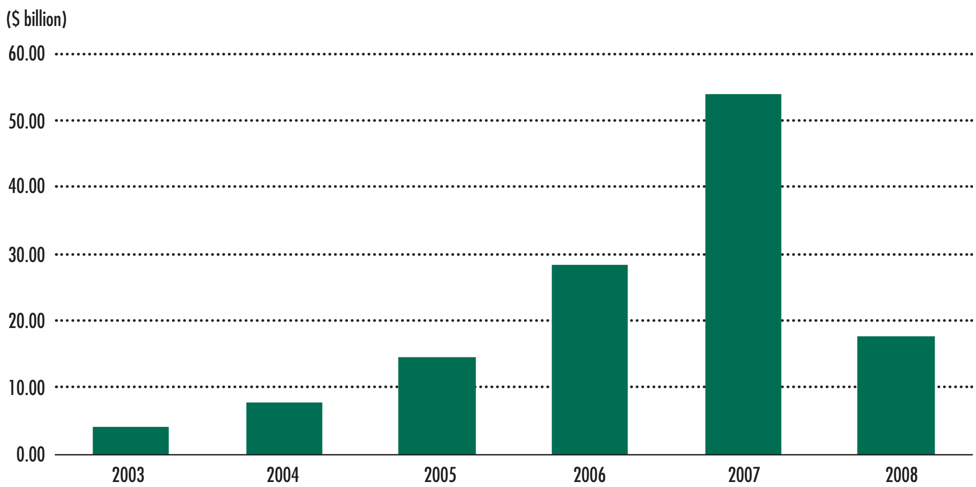
INVESTMENT SALES

INVESTMENT SALES MARKET STUMBLES AS GLOBAL FINANCIAL CRISIS PERSISTS

One year on and the effects of the US sub-prime mortgage crisis has finally filtered through to the global property markets. The investment climate cooled down significantly due to the uncertainties in global financial markets, tightening credit conditions and increased cost of funding. The Singapore property investment market was subdued in 2008 as cautious investor sentiment took hold. Reflecting the weak sentiment towards local real estate as an asset class, total investment sales amounted to $17.84 billion in 2008, a significant decline of 70.0% from the $54.02 billion worth of assets recorded in 2007. The sharp slowdown in transaction volume was also due to a loss of landbanking interest from developers as well as investors who were faced with difficulties in securing financing on favourable terms.

The private investment sales market accounted for most of the transactions in 2008, making up 73.8% of the year's total investment sales or

MAJOR PROPERTY INVESTMENT TRANSACTIONS



Source: CBRE Research

Quick Stats

	Current	Change from last Yr.	Change from last Qtr.
OFFICE			
Prime rents	$12.90psf	↓	↓
Prime capital values	$2,600psf	↓	↓
RESIDENTIAL			
Prime rents	$4.40psf	↓	↓
Prime capital values	$1,300psf	↓	↓
INDUSTRIAL			
Prime rents	$1.43psf	↑	↓
Prime capital values	$241psf	↓	↓
RETAIL			
Prime rents	$36.1psf	↓	↓
Prime capital values	$6,700psf	↓	↓

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$13.17 billion. Investment sales in the public sector contributed the remaining 26.2% or $4.67 billion. This comprised purchases of government land sale sites (GLS) and the tender award of a luxurious waterfront residential land parcel at Sentosa. In the fourth quarter, the government sold two industrial sites at Ubi Avenue 4 and Kallang Pudding Road to Sim Lian Pte Ltd for $26.30 million ($85 psf/plot ratio) and Orion-Four Development Pte Ltd for $10.80 million ($70 psf/plot ratio) respectively. Another public land sale in Q4 08 included a hotel site at Kallang Pudding Road/Jellicoe Road which was awarded to Citywide Land Pte Ltd for $51.0 million ($250 psf/plot ratio). Altogether, 20 government sites were bought by developers during the year, consisting of one "white" site, seven residential sites, one commercial site, three 15-year leasehold transitional office sites, two hotel sites, five industrial sites and one hospital site. In addition, the last condominium site at Sentosa Cove, named The Pinnacle Collection, was sold for $1.10 billion in January 2008.

Total residential investment sales including Good Class Bungalow (GCB) sales amounted for 35.1% of the year's total investment sales or $6.27 billion in transacted value. This was 80.8% lower than the $32.71 billion recorded in 2007. The collective sales market was dormant as developers remained mindful of the lukewarm response to new residential launches, rising construction costs and tighter credit measures. Only seven collective sales, generating $371.03 million were recorded in 2008, compared to the $12.44 billion from a total of 111 collective sale sites sold in 2007. The Good Class Bungalow (GCB) market, which was active in 2007, also slowed considerably in 2008. A total of 48 GCB transactions generating investment sales of $763.74 million were recorded, compared to the $1.20 billion from 90 deals in the preceding year.

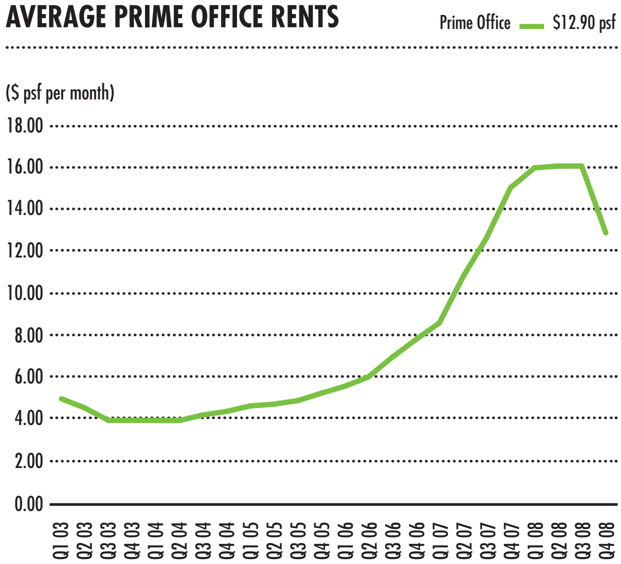
Investment activity in the office market was active in H1 2008. In all, office investment transactions contributed 30.2% of total investment sales or $5.39 billion in 2008, 62.4% lower than the $14.34 billion recorded in 2007. Some notable acquisitions made by foreign funds and REITs in the first half the year included One George Street which was sold for $1.17 billion ($2,600 psf), Singapore Power Building for $1.01 billion ($1,836 psf), The Atrium@Orchard for $839.80 million ($2,249 psf), Hitachi Tower for $811 million ($2,901 psf) and 71 Robinson Road for $743.75 million ($3,125 psf). However, the escalation of the financial turmoil contributed to a further deterioration in business sentiment, which resulted in no major en-bloc office transactions in the second half of 2008. Going forward, the office investment market is expected to remain quiet in the next few months.

The industrial market witnessed an unprecedented level of investment sales in 2008, largely driven by foreign funds and REIT-related purchases. Its contribution of $3.30 billion in transacted value made up 18.5% of total investment sales. This was 65.0% more than the $2.0 billion recorded in 2007 and also the highest quantum transacted in a year since 2002 when the first industrial REIT, Ascendas REIT (A-REIT) was listed on the SGX. Mapletree Industrial Trust, a joint venture between Mapletree Investments Pte Ltd, Arcapita Bank and

Mapletree Industrial Fund contributed the bulk of industrial investment sales in 2008 by acquiring an industrial portfolio from the Jurong Town Corporation (JTC) for a total of $1.71 billion. Both A-REIT and MapletreeLog expanded their portfolio size in the year by acquiring properties for a total of $511.30 million and $122.10 million respectively. Cambridge Industrial Trust (CIT) also acquired three properties for $73.20 million in total. Interestingly, a number of foreign funds were observed to have acquired industrial properties, with more than $400 million worth of assets chalked up in 2008. Some notable acquisitions included a plot at Ubi Avenue 1 which was sold to SEB Asset Management for $200.0 million, 46A Tanjong Penjuru which was acquired by Asia Property Fund (a fund sponsored by LaSalle Investment Management and PruPIM) for $115.20 million and 3 Changi Business Park Vista which was sold to Union Investment Real Estate for $63.0 million.

With the global economy likely to enter a protracted downturn on the back of the deepening financial crisis, transaction volumes in property are expected to remain low over the next few quarters. As credit market conditions worsen and lenders further reduce their risk appetite, capital available for property investment could become even scarcer. In addition, cheap investment opportunities may arise in other asset classes, diverting capital away from property. Clearly, with market uncertainty and economic risks appearing to be on the downside, many investors will remain on the sidelines of the property market, waiting for signs of price stabilisation before investing.

AVERAGE PRIME OFFICE RENTS



Source: CBRE Research

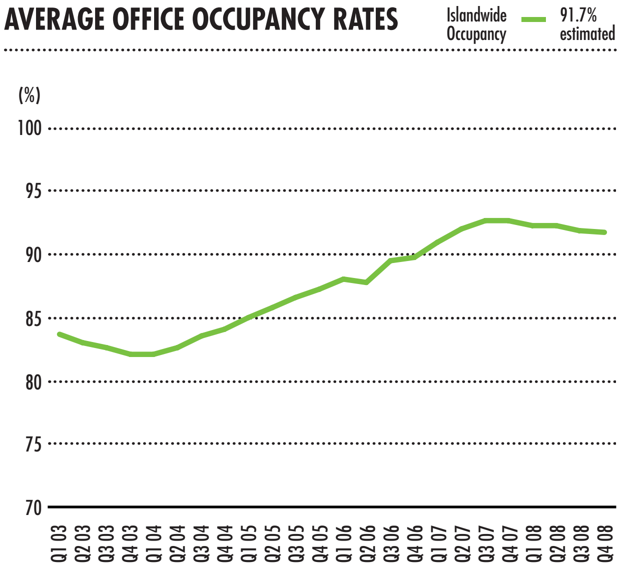
OFFICE

IT'S THE START OF THE CORRECTION IN THE OFFICE MARKET

In H1 2008, in spite of the continued high occupancy rates, rental growth rates were slowing rapidly as the awareness of imminent supply loomed over the market. The further escalation of the global financial crisis and the collapse of major financial institutions from September onwards, led to the stalling of economies worldwide. This precipitated a significant dampening of market sentiment in the remaining months of the year. In H2 2008, landlords adopted a more defensive position and tenant retention was given greater priority. Cost-cutting measures by occupiers and the first signs of sub-letting initiatives on excess space taken up during the expansion fervour in the past year were evidenced.

Vacancy rates for all micromarkets generally trended up throughout 2008, although as at Q4

AVERAGE OFFICE OCCUPANCY RATES



Source: URA, CBRE Research

08, the vacancy rates for the various micromarkets were still low – in the 3%-4% range. Most notably the Grade A vacancy hovered below the 1.0%-mark throughout the year – with the exception of Q3 08 when it rose to 1.2%, before dipping again in Q4 08 to 0.9%. By comparison, Grade A vacancy was 0.2% in Q4 07.

The extraordinary pace of growth seen for prime office rents in the past three years (24% in 2005, 53% in 2006 and 96% in 2007 respectively) was clearly not sustainable and rental growth slowed in H1 2008 before rents peaked in Q3 08. The market is now on a down cycle with prime office rents in Q4 08 suffering the sharpest quarterly correction in rents on record. This now stands at an average of $12.90 psf/month. As a result, on a year-on-year basis, prime rents fell 14.0%.

Similarly, a 12.5% y-o-y drop was seen for Grade A rents as they fell to an average of $15.00 psf/month in Q4 08, down from $17.15 psf/month at end-2007.

Not surprisingly, the office investment market turned subdued in H2 2008. Transactions are likely to be few and far between in the next few months, but there is hope that investors may return in 12 to 18 months when sentiment recovers, prices look more attractive and liquidity returns.

Under the GLS programme, only three transitional office parcels were sold in 2008 (total $81.89 million) versus 11 commercial parcels in 2007 that could yield office space ($6.55 billion) – a 98.8% reduction in total transaction value. No sites were sold in the last quarter of 2008. The Mohamed Sultan Road transitional office site closed on 14 October, with only a single low bid of $4.65 million ($46.66 psf /plot ratio) submitted by RSP Architects Planners & Engineers (Pte) Ltd. It was not awarded. Another transitional office parcel at Mountbatten Road was transferred to the Reserve List before its tender closing date. The government appears to be revising its policy of "pump priming" office supply through significant releases of land.

In the next 12 to 18 months, expect a market where lease renewals out-number relocations. Tenant retention will be top priority for existing landlords. Shadow vacancy (e.g. sublease space) will rise, although the overall volume of such secondary space is as yet not that significant. The biggest threat to the office market may well be job attrition – not only from the key financial services sector but also from supporting business services. Business failures

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will of course serve to compound this threat. In the event that job losses spiral, then we will witness an increase in subletting, surrenders and demand for office space will be depressed.

Corporates are under severe pressure to contain and reduce costs. The reality in the Singapore office market is that many tenants with renewals and rent reviews falling next year under leases committed three to four years ago, will still be faced with rents that could potentially increase by some 75% to 150%. We expect some fairly robust lease negotiations. Take-up in new developments will inevitably be sluggish until demand improves and tenants are able to secure capital expenditure approvals to relocate. It will be highly competitive. Rents will continue to fall through 2009.

In previous cycles, the shoots of recovery in the office market have often been the premises commitments by merging banks and other professional services firms. Decisions on matters such as office co-location usually require a reasonable lead-in time post-merger, when the desired headcount is firmed up, business leaders are in place and confidence is seeping back. It is probably way early in the process now, but announcements of large office commitments arising from some of the recent mergers could be forthcoming.

Despite the current climate, we should not underestimate Singapore's underlying strength. The down cycles in the office market here have always been short (around 2 to 3 years). Tenants who recognise this and are in a position to move on attractive office opportunities when they emerge could do very well.

In trying to assess when the market will turn positive again, one could look to occupier demand and take-up as the best metric for the office market's relative health rather than concentrate on prices and rents.

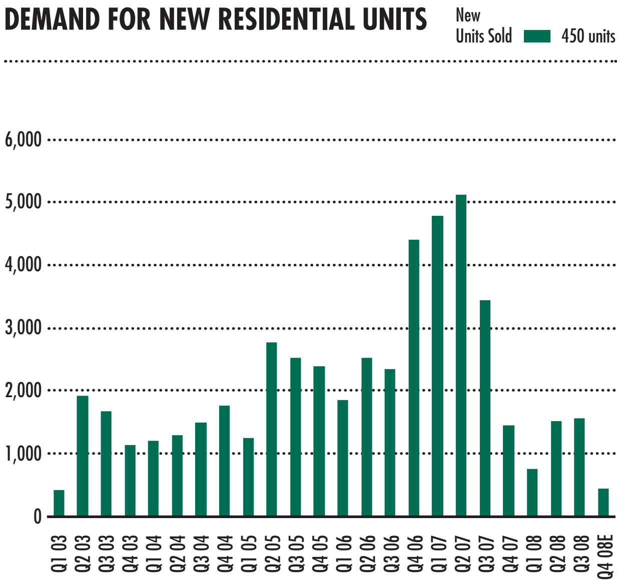
RESIDENTIAL

RESIDENTIAL PRICES HEADING TOWARDS DOWNCYCLE

The financial crisis started in mid-2007 when overstretched US homeowners began to default on their loans known as 'sub-prime' and started a chain reaction which led to banks refusing to lend to each other. The credit crunch climaxed in a financial tsunami in September 2008 when it brought down giant financial institution, Lehman Brothers, and the near-collapse of both insurance giant AIG and Citigroup. Property prices began to fall as hyper-inflated housing bubbles in several major cities burst. Singapore was not spared.

In stark contrast to a record high of 14,811 new homes sold in 2007, only 4,300–4,400 new homes were sold in 2008. Preliminary estimates for the fourth quarter URA residential price index showed a decline of 5.7%, which translates to a total fall of 4.3% y-o-y, after a 31.2% increase in 2007. The shrinkage in sales volume and home prices clearly reflected a loss of confidence in the market. Developers were hesitant to launch new projects because of the expected lukewarm

DEMAND FOR NEW RESIDENTIAL UNITS



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

response from homebuyers and the difficulty of pricing their projects in a down market. As the Singapore economy slid into a technical recession from the third quarter, potential buyers stood on sidelines all the more, in anticipation of further price cuts.

Of the four quarters in 2008, the fourth quarter showed the weakest performance with only 600–800 new homes launched compared to an average of 1,800 new homes launched in each of the earlier three quarters. The poor sentiments led to a take-up of 450–500 new homes, in contrast to an average take-up of 1,280 homes in each of the previous three quarters.

The projects that did well in 2008 were largely situated at the city-fringe, featuring small units of 450 sf–900 sf so that the quantum was affordable. For example, four projects in the Little India neighbourhood were fully sold within the price range of $1,000 psf–$1,250 psf. They were Suites @ Owen (20 units), Citigate Residence (28 units), Suites 123 (37 units) and Urban Lofts (46 units). In the luxury segment, Nassim Park Residences was launched in May 08 at $2,900 psf on the average and 68 units were sold out of the 70 released. Another 30 units were held by the

SELECTED RESIDENTIAL PROJECTS THAT WERE LAUNCHED AND FULLY SOLD IN 2008

Project	Location	Type	Tenure	Launch Date	No. of Units in Devt	Average Price psf	Developer
Espira Spring	Lorong G Telok Kurau	Apt	Fh	Jan-08	30	$865	Aspial Corporation
Wilkie 80	Wilkie Road	Apt	Fh	Jan-08	50	$1,530	Macly Pte Ltd
Cosmo	Guillemard Lane	Apt	Fh	Feb-08	45	$1,050	Dakota Development
Suites @ Owen	Owen Road	Apt	Fh	Mar-08	20	$1,250	Macly Pte Ltd
Blu Coral	Lorong L Telok Kurau	Condo	Fh	Mar-08	79	$800	World Class Land
Stadia	Yio Chu Kang Road	Apt	Fh	Mar-08	56	$850	Asimont Development Pte Ltd
D'Casita	Lorong Marzuki	Apt	Fh	Apr-08	39	$850	Ecco Development Pte Ltd
Zedge	Akyab Road	Apt	Fh	May-08	102	$1,230	Macly Pte Ltd
Vogx	Dorset Road	Apt	Fh	May-08	29	$950	World Class Land
Citigate Residence	Rangoon Road	Apt	Fh	May-08	28	$1,030	Springlife Development Pte Ltd
Suites 123	Rangoon Road	Apt	Fh	Jun-08	37	$1,050	Macly Pte Ltd
Urban Lofts	Rangoon Road	Apt	Fh	Aug-08	46	$1,000	Macly Pte Ltd
Kent Residences	Kent Road	Apt	Fh	Apr-08	13	$970	Oxley Group

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developer. It was the only luxury project that sold well this year because of its prestigious address, relative attractiveness of its price level compared to other luxury projects and quality of the product. Six major mass-market projects were launched during the year, priced between $600 psf and $900 psf. They were Waterfront Waves (405 units), Clover By the Park (616 units), Kovan Residences (521 units), Livia (724 units), Woodsville 28 (110 units) and Rosewood Suites (200 units). As at end-2008, they were 20%–46% sold.

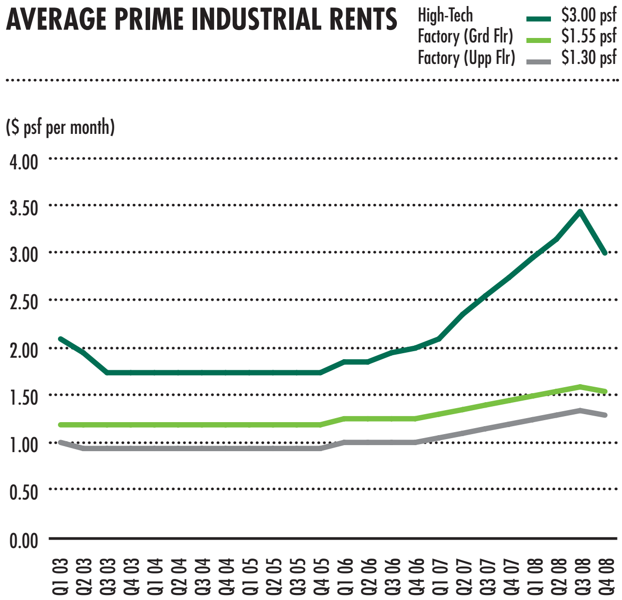
The decline in sales volume was also mirrored in the secondary market. Some 7,400–7,600 resale transactions and 1,600–1,650 sub-sales were recorded in 2008, a far cry from the 20,985 resale transactions and 4,863 sub-sales seen in 2007.

Our basket of properties showed that the greatest fall in home prices in the last 12 months was seen in the luxury segment. New projects that were under construction registered a fall of 30.0%–35.0% for the luxury homes in prime districts 9 and 10 and a fall of 10%–13% for those in Marina Bay and Sentosa Cove. For existing housing stock, luxury prices have declined by 20.0%–25.0% y-o-y, followed by a 10.0%–15.0% decline for prime prices and a decline of 10.0%–12.0% for suburban prices.

As a result of the weak response to new launches, coupled with no change in the plot ratios of low-rise locations in the Master Plan 2008 Draft released by the government in May 2008, developers did not have an appetite for development sites. Only nine sites were purchased from private supply and eight from the Government Land Sales (GLS) Programme, compared to the 135 private and 14 GLS sites purchased in 2007. Some of the collective sale sites which were acquired in 2006 and 2007 were converted to rental homes since developers were not in a hurry to launch the new projects. These include Flamingo Park, Fairways, Grangeford, Leedon Heights, Lucky Tower and Sophia Court. Among the GLS sites purchased this year, the sites located at Lorong 2/Lorong 3 Toa Payoh, Tanah Merah Kechil Avenue, The Pinnacle in Sentosa Cove and West Coast Crescent were the more prominent ones. Responding to the lack of interest from developers to acquire development sites, the government has placed all the residential sites that are for sale in the first half of 2009 (H1 2009) on the reserve list. This means that a site will only be put up for sale if a developer applies for it by offering a minimum land price that is acceptable to the government. Most of the sites on the H1 2009 reserve list were carried forward from the unsold sites in the 2008 confirmed and reserve lists.

Going forward, the stalemate created by the global financial crisis will lead, or has already led, the major economies into recession. The Singapore government has forecasted recession in 2009 and that GDP growth will range from minus 2% to 1%. We expect the current depressed mood to continue as market players have lost confidence in the market. The first quarter of 2009 is likely to be a slow quarter as it will be interrupted by the Chinese New Year celebrations. Although developers have lined up several projects for launch, we expect them to focus their attention on clearing the unsold units in the projects that are currently on the market. While it is inevitable that home prices are heading downwards, we expect that only selective projects will see drastic price cuts. Home prices are expected to decline by 10.0% to 15.0% across the board in 2009. The fall in prices may encourage sales and push take-up volume to 5,000 to 6,000 units for the entire year.

AVERAGE PRIME INDUSTRIAL RENTS



Source: CBRE Research

INDUSTRIAL

A MIXED YEAR FOR INDUSTRIAL PROPERTIES

Year 2008 got off to a good start with rents, capital values and occupancy rates on an upward climb. However, the depressed global economy and manufacturing sector put a halt to the rising rents and capital values in the second half of the year. JTC's $1.7 billion divestment sale helped prop up the investment market for industrial properties, making up about half of the total industrial property investment sales in 2008.

Monthly rent for hi-tech spaces rose by 9.1% y-o-y but fell by 13.0% q-o-q to $3.00 psf at year-end. In Q3 08, hi-tech rents reached a peak of $3.45 psf/month. The robust performance of the hi-tech property sector was due to surging office rents that pushed qualifying office tenants to relocate some of their operations in hi-tech buildings or business parks. However, the collapse of several financial institutions as well as job cuts undertaken by the surviving banks drove down demand and rents for office space. This in turn had a negative impact on demand and rents for hi-tech and business park spaces from office tenants.

At end-2008, average occupancy rates for hi-tech and business park spaces were at their record highs. The average occupancy rate for hi-tech space increased by 2.2 percentage points y-o-y to 95.0% while the average occupancy rate for business parks is expected to jump from 89.4% at end-2007 to an estimated 94.7% at end-2008.

During the fourth quarter of 2008, the average monthly rents for ground floor factory units rose by 6.9% y-o-y but fell 3.1% q-o-q to $1.55 psf. At the same time, the average monthly rent for upper floor factory units increased by 8.3% y-o-y but dropped by 3.7% q-o-q to $1.30 psf.

Likewise, the average monthly rent for ground floor warehouses increased by 3.4% y-o-y and fell 3.2% q-o-q to $1.50 psf. Upper floor warehouse

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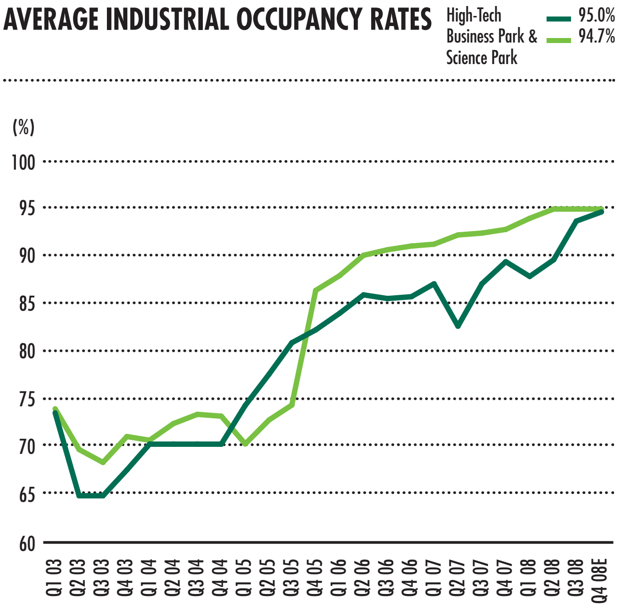
units was $1.20 psf/month at year-end, a y-o-y increased of 4.3% but a q-o-q decline of 4.0%.

The average capital values for 60-year leasehold strata-titled factory units fell by about 10.0% q-o-q and about 0.5% y-o-y to $278 psf for ground floor units and $203 psf for upper floor units. The average capital values for freehold warehouses decreased by 10.0% q-o-q to $412 psf and $361 psf for ground and upper floor units respectively. The average capital values for such warehouses declined by 2.8% y-o-y for ground floor units and 2.4% y-o-y for upper floor units.

During the year, a total of five industrial sites were awarded for a total of $107.6 million. The five sites can yield a total maximum GFA of 131,591 sm (1.42 million sf). Two sites were awarded in the fourth quarter. The 60-year leasehold site at Ubi Avenue 4 was awarded to Sim Lian Land for $26.3 million ($85 psf/plot ratio) while Orion-Four Development won the award for a 60-year leasehold site at Kallang Pudding Road for $10.8 million ($70 psf/plot ratio).

A 30-year leasehold site in Tampines Industrial Avenue 4 was transferred from the confirmed list for the second half of 2008 to the reserve list for the first half of 2009. Two new sites, located at Kaki Bukit Road 2 and Woodlands Industrial Park E5/Woodlands Avenue 4, were introduced to the latest reserve list. The five remaining sites from the previous reserve list were brought over to the reserve list for the first half of 2009. As such, the reserve list for the first half of 2009 comprises eight industrial sites that can yield a total maximum GFA

AVERAGE INDUSTRIAL OCCUPANCY RATES



Source: CBRE Research, URA

Note: For high-tech space, the average occupancy rate is derived from our basket of high-tech buildings.
For business park & science park space, the average occupancy rate is based on URA data.

of 258,988 sm (2.79 million sf). The use of only the reserve list gives the market some flexibility over the supply of industrial space and gives developers a much needed breather.

The largest investment transaction for industrial properties that took place during 2008 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 hopes to attract more private sector participation in the industrial property sector after the divestment exercise.

During the year, A-REIT made a few large purchases that included Rutherford & Science Hub ($51.5 million or $244 psf), Acer Building ($75.0 million or $344 psf), SENKEE Logistics Hub Phase II ($62.9 million or $135 psf) and 31 International

Business Park ($246.8 million or $456 psf). Other noteworthy transactions included the purchase of 46A Tanjong Penjuru by Asia Property Fund for $115.2 million ($191 psf) and the sale of 29 Tai Seng Avenue to CIT for $55.2 million ($260 psf).

Economic recovery is likely to elude Singapore in 2009 and in turn, rents and capital values across all classes of industrial properties are expected to continue to drop. The Singapore government had announced that GDP for the coming year is projected to be between -2.0% and 1.0%.

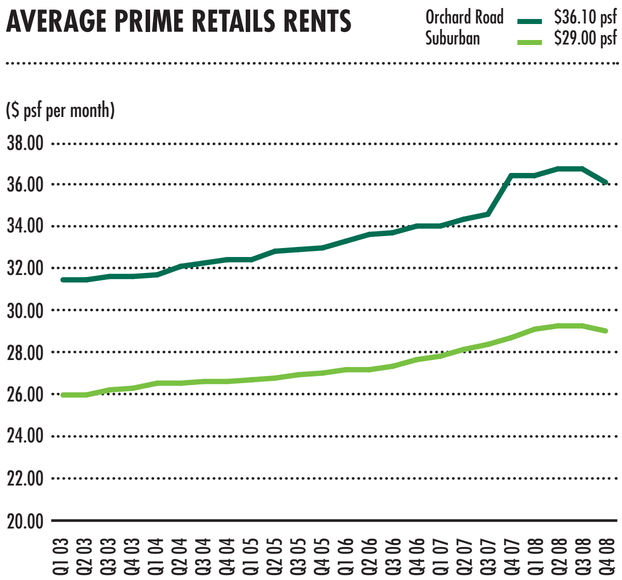
Following the fallout from the financial crisis and the subsequent liquidity crunch, investment appetite for industrial properties has been curtailed. There will be investment interest in industrial properties but availability of financing will be a critical factor. Buyers are more selective but single-user purpose built business park buildings with a strong rent stream are likely to still catch their attention.

RETAIL

RENTS DIPPED AS SENTIMENTS TURNED AND IMMINENT SUPPLY LOOMS AHEAD

In H1 2008, new malls, newly created space in existing malls and unconventional locations attracted keen leasing interest from retailers looking for expansion space as well as new entrants. Although supply is imminent, retailers and landlords were generally upbeat about the outlook for the sector, given the higher tourism figures projected, a booming economy then as well as a series of initiatives such as the revamping of Orchard Road, GSS, the F1 night race etc.

AVERAGE PRIME RETAILS RENTS



Source: CBRE Research

The escalation of the global financial crisis in Q3 08 led to a turnabout in sentiments. The economic recession has led to a reduction in tourist arrivals to Singapore. Local consumers, spooked by the prospect of losing their jobs and a slash in wages, have cut back on spending. Retailers are more resistant to further rental increase. Developers and landlords, especially those with developments along Orchard Road, are facing increasing competition from the imminent supply of new malls, shops within the IRs as well as refurbished shopping centres. According to CBRE's estimates, known supply for 2009 to 2012 totalled 6.36 million sf, with the bulk of the supply at about 80.5% or 5.13 million sf, completing in 2009 to 2010.

In the final quarter of the year, retailers and landlords channelled their efforts to formulating sales & marketing strategies to boost sales receipts. They were hoping that the year-end festive spending might jolt to life the lacklustre retail scene.

The food & beverage segment played an important role in this year's retail scene. Specialised foodcourts are making an appearance in various new and refurbished malls. For example, Orchard Central will feature The Med, of which 75% of the area will be dedicated to F&B use, while the revamped Jurong Point basement has a new Japanese food street.

Destination dining features prominently in Singapore's increasingly cosmopolitan food scene. In addition to established dining locations like Dempsey, Portsdown Road, Rochester Park and Sembawang Park, vacated institution buildings such as schools are also being used as quirky destination spots. SLA is offering these empty buildings on a short term lease for adaptive commercial use. F&B operators who took up the space were attracted by the laidback ambience of these venues as well as the availability of ample parking.

Shop openings in the fourth quarter include a Nike store at Wisma Atria (8,000 sf), Sephora in Ngee Ann City (3,200 sf) and the first National Geographic store in Asia at VivoCity (16,146 sf). NTUC Fairprice opened its third hypermart, Fairprice Xtra, in Jurong Point's new extension in late December 08. The IKEA store at Alexandra Road underwent a $25-million refurbishment, increasing the floor area from 29,063 sf to 40,817 sf. Over at Plaza Singapura, the 15,000-sf space previously occupied by John Little was cut up and replaced by a cluster of specialty shops.

Monthly Prime Orchard Road rents averaged $36.10 psf, down 1.9% q-o-q from that in Q3 08. This is the first time that Prime Orchard rents headed south since Q4 03. Prime Orchard Road rents contracted 0.8% y-o-y in Q4 08, a reversal of the 5.4% growth seen in 2007.

Prime Suburban rents dipped by a more moderate 1.0% q-o-q to average $29.00 psf/month in Q4 08. The last time we saw a contraction in quarterly Prime Suburban rents was in Q2 99. Rents in Prime Suburban malls grew 1.0% y-o-y in 2008.

Retail rents were resilient in previous economic downturns (SARs, Asian Financial Crisis) due to limited supply then. But going forward, weak demand is likely to coincide with the increase in supply. As such, downward pressure on rents is unavoidable. We expect re-negotiations to commence in 2009, after the Chinese New Year festivities.

Prime Orchard Road rents could contract by -5% to -10% in H1 2009. For Suburban malls, a -2% to -3% rental consolidation is likely. Rentals for suburban malls will decrease more moderately due to a ready population catchment, steady demand for basic necessities sold at suburban malls as well as comparatively less competition from new supply.

It is indeed challenging times ahead for most retailers due to the bleak economic outlook. They will have to brace themselves for a reduction in tourist arrivals and possibly weak consumer spending locally, should the recession be prolonged. However, this could be mitigated by some resilient retailers who take the opportunity of lower rents and costs to expand their retail network. Certain trades will continue to thrive, despite the gloomy outlook. Supermarts, hyper marts and F&B in suburban malls might emerge more hardy, particularly those with unique F&B themed eateries.

With tourism numbers expected to decline, retailers will need to look at ways to retain or boost local consumption especially on non-essentials like luxury goods and fashion items. They will have to develop schemes to attract the local dollar. Landlords too have to play a more active role in improving customer's services, offering fit out incentives as well as promotions to drive more customers into their malls/shops.

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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