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Singapore Property Market Outlook

The year 2006 bore witness to record-breaking moments in the real estate market. In 3Q06 alone, there were several. The Urban Redevelopment Authority residential property price index showed the largest quarterly increase of 2.5% over the past six years. Developments in new markets such as Sentosa Cove also saw prices doubling in just two years. The quarterly rental increase for small[1] prime Grade A office space in 3Q06 was the highest in a decade at 13%. In August, the last of the large retail sites along the prime shopping street of Orchard Road was awarded to a foreign player who outbid local developers for the Somerset site at a hefty SGD 1,455 per sq ft per plot ratio.

The bullish property market activity seen in 2006 is supported by strong economic fundamentals and growth in the wealth and financial services sector. The question that remains on everyone's mind is whether these market developments will continue into 2007. There are trends that have happened this year. This paper will postulate how some of them may continue into 2007.

RESIDENTIAL: THE HEART AND SOUL OF THE CITY

The government's efforts to position Singapore as a regional location for MNCs, along with the deregulation of the financial sector, are reaping some benefits. As a result, more international firms and foreign banks are attracted to Singapore.

The real estate market has benefited from this continual growth in foreign investment, especially from the headquarters and professional services cluster. With over 500 local and foreign financial institutions providing a wide range of financial products and services, these investors have been the key drivers behind the demand for real estate in Singapore since

[1] Between 2,000 and 5,000 sq ft

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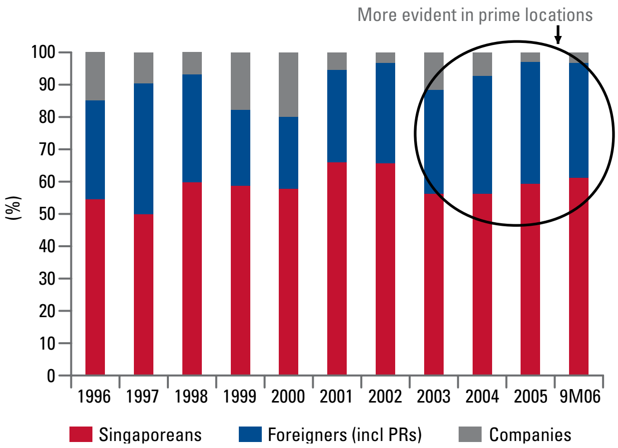
2004. Properties are needed not only to house the daily operations of these wealth management firms, but also for their relocating employees.

The key challenge to the residential property market in Singapore will be continually providing new and innovative housing stock to support the increasing population of both foreigners and residents.

Traditionally, foreign buyers favoured the prime locations (i.e. districts 9, 10 and 11) and in the East Coast (Figure 1). Presently, Singapore lacks good quality city centre housing.

Figure 1: Buyers' Profile (Apartment/Condominiums) in Prime Districts



Source: REALIS, Jones Lang LaSalle Research, November 2006

Downtown living the likes of Manhattan has only started its entry into the Singapore property market. The overwhelmingly positive market response to the launch of The Sail @ Marina Bay was a good indication of the latent demand for such downtown living. It is a sub-market that has not been fully tapped. With increasing sophistication in consumer demands, developers will be challenged to continually push the planning guidelines to new frontiers as they introduce new housing forms into the market.

While the current demand for city centre addresses come mostly from foreigners, local yuppies are fast catching on with this concept. The convenience of a city centre address attracts mostly young career-driven individuals and less of the family type. After all, the city centre does offer plenty of night-time entertainment activities that the forlorn suburbs usually lack – for good reasons.

Already, there is a growing trend among the creative class to move into neighbourhoods that are architecturally rich and socially colourful. A walk along the former Singapore Improvement Trust housing estate in the Tiong Bahru area provides a sense of this trend.

Since the positive market response to The Sail @ Marina Bay, a series of conversions of older office stock into residential use has been seen (Table 1). Since 2005, five existing office buildings along Shenton Way have been given approval for change of use or are in the process.

While such conversions may seem to defy economic

Table 1: Proposed Conversions of Office Stock to Residential /Serviced Apartments

Landlord	Current Development (sq ft)	Address	Residential Units
Far East	Natwest Centre (100,255)	15 McCallum Street	312 (The Clift)
Asia Insurance	Asia Chambers (82,990)	20 McCallum Street	140
City Developments	1 Shenton Way (201,177)	1 Shenton Way	394
BS Capital	HMC Building (70,999)	2 Mistri Road	167 (The Lumiere)
Ascott	Asia Insurance Building (100,000)	2 Finlayson Green	Serviced apartments

Source: Jones Lang LaSalle Research, November 2006

logic, especially in the current context where it will only exacerbate the lack of office stock in the CBD, these future residential units can easily be adapted for home offices. Their strategic locations in Shenton Way provide them the best opportunity to capitalise on both sub-markets – residential and office combined.

The challenge to building owners along Shenton Way is to explore ways to differentiate themselves from the herd when faced with redevelopment pressure. While many of these buildings are rich in social and cultural fabric, it remains to be seen how well these building owners will capitalise on their roots. Would they simply demolish and rebuild? Or would they follow the path of Ascott with the proposed restoration of what was once the tallest building in South-East Asia to its former glory?

Another aspect that developers have traditionally avoided is urban conservation. It is often regarded as costly and an impediment to smooth urban redevelopment. Increasingly, with the rising sophistication of consumer demands and a need for product differentiation, developers need to understand the value of conservation, be it voluntary or not. Niche marketing and high-quality finishes alone are no longer sufficient to entice discerning consumers, especially in the private housing market.

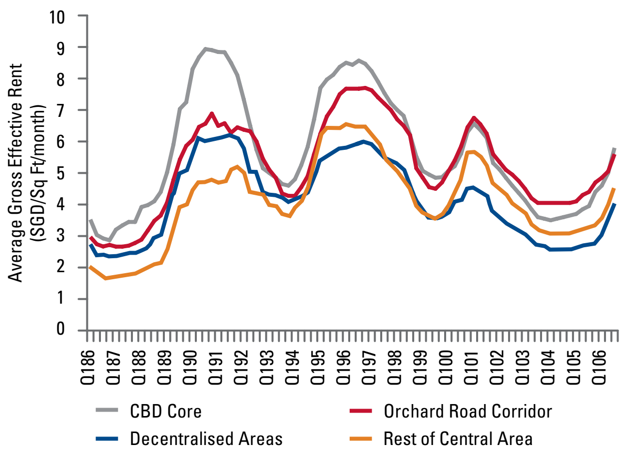
The value that the juxtaposition of old and new urban forms brings to neighbourhoods – from tourism to higher values – is real. Developers, albeit only a handful, have seen its benefits and will continue to drive the market in this direction. Prices of Draycott 8 units have strengthened since it first launched in 2005 and command a higher premium than the overall market, setting new benchmark prices for the area. Most recently, Grand Duchess at St Patrick's, another private condominium with two grand 1925 Victorian-style two-storey houses to be turned into exclusive apartments and a clubhouse, was completely sold within 36 hours of its soft launch, with prices about 10% higher than surrounding developments.

While factory loft apartments have yet to be seen in Singapore, such adaptive reuse of obsolete factories will emerge as architects and developers continue to face mounting pressure from consumers to provide interesting and innovative urban forms in the older parts of town. By allowing such conversions, the surplus stock of state-owned flatted factory spaces would be put to better economic use and provide more housing variety as well.

OFFICE: THE DRIVING FORCE

The office market has faced tremendous pressure to support the continual growth in the wealth and financial services sector. Island-wide rentals increased more than 13% q-o-q in 3Q06. With tightening supply, tenants are feeling the pressure to renew at increasingly higher rentals. Rentals are expected to breach the record set in 2000 and possibly even those in 1996 (Figure 2).

Figure 2: Average Office Rental Values (2,000-5,000 sq ft)



Source: Jones Lang LaSalle Research, November 2006

The challenge for real estate players is to meet this increasing demand over the next few years. Tenants will be constantly faced with the need to improve the efficiency of their workspaces to accommodate more staff. The delicate balance between increasing space efficiency and overall quality of workspace needs to be achieved.

More efficient workspace configurations and alternative solutions such as working from home and communal touchdown centres will be a rising trend as firms are driven by higher occupancy cost with no available alternatives. Segregation of operations will be the norm where backroom operations and other ancillary functions will find their way back into suburban offices, freeing up valuable CBD core real estate for front-line business operations. Suburban office spaces should continue to see strengthening demand into 2007.

In the interim, a relaxation of the 60:40 per cent rule (40% for ancillary office use) in industrial spaces will help alleviate the office supply crunch.

THE RETAIL PLAYGROUND

Currently, almost 45% of retail stock island-wide is found in the suburban areas (Figure 3). While these malls are generally resilient to external shocks compared to those in the primary shopping area, they are purely functional (Figure 4). The proven success formula for suburban malls with the same generic

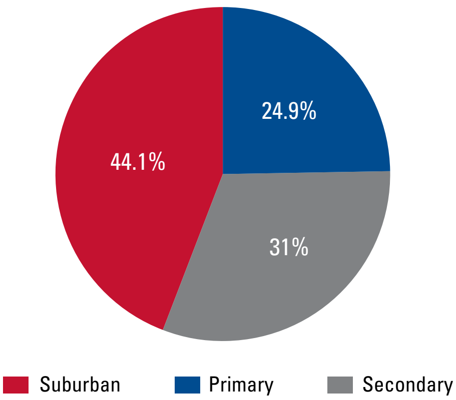
layout, tenant mix and design will not be sufficient in the near future.

A major challenge to the retail operator is identifying new emerging trends and capitalising on them before the competitor does. The key is finding the delicate balance between locking in a regular income stream with long-term tenants and the flexibility of responding to changing market trends with shorter-term leases.

Enterprising landlords who are bold enough to break away from the herd by shifting their mindsets from similar content malls to new retailing concepts in order to reposition their shopping centres would stand to gain in the future. This trend has already emerged such as in specialised mall like Velocity@Novena.

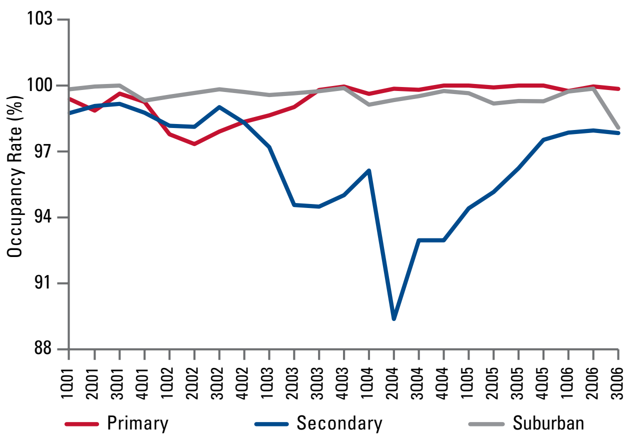
There is a greater need to provide support for product differentiation by having smaller shops

Figure 3: Distribution of Existing Retail Stock (Grade A and B Centres) as at 3Q06



Source: Jones Lang LaSalle Research, November 2006

Figure 4: Retail Occupancy Rate (Grade A and B Centres)



Source: Jones Lang LaSalle Research, November 2006

and kiosks that cater specifically to budding local designs, trades and culture. Retail owners looking at enhancing their assets through revamping their existing retail space will need to adapt to provide greater innovation in their retail concepts, as that will be the main differentiator and driver of leasing demand.

In the future, boutique shops and specialty stores will become increasingly attractive. Chain stores with mass-produced merchandise will be pressured to differentiate their products and store designs to create pseudo-boutiques. The old charm and individual-based designs offered by boutiques will appear alongside chain stores in suburban malls. Together, these will help create a stronger image and identity both for the mall and the neighbourhood.

THE POWER OF KNOWLEDGE

The property market can benefit from the expansion of our economy into the knowledge-based sector in several ways.

The first is, of course, the provision of physical infrastructure to support this new sector. Developers, especially those in the industrial sector, can benefit from this new growth engine. The divestment of JTC from industrial developments also paved the way for more economic opportunities for private developers in this area.

With the new businesses zoning system, this provides the flexibility for research-based industries in this sector to change their use fairly easily. The challenge to developers then is to provide an industrial stock that can be easily adapted for different allowable use classes.

Another challenge is the export of building technology. In Singapore, we have done a great job in reducing our urban heat level with the generous planting of trees along our roads. What we have not seen enough of is the integration of modern building technology with traditional tropical architecture in our buildings that could help improve energy efficiency. Compared with many Australian and European cities where environmentalism and sustainability movements have a longer history, Singapore is only slowly emerging. If we want to offer ourselves as a knowledge-based economy, then this is one key area that our property market can offer. Developers with research institutions can collaborate and experiment with adopting new building designs and green technology that is suited to the tropical belt.

For a start, the one-north area offers the best opportunities. Developments here will be a great platform for testing new building codes, green technology, experimental concepts, new housing form and other sustainable concepts in Singapore. These will reflect the spirit of this area – the creation and application of new knowledge and technology. The developments will become a very good industry benchmark and will set the stage for the future.

INTEGRATED RESORTS (IR)

The first IR in Singapore was awarded to Las Vegas Sands for a development on Marina Bay in May this year. A second one in Sentosa was awarded to Genting International in December. Developments of this scale will definitely impact the economy. The impact is not just during construction but upon completion as well. There will be a host of other related real estate activities ranging from leasing and branding to marketing and maintenance.

The challenge remains whether the gaming energy will sustain and fuel the growth of this sector and tourism in Singapore. The fact is that beyond 2015, many other Asian cities would have joined the bandwagon and host their own gaming facilities as well.

CRYSTAL BALL GAZING

The office and residential sub-markets have been star performers this year and will continue to shine going forward. However, the economic slowdown in America may put a drag on the local property market. The US economy has shown signs of a slowdown, with some economists calling an end to the American housing bonanza. Home sales and residential construction are tumbling, and home prices have also started to slide. While its effect has not yet been fully felt in the American domestic consumption except by builders, economists are expecting a gradual slowdown in the US economy.

As the American economy consolidates, Singapore may feel the pinch. However, in the longer term, with foreign investment projected to rise at 8% for the next few years and the emerging Asian economies of China and India taking up the demand slack left by the Americans, Singapore's economy will likely be sustained.

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Dr Chua Yang Liang leads the Jones Lang LaSalle Research teams in the South-East Asia region, encompassing Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam. Trained as an urban planner, Dr Chua brings to the Firm a different perspective to the fundamental research on the property market. He publishes original research on regular property market updates, rental and price indices, topical property market matters as well as consultancy assignments.

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