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SINGAPORE

MARKET INDEX BRIEF

Global Research and Consulting

2nd Quarter 2002

INVESTMENT SALES

Sales of reserve sites boost investment sales

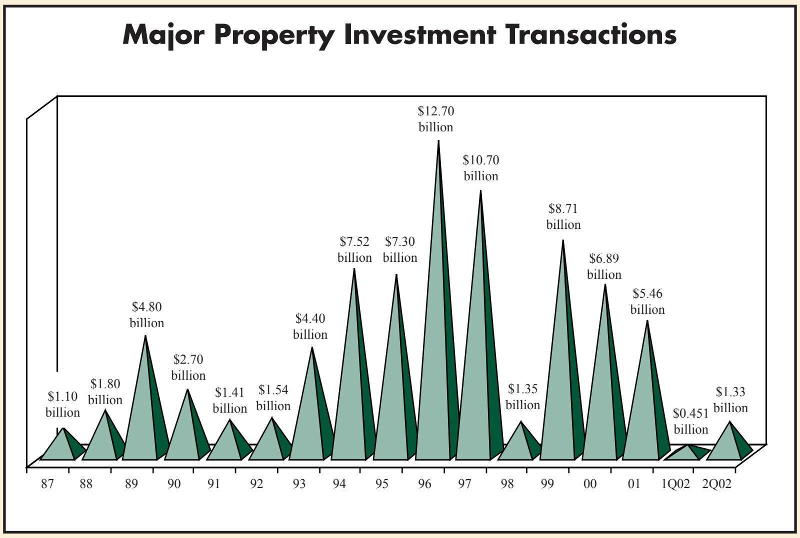
Total investment sales in the second quarter amounted to $1.33 billion, almost triple that in the previous quarter. The better showing in the second quarter was largely due to the successful government land sales of five reserve sites in the quarter, which totalled $656.90 million.

Among the five tender awards, Far East Organization bagged three of them. They are the executive condominium site at Pasir Ris ($72.08 million or $139 psf/plot ratio), the apartment site at Lengkong Empat ($11.12 million or $168 psf/plot ratio) and the 'white' site at Sinaran Drive ($100.80 million or $285 psf/plot ratio). NTUC Choice Homes Co-operative Ltd & Chip Eng Leong Enterprise Pte Ltd were awarded the condominium site at Ang Mo Kio ($183.99 million or $244 psf/plot ratio). City Developments Ltd clinched the 'white' site at Marina Boulevard in Marina South for $288.90 million or $227 psf/plot ratio. Except for the Marina Boulevard site, the final sale prices of the reserve sites were 24% to 36% higher than the minimum prices submitted to the government for their release for tender.

Besides these land tender awards, there were also public sales of the Waterboat House site by tender and Chinatown shophouses by auction. As a result, total investment sales from the public sector amounted to $677.74 million, accounting for 51% of the total investment sales.

Market	Change From 1st Qtr 2002
OFFICE	
Prime rents	↓
Prime capital values	↓
Prime yields	↑
RESIDENTIAL	
Prime rents	↔
Prime capital values	↔
Prime yields	↔
RETAIL	
Prime rents	↔
Prime capital values	↓
Prime yields	↑
INDUSTRIAL	
Prime rents	↔
Prime capital values	↔
Prime yields	↔

PROPERTY MARKET



Source : CB Richard Ellis Global Research and Consulting

This was a better showing than in the first quarter, when there was no government land tender award.

In the private sector, total investment sales, which include asset securitisations, amounted to $652.81 million in the second quarter. This was 44.7% more than that in the previous quarter.

The only major sale in the private sector was the asset securitisation of Wisma Atria. Under the deal, a total of 224,230 sq ft of commercial space, comprising 99,600 sq ft of office space and 124,630 sq ft of specialty shops but excluding the Isetan department store space, was sold for $451 million to Aspinden Holdings, a special purpose vehicle. To fund the deal, Aspinden Holdings would issue $451 million of five-year, fixed-rate unlisted bonds in three classes. These are $288 million of senior bonds with a coupon rate of 4.94%, $50 million of junior A bonds with a rate of 7% and $113 million of junior B bonds with a rate of 8.85%.

In terms of property sectors, the commercial sector accounted for 59% of the total sales or $780.54 million. Private sector sales accounted for $470.79 million, while the remaining $309.75 million came from the public sector.

The residential sector accounted for 38% of total sales or $503.57 million. The public sector has the lion's share of 73% or $367.99 million. In the private sector, besides sales of detached houses or good class bungalows, there was also the en bloc sale of Miaplace in Katong and the collective sale of Lengkong Gardens in Kembangan. A total of 27 freehold apartment units at Miaplace were sold for $20.2 million or $697 psf of net floor area. Net yield is estimated to be below 4%. The Lengkong Gardens site was sold for $49.5 million or $262 psf/plot ratio (including development charge) based on the site area of 108,545 sq ft and plot ratio of 2.1.

For the second half of 2002, the government added three new sites to the existing reserve list. There are now altogether 11 residential sites, three 'white' sites, three commercial sites and two mixed commercial/residential sites. These sites make up a good variety for developers and end-users, several with good MRT accessibility such as the residential site at Jellicoe Road and the 'white' site at Serangoon Central. There could be keen interest in sites with a residential component if the residential market continues to be healthy and more applications are likely to be made to the government for the release of such sites for tender. Contributions from the government land tender awards for the next two quarters should therefore remain significant.

Whatever the take-up of the sites – which can be due to a variety of reasons such as market conditions and economic fundamentals – we believe that unlike the confirmed list, the reserve list should not be a list of sites 'targeted' to be sold within the year. It can work as an on-going list with sites that developers/end-users can choose from and express interest in, as and when they find a site viable.

OFFICE

Prime office rents fall to 1999 levels

The office leasing market continued to be adversely affected by the wider economic slowdown during the second quarter. The short-term outlook for the office market remains bearish in spite of the government's revised economic growth projections for the current year of 2% to 4% (increased from 1% to 3%). Typically there is a time lag between growth in the economy and a pick-up in office demand. We therefore do not expect office take-up to improve significantly until economic recovery is well on course and tangible.

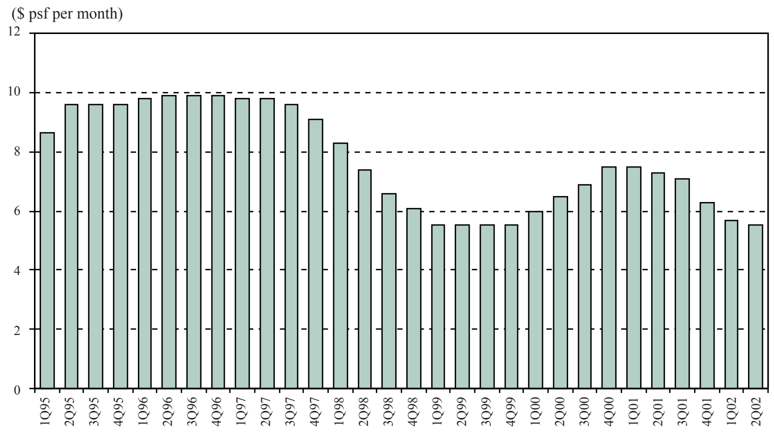
Market activity in the second quarter continued along the trend of the last 12 months, with most occupiers tending to focus on lease renewals. The lack of capital expenditure budget remains a major impediment to office relocation. There were, however, a number of larger relocation cases principally involving tenants that will vacate Pidemco Centre, which is slated for redevelopment later in the year. For example, Deloitte & Touche leased around 75,000 sq ft in DBS Tower 2, Phillip Securities took 50,000 sq ft in Raffles City Tower and Chio Lim and Associates are scheduled to lease 35,000 sq ft in China Square Central. However, it should be noted that these relocations involve no significant expansion and therefore will not generate new net demand for office space.

Reflecting the continued contraction in demand, the islandwide occupancy rate fell further to about 85% by end-June, compared to 86.4% a quarter ago. In the Central Business District, the rate declined to 85.5% by end-June from 87.8% in the preceding quarter. The fall in occupancy rates was the result of increased supply from new building completions of 674,440 sq ft in the second quarter, coupled with the surplus space in existing buildings as occupiers downsized.

Against a backdrop of weak demand and falling occupancy, office rents have continued the downward trend in the second quarter. Prime rents eased marginally to stand at an average of $5.50 psf by the end of the second quarter, from $5.66 psf three months ago. Year-on-year however, the average prime rent has fallen by almost 25% to stand at levels last seen at the trough of the previous rental down cycle in 1999, when the Asian economic crisis was at its worst.

There was no prime office en bloc sale in the quarter, but we estimate the average prime capital value dipped 8.3% to $1,100 psf at end-June, from $1,200 psf at end-March. This was due to the slipping rentals as well as the sale price of $227 psf/plot ratio for the government's reserve 'white' site in the New Downtown.

Average Prime Office Rents



Source: CB Richard Ellis Global Research and Consulting

For the next two quarters, we expect a further drop in office occupancy, in tandem with the increase in the surplus space over the same period. Additional retrenchments, further consolidation in the local banking sector and occupiers' cost-saving initiatives are the factors behind the surplus space.

According to the latest labour market report by the Ministry of Manpower, a further 1,811 jobs have been lost in the financial services industry in the first three months of this year. This represents the third consecutive quarterly contraction in employment. It is likely to dampen office demand as the financial services sector represents a major office space user particularly in prime areas.

The oversupply condition will worsen further with the completion of 1.41 million sq ft of new office supply scheduled for the second half of this year. Pre-commitment leasing deals are difficult to clinch as demand for new space now tends to be driven by companies that are seeking to upgrade their accommodation or consolidate operations rather than expansion or new entrants. The impact on net demand is therefore likely to be marginal.

As such, landlords of existing buildings need to respond to the competition from new developments. This will adversely affect rental levels attainable upon lease renewals. For developers with new buildings on the market, it is clear they must consider further leasing incentives to secure commitment.

We believe that downward pressure on rents is inevitable over the next two quarters, although the pace of decline is expected to be slow. Office rents will find a support level only when market sentiment improves upon economic recovery and a net increase in office demand.

RESIDENTIAL

Activity in residential market picks up towards end of quarter

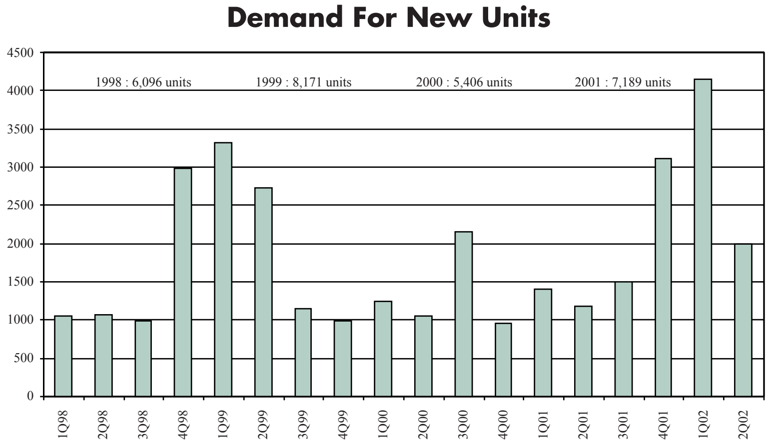
There was generally less activity in the residential market in the second quarter compared with the previous quarter in terms of both new launches and new sales. But this began to pick up towards the end of the quarter. In total, around 1,800 new units were supplied to the market between April and June, versus 3,300 units in the first quarter. As at end-June, some 2,000 were sold, about half of the 4,145 new units sold in the first quarter. Nevertheless, this level of take-up is still stronger than the average quarterly level of 1,400 units of the first three quarters in 2001.

The mood of the residential market in the second quarter was initially dampened by the lack of confidence in the economy, rising unemployment and concerns for possible changes to the use of CPF savings for property purchase. Developers were hesitant to launch new projects and there were more browsers than buyers at showflats.

Still, on the whole, a number of new launches met with good success. In April, the launch of The Waterina condominium (398 units) saw a take-up of 85% in one month. This is a freehold project located within 10 minutes' drive to the city and was priced at an average of $600 psf.

In May, Mill Point, a freehold apartment with 108 units achieved a take-up of around 80% in a few weeks, at an average price of $950 psf. About 30% of the units are small units costing between $550,000 and $650,000, which were the first to be sold. Its appeal also lies in its city location and proximity to shopping/entertainment facilities. In the same month, a strong take-up of 67% was also seen for The Shelford (215 units). The freehold condominium was launched at $740 psf, about 15% lower than the nearby Adam Park condominium, priced above $800 psf.

Then in June, Côte d'Azur stole the limelight when over 250 units were sold in the week of the soft launch. This is a 99-year leasehold condominium at Marine Parade. Its average price of slightly below $600 psf and views of the southern seas are a draw. The total take-up at end-June was around 460 units.



Source: URA; CB Richard Ellis Global Research and Consulting

Note: From 4Q99 onwards, URA statistics for demand include both completed and uncompleted new units; ECs excluded from figures.

There were no new low-end residential launches in the second quarter that were priced in the $450-480 psf range, except for Casablanca ($450 psf). Buyers who were looking for properties in this price range had to buy from the existing stock such as Yishun Emerald, Yishun Sapphire, The Madeira, Tropical Spring, Modena, Rivervale Crest and others. Although most of these projects were either completed or nearing completion, there were no significant price cuts or incentives offered for them.

Suburban leasehold low-end condominiums that were launched in previous quarters continued to find support at the $450-480 psf level. In the mid-range category, freehold apartment prices for city-fringe/non-prime locations remained at $600-650 psf but there was a slight easing in the prices of freehold apartments in the $800-900 psf range. For example, The Shelford's average price was lower than Adam Park's in the first quarter. Prices of all categories of new landed homes remained at first quarter's levels as well.

In the secondary market, caveats for luxury apartments such as Ardmore Park and The Edge On Cairnhill were lodged at $1,600-1,800 psf and $1,300-1,400 psf respectively. This shows that there was only minimal downward movement of luxury home prices in the secondary market.

Therefore, we are of the opinion that home prices in the second quarter are likely to remain flat with some price bands easing by 1% to 3%, like in the first quarter.

For the third quarter, we expect developers to be more enthusiastic about launching new projects, after a low-key approach in the second quarter. In the line-up are 99-year leasehold projects such as Kerrisdale, Orchard Scotts and Shaughnessy; and freehold projects such as Monterey Park, Scotia and The Paterson. We also expect the launch of two executive condominiums, Esparis and Park Green. Some developers are likely to be more aggressive in pricing to clear their launched and unsold stock, of which some 4,400 units are from 99-year leasehold projects.

Assuming that the Singapore economy will see more definite signs of recovery in the third quarter and there will be a minimal impact from any changes made to the CPF policy, in addition to the availability of more leasehold projects, we expect take-up for new launches to at least remain at 2,000 units. Home prices will also likely stabilise as properties in the mid-range category find their support level.

INDUSTRIAL

Demand for industrial space remains sluggish

In the second quarter, there were more leasing enquiries for industrial space compared to the preceding quarter. However, enquiries were still for cheaper space as industrialists looked to cut accommodation costs when their leases expire. This reflects the prevailing weak manufacturing sector, which was only beginning to show signs of improvement.

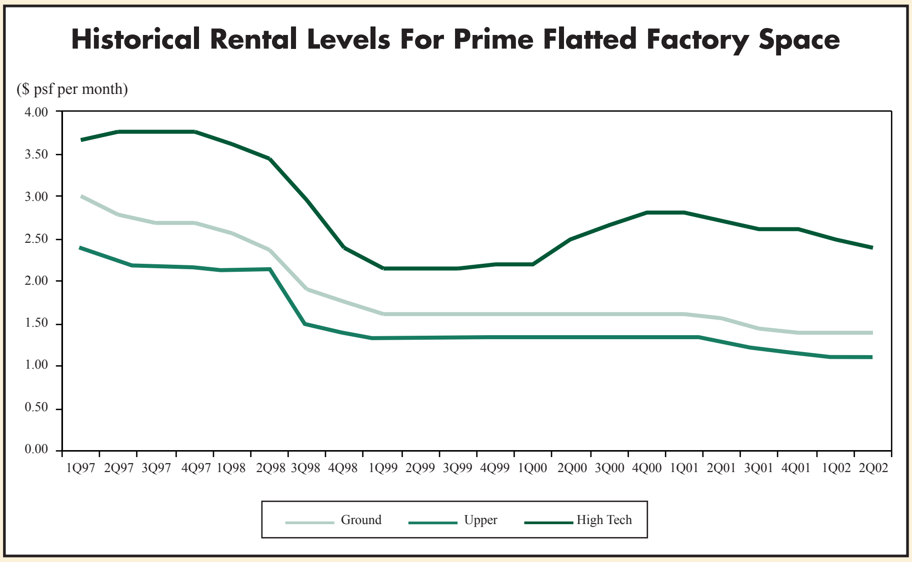
The modern and high-tech industrial segment was not spared from shrinking demand as more space in a number of buildings were made available for lease. Although most landlords maintained the asking rents of their high-tech buildings, the additional supply available in the market exerted downward pressure on committed rents. We estimate that the average monthly rent for high-tech industrial space was $2.40 psf or 4% lower than that in the previous quarter.

For conventional factory space, asking rents generally remained unchanged in the quarter. The average monthly rent for prime factory space remained flat at $1.40 psf (ground floor) and $1.10 psf (upper floors).

The valuation-based capital value for prime flatted factory space is estimated to stay unchanged from the first quarter's. For 60-year leasehold factories, the average capital value is estimated at $290 psf for ground floor and $210 psf for upper floors. As for freehold factories, the average capital value is maintained at $390 psf (ground floor) and $350 psf (upper floors).

In view of the limited supply of prime warehouse space, i.e. those in central locations, its average monthly rent remained unchanged at $1.50 psf for the ground floor and $1.25 psf for the upper floors. The valuation-based average capital value for freehold warehouse space also stayed at $450 psf (ground floor) and $410 psf (upper floors).

The sales market showed signs of slowing down in the second quarter. Preliminary figures indicate 188 factory caveats lodged in the quarter, fewer than the 244 caveats in the preceding quarter. Both new developments and factories with 60-year leasehold tenure continued to dominate the sales market, accounting for 62% and 65% of the total number of caveats respectively.



Source: CB Richard Ellis Global Research and Consulting

Although the industrial property market is still in a cautious state, there are some positive indications that the manufacturing sector is on the mend. In April, the non-oil domestic exports (NODX) increased by 6.4% year-on-year, showing a rise for the first time since February 2001. In May, the NODX fell by 6.8% year-on-year. However, on a three-month moving average basis the decline was 6.5%, lower than April's 11.8% fall.

Another positive indicator is the manufacturing output which has begun to see growth. April's 8.1% year-on-year growth was followed by a robust 17% for May on the back of increased output in the biomedical sciences cluster. On a seasonally adjusted three-month moving average basis, output rose by 4.2% in May compared with the preceding month. According to the Economic Development Board, this reinforces continuing momentum in the manufacturing sector.

In view of the possible sustainable improvement in the manufacturing sector, business sentiment is likely to become more positive in the second half of the year. Until the positive effects filter to the property market, demand for industrial space will remain sluggish, and there will continue to be downward pressure on both rents and capital values.

RETAIL

Competition for prime space props up rentals and occupancy

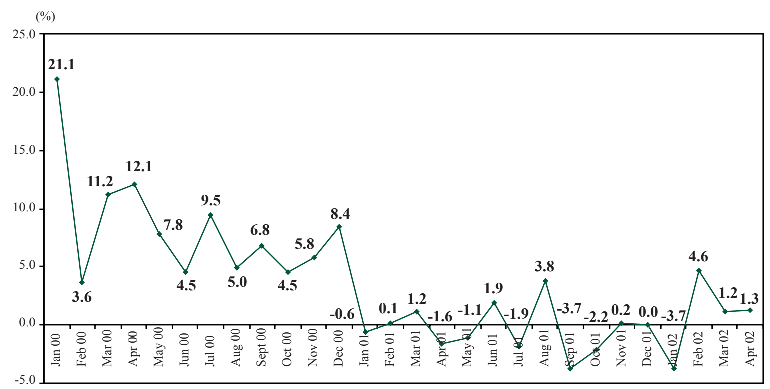
Retailers continued to express caution and generally do not feel that they are out of the woods, in spite of improving official retail data. Based on the figures known so far, the April retail sales index (at constant prices and excluding motor vehicles) registered a year-on-year increase of 1.3%, reflecting the third month of consecutive growth since February. However, it is not known yet if May and June figures would continue to improve, especially when business at the annual six-week Great Singapore Sale which commenced on 25 May was reported to be disappointing.

While retailers usually look to the Sale for a boost to their takings, this year's event looks unlikely to attain the growth target of between 1% and 5% over the $1.5 billion total last year. Live afternoon and evening telecasts of the World Cup, which also took place in June, clashed with the Sale and kept fans/ shoppers away, causing business at many shops to reportedly fall by 10% to 20%.

In spite of the still-weak retail trading backdrop, competition for a limited supply of prime shop space helped to keep their rents from softening. Some retailers continued to expand in order to secure shop spaces in choice locations that were hard to come by. Vacated space in popular malls was therefore quickly reoccupied, helping to maintain the occupancy levels of these malls at close to 100%.

New supply that came on stream during the quarter was a nominal 106,000 sq ft, from the

Year-On-Year Change Of Retail Sales Index



Source: Department of Statistics; CB Richard Ellis Global Research and Consulting
Note: Index is at constant prices (1997 = 100) and excludes motor vehicles.

opening of The Atrium @ Orchard (16,000 sq ft) at Dhoby Ghaut and a revamped United Square (with an additional 90,000 sq ft) – all committed or in advance negotiations. In consideration of the relatively good demand against a nominal new supply and few shop closures, we estimate that the islandwide occupancy rate remained above 90%. Rents for prime Orchard and suburban space are estimated at $30 psf and $26 psf respectively, unchanged from last quarter.

While the average prime Orchard Road rent was unchanged, the valuation-based average capital value for prime Orchard Road strata-titled space declined by approximately 2% from the first quarter to $4,750 psf.

The 2002 Budget provided that the Goods and Services Tax would be raised from 3% to 5% from January 2003. Retailers expressed concern that this would squeeze their already-tight profit margins further, and act as a dampener on their efforts to persuade consumers to spend in the uncertain economy. At end-May, the Singapore Retailers Association was reported to be preparing an appeal to the government to ask for a delay in the tax increase by another year.

For the next quarter, consumer spending is not expected to rise significantly because of continued uncertain economic conditions. Some retailers worry that there would in fact be a further slowdown in trading levels. Rental levels, especially for non-prime space, are thus anticipated to ease, but at a moderate pace. However, rents for well-located space, which is in good demand, will continue to remain firm due to its limited supply.

For more information on the Market Index Brief, please contact the Research team or Soon Su Lin, Executive Director T. 6224 8181 F. 6533 3815

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