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Singapore, rest of Asia's Major Office Leasing Hubs Continue to Witness Upward Rental Movement Driven Largely by MNC Demand

Upbeat occupier demand continued to be witnessed across Asia's leading office markets within the second quarter of 2006. The sustained requirement fuelled the upward movement of top grade office rentals almost throughout the region. The Tokyo office market registered amongst the strongest quarter on quarter growth in leasing levels at 10.8 per cent, as vacancy fell to an all-time-low of 0.6 per cent. In Hong Kong, meanwhile, the CBD remained the focus of high-end leasing demand as banks and hedge funds displayed a willingness to pay high rents in their pursuit of the best quality accommodation in the market. Office rentals in Beijing were steady upwards as the release of a major quantum of supply within the review period restrained the potential for appreciation amid significant take-up. In Shanghai, meanwhile, rents continued to increase across-the-board within the second quarter, driven largely by the high quality specifications of newly-completed projects against a backdrop of strong, persistent demand. In Guangzhou, the Tianhe Sports Centre and the Pearl River New City were the two business micro markets which witnessed the highest level of prime office leasing activity within the second quarter. Grade A vacancy in Singapore was witnessed as compressing to its lowest level since the first quarter of 2001, while in Seoul, Grade A rentals continued to climb on the back of further compression in vacancy levels. Meanwhile, in India, Grade A rentals across the office markets in New Delhi, Mumbai and Bangalore continued to be driven by strong MNC demand.

In Tokyo, underpinned by the upbeat economic outlook, the second quarter of 2006 saw further acceleration in occupier plans to upgrade to superior quality office space. Requirements for Grade A office facilities continued to outstrip market availability. This resulted in vacancy dropping to an all-time-low of 0.6 per cent, which reflected a further tightening of 20 basis points over the previous quarter. In the second quarter, the professional and financial services sectors were amongst the keenest in securing space for ongoing business expansion, and were reported to be committing to development schemes 12 to 18 months prior to their planned opening. Nikko Citigroup, Goldman Sachs (Japan) Ltd, Morgan Stanley Japan Securities Co, Merrill Lynch Japan Securities and Lehman Brothers Japan Inc are all understood to be actively recruiting to expand their workforce in a bid to strengthen their M&A finance advising services.

Rental growth for prime office facilities in Hong Kong continued in the second quarter of 2006, albeit at a more moderate pace, as leasing options in the market became increasingly scarce on the back of ongoing compression in vacancy levels. Prime office rentals in Hong Kong increased by 6.8 per cent within the period under review as vacancy slid to 4.1 per cent. The continuation of the market upswing has resulted in growing segmentation in the Hong Kong top-end office market as borne out by the continued widening of the rental gap between different sub-markets.

The Beijing prime office leasing market remained buoyant within the second quarter of 2006 with brisk demand being counterbalanced by the high level of new supply observed during the period. The CBD and its immediate surrounds remained the primary choice for office location by overseas players. Corporate occupiers in the financial, insurance and consultancy business sectors were amongst the major drivers of demand within this sub-market. In Shanghai, meanwhile, the second quarter witnessed sustained upbeat demand for Grade A office space on the back of continued expansion by existing occupiers as well as the steady influx of new market entrants. Market activity was dominated by tenants taking the opportunity to move to better quality office premises provided by the surge in office completions, particularly attracted by the larger floor plates and improved design and technical infrastructure. There was no new prime office project released onto the Guangzhou market in the second quarter of 2006. On the back of the city's continued strong economic development, growing numbers of overseas companies were witnessed to be entering or expanding their existing presence in Guangzhou.

In Singapore, Prime and Grade A office rents continued to increase during the second quarter as the availability of quality office space in the CBD tightened further. "Broad-based growth of the economy, with the financial services sector being the main driver, and buoyant business sentiment have contributed to driving office occupancy rates and rents to higher levels" said Li Hiaw Ho, Executive Director, CBRE Research. Financial institutions and banks dominated the office leasing market within the second quarter of 2006. Three anchor tenants of the newly completed One Raffles Quay, Deutsche Bank, ABN Amro and UBS, all significantly increased their original space

commitments within the quarter.

The second quarter of 2006 saw a continuation of the strong demand for Seoul Grade A office space which was witnessed in the previous quarter. With South Korea's economy continuing to improve and demand for office facilities outstripping new supply, vacancies across all three of the capital's major business districts edged further downwards remaining at the low level of below 3 per cent. On the back of these dynamics, Grade A rentals continued to escalate as the position of landlords strengthened in the market.

The NCR market continued to witness buoyant office market conditions in the second quarter, led by sustained absorption of large-scale build-to-suit developments in suburban areas such as Gurgaon and Noida. At the same time, no new supply was released in Delhi's CBD area. A number of MNCs continued to implement large-scale expansionary programmes in New Delhi as they ramped up their operational capability and were witnessed committing to large office space within the quarter. The Mumbai CBD witnessed a continuation in the trend of decreasing vacancy and increasing rentals in the second quarter. Leasing demand was driven primarily by the rise in requirements by international financial institutions, which acted in confluence with a shortage of quality real estate options to put upward pressure on rents. The general lack of new supply in prime commercial areas has fuelled increasing corporate interest in the peripheral micro markets of Bandra Kurla Complex (BKC), Lower Parel and Andheri. In the second quarter of 2006, the Bangalore office market witnessed buoyant leasing activity as demand continued to outstrip availability of office space in the city's CBD. No new supply was released to the market within the quarter. On the back of continued uptake, vacancy decreased by 0.2 of a percentage point to 4.6 per cent, quarter-on-quarter.

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