INVESTMENT SALES

INVESTMENT SALES SLOW DOWN WITH SELECTIVE BUYING INTEREST

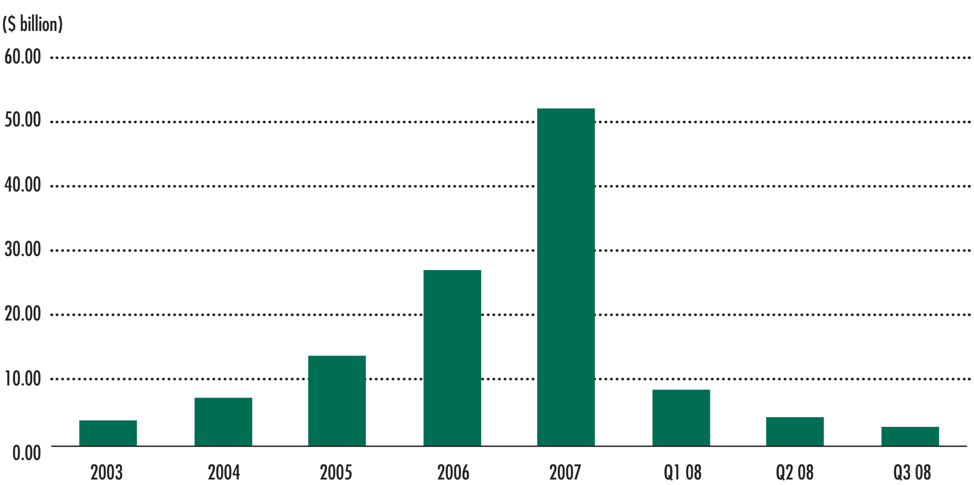
The Singapore property investment sales market remained quiet in the third quarter of 2008, with a total of $3.17 billion worth of investment transactions recorded. The US-spawned credit crisis has compounded financial instability in most global economies, compelling many investors to adopt a cautionary attitude. Tighter credit measures brought about a temporary halt to major investment decisions as investors take stock of the implications on the local property market. Meanwhile, the bearish stock market has also affected broader investment sentiment.

The private sector accounted for 94.3% of the third quarter's total investment sales or $2.99 billion while public land sales contributed the remaining 5.7% or $0.18 billion. During the quarter, the government sold a residential site at New Upper Changi Road/Tanah Merah Kechil Avenue to TID Pte Ltd for $84.0 million ($282 psf/plot ratio) and a hotel site at Balestier Road to HH Properties Pte Ltd, a joint venture between Hiap Hoe and Superbowl Holdings for $73.30 million ($172 psf/ plot ratio). In addition, the government also awarded an industrial site at

Quick Stats

	Current	Change from last Yr.	Change from last Qtr.
OFFICE			
Prime rents	$16.10psf	↑	↔
Prime capital values	$2,900psf	↔	↓
RESIDENTIAL			
Prime rents	$4.50psf	↑	↓
Prime capital values	$1,430psf	↓	↓
INDUSTRIAL			
Prime rents	$1.48psf	↑	↑
Prime capital values	$436psf	↑	↑
RETAIL			
Prime rents	$36.8psf	↑	↔
Prime capital values	$7,100psf	↑	↔

MAJOR PROPERTY INVESTMENT TRANSACTIONS



Source: CBRE Research

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Woodlands Industrial Park E5 to Soilbuild Group for $13.61 million ($30 psf/plot ratio).

In terms of sectoral performance, the industrial sector accounted for the largest proportion of sales during the third quarter. Its contribution of $1.92 billion in transacted value made up 60.6% of total investment sales. The most significant transaction was the Jurong Town Corporation's (JTC) divestment of an industrial property portfolio to Mapletree Industrial Trust, a joint venture between Mapletree Investments Pte Ltd, Mapletree Industrial Fund and Arcapita Bank, for a total of $1.71 billion. The properties comprises 39 blocks of flatted factories, 12 amenity centres, six stack-up buildings, one ramp-up building, three multi-tenanted business park buildings and one warehouse building. JTC also announced its intention to sell more of its ready-built facilities via tender in the near term. However, the upcoming divestment will be on a smaller scale compared to the $1.71 billion deal to Mapletree Industrial Trust. It was also reported that Cambridge Industrial Trust (CIT) acquired 29 Tai Seng Avenue for $55.2 million and First REIT acquired a healthcare logistics and distribution centre at Tuas View Lane for $42.0 million.

Investment activity in the residential sector (including Good Class Bungalow sales) continued to see a slowdown in Q3 08, generating $807.79 million in transacted value or 25.6% of total investment sales. Several units at the Nassim Park Residences were sold for an aggregate price of more than $300 million (average $3,040 psf), as each unit costs more than $10.0 million. However, the collective sales market continued to be dormant with developers having little or no interest to buy sites at this time. Developers' ability to acquire sites was also constrained by rising construction costs, rising interest rates and tighter lending measures. The only successful collective sale deal in Q3 08 was Ruby Apartments which was sold to an unnamed developer for $11.0 million ($353 psf/plot ratio).

Both office and retail investment sales markets were relatively quiet in the third quarter, as investors have adopted a cautionary disposition in the wake of unsettled financial markets. The office and retail sector generated $142.84 million (4.4% of total investment sales) and $215.04 million worth of investment sales (6.9% of total investment sales) respectively. A notable transaction in Q3 08 was the sale of a commercial property portfolio by Eng Wah Organisation, to EW.G Pte Ltd for a total of $99.48 million. The properties were Toa Payoh Entertainment Centre, Jubilee Entertainment Complex in Ang Mo Kio, Empress Theatre in Clementi and the 16th floor of Orchard Towers. A few strata office sales were also posted during the quarter. These included two office units each at Suntec City Tower 2 and Tong Building, which were sold in separate transactions for a total of $37.4 million and $34.0 million respectively.

During the quarter, investment activity in the hospitality sector remained healthy, supported by the sale of the 88-unit Somerset Orchard serviced apartments by The Ascott Group for $100.0 million ($1,530 psf). Investors' interest in the hospitality market could intensify in the medium term, driven by the current limited supply of hotel rooms coupled with an anticipated growth of tourist arrivals after the completion of the two integrated resorts by 2011.

A possible US recession will inevitably have a cooling effect on the local property market. Investors are therefore expected to stay on the sidelines in view of the cautious market conditions that could prevail until the end of the year. However, demand for quality assets as a hedge against rising inflation, may help to support local investment activity for the rest of the year.

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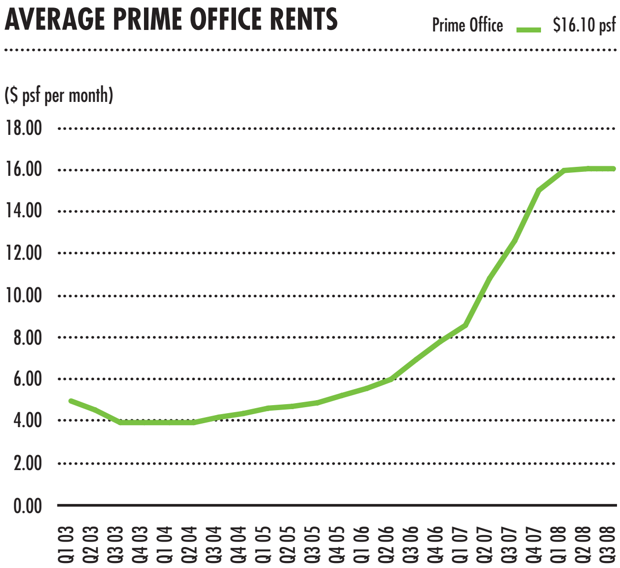

Source: CBRE Research

OFFICE

OFFICE RENTS PLATEAU AS OCCUPANCY LEVELS EASE IN THE QUARTER

Against a backdrop of wider financial turmoil, offices rents have peaked. The slowing rental growth trend that we had first observed starting from Q1 08 appears to have run its course, such that both Grade A and prime rents remained static at $18.80 psf/month and $16.10 psf/month over the past quarter. Landlords are adopting more reasonable asking rents, although in the immediate term occupiers will still face rentals that are at all-time highs. We will continue to monitor the trend over the next few months to see how swiftly the fast approaching new office supply allied with slowing demand will combine to bring down rents from today's levels.

Grade A vacancy rose to 1.2% in Q3 08 up from 0.6% in the past two quarters. This is the first time in eight quarters (since Q3 06) that Grade A vacancy has risen above the 1.0% mark. There were slight increases in vacancy rates for most micromarkets in Q3 08 – the exception being Orchard Road, which saw a one percentage point drop in vacancy due to higher occupancy at the newly completed Visioncrest and at Starhub Centre.

Whilst office leasing momentum has eased in the past few months, particularly for prime offices, office demand is still in positive territory. While occupiers are understandably cautious given the challenging financial and economic environment, a number of recently announced pre-commitments demonstrate that there is underlying confidence in Singapore's relative position. JP Morgan renewed and expanded its premises at Capital Tower, taking a further 40,000 sf. Advertising giant, WPP pre-committed to lease the transitional office development at Land Parcel B Scotts/Anthony Road for 14 years. At MBFC Tower Two, three foreign companies – BHP Billiton, Macquarie Group and Murex South-east Asia have pre-leased some 241,000 sf. This boosted occupancy of the first phase of Marina Bay Financial Centre to an impressive 65.6%, almost two years ahead of its completion in Q2 2010. Many occupiers are, however, chasing lower costs and are relocating to decentralised locations, built-to-suit facilities and business park space.

CBRE estimates the confirmed new office supply over the next five years at 10.64 million sf. We do not consider this volume of supply excessive based on our estimated average annual demand of 1.6 million sf. It should also be noted that approximately 26% of the new supply has already been pre-committed.

No office development sites were awarded in the quarter. In the year-to-date only about $882.8 million worth of land was awarded for office use compared to $5.55 billion as at Q3 07, reflecting a 84.1% y-o-y decrease. We foresee limited appetite for further speculative office development given the outlook for falling rents, uncertainty on whether the current

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demand will hold up and the difficulties developers have in securing development financing.

Two transitional office parcels were launched in the quarter. A 66,484-sf parcel located at Mohamed Sultan Road and a 126,355-sf plot at Mountbatten Road. We expect few bids for the two parcels. There were eight transitional sites launched since July 2007. Some 645,000 sf (NLA) of offices will come on-stream in 2008–2009 from the five transitional office sites awarded. In light of the current situation, we believe that the government should review the necessity of launching more transitional offices in the immediate future. Another land tender will close at Ophir Road site in the final quarter of 2008.

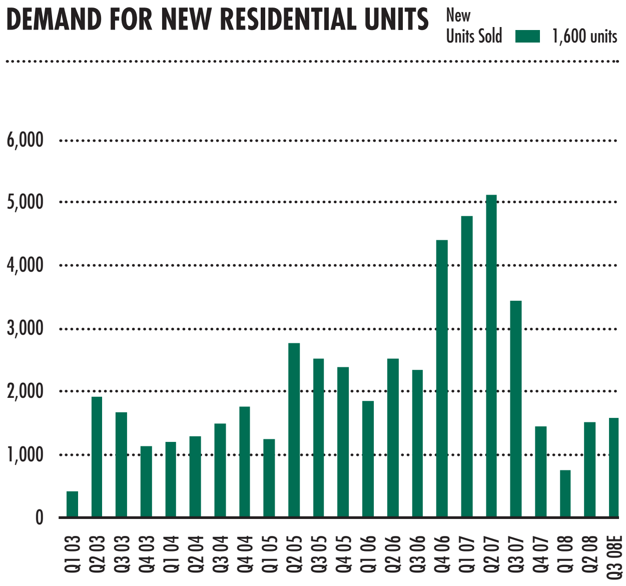
Market fundamentals have changed and sentiments have deteriorated. Pre-commitment rent levels are likely to come under pressure as occupiers factored in the widely anticipated softening of the market. We had earlier anticipated rents would only soften beyond 2010. With the events of the past few weeks, we believe that the correction has been fast-forwarded to early 2009. The magnitude of rental correction will to an extent be contingent on external factors including the prospect of recession in the US and Europe and the outcome of attempts to shore up the financial crisis. Singapore's office market appears better placed than many markets going into a period of economic slowdown, but it is not insulated.

RESIDENTIAL

NEW HOMES TAKE-UP SUSTAINED BY SOUND FUNDAMENTALS

In the September quarter, market sentiments turned more guarded as the ripple effect of the financial crisis in the US sent stock markets worldwide tumbling and caused the global economy to slow down further.

DEMAND FOR NEW RESIDENTIAL UNITS



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

Nevertheless, sound fundamentals in the Singapore economy helped to sustain housing demand. An estimated 1,500–1,600 new homes were sold in the third quarter, similar to the 1,525 units sold in the previous quarter, bringing the total number of new homes sold in the first nine months of 2008 to 3,800–3,900 units. The decline in home prices has not been broad-based as the units sold were mainly mass- and mid-tier market projects in the lower price bands. As a result, overall home prices could show a mild correction in the third quarter.

Project launches were active in July and September but slowed down in August during the Hungry Ghosts' Month. Selected projects, by virtue of their location and product attributes, achieved a sale status of over 30% in the quarter. This was very encouraging considering the current cautious environment. These include Livia (321 out of 724 units), Beacon Heights (93 out of 212 units), Concourse Skyline (63 out of 90 units launched), Parc Sophia (99 out of 152 units), Urban Lofts (all 46 units) and Martin No. 38 (29 out of 91 units).

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Developers tried to boost sales by offering alternative financial schemes that were similar to the Deferred Payment Scheme (DPS) which required home buyers to pay only the 20% downpayment at the signing of the sales agreement and the remaining 80% to be paid when the project is completed. One of these new schemes is the "interest absorption scheme" in which the developer would pay the monthly interest incurred once progress payments commence and this would carry on until the project is completed. Another scheme which was offered for a short period, was the "zero instalment scheme" where the bank absorbed the interest repayments until completion. These schemes were usually provided for projects priced at $1,500 psf and below.

Based on caveats lodged for new homes, 43.2% of the homebuyers of in the first eight months of 2008 had HDB addresses, regarded as a proxy for HDB upgraders. This is much higher than the 23.6% registered in 2007. The increase could be attributed to affordable pricing because most of the new projects that have been launched so far in 2008 are located in the suburbs and city-fringe areas, with a lower price range of $650 psf to $1,200 psf, catering more to the HDB upgraders' market. In contrast, most of the new projects launched in 2007 were in the prime residential districts and Sentosa Cove and priced above $2,000 psf. Therefore, the proportion of HDB upgraders was significantly lower. The increase in the proportion of HDB upgraders could also be attributed to the 22.1% rise in HDB resale prices between Q2 07 and Q2 08. This has helped to enhance the affordability of HDB upgraders.

Only a handful of development sites were bought by developers in the third quarter. One of these was the 99-year leasehold site at New Upper Changi Road/ Tanah Merah Kechil Avenue, which is very near the Tanah Merah MRT station and can yield around 250 apartments. The strong interest generated by the site was evidenced by the eight bids submitted for the site. The site was awarded to the top bidder, TID Pte Ltd, for $84.0 million or $282 psf/plot ratio.

The economic outlook for the final quarter of 2008 is rather bleak. In the wake of a global slow-down, the Singapore government recently revised downwards the 2008's GDP growth to 4.0%–5.0% from 4.5%–6.5% previously. The impact of the US financial turmoil on the global economy is far-reaching and may last through to the end of 2009 and beyond. Despite this uncertainty, we expect some sparks of activity if interesting projects such as Marina Bay Suites, Sentosa Quayside, The Arte and The Gale are launched. Take-up of new homes in the fourth quarter may then number between 1,200–1,500 units with home prices easing under the competitive environment.

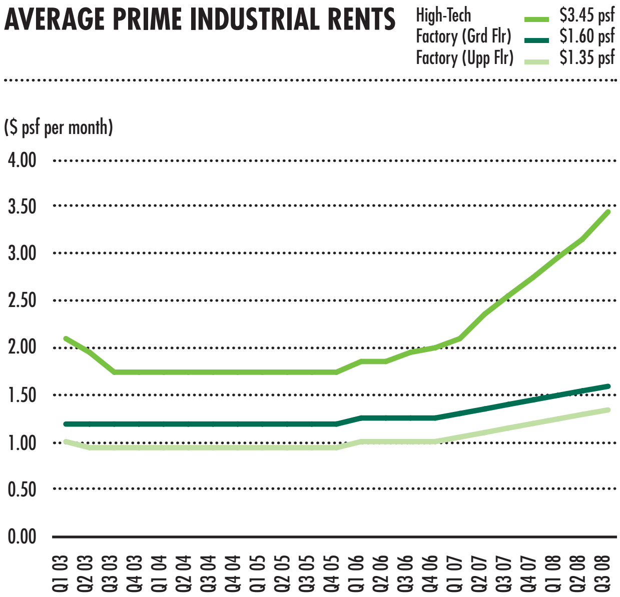
INDUSTRIAL

A QUIETER THIRD QUARTER

The weak electronics market, rising oil prices and raw material costs placed a damper on the manufacturing sector and the recent dismal manufacturing indices bore this out. Rentals for factories and warehouses either inched up marginally or stayed constant. The bright spot was provided by the hi-tech sector which showed a strong 9.5% q-o-q increase in monthly rents. The industrial REIT players slowed down their acquisitions during the third quarter but the award of an industrial site and the launch of two sites helped to inject more activity in the investment market.

Monthly rent for hi-tech spaces increased by 9.5% q-o-q to $3.45 psf in Q3 08 driven by increasing numbers of qualifying office tenants who moved some of their operations to hi-tech buildings or business

AVERAGE PRIME INDUSTRIAL RENTS



Source: CBRE Research

parks. An active pre-letting market for business park spaces was noted especially among financial institutions. Built-to-suit facilities are also gaining popularity among companies especially those that have specified spatial requirements.

During the third quarter of 2008, the average monthly rents for factory space rose 3.2% q-o-q to $1.60 psf for ground floor units and 3.8% q-o-q to $1.35 psf for upper floor units. At the same time, the average monthly rent for warehouses stayed unchanged at $1.55 psf and $1.25 psf for ground floor and upper floor units respectively.

The average capital values for 60-year leasehold strata-titled factory units inched up by about 2.3% q-o-q to $309 psf and $225 psf for ground and upper floor units respectively. The average capital value for similar freehold warehouses held firm during the quarter at $458 psf for ground floor units and $401 for upper floor units.

During the quarter, a 60-year leasehold site at Woodlands Industrial Park E5 was awarded to Soilbuild Group for $13.6 million ($30 psf/plot ratio). At the same time, two 60-year leasehold sites were launched after unnamed parties committed to bid at least $70 psf/plot ratio for each of them. The tender for the site located at Ubi Avenue 4 will close in late September. It has a maximum gross floor area of 28,750 sm (309,465 sf). The other site is located at Kallang Pudding Road and has a maximum gross floor area of 14,250 sm (153,387 sf). The tender for the second site will close in early October. The trigger of these two sites that were on the reserve list indicated that demand for industrial sites in good locations remained healthy.

The most significant investment transaction that took place during the third quarter was the $1.7 billion sale of a portfolio of JTC assets to Mapletree Industrial Trust (a joint venture between Mapletree Investments and Arcapita Bank). JTC announced that it will sell some of its small factories and other industrial space before end-March 2009. However, the upcoming proposed sale will be on a smaller scale.

In Q3 08, only two industrial properties were purchased by REITs. CIT bought Natural Cool Hub (29 Tai Seng Avenue) for $55.2 million ($260 psf) while First REIT acquired an uncompleted warehouse along Tuas View Lane for $42.0 million ($180 psf). The property is expected to be completed in July 2009.

While rents for factories and warehouses are not expected to show significant movements, hi-tech and business park spaces are expected to continue on a moderate upward trend. The demand for such spaces is expected to be driven by the continued relocation of the backroom operations of qualifying companies as well as the entry of a number of technology and innovation-based companies to Singapore.

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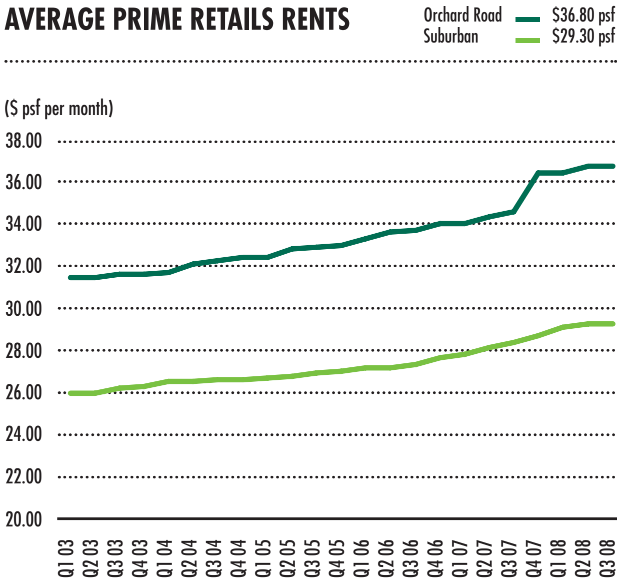
AVERAGE PRIME RETAILS RENTS



Source: CBRE Research

RETAIL

LEASING MARKET REMAINED ACTIVE ALTHOUGH SENTIMENTS TURN CAUTIOUS

With the onset of a more subdued economic climate, retailers exercised greater caution although underlying interest remained. Prior to the economic slowdown, international brands were very keen on the local retail scene. The abundant new supply, especially in the hotspots of Orchard Road and the upcoming Integrated Resorts, has provided these labels with the opportunity to set up flagship stores. Many have explored expansion plans.

Today, other than operating costs, retailers have had to take into account in their decision-making, intangible factors such as the positioning of the mall; whether it has any iconic status, the location of the store within the shopping centre as well as the presence of complementary brands/labels. Landlords who are realistic in rental expectations would continue to enjoy success in filling up their malls with their ideal tenant mix in this highly competitive market.

Known retail supply totaled about 7.10 million sf for Q3 08–2012 or an average of 1.42 million sf per annum. The bulk (about 48%) of total known supply will be coming on-stream in 2009 alone. Of which approximately 24% of the supply in 2009 are from the Downtown Core region and about 41% are in Orchard Road. This will bump up total private Orchard Road retail stock by some 36% in just 2009 alone and undoubtedly raise concerns about space absorption, despite the fact that retail take-up tended to be somewhat supply-led in the past.

Leasing activity in the third quarter kept up a hectic pace, with Croco Mondalli, Giuseppe Zanotti and a revamped PS Café opening at Palais Renaissance. Pre-commitments at Orchard Central included Cupid Jewels, Dockers and Tyan.

City Square at the city fringe was 70% pre-committed as at September 08, months before its scheduled opening in end-2009. The 11-storey eco-friendly mall will feature department store Metro, supermarket NTUC Fairprice as well as three foodcourts.

F&B is increasingly taking on more prominence in the retail scene. Traditionally, retail outlets within the CBD catered to trades that offer amenities and services to the working crowd. In recent months, gourmet F&B outlets have been gravitating towards the CBD. New spaces at One Fullerton, Fullerton Hotel, The Sail, 50 Collyer Quay as well as pockets of vacated spaces within existing developments have allowed the more hi-end retailers/F&B operators to gain a foothold. The new entrants are attracted to the ready catchment of well-travelled and well-heeled PMEBs (Professionals, Managers, Executives and Businessmen). And the CBD and its waterfront are fast morphing into a lifestyle-cum-dining hot spot. Many of these shops, eateries and bars will be up and running in time for the F1 festivities.

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Michelin star chefs used to make only guest appearances at restaurants here. But the increasingly cosmopolitan society, potential growth in tourist base as well as the availability of supply in iconic destinations has generated interest from some of these decorated chefs to consider setting up shop in Singapore. Marina Bay Sands has said that it will bring in Michelin star chefs to set up restaurants here in their casino.

Prime retail rents along Orchard Road averaged $36.80 psf/month, unchanged from the previous quarter. Similarly, rents for prime Suburban malls remained at an average $29.30 psf/month in Q3 08.

In the current market where consumer sentiments are cautious and where rising inflation and business costs are prevalent, retailers are increasingly vocal and resistant to further rental hikes. In line with the downward revision in GDP estimate for the year as well as the impending supply, we have reviewed our rental forecast for prime retail space in Orchard Road. We expect Orchard Road rents to increase by 2%–3% in 2008, down from the 3%–5% estimate given earlier. We expect rents for prime Suburban malls rents to increase by 3%–5% in 2008, unchanged from the previous forecast, due to the captive residential market in the heartlands as well as limited new supply in these localities.

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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