

QUICK STATS

	Current	Change From Last	
		Yr	Qtr
OFFICE			
Prime rents	\$4.20psf	↑	↑
Prime capital values	\$980psf	↔	↔
Prime yields	3.53%	↑	↑
RESIDENTIAL			
Prime rents	\$2.30psf	↓	↔
Prime capital values	\$750psf	↓	↔
Prime yields	3.08%	↓	↔
INDUSTRIAL			
Prime rents	\$1.08psf	↔	↔
Prime capital values	\$295psf	↔	↔
Prime yields	2.84%	↔	↔
RETAIL			
Prime rents	\$32.30psf	↑	↑
Prime capital values	\$4,735psf	↑	↑
Prime yields	6.50%	↓	↔

CB RICHARD ELLIS

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* includes partner offices

INVESTMENT SALES

NINE-MONTH INVESTMENT SALES SURPASS LAST YEAR'S TOTAL

The investment market continued to perform well in the third quarter with selective buying interest across all sectors. Total investment sales for the quarter amounted to \$1.03 billion. The recovery in investment interest has brought total investment sales for the first nine months of this year to \$4.38 billion, more than the 2003 total of \$4.16 billion and marking the first upturn in investment activity since 1999.

All investment sales during the quarter came from the private sector, as no government land parcels were sold. The commercial sector led the way with \$368.27 million or 36% of total sales. The industrial sector continued to enjoy good sales momentum, largely driven by REITs-related purchases, and contributed \$309.42 million or 30% of total sales.

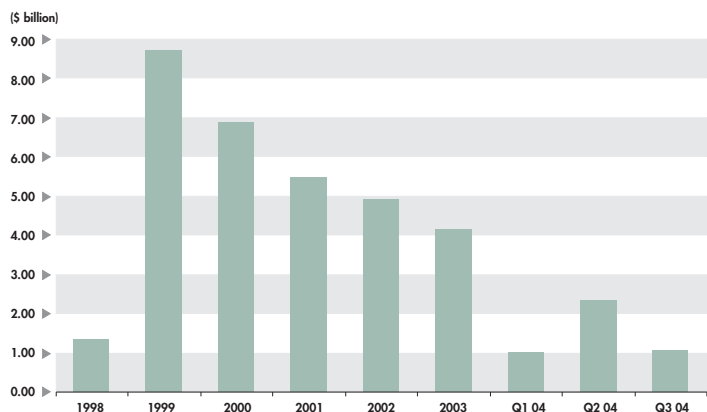
In anticipation of yield-accretive potential, investment interest in the office sector has improved significantly this year. During the quarter, four more office transactions adding up to \$207.38 million were concluded. 78 Shenton Way was sold to Ferrell Asset

Management for \$151 million or \$506 psf. The rental yield is estimated to be 5%, based on the current occupancy rate of 80%. Sinsov Building was acquired by investment fund MultiGrace for \$34.1 million or \$641 psf. The fund plans to increase the net floor area by 50% with the objective of enhancing the property value and yield. Three strata-titled floors in John Hancock Towers were sold in two separate transactions for a total of \$22.3 million. The 18th and 19th floors were sold for \$725 psf while the 20th floor fetched \$750 psf.

The retail sector remained a favourite among institutional investors. However, with limited stock, aggressive competition in acquisition activity has led to the compression of yields. The latest retail deal was the sale of Whitesands Shopping Mall, which drew five bidders. Asian Retail Mall Fund managed by PREI purchased the suburban mall for \$160.89 million or \$1,200 psf. Based on the forecasted income for 2005, the mall will deliver a yield in excess of 5.5%, without factoring in potential space from unutilised gross floor area.

MAJOR PROPERTY INVESTMENT TRANSACTIONS

Total Investment Sales \$1.03 billion



Source: CB Richard Ellis Global Research & Consulting

Twelve industrial properties changed hands in the third quarter. Institutional funds continued to dominate the market with eight purchases, which included four logistics buildings by Mapletree Investments, three by A-REITs and one by ProLogis, a US-based logistics player with its first investment in Singapore. As the competition for good quality properties increases, investors are now more flexible on the terms of purchase and are more willing to accept properties with slightly lower yields.

While there was still keen interest in residential development sites, developers remained very selective and price sensitive. As such, the residential sector only chalked up investment sales of \$246.48 million for the quarter. This is about one third of the amount in the previous quarter. Major deals included 1123 Serangoon Road (\$264 psf/plot ratio), Pacific View (\$309 psf/plot ratio), Kim Tian Plaza (\$352 psf/plot ratio) and Falcon Crest (\$671 psf/plot ratio). A few smaller development sites were also acquired – these were 19 Lincoln Road, 68 Mackenzie Road, and the collective sales of Palazzo Court and 74 Stevens Road. Apart from landbanking activity, there was the purchase of 15 apartments at Goodwood Gardens for

\$23 million by the Asia No 1 Property Fund for rental potential.

In the bungalow segment, activity slowed down. Having enjoyed much buying interest since late 2003, owners of Good Class Bungalows (GCBs) have raised their price expectations and caused the price gap between sellers and buyers to widen. As such, only four GCB transactions were recorded for the quarter.

As the market moves toward a more yield-driven pricing environment, we can expect demand from institutional investors to sustain investment sales in the future. In anticipation of more REITs to be listed and several attractive sites on the reserve list that may be bought in the next few months, investment sales activity should stay at a healthy level in the final quarter of the year.

OFFICE

PRIME OFFICE RENTS CONTINUE TO CLIMB

Prime office rents have increased again in the third quarter, the second consecutive quarterly increase. At end-September, the average prime office rent was \$4.20 psf, 3.7% more than that in the previous quarter and 5% higher than a year ago. For the first nine months of this year, prime office rents have risen by 5%.

In the third quarter, leasing interest in prime office space remained healthy. The level of enquiries was just as high compared to the previous quarter. This is a strong indicator of the underlying economic recovery since the beginning of the year. Demand for prime office space was mainly driven by companies in the finance and IT sectors. The flight-to-quality

factor has resulted in prime Grade A office space outperforming the rest of the market.

Given the strong economic performance and improving take-up, landlords of prime office buildings have become firmer on asking rents. While prospective tenants can still be selective, the increasing occupancy levels in prime office buildings mean that rentals within this segment of the market are set to increase further.

For the first three quarters of this year, occupancy of Grade A office space was boosted by an additional take-up of about 282,000 sq ft. At end-September, the average occupancy of Grade A office space was around 93%, up from about 88% at the beginning of the year and 92% three months ago. On the other hand, the islandwide occupancy remained relatively flat at around 83%.

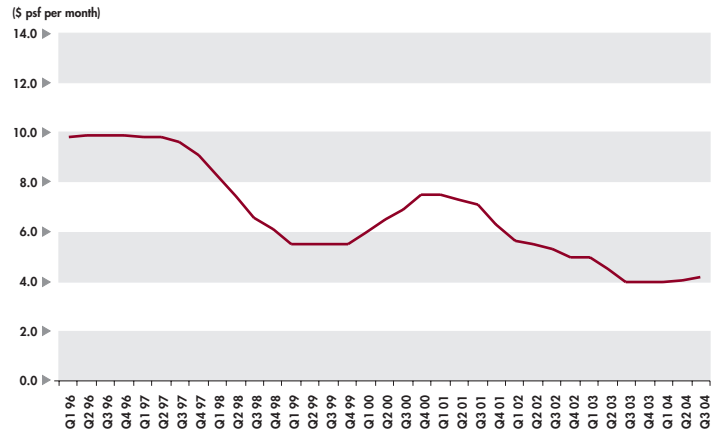
There were no new office completions in the third quarter. Over the next 12 to 15 months, new construction of office space will be limited – about 0.73 million sq ft – and much less than the 10-year average annual new supply of 2.30 million sq ft. This should help to underpin the overall recovery of the office market.

The 3.55-hectare Business and Financial Centre “white” site remained on the reserve list of the government land sales programme for application in the third quarter. If it is sold in the fourth quarter, the earliest completion of the first phase is likely to be late 2008 or early 2009. Its impact on the office market would therefore not be felt in the next two to three years.

In the third quarter, major sales transactions included 78 Shenton Way (\$151 million or \$506 psf) and three strata-titled floors at John Hancock Tower (18th and 19th floors at

AVERAGE PRIME OFFICE RENTS

Prime Office ■ \$4.20 psf



Source: CB Richard Ellis Global Research & Consulting

\$725 psf, 20th floor at \$750 psf). We note that the investment market sentiment has improved significantly this year and looking ahead, we expect more opportunistic buying of quality office properties with yield-accretive potential.

The Singapore economy is estimated to have grown by 7.8% year-on-year in the third quarter, based on a Monetary Authority of Singapore (MAS) survey of private sector economists. For the full year, the official growth has been revised up to 8.0–9.0%. The survey indicated a median growth forecast of 8.4% for the year. In terms of the sectoral outlook for 2004, the MAS survey shows that a broad-based improvement is expected across major economic sectors. The financial and business services sector, being a key economic growth engine, is likely to expand further and this should have positive impact on the demand for office space in the months ahead.

So far in 2004, the leasing demand for prime office space has rebounded significantly. We expect the absorption rate to be sustained in the final quarter of 2004. This is backed by the brighter economic outlook and the limited new construction of prime office space. Financial institutions and IT firms will be

the key drivers of demand, while the services sector is becoming more active.

Due to the strong take-up for prime office space and its lower vacancy, the upward pressure on prime rents will remain in the fourth quarter. Rental growth in 2005 is expected to be sustainable assuming the economy continues to grow. We anticipate a strong performance of Grade A space and as the availability of such space tightens up, there will be a gradual improvement of occupancy in the wider office market.

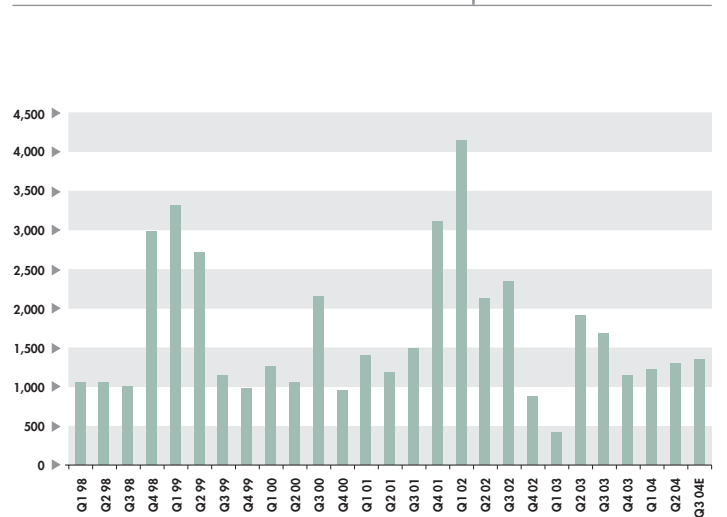
RESIDENTIAL

BUYING MOMENTUM PICKS UP AS MARKET CONFIDENCE RETURNS

The Singapore economy grew strongly by 10% in the first half of 2004 and this restored some confidence in the residential market. Noting the lift in market sentiment, developers launched more mass market projects in the later part of the quarter and were rewarded with strong take-up. The total number of new homes sold in the third quarter is estimated to be around 1,350 units, an improvement from the 1,298 units sold three months ago. Of this, more than half were transacted in the last five weeks of the quarter as sales momentum of new projects picked up from the end of August, despite the month-long Hungry Ghosts' Festival ending only in mid-September.

The soft launch of 99-year leasehold Kovan Melody (778 units) saw more than 200 units sold at an average price of \$520 psf. Ris Grandeur (453 units), a freehold condominium, saw more than 80 units sold at its preview. The project was priced at \$500 psf. According to the developers, the majority of the buyers of Kovan Melody and Ris Grandeur were residents of the nearby HDB estates and private housing estates. A fraction

DEMAND FOR NEW RESIDENTIAL UNITS



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

of buyers were investors who were targeting at the rental potential of these projects. A third project, 99-year leasehold Varsity Park (530 units), was launched at \$440 psf with special discounts for buyers who live in the west, work or study at neighbouring institutions like National University of Singapore. Some 70 units were sold in the first weekend.

The main selling points of these projects are the MRT factor, location and attractive pricing. By the end of the quarter, the three projects achieved sales of around 300, 170 and 120 units respectively.

Two smaller projects that also did well were 99-year leasehold Cherry Gardens and freehold Coastarina. Cherry Gardens was priced at around \$475 psf and 45 of its 48 units were sold. Coastarina, in the East Coast, had over 30 of its 56 units sold at an average price of around \$680 psf.

The residential market has been showing consistent improvements in new home sales since the first quarter when new units sold totalled 1,216. This went up to 1,298 units in the second quarter and an estimated 1,350 units in the third.

Although the increases quarter-on-quarter are fairly modest, the steady growth nonetheless signals that market confidence has been gradually returning and that people who want or need to buy new homes will make a commitment when the right project comes along.

In the luxury segment, although there were very few such homes sold, a notable transaction in the third quarter was the bulk purchase of 15 units of Goodwood Gardens by the Asia No 1 Property Fund, jointly set up by Henderson Global Investors and Keppel Land. The upmarket units were bought at a price range of \$1,050–1,200 psf and included a rental guarantee. A few units at VisionCrest Residences and Vida were sold at \$1,250–1,350 psf.

Likewise, there were also very few luxury homes sold in the secondary market during the quarter. Caveats lodged indicate four Good Class Bungalows sold compared to 17 in the previous quarter. Two units of Ardmore Park were transacted at an average price of \$1,482 psf and one unit of Four Seasons Park at \$1,200 psf. In total, secondary sales came up to about 1,200–1,300 transactions, similar to the average of 1,300 units each in the last two quarters.

The upward trend of home prices that began in the second quarter has stayed more firmly on its course. The advance estimate of the URA's private residential price index shows a 0.4% rise in the third quarter, following the 0.1% increase in the previous quarter.

We believe the growth momentum of prices can be sustained in the fourth quarter on the back of the economic rebound. The positive market sentiment will similarly continue through to the rest of the year. We expect developers to launch more projects and homebuyers to respond favourably. Leasehold

projects slated for launch include those at Marina Boulevard, Sentosa Cove and Jellicoe Road; freehold projects include Parc Emily, City Square, The Metz and Venezia. New home sales could hit 1,500–1,800 units, bringing the whole year's total to 5,500–5,800.

INDUSTRIAL

CAUTIOUS SENTIMENT SEEN IN INDUSTRIAL LEASING

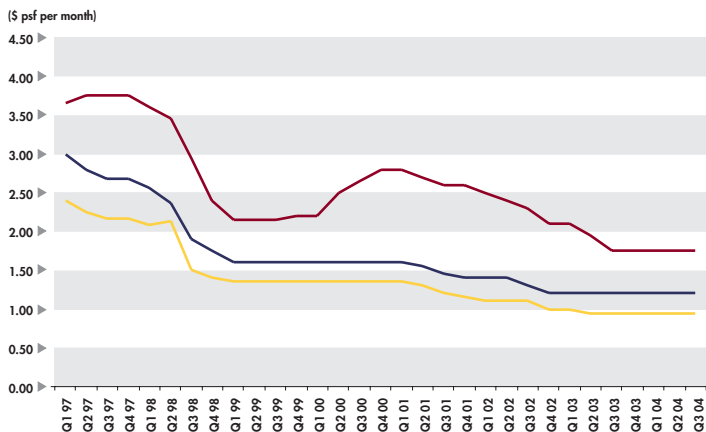
The industrial property market continued its run of subdued leasing demand and flat rentals in the third quarter. Instead, it was industrial investment sales that took centre stage as institutional purchasers continued on their shopping spree to add more properties to their portfolios.

The industrial sector remained in expansion mode, with manufacturing output growing by 19.1% in July year-on-year. Though growth was slower at 5.3% in August, it was attributed to the volatile biomedical cluster; if this was excluded, manufacturing output registered a 20.2% increase. The contradiction between the positive macroeconomics figures and the slow leasing market suggests that industrialists were more focused on increasing productivity instead of space expansion. Even though there were enquiries for leasing of industrial space, take-up rates were slow. Meanwhile, landlords were more concerned about retaining tenants by being more accommodating to their demands.

Rental values remained unchanged during the quarter, a trend observed since the third quarter of 2003. One possible reason is that instead of lowering rentals further, landlords offered non-monetary concessions to attract and retain existing tenants at their premises. At end-September, the average monthly rent for prime conventional flatted factory space remained at \$1.20

AVERAGE PRIME INDUSTRIAL RENTS

High-Tech \$1.75 psf
 Factory (Grd Flr) \$1.20 psf
 Factory (Upp Flrs) \$0.95 psf



Source: CB Richard Ellis Global Research & Consulting

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.

Sales of factory units were muted in the third quarter, as there were just 93 factory caveats lodged compared to 232 in the same period a year ago. The slower sales could be attributed to fewer industrial launches or new phases released during the quarter. In addition, developers such as CapitaLand Commercial and MCL Land had already sold off their jointly developed units at Ubi Techpark in previous quarters. As a result of the smaller stock available for sale, fewer caveats were lodged.

Transacted prices during the quarter also remained unchanged. Properties within the same locality registered similar sales figures compared to the previous quarter. As such, average capital values stayed flat for prime freehold flatted factories at \$325 psf for ground floor space and \$265 psf for upper floor space. Similarly, average capital values for prime 60-year leasehold space remained at \$220 psf (ground floor) and \$160 psf (upper floors).

In the investment sales market, investors were actively acquiring properties, with many of the purchases being made for REITs. A-REIT was the biggest buyer during the quarter in terms of the amount spent. Altogether, it bought three yield-accretive properties for a total of \$175.52 million. These are Exklusiv Centre in Alexandra Road, Techpoint in Ang Mo Kio and Wisma Gulab in MacPherson. Mapletree Investments also snapped up four properties for its yet-to-be listed logistics REIT for a total amount of \$68.1 million. They are KLV Holdings' corporate headquarters at Senoko Loop, two buildings in the Airport Logistics Park and one in Tai Seng Avenue. There were also other major transactions during the quarter, such as the acquisition of Builders Centre, TAL Building and a 60-year leasehold property in Lorong 4 Toa Payoh. As both big and small players were competing for good quality space, largely on sale and leaseback arrangements, more competition was seen in this segment of the market.

Overall leasing demand for industrial space is expected to be lukewarm for the rest of 2004 as industrialists remain cautious in their expansion plans. Because of this, landlords are also likely to hold back any rental increase with the still challenging market conditions ahead. The industrial sector is likely to see modest leasing activity and the spotlight will continue to be on REITs-driven investment sales.

RETAIL

ROBUST LEASING ACTIVITY AMIDST UPBEAT MOOD

The third quarter saw a high level of leasing activity as retailers sought to secure locations or finalise their leases before the year-end festive period. This was the most active quarter this year, as it has been traditionally so. Prime rents

islandwide strengthened further, going up 0.8% to \$25.60 psf on average.

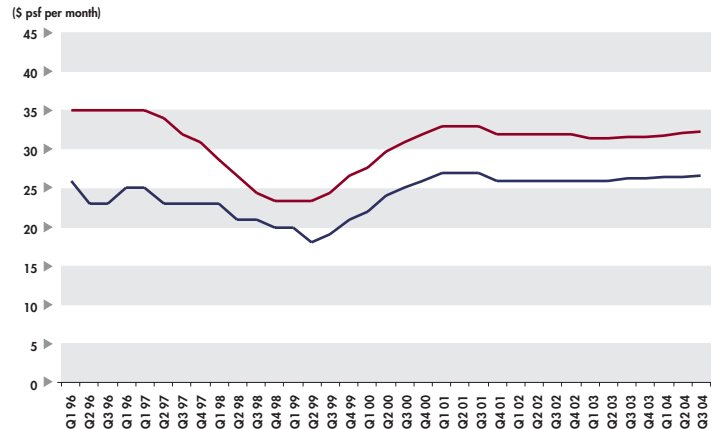
Market sentiment was positive during the quarter. The Great Singapore Sale moved into its final four weeks in July and, according to a survey by the Singapore Retailers Association, more than half of the retailers achieved higher revenue during this event. The Great Singapore Sale was a major draw to tourists and, in part, helped to contribute to the record-breaking number of visitor arrivals in July. The strong return of tourists has benefitted the retail sector. More high-end tourists have been noted, such as those from India who are here for designer goods. Singapore is also building a reputation as a luxury watch hub that is drawing overseas buyers.

Against a backdrop of better trading conditions, the search for business opportunities and good locations continued. New entrants, concepts and expansions drove leasing demand. Several overseas names such as WH, Hushush, Gas, 21 (fashion) and Roger Dubuis (watches) entered the market. Some of these set up shop independently while others came in with Singapore partners through franchises, distributorships or joint ventures. Demand came from a variety of speciality trades as well as F&B; clubs/entertainment operators were also eyeing suitable premises.

Take-up of space being marketed made steady progress. The leasing of Phase 1 of Clarke Quay's revamp was mostly completed. This involved more than half the total space of which more than 80% has been leased to new F&B operators and nightspots. Others such as Marina Square and VivoCity (formerly HarbourFront Mall) also continued to attract interest. VivoCity forged ahead with its leasing, securing two anchor tenants, Golden Village cinemas and Dairy Farm for a new

AVERAGE PRIME RETAIL RENTS

Orchard Road ■ \$32.30 psf
Suburban ■ \$26.60 psf



Source: CB Richard Ellis Global Research & Consulting

hypermarket concept, and launching the marketing of the rest of the development.

The healthy demand for prime space is reflected in the rise in average prime rents, which was supported by rental increases in all micromarkets. In Orchard Road, the average prime rent rose 0.6% in the third quarter to \$32.30 psf per month. The average suburban prime rent edged up 0.4% to \$26.60 psf per month. The rental uptrend has been further propped up by the limited supply of new retail space this year.

The improvements in take-up and rents have been more evident for good quality space (ie, prime malls in established locations). These malls have proven to be more resilient during the recent tough times and can quickly better their occupancies and rents when sentiment picks up. However, less attractive space (eg, poorly located malls and shophouses, not in main shopping belts or well-known hubs) tend to be hit harder by setbacks and is slower to recover. To retailers, good locations with heavy shopper traffic are evermore important when profit margins are tight. As such, malls or locations with a strong track record and customer base are sought after. The demand for space

may not spill over to non-prime buildings, which continue to see its comparatively lower occupancy and rental rates remain flat.

In the final quarter of 2004, retailers will focus on their sales operations during the festive shopping period and as such leasing activity may slow down. Nonetheless, prime rents will firm up marginally to reflect the strong occupancy and limited stock of good quality space with high shopper traffic.

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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)

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