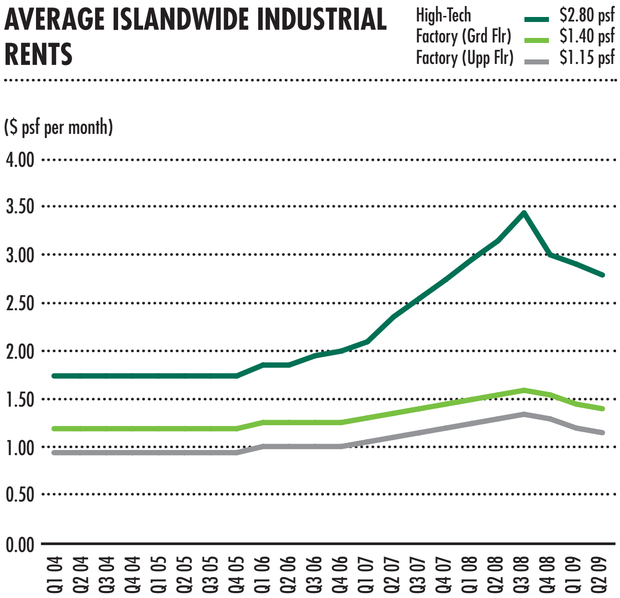
Going forward, the stock market rally may continue for a while before it slows down so that the positive sentiment may possibly last till the end of the year even though the economic environment is weak. In anticipation of the new projects that will be launched in the coming months e.g. Toa Payoh Lor 1, Oasis @ Elias, The Gale, Holland Residences, Vista Residences and Ascentia Sky, we expect the demand for new homes to remain strong. The strong demand will in turn help to support home prices.

INDUSTRIAL

SLOWER RATE OF DECLINE IN RENTS AND CAPITAL VALUES

Rents and capital values for industrial properties continued to fall on the back of weak economic conditions. However, the rate of decline slowed down in the second quarter due to improved business

AVERAGE ISLANDWIDE INDUSTRIAL RENTS



Source: CBRE Research

sentiment. More activity in the investment market for industrial properties was also observed.

The monthly rent for hi-tech spaces fell by $0.10 psf q-o-q to $2.80 psf during the second quarter. Hi-tech rent continues to fall as spillover demand from the office sector slows down. A significant drop in office rents coupled with a strong pipeline of office supply made relocation to hi-tech buildings less attractive.

In Q2 2009, the average monthly rents for ground and upper floor factory units fell by $0.05 psf q-o-q to $1.40 psf and $1.15 psf respectively. The average monthly rent for warehouses also decreased by $0.05 psf q-o-q to $1.35 psf for ground floor units and $1.05 psf for upper floor units. In the previous quarter, rents fell by $0.10 psf q-o-q for both types of industrial properties.

The average capital values for 60-year leasehold strata-titled factory units fell by about 8.0% q-o-q to $230 psf for ground floor units and $168 psf for upper floor units. The average capital values for freehold warehouses also decreased by 8.0% q-o-q to $341 psf and $299 psf for ground and upper floor units respectively. In Q1 2009, capital values declined by about 10.0% q-o-q for leasehold factories and freehold warehouses.

The fall in rents and capital values for factory and warehouse space is in line with the weak global economy. However improvement in business sentiment helped slow the q-o-q rate of decline in rents and capital values.

The investment market for industrial properties saw more activity in the second quarter. An industrial site, located in Woodlands Industrial Park E5/ Woodlands Avenue 4, was launched for tender after an unnamed party committed to bid at least $12.5 million ($19 psf/plot ratio) for it. The 60-year leasehold site can yield a maximum GFA of 62,531 sm (673,084 sf). The tender will close in July.

In the second quarter, A-REIT made its maiden purchase for the year. The Trust bought a 13,879-sm (149,394-sf) land parcel from Singapore Telecommunications Limited (SingTel) for $16.0 million ($107 psf based on land area). The plot is located along Kim Chuan Road. A-REIT will spend $99.6 million to build a nine-storey hi-tech building and another $75.8 million for additional mechanical and electrical equipment. SingTel will lease the property for an initial tenure of 20 years with an annual rental escalation and an option to renew for another 10 years. The facility is expected to have a GFA of 32,862 sm (353,727 sf) when completed in Q1 2010.

The government has further revised Singapore's GDP downwards from the previous forecast of -5.0% to -2.0% for 2009 to -9.0% to -6.0% for the same period. Despite the comparatively more optimistic market sentiment, Singapore's economy is likely to remain weak for the second half of 2009. As such, rents and capital values are expected to continue to experience downward pressure in the remaining six months. Interest in purchasing industrial properties is likely to come from companies who intend to occupy the facility. The REIT players are expected to focus on retaining their tenants rather than acquiring properties.

RETAIL

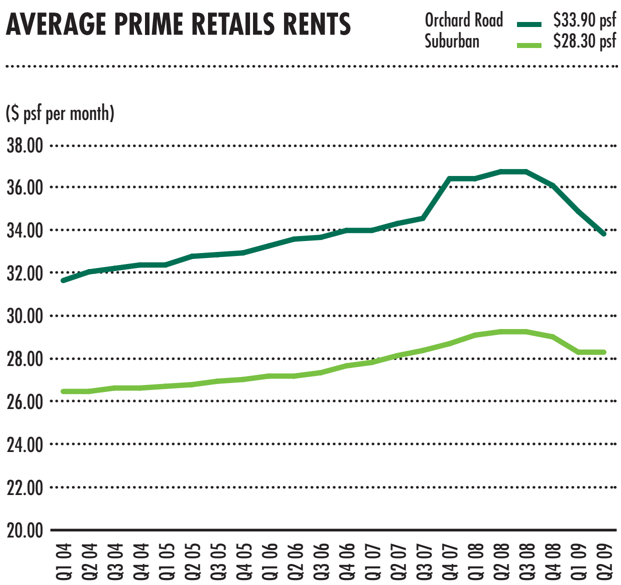
NEW SUPPLY, NEW CONCEPTS SPELL AN EXCITING ERA FOR RETAIL

The Great Singapore Sale (GSS) started this quarter (from 29 May to 26 July) but many retailers jumped the gun by commencing their own private sales earlier, offering deep discounts prior to the much publicised event. There is a high level of expectation in anticipation of the opening of the new malls along Orchard Road. Outside Orchard Road, Iluma and Tampines 1 opened during the quarter. Works on the linkbridge from Iluma to Bugis Junction started this quarter and is expected to ease the pedestrian crowd along Victoria Street. In other developments, the developers of South Beach will be reviving the project with fresh funding and some 126,000 sf of retail space could come on stream from this mixed development by 2016.

F&B remains a key segment with a proliferation of Japanese food halls, quick service food kiosks & eateries at MRT stations. Informal eateries serving quality cuisines have cropped up in private residential developments. And many new and upcoming malls are tailoring their tenant mix to cater for more F&B outlets.

As mall-differentiation plays an increasingly important role in this highly competitive market, developers are allotting more space to shops that carry new-to-market brands, niche products and services. Start-ups are also being given a chance to grow and local retailers are given the chance to expand given the ample supply coming on stream. For instance, Mandarin Gallery which is 93.0% pre-committed ahead of its opening in October, carries more than 30 new-to-market labels. The Ramp at Orchard Central has 30 shops which can be used as a launch pad for budding new start-ups.; some 6,000-sf of space at the new Parco@Millenia store will be set aside to showcase works of aspiring home grown designers. Ngee Ann City is also revamping the former Sparks space into a chic lifestyle cluster that caters to young adults.

AVERAGE PRIME RETAILS RENTS



Source: CBRE Research

Existing malls like The Heeren, China Square Central and Icon Village announced plans to revamp to keep up with the competition and to remain viable.

Prime Orchard Road rents averaged $33.90 psf down 2.9% q-o-q and down 7.8% y-o-y. As at H1 2009, Prime Orchard Rd rents have fallen 6.0%. However Prime Suburban rents remained unchanged in the quarter averaging $28.30 psf/month in Q2 2009, supported by the limited pipeline supply in the suburbs and that REIT-owned suburban malls are under pressure to be yield-accretive and less likely to drop rents drastically. In all, Prime Suburban rents dipped by a marginal 2.4% in H1 2009.

Going forward, we expect the rate of rental decline for prime space along Orchard Road to decrease and/or stabilise given the healthy demand for existing shop space as well as high pre-commitment levels seen at yet-to-be completed malls. In view of this, we are revisiting our rental forecasts for 2009. We now expect Orchard Road rents to fall by 10.0% to 12.0% in 2009, a less drastic decrease as compared with our earlier estimate of -15.0% to -20.0%. Suburban mall rents are likely to contract 5.0% to 6.0%, down from our earlier estimate of -10.0% to -15.0%.

It will be an exciting time with the changes in the retail landscape especially along Orchard Road. Ion Orchard, Mandarin Gallery, Orchard Central and 313@ Somerset look set to open on schedule in the second half of this year. As evident with the opening of Tampines 1, new malls will continue to draw the crowd. And the new malls will continue to entice shoppers with more new offerings. The retail leasing market is buzzing with more enquiries from new-to-market fashion and F&B brands intending to set up new outlets here. These retailers are enticed by the vibrant retail scene in spite of the lacklustre official economic statistics as well as by rentals that are gradually getting more affordable. Going forward, we expect that entertainment would be allotted increasingly more space within malls.

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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