

## CB RICHARD ELLIS

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### quarter at a glance

change from 4Q 2002		change from 1Q 2002
<b>OFFICE</b>		
	Prime rents	
	Prime capital values	
	Prime yields	
<b>RESIDENTIAL</b>		
	Prime rents	
	Prime capital values	
	Prime yields	
<b>INDUSTRIAL</b>		
	Prime rents	
	Prime capital values	
	Prime yields	
<b>RETAIL</b>		
	Prime rents	
	Prime capital values	
	Prime yields	

## INVESTMENT SALES

### RESIDENTIAL LAND SALES LEAD INVESTMENT SALES MARKET

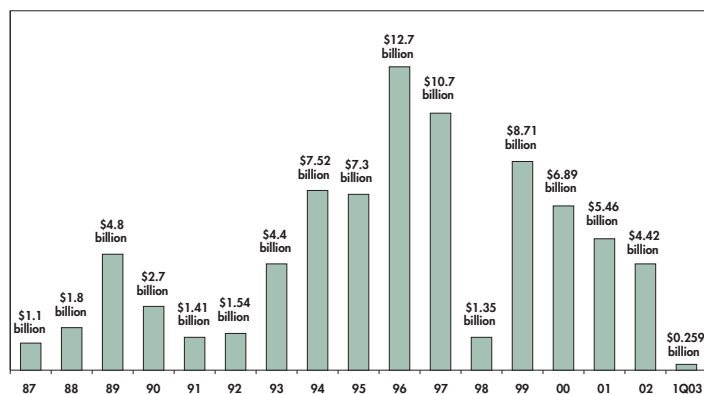
In the first quarter, the already hazy outlook for the Singapore economy and property market was made more so by the increased tension in the Middle East. As the threat of war loomed larger in the quarter and eventually broke out, sentiment in the local investment sales market turned more cautious. Investors tried to assess the repercussions of the war and most of them, if not all, concluded that adopting a "wait-and-see" attitude was probably the best strategy in an uncertain market. This was even though property prices looked attractively low compared to their peak and the average prime lending rate had moderated downwards and stayed at a historic low in the quarter.

Reflecting the cautious sentiment, total investment sales in the first quarter amounted to \$258.81 million, a decline of 89% from the previous quarter and 47% from a year ago. The private sector had the lion's share of 72% or \$186.03 million while the public sector accounted for the remaining 28% or \$72.78 million. The investment sales market was led by the residential sector in both the public and private sectors.

In the public sector, though the government launched only one site, the strong response to the land tender signalled some optimism in the market. The Tiong Bahru condominium site was put up for tender after the minimum price of \$48 million was received in the application for the release of the site for sale. A total of 12 bids were received, with the highest of \$72.78 million from MCL Land or \$301 psf/plot ratio based on the plot ratio of 4.2. The tender was subsequently awarded on 24 March.

In the private sector, activity was confined only to the residential and industrial sectors, which accounted for 76% and 24% of the total private sector sales respectively. There were no investment sales in the commercial sector.

## Major Property Investment Transactions



Source: CB Richard Ellis Global Research and Consulting

The first quarter's private residential investment sales were mainly of residential development sites purchased through three collective sales transactions. In January, MCL Land bought the freehold Carlisle Lodge site for the price of \$19.75 million, or \$275 psf/plot ratio, including about \$90,000 of development charge. In March, United Overseas Land and Low Keng Huat jointly bought the King's Flats and Queen's Flats freehold sites in Tiong Bahru for \$21 million and \$61 million respectively, translating to a land rate of approximately \$355 psf/plot ratio.

Towards the end of the quarter, the outbreak of a contagious flu-like illness (termed Severe Acute Respiratory Syndrome or Sars) created further uncertainty for the economy as business activity was affected. For the rest of the year, we believe that once the war and the Sars factors are removed, investors would regain their confidence and consider allocating more investment capital to the property market. Comparing all major

property sectors, the retail sector looks most resilient while the residential sector could post the highest gains on the back of a recovery. The limited supply of prime retail space and continued demand for such space should support prime retail rents in the near term, even though the retail trading environment may be cloudy.

We also believe that there will be a steady stream of collective sale sites launched this year, mainly for two reasons. Firstly, developers are interested in buying sites that are sensibly priced, particularly those in the suburban areas. Secondly, some owners are more willing to consider selling at lower prices in light of current sentiment.

## OFFICE

### OFFICE DEMAND REMAINS WEAK

The office market saw little additional demand in the first quarter. Companies in the financial and business services industry, which are the main demand drivers of office space, continued to face a harsh business climate and remained cautious. For other office space occupiers, the trend of corporate downsizing continued in light of Singapore's economic restructuring which is likely to be prolonged by the war in Iraq.

There are however signs that the rate of downsizing could be slowing down. Demand for office space contracted by only 96,876 sq ft in the final quarter of last year, lower than the 182,988 sq ft contraction in the previous quarter. There were even some tentative signs of new demand coming

from a few foreign financial institutions. In particular, we have observed certain banks transferring operations like forex trading to Singapore from higher cost centres such as Tokyo or considering the expansion of their mid- to back-office operations (data centres or card processing).

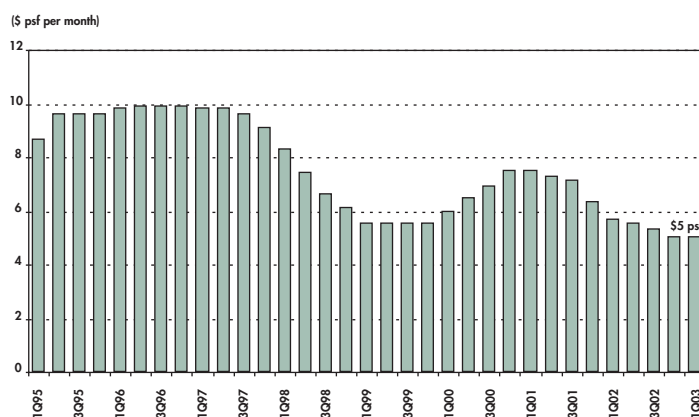
Because of the lack of additional demand, we estimate that islandwide vacancy rate was about 16% at the end of the first quarter, similar to that at end-2002. The vacancy rate would be about 18% if shadow space of more than one million sq ft were included.

New supply of office space in the first quarter was restricted to the refurbished Cable Car Tower (127,000 sq ft) which has been renamed HarbourFront Tower 2. For the whole year, new supply is estimated to be just 670,000 sq ft, a big fall of 73% from last year's 2.46 million sq ft. Notwithstanding this, there is still a significant amount of surplus office stock in the market.

The average prime office rent remained flat at \$5 psf per month at the end of the first quarter. We expect that a 5-10% downside in prime rents is likely in the ensuing months and if the economic performance improves during the year, they could stabilise by the end of the year.

The volume of investment activity remained thin with only a handful of strata-titled sales transactions but no office building sales in the first quarter. With no transactions in the prime office market, the average prime capital value based on valuation fell by 3% to \$1,019 psf as at end of the first quarter from \$1,050 psf at end-2002. The derived prime office yield was 4.2% at the end of the first quarter.

### Average Prime Office Rents



Source: CB Richard Ellis Global Research and Consulting

In order for investment transactions to take place, however, a yield of about 6% is likely to be needed.

As regards office demand, it is hard to predict when it will improve. There is also the question of whether annual demand will return to the historical average of two million sq ft per annum enjoyed during the 1990s, bearing in mind that this level of demand was supported by an average economic growth rate of 7.7% per annum.

In the Economic Review Committee's final report, the future sustainable growth rate of the Singapore economy is likely to be about 3% to 5%, which is lower than the 7.7% average between 1991 and 2000. It is therefore logical to adjust downwards the future office demand level to reflect the expected lower economic growth. Corporations continue to seek cost reductions and higher efficiencies while trends such as mergers and consolidations could also affect long-term office demand growth.

## RESIDENTIAL

### MORE ACTIVITY IN SECONDARY HOUSING MARKET IN FIRST QUARTER

In the first three months of 2003, more homes were sold in the secondary market than in the primary market. An estimated 600-700 resale properties were transacted compared to the 350-400 new units sold. The shift towards older properties could be because of the limited number of new launches. Moreover, owners were more willing to reduce prices in order to secure a sale and buyers can choose from a wide range of existing stock. However, the sales volume achieved in the first quarter was about half of 2002's average quarterly sales of 1,300 units.

In the primary market, developers and homebuyers stayed on the sidelines. This was due to concerns over rising unemployment in the economy and the uncertainties caused by the impending war in Iraq which eventually started in late March. For the whole quarter, about 800 new homes were released for sale, 12% less than the 909 new homes launched in the previous quarter when market sentiment showed signs of weakening. Most developers took a low-key approach by inviting potential buyers selectively and putting up banners at the site instead of advertising in the mass media. Although developers offered various schemes such as the deferred payment scheme, renovation packages and the absorption of stamp duty, homebuyers remained non-committal.

The first quarter take-up of 350-400 new homes is less than half of the 869 units sold in the fourth quarter of

2002 and lower than the quarterly sales volume in 1998 during the Asian financial crisis. One project that sold fairly well was freehold Studio 3 in prime district 10, of which 46 of its 66 units (70%) were sold. Its success could be attributed to the low price quantum for its 549-sq ft and 883-sq ft units. These went for between \$500,000 and \$880,000 or \$850 psf on average. In the suburbs, 134 units of 99-year leasehold condominium Lakeholmz were offered at an average price of \$455 psf through a soft launch and 10-15 units were sold.

In the executive condominium (EC) market, close to 80 units from The Esparis, Park Green and Whitewater were sold. This reflects a relatively active segment against the subdued sentiment in the broader market. The proportion of buyers who are HDB upgraders rose noticeably, from 5% in the past to 10-20%. We attribute this to the more affordable prices of ECs and the better quality of recent EC projects that are comparable to private condominiums. Another reason is that HDB upgraders seemed more willing to forgo the profits from the sale of their flats by paying the levy required. (HDB homeowners who buy ECs are to pay the government a levy ranging from 10% to 25% on the sale price of their flats in the open market if their flats were bought directly from the HDB or bought with a housing grant from the government.)

Towards the end of the quarter, the residential market was given a fillip when the tender of a condominium site in Tiong Bahru by the Singapore Land Authority garnered 12 bids that were 17% to 51% above the minimum price. This shows developers' optimism, with the top bids implying a "sell on recovery" strategy. We believe that

the strong interest in the site is due to its city-fringe location, manageable size, existing infrastructure and high plot ratio. A condominium development of 40 storeys or more on the site is expected to be well received by the market when it is launched. The project's breakeven cost is estimated to be \$550 psf to \$570 psf based on the land price of \$301 psf/plot ratio.

The URA's flash estimate of its residential price index for the first quarter shows a decline of 0.7%. The marginal fall is probably because of the thin volume of sales in the first 10 weeks of the quarter. In addition, while secondary prices have softened, prices of new launches remained at end-2002 levels.

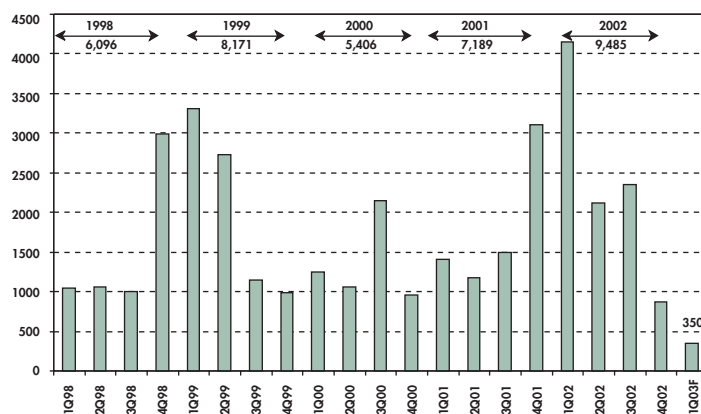
As the quarter closed with the war in Iraq just started and the outbreak of the contagious illness of Sars in Singapore, it is difficult to see what lies ahead for the housing market. But if these issues are resolved in the coming months, we can expect an increase in activity by mid-2003. Forthcoming launches include a condominium project at Gopeng Street, The Pier at Robertson Quay, Ris Grandeur at Elias Road and Starville at Lengkong Empat.

## INDUSTRIAL

### ECONOMIC UNCERTAINTIES CONTINUE TO AFFECT DEMAND FOR INDUSTRIAL SPACE

The industrial market continued to be slow. Even sales of 60-year leasehold flatted factory units, which saw a

## Demand For New Units



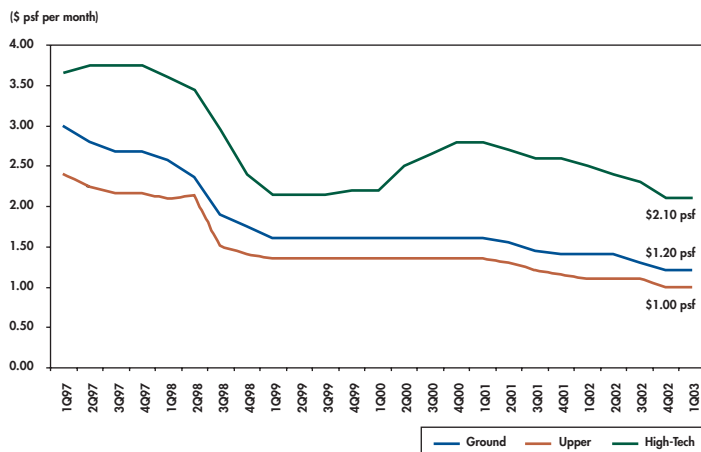
Note: Figures exclude ECs  
Source: URA, CB Richard Ellis Global Research and Consulting

surprising 425 caveats lodged in last year's fourth quarter after developers offered lower prices, appeared to have tapered off. The crucial factor was the weak economic fundamentals that dampened sentiment in the manufacturing industry. As a result, manufacturers were generally reluctant to take up new industrial space.

In the high-tech industrial segment, leasing demand was similarly sluggish. Electronics businesses, an important occupier of high-tech industrial buildings, remained non-committal in taking up new space as bearish business prospects ruled amid volatile demand conditions and escalating fuel prices. As a result, the average occupancy rate of high-tech industrial space fell to 75% at the end of the first quarter compared with 77.3% three months ago.

Rents generally stayed flat during the quarter due largely to the lack of activity. The average monthly rent for prime

## Historical Rental Levels For Prime Flatted Factory Space



Source: CB Richard Ellis Global Research and Consulting

conventional flatted factory space at end-March was \$1.20 psf for ground floor space and \$1.00 psf for upper floor space. For high-tech space, average monthly rent was \$2.10 psf.

The volume of transactions of freehold flatted factory space continued to remain thin. This, together with the poor market sentiment, placed more downward pressure on capital values. The average prime capital value for freehold flatted factory space fell marginally by 3% to \$330 psf for ground floor space and by 3.6% to \$270 psf for upper floor space, as at end-March. The average prime capital value of 60-year leasehold flatted factory space also declined by 2.2% to \$225 psf for ground floor space and by 2.9% to \$165 psf for upper floor space.

In January, the Ministry of Trade and Industry announced the resumption of its industrial land sales programme.

Two industrial sites are to be launched for sale by tender in May while another four industrial sites have been added to the reserve list.

Following the government's announcement of its 2003 budget, the provision of rental rebates was extended until December 2003 for manufacturers who are tenants and lessees of JTC and HDB properties. Tax deductions for the upfront land premium payable by lessees of JTC and HDB land were also extended to leases of up to 60 years compared to 30 years previously. The tax deduction takes effect from 2004. In addition, current property tax rebates for commercial and industrial properties will be extended till end of 2003, although for a smaller amount.

Even though the rental rebates and tax deductions will only benefit those who are land lessees or tenants of the JTC or HDB, there will likely be a positive impact on the industrial sector as more than 90% of the 189 million sq ft of non-flatted factory space is built on JTC land, with the rest on HDB and private land. In the broader market, the property tax rebates will benefit a wide spectrum of manufacturers.

The manufacturing industry is expected to remain weak in the first half of 2003. If the war in the Middle East ends quickly, production volume may increase, albeit slowly, in anticipation of an improvement in demand. But it is only until economic recovery becomes more evident that manufacturing businesses will be able to see a more definite need for expansion.

## RETAIL

### QUIET MOOD IN RETAIL SECTOR

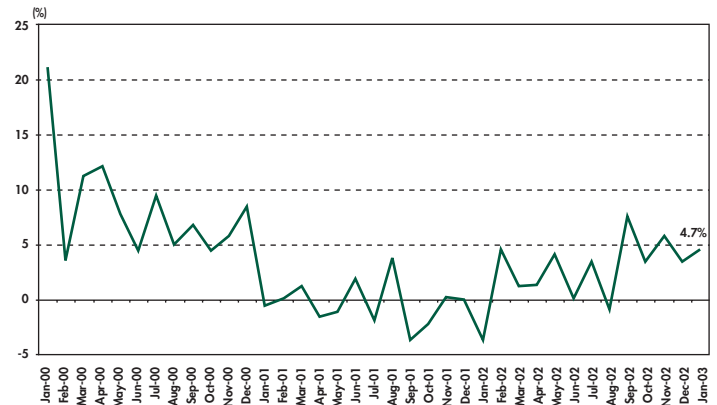
The mood in the retail sector was generally subdued in the first quarter. Most retailers indicated poor sales especially after Chinese New Year, which marked the end of the festive shopping period. They were cautious about expanding and this translated into an inactive retail leasing market.

On a brighter note, the retail sales index (excluding motor vehicles and at constant prices) registered the fifth consecutive month of growth in January, reflecting a better start to the year than in 2002. This was in spite of the implementation of the higher Goods and Services Tax from 1 January 2003 and a growing shadow of uncertainty from the impending Middle East war which subsequently broke out in late March.

Retailers that expanded in the first quarter were mostly well-established international brands (Zara) and large businesses (Carrefour and Giant), usually because of a longer term strategy to achieve a certain number or network of stores. By trade category, those that expanded were beauty & health centres, fitness centres and supermarkets. New entrants took the form of local retailers, driven by entrepreneurial goals or seeking an alternative option in view of the difficult employment conditions.

Retailers have become increasingly selective about location, preferring proven locations and less willing to

### Year-On-Year Change Of Retail Sales Index\*



\*At constant prices (1997=100) and excluding motor vehicle sales  
Source: Department of Statistics, CB Richard Ellis Global Research and Consulting

risk new ones. Thus top-quality and well-positioned malls still saw strong occupancy and had little trouble leasing out vacated space while buildings or units with less attractive locations faced greater difficulty. On the whole, take-up rate has slowed down and available retail space generated interest from fewer parties than before.

As a result, there was a general slide in rentals in the first quarter. This was also because retailers have become more sensitive to rental levels and were only prepared to take up space if the rent was within their budget. No further pressure on rents came from the supply side of the equation as there was no significant new space during the quarter. We estimate that, islandwide, rents came down 5-10% in the first quarter.

Prime rents were more resilient in the first quarter. In Orchard Road, the average monthly prime rent fell by about 1% to \$31.50 psf<sup>A</sup> at end-March. Suburban malls

## MARKET INDEX BRIEF

held on well to their rental levels and continued to command an average monthly prime rent of \$26 psf.

News on refurbishment/repositioning plans for major malls and new mall openings created some buzz in the quiet market. Clarke Quay and Marina Square are planning major refurbishments while Ten Mile Junction is set to be repositioned as a one-stop learning centre. Malls that opened include the former World Trade Centre, relaunched as HarbourFront Centre after its renovation, and The Majestic in Chinatown.

The outlook for the second quarter and beyond is cloudy. Consumer confidence is at a low, weighed down by concerns over unemployment and the weak economy. Retailers do not expect sales to improve till a sustainable economic recovery is more clearly evident. The retail and tourism sectors have also been hit by the recent outbreak of Sars in Singapore and the region. While Singapore has made extensive efforts to contain its spread, businesses may be affected depending on how long the problem persists. Downward pressure on rents will therefore continue in the second quarter but the absence of major new supply this year will prevent rental levels from falling too greatly. Prime rents could also moderate downwards if the quiet sentiment prevails.

<sup>Δ</sup> based on revised basket of retail centres

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