

**QUICK STATS**

	Current	Change From Last	
		Yr	Qtr
<b>OFFICE</b>			
Prime rents	\$4.00psf	↓	↔
Prime capital values	\$980psf	↓	↔
Prime yields	3.31%	↓	↔
<b>RESIDENTIAL</b>			
Prime rents	\$2.30psf	↓	↔
Prime capital values	\$750psf	↓	↔
Prime yields	3.08%	↓	↔
<b>INDUSTRIAL</b>			
Prime rents	\$1.08psf	↓	↔
Prime capital values	\$295psf	↓	↔
Prime yields	2.84%	↓	↔
<b>RETAIL</b>			
Prime rents	\$31.70psf	↑	↑
Prime capital values	\$4,550psf	↔	↔
Prime yields	6.65%	↔	↔

**CB RICHARD ELLIS**

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**INVESTMENT SALES**

**2004 INVESTMENT SALES MAKE PROMISING START IN FIRST QUARTER**

An impressive first quarter total of \$964.11 million was chalked up for this year's investment sales, substantially exceeding the half-billion-dollar level as well as the levels of the debut quarters in the previous two years. The amount registered a significant 171% improvement from the same period last year even though it was a 32% decline on a quarterly basis. Reflecting the improved investment sentiment, the Straits Times Index traded above 1,800 points during the quarter, a level not seen since April 2002. Investment sales were solely of private sector properties as there were no government land sales in the first quarter.

The residential sector led the way with a 49% share or \$469.10 million of total investment sales. This is 58% more than the \$291.17 million registered for the same period a year ago. Good Class Bungalows (GCB) were actively transacted in the quarter and made up 18.4% or \$86.49 million of residential investment sales. Residential land sales of over \$5 million

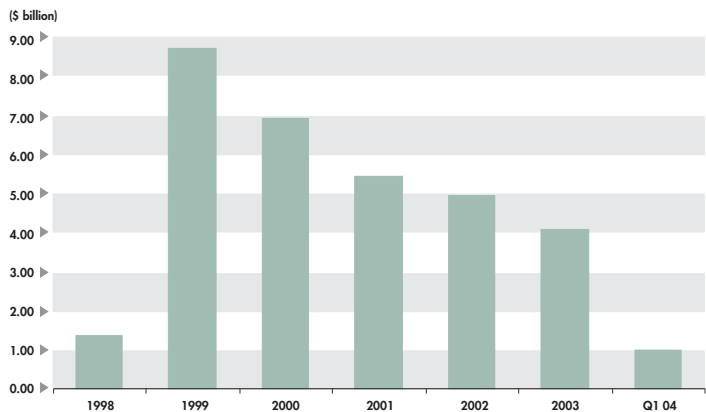
came from 20 transactions, 10 of which were in the GCB sector. The momentum from the preceding quarter, when there were 22 transactions (of which seven were for GCBs), appears to have been sustained.

Significant residential transactions included the Tanjong Rhu development site (purchased for \$51.9 million by CapitaLand), Woodsville Court and an adjoining site (\$38 million by Centrepoint Properties), the Amber Close site (\$35.1 million by Marco Polo Developments) and Wilby Residence condominium (\$185 million by Tan Chong International). There were nine collective sale sites and eight single-owner sites launched in the quarter, more than in the previous quarter. This is perhaps an indication of property owners' willingness to consider lower margins in the current market.

The commercial sector contributed \$373.67 million or about 39% of total sales, a vast improvement from the same period last year since there were no transactions then. Retail

## MAJOR PROPERTY INVESTMENT TRANSACTIONS

Total Investment Sales \$0.96 billion



Source: CB Richard Ellis Global Research & Consulting

sector sales made up 50% of this total, fairly close to the 56% share achieved for the whole of 2003. Office sector transactions accounted for the remaining 50%.

The major commercial sales for the quarter were 268 Orchard Road and NTUC Hougang Mall, which made up 86% of total commercial sales. The former was acquired by Ngee Ann Development from CapitaLand Commercial for \$135 million or \$1,018 psf. This freehold property located at the heart of prime Orchard Road has a lettable area of 132,605 sq ft. Pricoa Real Estate Investors (Asia) (previously known as GRA), through its Asian Retail Mall Fund, bought NTUC Hougang Mall for \$188 million in the biggest commercial deal of this quarter. The price works out to \$1,205 psf based on the 99-year leasehold property's 156,000 sq ft of lettable space. A few strata office sales at Thong Teck Building and Suntec City were also registered during the quarter.

Notably, there were more commercial properties launched for sale during the first quarter alone compared with the whole of 2003 although most were Grade B office buildings.

Examples of these were Wisma Sugnomal, Dapenso Building and The Globe.

Industrial investment sales generated the remaining 12% or \$115.88 million, nearly double that in the same period last year. This was dominated by two transactions that accounted for about 94% of the total industrial sales. One was Siemens Center, acquired by Ascendas Real Estate Investment Trust (A-REIT) for \$65.75 million and would be added to its stable of properties. Based on a net floor area of 305,447 sq ft, the price works out to \$215 psf. The other was the acquisition of 52 & 54 Genting Lane by Ruby Land Pte Ltd for \$43.53 million (\$128 psf). A-REIT continues to be a major purchaser in the industrial sector.

With economic growth projected to be 3.5–5.5%, investment sentiment is expected to improve in tandem. The residential sector is likely to remain active while institutional investors will continue to be key players for large ticket deals as seen in the first quarter's major transactions. The proposed listing of CapitaLand Commercial Trust in May this year will set the tone for investment activity in the commercial office sector. Overall, the REIT sector is expected to again lend major support to investment sales for the rest of the year.

## OFFICE

### RECOVERY OF PRIME OFFICE MARKET STAYS ON COURSE

The recovery of the prime office market, which began in the final quarter of 2003, continued to be on track in the first quarter of 2004. During the first three months of this year, there was an increase in leasing enquiries for prime office space, especially

for top quality office space. The focus on the prime office segment was in large part due to a flight to quality, prompted by rentals that were at a historical low. Leasing interest in the non-prime office market remained fairly subdued in the first quarter.

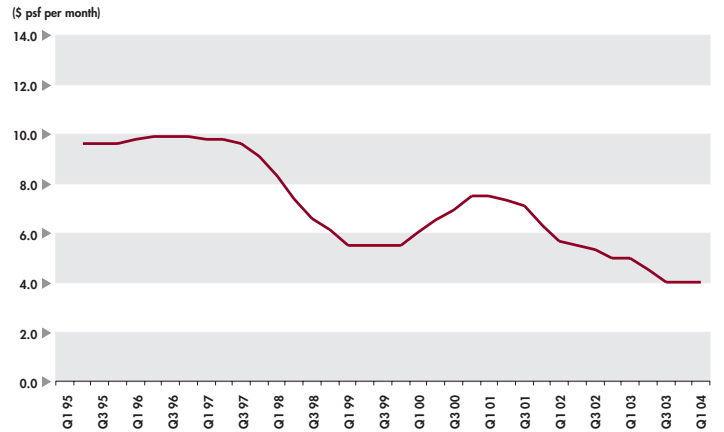
Most encouragingly, the level of interest from occupiers rebounded far stronger than expected in the first quarter. Foreign banks and IT companies have been particularly active, but there were signs that the enquiries were becoming more broad-base. This is partly due to an easing of capital expenditure restrictions that limited movement by occupiers in the last two years. In addition, we noted that a number of companies were also hiring again.

That said, there is typically a time lag before a significant number of deals can be concluded. As such the increase in enquiry levels has yet to contribute significantly to actual additional market demand. We estimate that the islandwide occupancy remained unchanged at about 82% at the end of the first quarter. Total islandwide vacant space was approximately 12.58 million sq ft.

As sentiment improved, we observed that some office landlords gained greater confidence and tested out higher asking rents. To date, this has met with significant resistance from potential tenants. By the end of the first quarter, prime office rents remained at \$4.00 psf on average, same as the previous quarter.

In the strata-titled sales market, there was the private launch of the small-office home-office (SOHO) units at Central located above the Clarke Quay MRT station. Fifty-nine units were made available for sale at an average price of about \$980 psf. A yield of about 6% is expected to be achievable for these

### AVERAGE PRIME OFFICE RENTS



Source: CB Richard Ellis Global Research & Consulting

SOHO units, higher than the 4% average yield for other strata-titled office units. There was only one building sale in the quarter – the freehold 268 Orchard Road, purchased by Ngee Ann Development from CapitaLand for \$135 million or \$1,018 psf. It is noted that the estimated going-in yield at this price is 3–4%.

Looking ahead, we anticipate that a two-tier market recovery will develop through the rest of 2004. While the prime office segment will continue to see improvement in demand, the non-prime segment is likely to face continued depressed demand. On a positive note, improvement in the economy is widely anticipated and that should augur well for office space demand as it is closely correlated with economic growth. The government estimates GDP growth of between 3.5% and 5.5% in 2004, with a high probability of achieving the upper-end growth rate.

The 2004 Government Budget announced in February includes a reduction of corporate tax from 22% to 20%; an extension of the period for preferential tax treatment for regional

headquarters and pioneer companies in Singapore; and tax exemption for local business start-ups. All these measures can be seen as pro-business that would make Singapore more attractive for companies to operate in. We also observed that government agencies such as the Monetary Authority of Singapore and the Economic Development Board have been particularly active in encouraging multinational corporations to increase their presence in the Republic. This would benefit the office sector in the medium to long term.

New office construction over the next five years will average only around 0.55 million sq ft a year, substantially below the 10-year historical annual average of 2.3 million sq ft. The tighter new supply situation should support recovery in the office market over the next few years. As demand starts to recover, occupancy will improve and prime office rents will climb up 5% by year-end, with the possibility that the top quality buildings may achieve even higher growth. For the non-prime office market, the likelihood of rental growth remains distant until islandwide occupancy rises significantly.

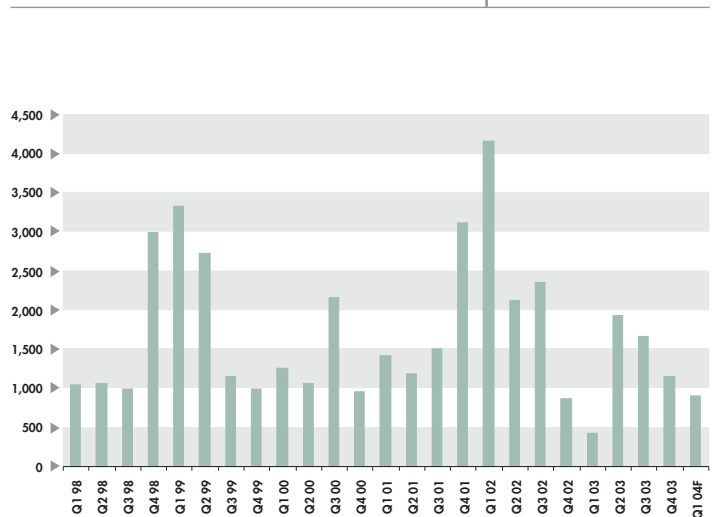
## RESIDENTIAL

### LACK OF ACTIVITY IN RESIDENTIAL MARKET ONLY

#### TEMPORARY

Buying activity in the residential market continued to remain low-key in the first quarter despite a more positive forecast of 3.5–5.5% economic growth for 2004 compared with 1.1% the year before. However, this lack of activity is expected to be temporary as market confidence was lagging behind official economic projections. Confidence levels will eventually pick up when there are clearer signs of economic recovery

### DEMAND FOR NEW RESIDENTIAL UNITS



Source: CB Richard Ellis Global Research & Consulting  
Note: Figures exclude ECs

and more employment opportunities, and in turn, so will the market.

Out of the 900–1,000 new homes released for sale in the first quarter, around 500 units were sold. Another 350–400 units were sold from existing projects. This brings the total number of new homes sold to around 850–900, which is about 20–25% less than the 1,143 units sold in the previous quarter, but double the 427 units sold in the first quarter of 2003.

A reflection of the cautious market, developers and buyers appeared to be playing a waiting game. Developers were holding back the launch of several big projects until there were more evident signs of a strong demand. Most of the new project launches in the quarter were therefore smaller freehold projects of 30–50 units situated in non-prime locations. There were no new 99-year leasehold suburban mass-market projects launched. On the other hand, homebuyers seemed to be waiting for more definite price trends and further price cuts on existing projects.

In addition, the flexi-wage proposals announced by the government introduced an element of uncertainty among buyers as it was not clear how banks would then assess creditworthiness and issue home loans. However, this is short-term as we expect banks to come up with innovative solutions even if the flexi-wage policy is adopted widely since mortgage loans are a mainstay of their business.

However, developers who did not hold back and adopted a competitive pricing strategy for their projects were rewarded with good sales. Three projects that sold well were De Royale, Grange Residences and Haig Court, all freehold.

De Royale, a 204-unit condominium with full facilities by the Hoi Hup Group, was priced at \$590 psf when historical prices of apartment projects in the neighbourhood were between \$650 psf and \$700 psf. Some 80% of the units were sold over three weekends. Marco Polo released one batch of units at Grange Residences in January at around \$1,000–1,100 psf and 45 units were sold. The rest of the units in the luxury condominium were launched officially in March at around \$1,200 psf and over 20 units were sold. Sales were good because the price increase was marginal while the project offered premium location and quality. Great Eastern Life sold 80 out of 360 units at Haig Court in one week at an average price of \$610 psf. The price was a draw because it was earlier expected to be around \$650 psf. Both Grange Residences and Haig Court received their Temporary Occupation Licences during the quarter.

There was also a downward moderation in the prices of relaunched projects. The 20 unsold units at Holland Mews were relaunched at \$820 psf, down from its original price of \$900 psf last year. The remaining 70 units of Parc Haven were offered

at \$520 psf, down from its previous average price of \$695 psf. As a result of these competitive prices in both new and relaunched projects, the URA's advance estimate of its residential price index indicates a fall of 0.4% in prices in the first quarter.

In the rental market, the high-end sector comprising bungalows and luxury apartments appeared to be more stable because of the limited supply. However, rentals for non-prime and suburban properties – apartments and condominiums in particular – were rather soft. This could be attributed to a larger supply and the conversion of more expatriate pay packages to local terms. More expatriates were seen opting for apartments outside the prime area where more choices are available and therefore, rents are attractive. Developments that are near MRT stations are generally easier to rent out.

Market sentiment and home sales should improve in the second quarter because economic fundamentals are strengthening. Some of the new launches expected are 99-year leasehold condominium MeraPrime and freehold projects like Hillvista, Ris Grandeur, The Paterson and the development at the former King's & Queen's Flats. We expect the supply of 99-year leasehold projects to be limited. Potential homebuyers who are keen on such homes will have to look at projects that are already in the market or older developments in the secondary market. Home prices will remain competitive as developers find ways to boost sales volume.

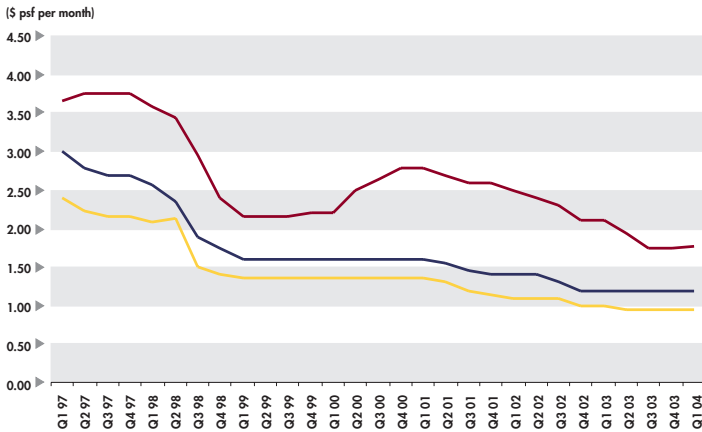
## INDUSTRIAL

### SELECTIVE IMPROVED DEMAND IN INDUSTRIAL MARKET

The industrial sector saw some positive signs in the first quarter of 2004. Sentiment was boosted by the continued growth in

**AVERAGE PRIME FLATTED FACTORY RENTS**

High-Tech \$1.78 psf  
 Ground Floor \$1.20 psf  
 Upper Floors \$0.95 psf



Source: CB Richard Ellis Global Research & Consulting

the manufacturing industry as Singapore’s non-oil domestic exports expanded by 3.6% in January and a stronger 11% in February. We recorded a 10–15% increase in the number of enquiries for industrial space even though the first quarter is traditionally a slow period because of the festive holidays. Demand for high-tech/business and science park space expanded moderately.

Some companies in the electronics sector and those in the support industries took up new space in high-tech/business and science park buildings. However, for the majority of these companies, the moves were relocations from their existing older premises to newer or better quality accommodation rather than expansions.

Higher occupancy rates were recorded for several such buildings. These included Corporation Place, Tech Point, Tech Link, NCS Hub and NorthTech as well as The Signature at Changi Business Park and Galen (Phase 2) at Singapore Science Park. At the end of the first quarter, the average occupancy rate for high-tech space rose to 70.4% from 67.5%

three months ago. For the business and science park segment, the average occupancy increased by about one percentage point to 76–77%.

Sales of factory units were more muted in the first quarter. There were 95 factory caveats lodged, against 184 in the same period a year ago. The slower sales could be attributed to fewer new industrial launches especially those with 60-year leasehold tenure. Because of their more affordable prices, these properties are usually a major contributor to the sales number.

Despite the improved sentiment, rents and capital values of industrial space remained unchanged in the quarter. At end-March, the average monthly rent for prime conventional flatted factories continued to hold at \$1.20 psf for ground floor space and \$0.95 psf for upper floor space. Rents for high-tech space also stayed the same at \$1.75 psf per month. This is the third consecutive quarter for which rents were unchanged.

Similarly, capital values also remained flat. The average capital value for prime freehold flatted factories was \$325 psf for ground floor space and \$265 psf for upper floor space. For prime 60-year leasehold space, the average value was \$220 psf (ground floor) and \$160 psf (upper floors).

The industrial sector is likely to see modest activity in the next quarter. However, rents and capital values are expected to stay at their current levels until the huge 36.5 million sq ft of surplus space is significantly absorbed. The prolonged structural change in manufacturing and the challenging economic environment will continue to weigh down demand as companies consolidate their space to reduce occupation costs. The volatile performance in the key electronics segment and

its short cycles also do not augur well for the sector as multinational corporations are likely to hold back their expansion plans. The bulk of the existing surplus supply is conventional factory space, for which demand is likely to continue to be soft. While demand in the high-tech/business park segments is expected to fare better, it is likely to remain selective in the near term despite the recent improved activity and occupancies.

## RETAIL

### BUOYANT INTEREST IN RETAIL SPACE UNDERSCORES

#### OPTIMISM

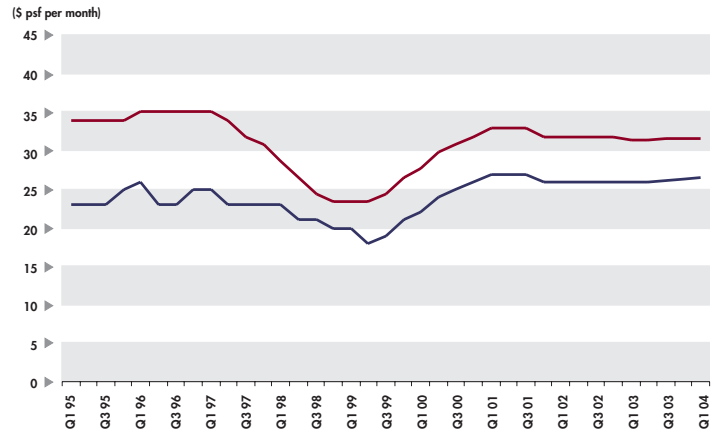
An increased interest in leasing retail space was seen in the first quarter of 2004 as retailers turned their attention back to their business plans after some four months of festive sales activities that ended at Chinese New Year in January. Many were keen to explore locations for expansion or new concepts. With the supply of good quality space being limited and occupancy remaining healthy, the average islandwide prime rent went up marginally, due to increases in Orchard and suburban prime rents.

The optimistic mood was also supported by a more bullish economic outlook for 2004 – growth was projected to be as high as 5.5% – as well as improved consumer sentiment and recovering tourist arrivals. Official data put January retail sales and tourist arrivals a shade better than a year ago.

To some extent, the rejuvenation of retail properties in the past 12–18 months has kept the retail market energized despite the tough times. Many retail developments have been

### AVERAGE PRIME RETAIL RENTS

Orchard Road \$31.70 psf  
Suburban \$26.50 psf



Source: CB Richard Ellis Global Research & Consulting

undergoing makeovers, ranging from major tenant changes to extensive overhauls. The refurbished malls have attracted interest from retailers who are constantly on the lookout for good quality environments to do business in. These malls had little difficulty leasing their new or vacated space. The take-up of developments still in the midst of revamps, such as Clarke Quay and Marina Square, continued to make steady and strong progress.

In the first quarter, many of the retailers in expansion mode were major chain stores aiming to increase their reach. In terms of trades, those that added outlets included supermarkets, food courts, education, beauty & fitness (e.g. gyms, spas, yoga centres) and entertainment. Food & beverage operators continued to drive demand for space and among them were those at the upper-mid-end that chose niche locations with unique flavours, such as “village hubs” and shophouse areas.

There were no new major retail developments completed in the first quarter apart from Orchard Point for owner occupation but marketing has already begun for some of the space that

will be ready in 2005. Although this makes up some 420,000 sq ft in total, only about 60% of the space comes from major projects in the city. One is Cathay Building in Dhoby Ghaut at end-2005 and the other, possibly ready in late 2005, is the Centrepoint extension in Orchard Road. As such, prime rents stayed firm in the first quarter. The average islandwide prime rent went up by 0.4% quarter-on-quarter to \$25.20 psf per month. This was supported by the increase in the average Orchard Road prime rent (up 0.3% to \$31.70 psf) and suburban prime rent (up 0.8% to \$26.50 psf).

Riding on the anticipation of better trading conditions for the rest of year,

retailers appear keen to expand or enter the market. Enquiries from overseas retailers also suggest their confidence in the Singapore market. Higher retail sales are likely in the second quarter as consumer sentiment and tourism arrivals are expected to improve further, and the annual Great Singapore Sale is scheduled in May/June. Leasing activity should gain greater momentum. Prime retail rents will remain on the uptrend during the year especially if business conditions continue to firm up against a limited supply situation. However, retailers are selective of locations and cautious about operational costs. Thus while the limited retail stock will put upward pressure on rents, there may be resistance to substantial rental increases.

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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

Average value derived from a basket of prime properties. For residential, industrial 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 YIELDS

Derived from corresponding average annual prime rent (after service charge and property tax) and average prime capital value.

Prime properties are in the following locations:

### OFFICE

Raffles Place and Marina Centre

### RESIDENTIAL

Districts 9,10 and 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)

## Singapore

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