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quarter at a glance

change from 1Q 2003		change from 2Q 2002
OFFICE		
↓	Prime rents	↓
↓	Prime capital values	↓
↓	Prime yields	↓
RESIDENTIAL		
↔	Prime rents	↓
↔	Prime capital values	↓
↔	Prime yields	↓
INDUSTRIAL		
↓	Prime rents	↓
↓	Prime capital values	↓
↓	Prime yields	↑
RETAIL		
↔	Prime rents	↓
↔	Prime capital values	↓
↔	Prime yields	↑

INVESTMENT SALES

MARKET SENTIMENT IMPROVING DESPITE LOWER SALES

In April, despite the end of the war in Iraq, the outbreak of the Severe Acute Respiratory Syndrome (Sars) continued to affect the economy adversely. The impact was so severe that the government downgraded the full-year growth forecast to 0.5-2.5%, from 2-5%. Activity in the property market lessened significantly and sentiment was weighed down by the health crisis and economic uncertainty.

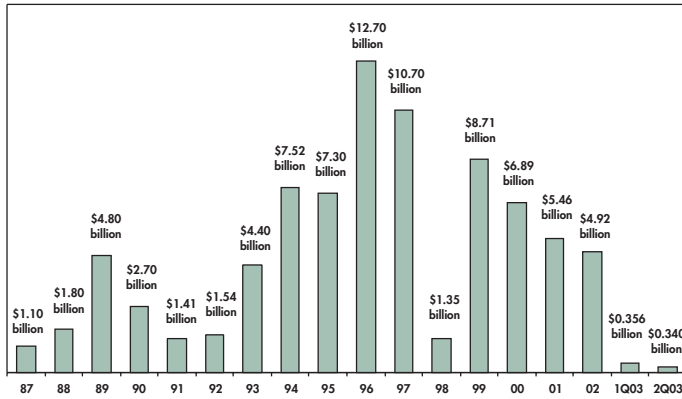
In May and June, however, market sentiment improved gradually for several reasons. Firstly, the government successfully contained the transmission of Sars in Singapore and the island-state was eventually declared Sars-free by the World Health Organization at the end of May. Secondly, there was a major pick-up in sales activity in the mass residential market, partly as a result of the improved Sars situation. Thirdly, the rally in the stock market in June also helped to lift property market sentiment.

In spite of the gradual return of optimism, some property sectors were still hampered by weak market fundamentals. Total investment sales amounted to only \$340 million in the second quarter, a decline of 4% from the previous quarter and 76% from a year ago.

The private sector accounted for all the investment sales transactions in the quarter. Activity was confined mostly to the residential and industrial sectors, which accounted for 70% and 15% of total investment sales. The remaining 15% was attributed to other sectors, comprising mainly the sale of the Asia Radio Building at 41 Bencoolen Street for \$28 million and Punggol Marina, a leisure and social club, for \$10.80 million.

The second quarter's private residential investment sales comprised mainly residential development sites purchased through collective sales and multiple units purchased by a property fund. In April, Centrepoint Properties bought

Major Property Investment Transactions



Source: CB Richard Ellis Global Research & Consulting

four freehold development sites at Jervois Road (totalling 101,800 sq ft with plot ratio of 2.8) for \$105 million. This was on condition that part of a public road separating the sites would also be acquired, which will bring the land cost down from \$370 psf/plot ratio to about \$340 psf/plot ratio. Two of the sites, where Jervois Court and Goldhill Mansion sit, were acquired through collective sales.

In the same month, 58 freehold residential units in one of the five blocks of The Tessarina in Bukit Timah were sold to IP Property Fund for a total of \$54.40 million. Based on the total net floor area of about 83,000 sq ft, the purchase price translates to \$655 psf. Wing Tai Holdings, the developer and vendor, will lease back the units for three years and a 5% property return on the investment is reportedly achievable based on the sales terms.

There were only six units sold in the Good Class Bungalow market in the second quarter, compared to 11 in the

previous quarter. However, we believe that the sector will be active again in the third quarter, mainly due to the limited supply of such properties.

In the industrial sector, the Ascendas Real Estate Investment Trust (A-REIT) purchased OSIM's headquarters building for a total of \$35 million. Healthcare company OSIM would lease back the building for 12 years. The industrial property has a total lettable area of 145,658 sq ft. The land tenure is 60 years, with 54 years remaining.

Though economic growth remains subdued, market sentiment has improved and investors' confidence is returning gradually. As such, more buying activity is likely in the third quarter. We expect to see selective residential land sales either in the private sector or the government land sales programme. There will also be opportunistic buying in the commercial sector, provided that attractive yields are secured.

OFFICE

PRIME OFFICE RENTS DECLINE BY 10%

In the second quarter, the fallout from Sars in the economy, together with the continued withholding of corporate expansion plans, resulted in very little new office demand. Leasing activity was restricted to renewals or relocations, without any significant expansions.

The surplus supply aggravated by contracting demand has pressured landlords to lower their rental expectations in the second quarter. Even as the market was inundated

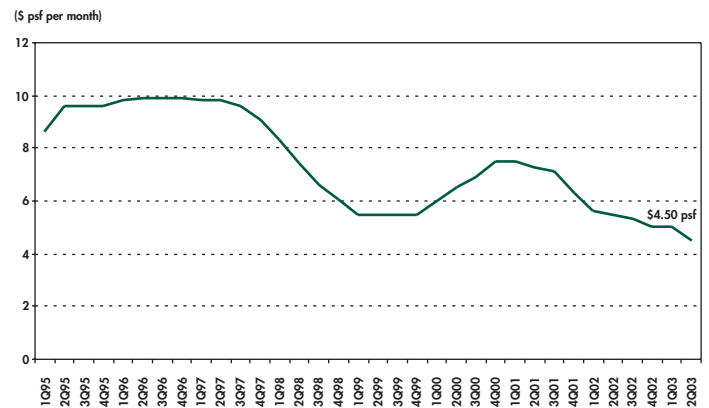
by a larger amount of vacant space being available at low rents, most corporate tenants remained uninterested in taking up additional space, primarily because of the lack of capital expenditure budgets.

Net demand for office space contracted again in the second quarter, which resulted in a further drop in the islandwide occupancy rate to 83.3% at end-June, from 83.6% three months ago. Total vacant office space increased to over 11.5 million sq ft at end-June, from 11.4 million sq ft at end-March.

The continued ballooning of vacant office space caused a sharp drop in prime office rents in the second quarter. At the end of the second quarter, prime office rents for space of up to 10,000 sq ft averaged at \$4.50 psf per month, 10% below the previous quarter's \$5.00 psf. Rents committed for major anchor space of more than 100,000 sq ft were lower than \$4.00 psf.

The volume of investment activity remained thin with only a few strata-titled sales in the second quarter. Based on an SISV caveat search, there were 14 caveats lodged, similar to the 15 lodged in the previous quarter. There continued to be no office building sales in the second quarter. This was not unexpected as the short-term outlook for office market fundamentals remains uncertain. We estimate that prime office capital values have fallen to an average of \$1,000 psf in the second quarter. It should be noted that investors would generally expect going-in yields of about 6%, which is higher than the low yield derived from the current average prime rent and capital value.

Average Prime Office Rents



Source: CB Richard Ellis Global Research & Consulting

While there could be pockets of new demand from some companies in the coming months, the positive effect will be partly counteracted by the continued restructuring and downsizing of other companies. The surplus supply is unlikely to shrink much and as a result, there may be further downward pressure on the islandwide office rents. The fall in islandwide rents in the second half of the year could range between 5% and 10%.

This said, the stock market rally in June has somewhat improved sentiment in the property market and this could cushion the downward pressure on office rents. Current rentals have fallen by 54% from the peak in 1996 and are down to levels seen in the mid-1980s. Historically, the office market has a strong correlation to economic growth. As soon as the economy sees strong and sustainable growth, demand in the office market should improve in tandem.

RESIDENTIAL

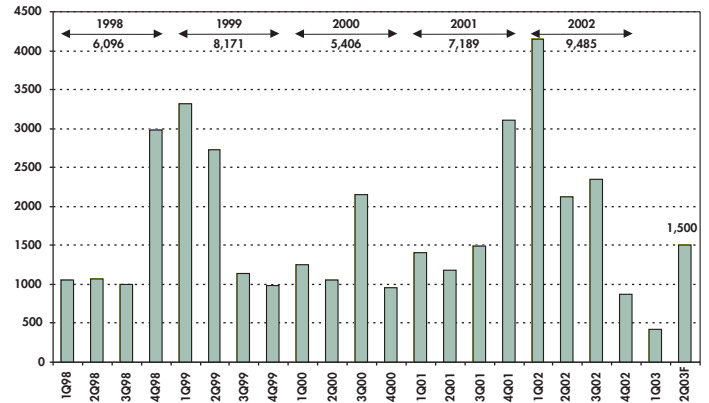
NEW HOME SALES TRIPLE IN SECOND QUARTER

New home sales in the second quarter are estimated to hit 1,500 units, more than triple the volume in the previous quarter. Most of the sales activity happened in May and June. Sars was to blame for the quiet market in April but subsequently, new launches saw good response and sales picked up.

This was largely due to the pent-up demand that has been accumulating since October 2002 and caused by a confluence of factors – the Iraq war, fears of a weak economy, rising unemployment and the Sars outbreak. The outbreak caused house-hunting activity to grind to a halt in April as people were advised to stay indoors. However, as the efforts to contain Sars showed results, market activity resumed. Developers who were the first to launch new projects in late April were rewarded with the return of showflat visitors. This was a good move because it stimulated the market and led to more launches. Homebuyers responded quickly to the availability of wider choices. In total, about 2,200 units were launched in the second quarter – of which more than 50% have been sold – compared to only 506 units launched in the first quarter.

The popular residential projects in the second quarter included 99-year leasehold condominiums such as Icon, Gardenvista and The Pearl, and freehold projects like The Pier at Robertson, Novena Suites and East Shine. Icon's record sale of 500 units could be attributed to its location in the city, proximity to Tanjong Pagar MRT station

Demand For New Units



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

and price of less than \$600,000 for the bulk of its units. Similarly for East Shine, all the 25 units were sold in two weeks because of its proximity to Kembangan MRT station, freehold status and very affordable pricing of \$595,000 to \$686,000 for 23 of the 25 units. Around 70 units each of Gardenvista and The Pier and 90 units of The Pearl were sold during the quarter.

The estimated 1,500 new units sold in the second quarter brings take-up to a level seen under normal market conditions when there are no unfavourable external factors or changes in government policies. This is similar to the quarterly sales in the first nine months of 2001 and reflects a strong recovery from the 427 and 869 units sold in the previous two quarters. A closer analysis of the transactions in the second quarter shows that around 40% of the new units sold were priced below \$600,000. It is the availability of these low-priced units that contributed to the jump in sales.

In the secondary market, a similar trend was seen as 37% of 902 caveats lodged were for properties costing less than \$600,000. This lends further support to our finding that the lower priced properties formed a notable proportion of all the homes sold in the second quarter.

There was little change in new home prices with the exception of a handful of relaunches. Prices in the secondary market, on the other hand, have softened. However, as the price points of the more saleable projects were relatively higher than those of the projects launched in the first quarter, it is unlikely that there will be a significant change in the URA price index in the second quarter. The flash estimate of the index shows a marginal 0.4% decline.

In the executive condominium (EC) market, steady sales were seen in the three existing projects, Esparis, Park Green and Whitewater. Over 100 units were sold, an improvement from the 73 units sold in the first quarter.

Going forward, although unemployment will still be a lingering factor in the economy, we expect that the sales momentum will be sustained, with an estimated take-up of 1,500 new homes in the third quarter. Developers will continue to launch new projects, which will help to propel sales. Some of the expected new launches are 99-year leasehold Grandeur 8, and freehold projects Emery Point, The Tresor and Monterey Park. The new EC in Choa Chu Kang may also be launched in the third quarter. We also expect some relaunches, repackaged more attractively to move remaining units.

INDUSTRIAL

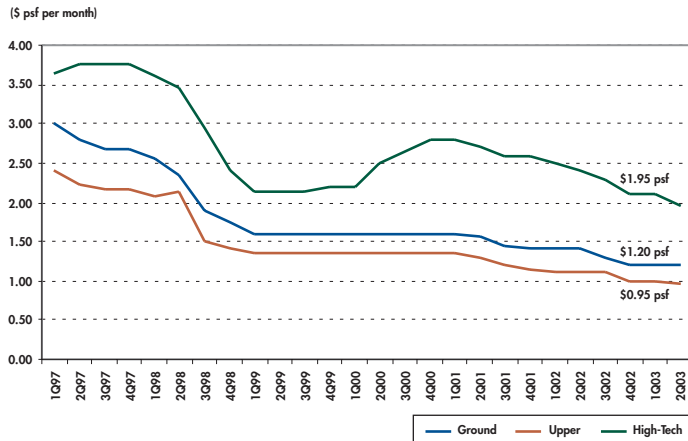
WEAK DEMAND PERSISTS AMID SLUGGISH ECONOMY AND MASSIVE OVERSUPPLY

The eruption of war in Iraq and Sars in Singapore in mid-March further weakened market sentiment in the second quarter. The industrial property market felt the impact from not only the economic uncertainties but also the massive factory oversupply of 35 million sq ft. Though the war ended in April and Singapore was declared Sars-free end of May, the manufacturing sector remained volatile and fewer sales and leasing enquiries for industrial space were seen.

As in the previous quarter, the bulk of new demand in the second quarter comprised mainly projects developed by manufacturers for their own use that were completed during this period. Demand in the quarter is also attributed to the leasing or sales of flatted factory space, albeit to a lesser extent. With manufacturers still cautious about future business prospects, such demand was generally weak. The take-up of space is probably a result of relocation because of competitive rents with added incentives as well as improved facilities. Demand for en bloc landed factories with 30+30-year or 60-year leasehold tenure remained sluggish and transactions were at prices below valuation. We noted that a few of these were bought by companies in support industries, such as plastics and engineering parts, which still had expansion on the cards.

At the end of the second quarter, the average monthly rent for prime ground floor conventional factory space

Average Prime Flatted Factory Rents



Source: CB Richard Ellis Global Research & Consulting

stayed unchanged at \$1.20 psf as there is limited supply of such space in the market. However, the average monthly rent for prime upper floor space fell by 5% to \$0.95 psf.

The average capital value for prime freehold flatted factory space fell slightly by 1.5% to \$325 psf for ground floor space and by 1.8% to \$265 psf for upper floor space, at end-June. For 60-year leasehold flatted factory space in prime locations, the valuation-based average capital value dropped by 2.2% to \$220 psf for ground floor space and by 3.0% to \$160 psf for upper floor space. The declining average capital value for flatted factory space is attributed to the persistent slow demand in this sector. In the second quarter, the number of factory caveats lodged fell to 163 compared to 182 in the first three months of 2003.

As business conditions in the electronics, telecommunications and IT industries were lacklustre, demand for space in high-tech industrial buildings remained weak. The average occupancy rate of high-tech industrial space declined to 70% in the second quarter against 75% previously. Landlords whose buildings have high vacancy rates as well as those with older buildings were facing increasing pressure to lower asking rents. At end-June, the average monthly rent for high-tech industrial space was \$1.95 psf, decreasing by 7.1% from a quarter ago.

Business prospects in the manufacturing sector are still clouded with uncertainties. With economic fundamentals still weak and the manufacturing sector yet to see the full impact of Sars as industrial output typically lags orders by a few months, manufacturers are expected to face a delayed recovery in the industry. Moreover, as the excessive supply situation remains unabated, rents and capital values for industrial space are likely to stay soft in the near term.

RETAIL

PRIME RETAIL RENTS HOLD FIRM AS SARS CRISIS RECEDES

The second quarter saw the retail industry badly shaken by the Sars outbreak in mid-March but as the problem was not protracted, vacancy and rentals of retail space remained largely unaffected. By end-May, Singapore was Sars-free and the market sentiment in June became much

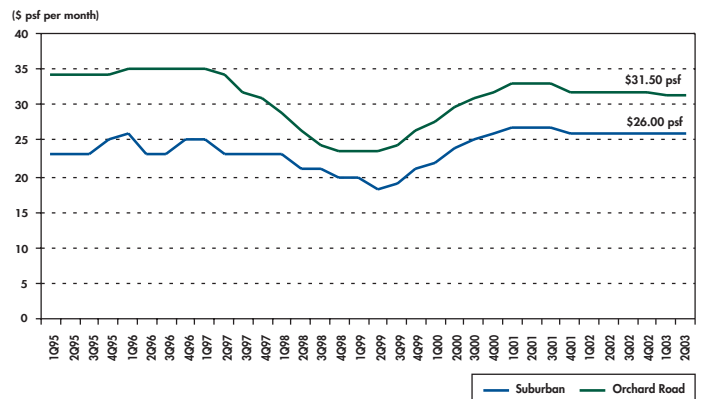
more optimistic. Prime rents managed to hold firm at the end of the quarter.

Retail and tourism were among the business sectors worst hit by Sars. The retail sales index (excluding motor vehicles and at constant prices) shows a 9.7% drop for April year-on-year while the catering trade index plunged 31.2%, reflecting the severe impact on restaurants. Trades that managed to buck the trend were, not surprisingly, supermarkets, health food outlets and home deliveries. Establishments that depended on the tourist trade were worse off whereas suburban retailers were less affected as they cater to the daily household needs of residents in a specific area. Tourist arrivals shrank year-on-year by 67.3% in April and 70.7% in May.

When the Sars situation in Singapore improved, Singaporeans began to resume their regular activities. Tourist arrivals also started to inch up. The launch of the Great Singapore Sale on 30 May (coincidentally Singapore's Sars-free status took effect 31 May) gave the sector a boost. Retail sales in the second quarter are expected to be weaker but the Great Singapore Sale (GSS) should help lift overall sales.

Leasing activity was slow in the first half of the quarter as decision-making was put on hold due to Sars but the pace picked up in the second half. This was mostly for renewals, relocations or the implementation of earlier plans. Most retailers were too preoccupied with the Sars problem and bottomlines to consider expansion plans although they continued to look out for better locations. Apart from John Little and Marks & Spencer, which announced new stores

Average Prime Retail Rents



Note: Shop units on level with heaviest traffic are regarded as prime space
Source: CB Richard Ellis Global Research & Consulting

in Plaza Singapura, those that were adding more outlets were smaller retailers with single or few stores.

Occupancy in well-established malls remained high while islandwide occupancy is likely to have slipped only slightly. This is probably because retailers were slower to take up space that became available rather than due to lack of interest. It was reported that Novena Square, United Square, Centrepoint, Chijmes, Paragon, Plaza Singapura, HarbourFront Centre, CapitaMall Trust (CMT) passed savings from the property tax rebates in the government's Sars relief package to tenants. This is likely to have helped to prevent closures of shops and keep occupancy stable.

Average monthly prime rents in Orchard Road and suburban malls remained firm at \$31.50 psf and \$26 psf respectively at the end of the second quarter. Non-prime rents continued to decline but by a smaller 3-5% compared to a quarter ago.

MARKET INDEX BRIEF

In the real estate investment trust market, CMT offered new units in June to help finance the \$268.7-million purchase of IMM Building. At the unit price of \$1.07, the forecast yield is 7.5% in 2003 and 7.6% in 2004. Out of the total 119.8 million units issued, the 30 million offered to the public was quickly snapped up while the 15.9 million for private placement were over 28 times oversubscribed, reflecting confidence in the retail sector.

The outlook for retailers has brightened with Sars well contained in Singapore, and by late June in the region as well, and travel activity picking up. Still, they are taking a cautious stance as consumers will remain prudent due to the weak employment and economic situation. A rebound in tourism is more likely to be gradual than rapid. Retailers still face the challenge of sustaining sales after the GSS.

The retail real estate market, on the other hand, is unlikely to see further downside, having withstood one of the retail industry's worst periods. The absence of major new supply this year means occupancy is likely to hold steady for the rest of the year. As a result, rents are also likely to remain firm, especially for prime space.

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

OFFICE / INVESTMENT	Alan Chow (Senior Manager) achow@cbre.com.sg
RESIDENTIAL	Han Huan Mei (Manager) hmhan@cbre.com.sg
INDUSTRIAL	Teo Li Kim (Manager) lkteo@cbre.com.sg
RETAIL	Hannah Tan (Manager) htan@cbre.com.sg

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Singapore Office

CB Richard Ellis (Pte) Ltd
6 Battery Road #32-01
Singapore 049909
T (65) 6224 8181
F (65) 6225 1987
www.cbre.com.sg

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