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SINGAPORE

MARKET INDEX BRIEF

Global Research and Consulting | 3rd Quarter 2002

INVESTMENT SALES

Residential investment sales dominate in third quarter

The investment sales market was fairly active in the third quarter. Total investment sales amounted to $480.09 million, about one-third of the $1.421 billion recorded in the previous quarter but comparable to the first quarter's $451.26 million.

The residential sector had the lion's share of almost 88% of the total sales or $421.01 million. Although the property market was wary about the possible changes to the Central Provident Fund (CPF) policy on housing at the start of the quarter, these turned out to be positive and boosted market sentiment.

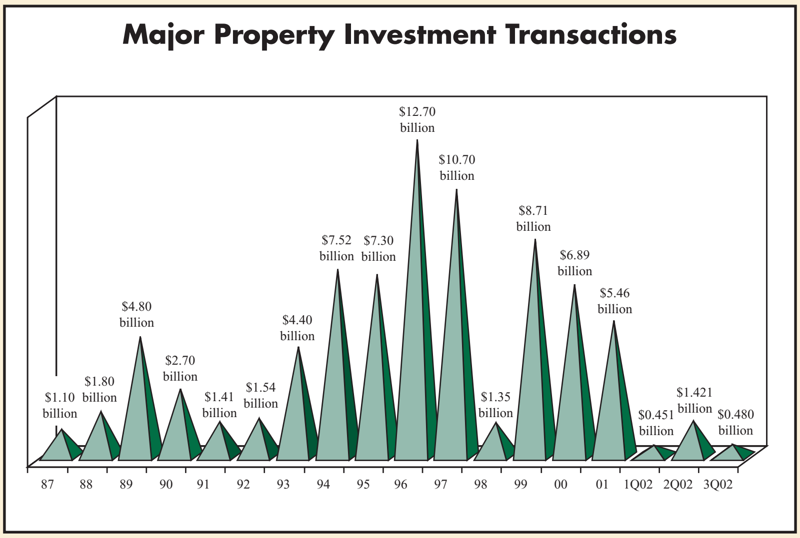
Major residential sites sold included two government reserve sites, in Boon Lay and Mount Faber, and two private development sites bought by Centrepoint Properties. Of the private sites, one was a site at Mount Sophia bought from the Methodist Church for $50 million or $280 psf/plot ratio, based on the site area of 173,800 sq ft and a plot ratio of 2.1. This included a condition that 45,000 sq ft of strata area of the future condominium project will be delivered to the seller. The site has a leasehold tenure of 103 years. The other was a freehold site in Pasir Panjang, bought for $19.10 million or about $250 psf/plot ratio based on the site area of 72,100 sq ft, a plot ratio of 1.4 and a development charge of about $6 million.

For the goverment sites, Far East Organization bagged the condominium parcel in Boon Lay for $200 million or $197 psf/plot ratio, which was

Market	Change From 2nd 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

31% higher than the minimum price of $150 psf/plot ratio. Sim Lian Land Pte Ltd was awarded the condominium site at Mount Faber at $68.1 million or $285 psf/plot ratio, which was 46% more than the minimum price of $195 psf/plot ratio. Both tenders received six bids each.



Source : CB Richard Ellis Global Research and Consulting

As for the commercial sector, it accounted for only 6% of the total sales in the third quarter, or $29.3 million. This comprised a government commercial site under the viaduct in Tampines, which is not on the reserve list. The 21,400 sq ft site was sold at the top bid of $10.3 million from a total of 23 bids received. Shop units at the 99-year leasehold Cuppage Terrace were also sold en bloc for $19 million in the private sector. The office investment sales market was relatively quiet, primarily because of the weak leasing market and increasing expectations of a higher yield, which suggest that the current asking prices by sellers are above investors' expectations.

The two residential reserve sites and the Tampines viaduct site contributed to the public sector sales for the quarter, totalling $278.42 million, while private sector sales amounted to $201.67 million. Although public sector sales were down 59% from the previous quarter with fewer government reserve sites sold, it is important to note that the number of bids is a more pertinent indicator than the number of sites sold – which depends on the scheduling of tenders determined by the government. The high number of bids, on the other hand, underscores developers' confidence.

The collective sales market remained rather subdued in the quarter, partly because of the pricing gap between developers and the strata-titled unit owners, and partly because of the insignificant decline in the development charge rates for the residential sector effective 1 September 2002. For both landed and non-landed sites, the average decline in rates was only 2%.

In the fourth quarter, the residential sector will likely continue to dominate the investment sales market, given the strong performance of the mass market in the past three quarters, where nearly 8,500 new units have been sold. This has already exceeded the 7,189 new units sold for the whole of 2001. As for the other sectors, investors will probably remain cautious. Talks of possible US-led military action on Iraq, which started to loom during the third quarter, will inevitably have a cooling effect on the local property market in the short to medium term.

OFFICE

Office demand remains weak

The third quarter was another quiet period for the office market. The leasing market remained subdued as office relocation continued to be hampered by the lack of capital expenditure. Sentiment was further dampened by IBM's decision to move out of IBM Towers to Changi Business Park by the end of 2003, and Sony's relocation from Keppel Towers to International Business Park.

New demand remained soft in the third quarter and it is unlikely to see the reversal of such a trend for the rest of the year. Coupled with the increase in supply from both new completions and the secondary market, the islandwide occupancy rate sagged further. We estimate that as at end-September, the islandwide occupancy rate stood at 84.6%, down from 85.3% three months ago. Newly completed supply in the quarter came mainly from Springleaf Tower at Anson Road (236,000 sq ft).

Prime office rents continued to decline. We estimate that the average prime office rent dropped to $5.30 psf, 5.4% lower than the second quarter's $5.50 psf and lower than the previous trough of $5.50 psf recorded back in 1999. Year-on-year, prime office rent declined 25.3% from $7.10 psf.

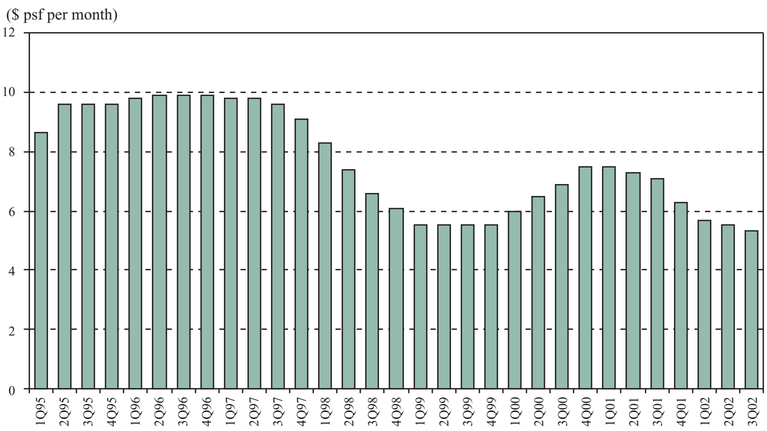
The office strata-titled sales market saw a total of 28 caveats lodged in the third quarter, lower than the 43 caveats lodged in the previous quarter, but similar to the level seen in the same period a year ago. There was no en bloc sale of office buildings in the quarter, as investors adopted a wait-and-see attitude in view of the falling rental market and the current glut in office stock. We estimate that the average prime office capital value was $1,050 psf in the third quarter, 4.5% lower than $1,100 psf in the previous quarter.

Demand for office space is not expected to improve in the fourth quarter, as companies continue to downsize and there are no signs of new entrants. The islandwide occupancy rate is likely to drop further to about 82% by the end of this year, lower than 89% in the previous year. As such, there will be further pressure on landlords to lower their asking rents. The average prime office rent is likely to reach $5 psf in the next quarter. A turnaround in rents is more likely to materialise in the second half of 2003, when demand for office space improves in line with the economy. As for capital values, we believe that there will be some downward pressure as the investment market becomes more yield-driven.

Despite the current weak demand, it should gradually improve in the long term, primarily because Singapore can attract more multi-national corporations (MNCs) to set up operations in the Republic. Besides the time-tested factors such as political stability, a sound legal framework, excellent infrastructure and an educated labour force, the inexpensive commercial estate costs resulting from the continued supply of office space in the foreseeable future should ensure that Singapore can remain cost competitive.

Indeed, it is positive news from the cost competitiveness standpoint when the government announced the release of a 'white' site in the New Downtown at Marina South, through tender in 2003, to a single master developer for an integrated business and financial development. Currently, the total vacant office space is about

Average Prime Office Rents



Source: CB Richard Ellis Global Research and Consulting

10.1 million sq ft. Together with the phased completion of the 4.3 million sq ft of new office space that can be supplied by this 'white' site and other future new supply, the real estate cost in Singapore in the long term will likely be kept reasonably low and this should help to attract MNCs to operate in Singapore.

Another notable aspect about the 'white' site is that if the funding of the development is to involve institutional investors, in view of its sheer size, it could possibly lead to changes in the current typical lease term of three years for office space in Singapore to a longer one like 10 years in New York or 15 years in London. This is because a long and steady stream of operating income is a common pre-requisite among these investors before taking up ownership of any project.

RESIDENTIAL

Record new demand for first nine months of 2002 exceeds whole of 2001's

The residential market continued to see strong sales of new project launches in the third quarter, estimated at 2,200 units. This brings the total number of new units sold between January and September to nearly 8,500. This is about 15% above the 7,189 units sold in the whole of 2001. It is also a record nine-month take-up of new units since the beginning of the bull run in 1994.

The pick-up in sales activity took place at the end of July after the government announced the changes in CPF rules for property purchase. The key policy change was in allowing CPF savings to be used for 10% or half of the required cash downpayment. This helped ease the entry barrier to the private property market.

Since the CPF changes were more positive than anticipated, market sentiment generally improved after the announcement. Developers seized the opportunity to launch more projects in August and September compared with July. In total, some 2,500 new homes were launched. At the same time, major banks made aggressive cuts in mortgage interest rates. As a result, buying activity increased.

The more popular launches in the third quarter included 99-year leasehold projects Casablanca ($450 psf) and Kerrisdale ($480 psf), and freehold Edelweiss Park ($513 psf), all catering to the mass housing market. Each project sold more than 50% of the units launched. Among the freehold landed projects, Mimosa Terrace and Mimosa Gardens sold 65% and 80% of their units respectively. More freehold projects in the prime districts were launched in the quarter such as Balmoral Crest, Balmoral Heights, Belmond Green, Casabella, The Cornwall and Leonie Hill Residences. Belmond Green ($948 psf) and The Cornwall ($950 psf) sold 50-60% of the units launched. Freehold condominium Tessarina, which has been in the market since 2000, moved over 100 units when its price was reduced to $680-740 psf from its original launch price of $950 psf.

Two executive condominiums (EC), The Esparis and Park Green, were launched at an average price of $378 psf and $368 psf respectively. By the end of September, The Esparis was 75% sold while Park Green was more than 40% sold. During the quarter, the EC market faced greater competition from new HDB flats and private homes. The walk-in selections conducted by HDB between April and September were reported to have seen 7,000 new HDB flats sold. Also, the new ruling that allows 10% to be paid with CPF savings made private properties more attractive. EC buyers are also able to do the same, but the $30,000 grant can only be used as part of the 10% downpayment payable with CPF savings and not the cash portion.

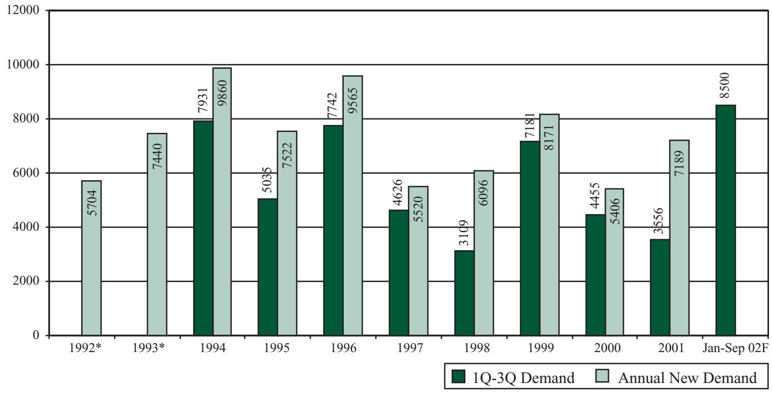
The flash estimate of the third quarter URA private residential price index shows a marginal increase of 0.3%. This could be attributed to sales in the high-end segment such as 14 units at Ardmore Park ($1,602 psf), a few units at The Edge on Cairuhill and Cuscaden Residences (both $1,400 psf) and more than 100 units at Belmond Green, Leonie Hill

Residences and The Cornwall. Overall, prices of most new launches remained unchanged compared with the second quarter. Low-end leasehold condominiums were still launched at $450-480 psf. Most of the freehold condominiums in non-prime locations were at launched around $560-580 psf, except Edelweiss Park, which was launched at $513 psf.

Rents of apartments and condominiums in most parts of the island have also remained flat. However, the monthly rents of luxury units in Ardmore Park have inched up to above $13,000 compared to the $12,000-level in the second quarter due to supply being more limited.

Moving on into the final quarter of 2002, the market sentiment has been somewhat dampened by a possible war in Iraq and the fact that the present economic recovery is not sufficiently broad-based. Developers are likely to remain cautious and launch according to demand. They may also choose to repackage some of the existing projects to clear any unsold stock.

Demand For New Units



Source: URA; CB Richard Ellis Global Research and Consulting
** Quarterly figures for 1992 and 1993 are not available*

In the best case scenario, we could continue to see good demand for new homes, of over 1,500 units, bringing total demand to a record high of above 10,000 units. In the worst-case scenario, demand may be subdued by these external events to just below 1,000 units as seen in the fourth quarter of 2000 when weak sentiment prevailed.

Some 99-year leasehold new launches to be expected are Centrepoint's condominium at Boon Lay, NTUC Choice Homes-Chip Eng Leong's project at Ang Mo Kio and Far East's project Icon. Freehold new launches include an apartment project at Sims Avenue East, Monterey Park, and The Paterson.

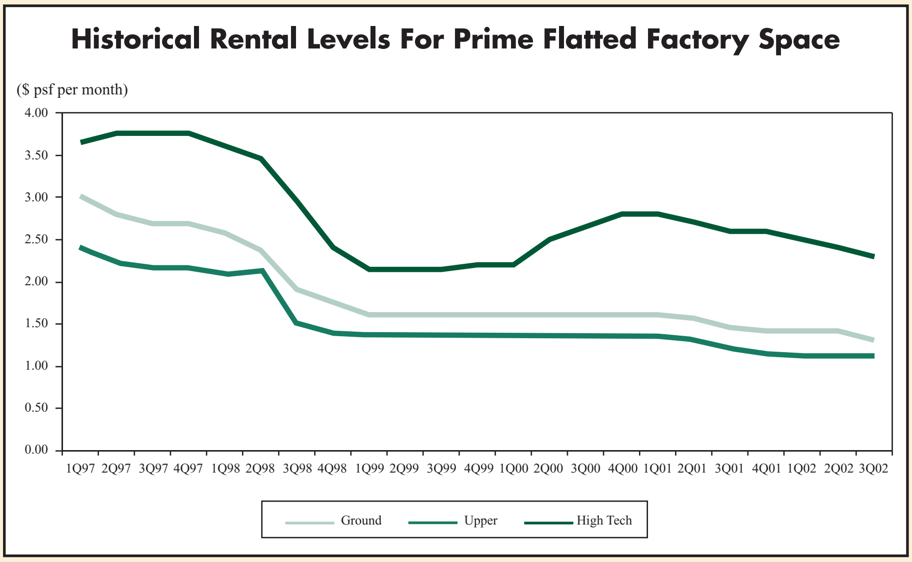
Prices of low-end leasehold projects are likely to remain stable. However, those priced above $550 psf may come under pressure and in turn, affect freehold projects in the same vicinity.

INDUSTRIAL

Industrial capital values to stay soft

Sentiment in the industrial sector remained weak in the third quarter. The number of enquiries for leasing of industrial space was similar to the previous quarter. However, those that eventually translated into deals only resulted when landlords offered lower rents and attractive incentives.

In terms of sales, there was more activity for strata industrial units than for en bloc buildings. This is attributed to the reduced pricing by developers of



Source: CB Richard Ellis Global Research and Consulting

60-year leasehold industrial strata units. Demand for en bloc industrial buildings remained slow as the gap between the expected sale price and offer price continued to widen. Some bids were at half of current valuation of the properties for sale.

Demand for industrial space is generally closely correlated with the movement of the manufacturing industry, of which the electronics sector contributes about half of total output. As companies in the electronics industry stayed cautious, this continued to have an impact on demand for high-tech space in the quarter. Amid the lacklustre demand situation, some high-tech industrial buildings in established estates like Ang Mo Kio, Kaki Bukit and Chai Chee saw higher vacancy rates as occupancy slipped by some eight to 15 percentage points from the previous quarter.

Demand for industrial space in the third quarter is usually led by heightened business activity from electronics companies ahead of the Christmas holiday season. As the uncertain economic conditions prevailed, increased new orders for personal computers and other electronics products seem to be slower this year and the anticipated new demand for industrial space did not materialise. The slow electronics industry has also dampened the demand for warehouse space as businesses cut down on production, dragged by the lower sales orders.

In the third quarter, the average monthly prime rent for ground floor factory space decreased to $1.30 psf compared with $1.40 psf in the previous quarter. However, average prime rent for upper floor factory space remained flat at $1.10 psf per month. The average monthly rent for high-tech industrial space also saw a 4% decline from $2.40 psf to $2.30 psf in the quarter.

The average capital value for 60-year leasehold flatted factory space fell to $250 psf for ground floor and $190 psf for upper floors, reflecting an average 12% decline from the previous quarter. Similarly, the average capital value for prime freehold factory space decreased to $360 psf for ground floor space and $300 psf for upper floor space, or about an 11% reduction from the previous quarter.

Looking ahead, the sluggish demand is likely to persist as recovery in the global electronics industry is not expected to take place over the next three to six months because of the economic uncertainty in the US and this region. Any increase in sales orders from the global electronics industry, which may translate to take-up for industrial space, is probably due to pent-up demand for electronics products as seen in the early part of this year. This itself is generated by the draw down of inventories rather than a sustainable global recovery for electronics products. In view of the continuing weak demand, rents and capital values for industrial space are expected to stay soft.

While the government has plans to steer Singapore towards an innovation-driven economy, it will take time for the impact to translate into a real take-up of industrial space. For now, the electronics industry accounts for the majority of demand for industrial space but without its significant recovery, demand will be languid.

RETAIL

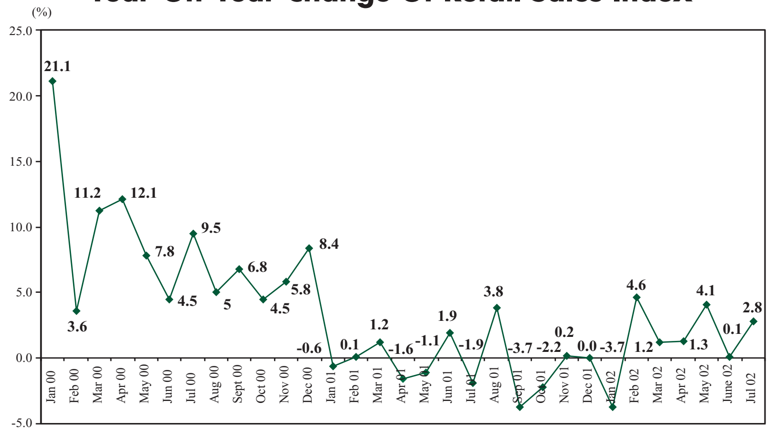
Cautious optimism of retailers and consumers to continue into fourth quarter

Sentiment in the retail trade during the third quarter was typified by a dash of optimism tempered with caution. Take-up of new space was encouraging while prime rents stayed resilient.

The retail sales index (at constant prices and excluding motor vehicles) for July, which rose year-on-year by 2.8%, marked a positive start to the quarter after a slower Great Singapore Sale in June. The Sale, which came to an end on 7 July, was affected by the economic downturn, the clash with the World Cup and the impact of post-11 September. Results were mixed as it was reported that about half of HDB heartland participants of the Sale saw a boost in business of 10-30% but nearly the same proportion (40%) also saw business fall by as much.

Nonetheless, judging by new entrants and expansions, the retail trade was on the whole in reasonable health. Demand for retail space came from well-known brands such as fashion label Zara; new mid-priced restaurants; beauty and health trades such as spas, fitness centres and health foods; supermarkets and convenience stores.

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

The strong interest in the Tampines viaduct site reflects its high-traffic location and the strength of the suburban retail market. It attracted 23 bids and a top bid of $10.3 million. It will be developed into a single-storey retail block with a net lettable area of 15,600 sq ft, housing a food court and shops. The purchase of Cuppage Terrace by S-11 F&B Holdings and the new owner's plans to turn it into new F&B concept underscore confidence in the Orchard Road area. S-11 bought the property for $19 million and is spending $2 million for the refurbishment of the shophouses.

In terms of supply and occupancy, take-up of most major recently or soon-to-be completed space was good. Compass Point (270,000 sq ft) opened to full occupation while the others were 70% leased or more – United Square, World Trade Centre, The Majestic, Esplanade Mall, The Atrium @ Orchard and China Square Central.

A fair amount of secondary space in Orchard Road also came up in the quarter. Interest in such space has been keen as prime space is still relatively scarce. The 50,000 sq ft space vacated by Metro at Far East Plaza, and sub-divided into small shop units, is believed to be fully leased out. The section, refurbished and branded LevelOne, is modelled after Japan's Harajuku and Shinjuku districts and features streetwear or ghetto-fashion.

Prime rents remained resilient during the quarter, averaging at $30 psf per month for Orchard Road and $26 psf per month for suburban space. It should be noted that some very sought-after units saw upward adjustments in rents, while rents for fringe areas or less prime shop units continued to soften.

As the year enters its fourth quarter, consumer sentiment remains hopeful but may grow more cautious, somewhat dampened by the uncertainty in world events and still rising unemployment figures. Retailers are therefore likely to become more conservative in their expansion/entry plans. We have already noted a gradual slowdown in leasing enquiries. Islandwide occupancy levels may ease, but only marginally and will still remain close to 90%. Any fall in occupancy will be mitigated by the absence of new major retail space for the rest of the year and till late 2003, when the Paragon extension and World Trade Centre Phase 2 are scheduled for completion. The strong occupancy in established malls in Orchard Road and the suburbs will stay firm. While prime rents could be propped up by the limited supply of prime space, they may see some downside risk, after holding steady for the past four quarters.

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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*Correspondent Firms

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 / SERVICED APARTMENTS	*Han Huan Mei (Manager)* *hmhan@cbre.com.sg*
RETAIL	*Hannah Tan (Manager)* *htan@cbre.com.sg*
INDUSTRIAL	*Teo Li Kim (Manager)* *lkteo@cbre.com.sg*

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