Research

Real Estate Highlights

Singapore • 1st Quarter Jan - Mar 2007

Contents

Executive Summary

- 1Q 2007 saw prices for private residential properties make their steepest climb in seven years. The HDB resale market also showed signs of recovery with HDB resale prices recording their highest quarterly growth since 2Q 2004.
- The retail sector stayed firm in 1Q 2007. Rentals of prime shopping space in the Orchard Road shopping belt as well as Marina Centre locality remained stable as these areas were not affected by the recent surge in new retail space.
- The office market produced yet another quarter of scintillating rental performance as a result of the demand-supply imbalance. Average Grade A office rentals maintained a persistently strong upward trend, charging ahead by 21% qoq.
- The industrial sector experienced healthy demand as a result of business expansions. Renewals of industrial leases were done at higher rental rates. High-specification factory buildings and business parks continued to benefit from the spillover effects of tight office supply and soaring office rentals.

Knight Frank Newmark Global

Singapore Residential Property Highlights

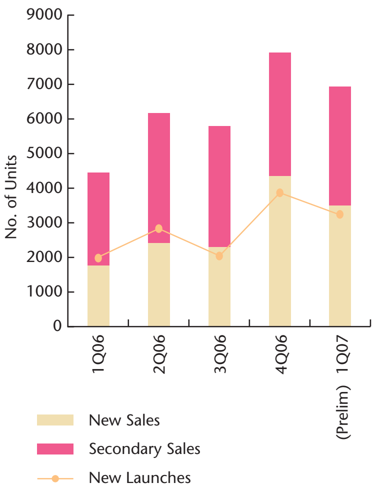
Private Residential Sector

Number of Units Launched at a Seasonal High

"New projects launched in 1Q 2007 were still mainly concentrated in the Central Region."

Building on the strong buying sentiments in the private residential market, developers launched an estimated 3,000 housing units in 1Q 2007. Although, this is a 19% drop from the 3,696 units launched in the previous quarter, the number of units launched in 1Q 2007 is still some 50% higher than the quarterly average for the past 10 years. New projects launched in 1Q 2007 were still mainly concentrated in the Central Region with selected mid-to-mass market developments such as Clementi Woods Condominium and Axis @ Siglap adding to the variety of housing stock in the western part of Singapore. The northern region continues to face a dearth in new non-landed private residential supply.

Chart 1
Private Home Launches & Sales Trends



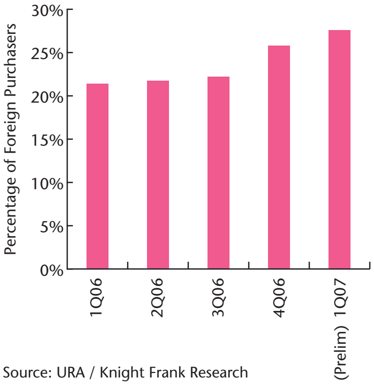
Source: URA / Knight Frank Research

Some Possible Major Launches in next 6 months

Projects	Tenure	District	Developer	Location	Units
Developments from Government Land Sales					
The Quayside Isle	99-yr	1	City Developments	Sentosa Cove	236
(unnamed)	99-yr	11	Frasers Centrepoint	Sinaran Drive	420
Developments from Private Land Sales					
Botannia	999-yr	5	City Developments/CapitaLand	West Coast Road	493
The Parc Condominium	FH	5	Chip Eng Leong/Lehman Brothers	West Coast Walk	668
One Rochester	99-yr	5	United Engineers	Rochester Road	368
CityVista Residences	FH	9	Chip Eng Leong	Peck Hay Road	70
Hilltop	FH	9	SC Global	Cairnhill Circle	248
Helios Residences	FH	9	Wing Tai	Cairnhill Circle	140
One Devonshire	FH	9	Allgreen Properties	Devonshire Rd / Killiney Rd	190
Leonie Parc View	FH	9	Soilbuild	Leonie Road	44
Parkview Eclat	FH	9	Chyau Fwu Group	Grange Garden/ Grange Rd	35
(Kim Lin Mansion)	FH	9	City Developments	Grange Road	110
Scotts Square	FH	9	Wheelock Properties	Scotts Road	338
The Lumos	FH	9	Koh Brothers / Heeton Holdings	Leonie Road	53
The Marq	FH	9	SC Global	Paterson Hill	60-70
The Centrio	FH	11	Soilbuild	Irrawaddy Road	53
Viva	FH	11	Allgreen Properties	Suffolk Way / Thomson Rd	288
(Unnamed)	FH	12	Roxy Homes Pte Ltd	Irrawaddy Road	48
The Riverine by the Park	FH	12	Wing Tai	Kallang Road	96
Tierra Vue	FH	15	MCL Land	St Patrick's Road	129
Parry Gardens	999-yr	19	OUB Centre	Poh Huat Rd	125
The Cascadia	FH	21	Allgreen Properties	Bukit Timah	536

Continued Strong Demand in the Primary Market

Chart 2
Percentage of Foreign Purchasers in Singapore



Source: URA / Knight Frank Research

There continues to be strong demand for new private residential properties with about 3,200 private homes sold by developers in the first three months of 2007. Although the number of such new sales recorded in 1Q 2007 dropped by an estimated 27% quarter-on-quarter (qoq) against the all-time high of 4,411 new sale transactions in 4Q 2006, it is still a significant 72% higher than that in the corresponding period in 2006.

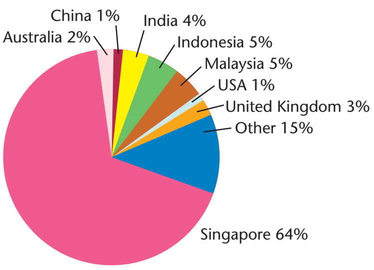
New launches in 1Q 2007 that were well-received by homebuyers includes Sky@Eleven, One Shenton, Pavillion 11, Clementi Woods Condominium and The Trillium. In addition, the strong buying sentiments have resulted in a number of boutique developments such as Axis @ Siglap, The Solitare and Tessa Lodge to sell out or almost sell out even with little advertising and promotion. Botanika, which is the first uncompleted condominium to be sold through an international auction in Singapore, also successfully found buyers for their remaining units at an average price of $2,040 psf.

Sales in the Secondary Market at a 10-year High

Re-ignited interest in the collective sales market coupled with positive economic figures once again spurred activities in the secondary market. The total number of sales in the secondary market jumped by an estimated 15% qoq to about 4,000 units in 1Q 2007. This is a 10-year high since the 4,106 units sold in 2Q 1996.

As islandwide rentals in the past year soared at a faster pace as compared to property prices, there is an increasing trend that tenants are finding it more attractive to buy than rent properties. In particular, there was a noticeable increased in interest in city-fringe properties that have yet to hit record high prices. Developments that have benefited from such phenomenon include Amaryllis Ville, Costa Del Sol and Queens. Their transactions in the resale market in 1Q 2007 was at an unprecedented level.

Chart 3
Estimated Breakdown of Nationality of Purchasers in 1Q 2007



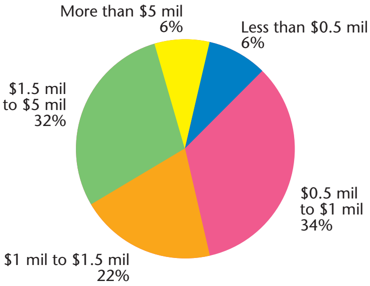
Source: URA / Knight Frank Research

Islandwide sub-sale transactions remain at a moderate level, making up close to 7% of the total sales in 1Q 2007. This is slightly higher than the 5.4% of total sales in the previous quarter but still a distance from the 27.6% and 10.5% of total sales recorded in the five months leading up to the introduction of the May 1996 anti-speculation curbs and during the previous 1999 property boom respectively. Interestingly, projects with high-level of sub-sales were not restricted to recently launched project but also projects that are nearing completion, such as Icon, Twin Regency, Watermark Robertson Quay and Varsity Park Condominium.

"In 1Q 2007, the proportion of foreign homebuyers in Singapore stands at an all-time high of 27%"

Chart 4

Estimated Breakdown of Foreign Purchasers (PRs & Non-PRs) in each Property Price Range in 1Q 2007



Source: URA / Knight Frank Research

Another New Record-High in the Proportion of Foreign Homebuyers

The presence of foreign homebuyers in Singapore grew from strength to strength. In 1Q 2007, the proportion of foreign homebuyers in Singapore stands at an all-time high of 27%, up from 25.6% recorded in 4Q 2006. This is the second straight quarter that the proportion of foreign purchasers in Singapore hit record peak, partly contributed by the government and developers' efforts to market Singapore as a global city and an ideal place in which to live.

On the other hand, the proportion of local homebuyers out of the total homebuyers in 1Q 2007 dropped to an all-time low of 64.5%. The drop in the proportion of local homebuyers was not only attributed to the rise in the presence of foreign homebuyers but also the move by more and more companies to purchase properties for investment.

There are also an increasing number of foreign homebuyers purchasing more expensive properties. Out of the total number of foreign homebuyers in Singapore, a higher proportion of them were noted to be purchasing homes in the higher price range as compared to the previous quarter. The proportion of foreign homebuyers purchasing properties ranging from $1.5 million to $5 million soared from 27% in 4Q 2006 to 32% in 1Q 2007. Conversely, as compared to 4Q 2006, the percentage of foreign homebuyers purchasing properties in the less than $0.5 million range and the $0.5 million to $1 million range dipped by 2-percentage points and 3-percentage points respectively in 1Q 2007.

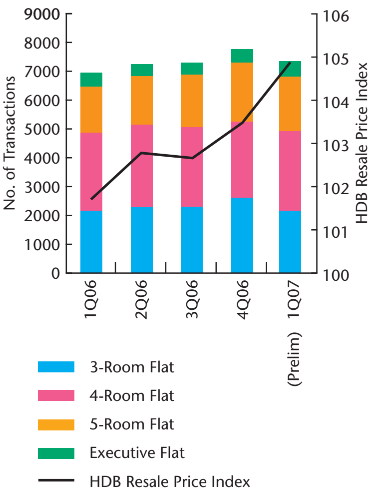
Price Growth Spreading from Prime Areas to Other Regions

Average price of non-landed private residential properties in the Core Central Region (CCR), which comprise properties in District 9, 10, 11, Downtown Core and Sentosa island, grew by 5.6% qoq in 1Q 2007 and continued to outperform home prices in other parts of Singapore. In contrast, prices in the Rest of Central Region (RCR) and Outside Central Region (OCR) only grew by 2.9% and 2.6% respectively. Nonetheless, the healthy pace of growth in the RCR and OCR is an indication that the strong price increases in the high-end market are already starting to spread to the lower tiers of the market. Islandwide, prices of private residential properties have risen by about 4.6% qoq in 1Q 2007, the highest quarterly rise in 7 years.

"Prices of private residential properties have risen by about 4.6% qoq in 1Q 2007, the highest quarterly rise in 7 years."

Another price record is being set in the Orchard Road area with the launch of The Orchard Residences in 1Q 2007 at an average price of $3,213 psf. The previous record of being the priciest condominium was held by St Regis Residences, which was transacted at an average price of $2,600 psf. The Orchard Residences also replaced Marina Bay Residences as the condo with the most expensive apartment unit when it reportedly sold a penthouse at $4,080 psf in March 2007. This beats the previous record of $3,450 psf set by the sale of a penthouse at the Marina Bay Residences in December 2006, which also has a 99-year leasehold land tenure.

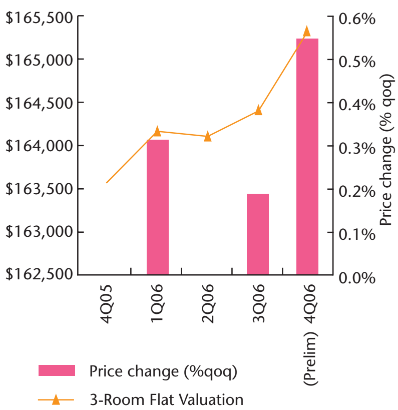
Chart 5
HDB Resale Transaction Volume and Price Index



Source: Housing & Development Board / Knight Frank Research

"HDB resale prices managed to record a growth of 1.2% qoq and 2.9% yoy in 1Q 2007"

Chart 6
HDB Resale Valuation for 3-room flat



Source: Housing & Development Board / Knight Frank Research

Soaring Rentals in the Prime Areas Benefited Residential Properties In Other Areas

Rentals in Districts 9, 10 and 11 continued to be lifted by the collective sales activities in the area as well as strong expatriate demand for prime properties. In addition, as more young and single expatriates are coming to work in Singapore, smaller rental apartments, mainly the 1 and 2 bedroom units in the prime districts were leased shortly after they were put on the market. This aggravates the already limited supply of such apartments and may eventually lead to a shortage of such apartments in the next few quarters.

As rentals in the prime areas reach record highs, more and more tenants with fixed budgets were forced to relocate to other areas at the fringe of the city such as District 15 & 16 so as not to compromise on the size of the apartments they live in.

In the suburban regions, condominiums within close proximity to the MRT stations, retail malls, amenities or international schools have also witnessed a marked increased in demand and rental values. This trend is especially so for condominiums with 2 and 3 bedroom units such as Rafflesia and Bishan 8.

Public Housing Sector: On the Road to Recovery

Despite facing hitches in the new loan rule that kicked-in on January 1, 2007 which requires HDB flat buyers to prove that they have the means to finance a property before being able to commit to a purchase, HDB resale prices still managed to record a growth of 1.2% qoq and 2.9% yoy in 1Q 2007. This is the highest quarterly growth since 2Q 2004, indicating that the prices in the HDB resale market may finally be recovering steadily. In particular, resale prices of the 4 and 5-room flats were noted to have posted the biggest gain, rising about 2.2% to 2.5% as compared to the previous quarter.

However, the number of resale deals done in 1Q 2007 is expected to record a fall of about 6.5% to 7,300 units due mainly to owners holding out the sale of their flats in hope of better rental yields or capital appreciation following the relaxation of rules to sublet HDB flats in March 3, 2007. More homeowners are reportedly renting out their HDB flats after the changes that allowed them to rent out their flats after living in the flat for 3 years, or 5 years if it has been bought with government subsidy or grant, regardless of whether they have paid up their loan. Previously, people were allowed to rent out their flats only after 5 years from the date of purchase or 10 years if they had not paid up their HDB home loans. After this change, about 650,000 of the more than 800,000 HDB homes in Singapore are eligible for subletting.

In addition, keen competition for buyers in the HDB market segment created by HDB's move to clear their stock of unsold HDB flats and the introduction of new concept flats such as the waterfront flats in Bendemeer, eco-lifestyle flats in Punggol, 'Housing in a park' in Queenstown and a second Design, Build and Sell Scheme (DBSS) development in Boon Keng Road have draw some buyers attention away from the resale market. Nonetheless, resale transactions for bigger flats such as the 5-room and Executive flats are estimated to have continued their upclimb, recording growth of about 1% to 3% qoq while transactions in other flat types takes a breather.

"Overall private residential property prices can possibly grow by another 3% to 5% in the next quarter and 12% to 17% for whole of 2007"

Outlook for Private Residential Property Sector

With GDP growing at a healthy pace, collective sales sellers looking for replacement homes and the influx of more foreign firms and expatriates, the outlook for the private residential market remains optimistic. Hence, overall private residential property prices can possibly grow by another 3% to 5% in the next quarter and 12% to 17% for whole of 2007.

The rental market in 2Q 2007 is also expected to remain buoyant with rentals in District 9, 10, 11, 15 and 16 scaling greater heights. This upsurge may raise the attractiveness of some smaller landed terraces or semi-detached houses as they became cheaper alternatives to condominiums in these areas. As a result, rentals in these sectors are also expected to be on the rise. Nonetheless, as more companies are seen to be revising their housing packages upwards so as to move in line with the rising rental market, the tight budget of some of their expatriates may be alleviated. Hence, a sudden rental correction in the market is not expected in the short-run.

Outlook for Public Housing Sector

HDB resale homes prices are likely to gradually increase for the next 9 months given the strong economic outlook, the continued tight labour market and improved sentiments. Barring any unexpected changes in economic conditions, HDB resale prices are expected to rise by 1% to 2% in the next quarter and 4% to 8% for the whole of 2007.

Also, with the growing economy and more positive response to Singapore as an educational hub, the influx of foreign middle-level professionals and students who formed a large majority of those with tight housing budget are expected to turn to the HDB rental market for their housing needs as the private homes are increasingly more expensive. The higher demand for HDB rental flats, when translated to higher rentals, may increase the attractiveness of HDB flats as potential investment tools given that they already have the advantage of enjoying higher yields and lower maintenance costs as compared to private properties. However, the HDB regulations would restrict HDB flats to become another full-fledged investment asset.

Lastly, as Singapore's population move towards 6.5 million in the next 40 to 50 years, the goal of the government is not just to provide spaces but also enhance the living environment to the extent that it becomes Singapore's competitive advantage in the attraction of talent and investment. Hence, in addition to the new concept housing planned in Bendemeer, Punggol and Queenstown, more new age housing ideas are expected to be announced by HDB in the rest of the year to enhance the quality of housing in both new and mature HDB estates.

Rental and Capital Value for Properties in 1Q 2007

Table 1

Rentals of New Private Residential (Apartment/Condominium) Units[1] as at 1Q 2007

Locality	Monthly Rent ($psf)
D. 9, 10 & 11 - Luxury	$4.10 - $4.95
D. 9, 10 & 11 - Others	$2.95 - $3.60
Other Areas - East Coast	$2.35 - $2.80
Other Areas - West	$1.40 - $1.95
Other Areas - Upp. Bt Timah	$1.15 - $1.65
Other Areas - Thomson, Toa Payoh, Bishan	$1.55 - $2.10
Other Areas - Yio Chu Kang, Yishun	$1.00 - $1.40

[1] New Private Residential Units refer to projects that are less than 5 years old.

Table 2

Capital Values of New Private Residential (Apartment/Condominium) Units[1] as at 1Q 2007

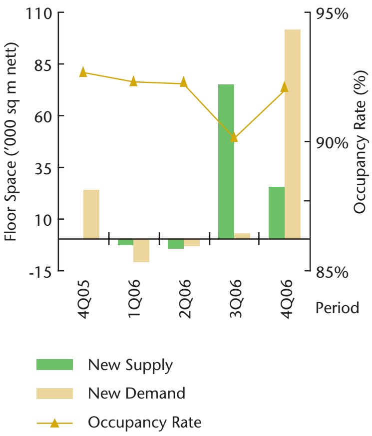
Locality	Capital Value ($psf)
Luxury Condo (FH)	$1,700 - $2,000
D. 9, 10 & 11 (other FH condo)	$1,000 - $1,200
East Coast (FH)	$695 - $875
East Coast (99-yr)	$565 - $830
West (FH)	$525 - $570
West (99-yr)	$470 - $550
Upp. Bt Timah (FH)	$470 - $535
Thomson, Toa Payoh, Bishan (FH)	$555 - $690
Thomson, Toa Payoh, Bishan (99-yr)	$445 - $515
Yio Chu Kang, Yishun (99-yr)	$355 - $430

[1] New Private Residential Units refer to projects that are less than 5 years old.

[2] FH & 99-yr refers to Freehold & 99-year leasehold properties respectively.

Singapore Retail Property Highlights

Chart 1
Demand & Supply of Retail Space (Private & Public Sectors)



Source: URA / Knight Frank Research

"The sharp increase in new supply of retail space that began in 3Q 2006 took a breather in 1Q 2007 with no significant addition of new shopping malls."

Market Indicators

Retail sales for January 2007 rose slightly by 2.2% yoy hitting $2.75 billion. Higher retail sales are expected for February 2007 as consumers begin to stock up food & beverages for the Lunar New Year festival. According to the latest MasterIndex of Consumer Survey by Mastercard Worldwide, Singaporeans are the most optimistic in the Asia-Pacific region. The strong optimism stems from a strengthening economy and a buoyant job market. As consumer confidence remains on a high, retailers can look forward to a year of better sales.

2006 was a record breaking year for the tourism sector. An unprecedented number of 9.7 million visitors arrived in Singapore and spent an estimated a record amount of $12.4 billion. Targets for 2007 have been set at achieving $13.6 billion of tourist receipts and 10.2 million visitor arrivals. 2007 started off with a bang, welcoming 825,000 visitors, which again is a record high for the month of January.

Supply and Demand

The sharp increase in new supply of retail space that began in 3Q 2006 took a breather in 1Q 2007 with no significant addition of new shopping malls. The quarter saw the completion of the second phase of AMK Hub. Total new retail space in 1Q 2007 pales in comparison to the 1.2 million sq ft of retail space injected into the retail stock during the second half of 2006. Total supply for 2006 reaches a 13-year high of 1.2 million sq ft while demand for the entire year similarly rose to a 13-year high of 980,000 sq ft. This is a salient indication that retail space continues to be sought-after by retailers. Despite the slew of new developments, island-wide occupancy rate as at 4Q 2006 remained stable at 92.3%, unchanged from the beginning of the 2006.

Rejuvenation at Orchard Road continues

Efforts taken to rejuvenate the established Orchard Road shopping district continues to take shape in 2007. Besides the massive construction of the three new malls on the sites awarded through the government land sale programme, some old shopping centres in the area have also started their redevelopment processes. One of them is Scotts Shopping Centre, which will be demolished by the first half of 2007 to make way for a luxury residential and retail project, Scotts Square. The development will have a retail podium offering 80,000 sq ft of retail space. The Specialists' Shopping Centre is also likely to witness some redevelopment so that new, spanking malls that are slated to come on stream along the Somerset belt will not be juxtaposed with an aging building.

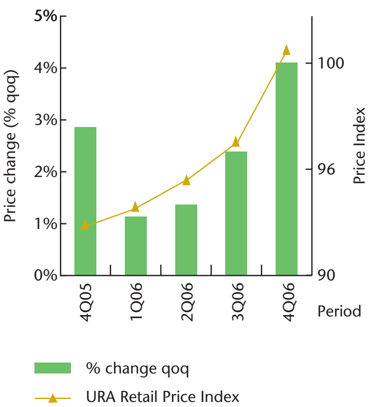
Retail Trends

"The “Friday Late Night Shopping” initiative is now a permanent feature on the last Friday of every month."

The “Friday Late Night Shopping” initiative launched by the Singapore Tourism Board has elicited good response and is now a permanent feature on the last Friday of every month. Sales during the late-night periods have reportedly been brisk and four times more retailers are participating. Retailers will lengthen operating hours till midnight on those Fridays. With the extension of public transportation hours to make it more convenient, shopper have further reason to trawl the malls. Late-night shopping is a long overdue fillip in making the retail scene more vibrant. Mustafa Centre is currently the only 24-hour shopping mall in Singapore. Malls operating till longer hours past midnight and also on other days of the week should be the next step going forward. This will then bring Singapore on par with cities such as Seoul where shopping malls are opened and filled with avid shoppers even until the wee hours.

NTUC FairPrice’s first hypermarket, FairPrice Xtra opened in January 2007 at AMK Hub and attracted a beeline of shoppers. FairPrice has plans to open another two such hypermarkets over the next three years, with the aim of having one each in the west, north and east of Singapore. According to a report by Euromonitor, 2006’s top 2 retailers in Singapore as measured by sales are once again grocery chains NTUC FairPrice and the Dairy Farm Group which owns Cold Storage, Giant and the 7-Eleven convenience stores. Grocery stores are able to generate high turnover because they can attract customers on the basis of price and variety. This explains why most of the malls, despite trying to differentiate themselves by having a themed concept, still continue to have these crowd pullers as key anchor tenants.

Chart 2
Retail Price Index



Source: URA / Knight Frank Research

While F&B outlets continue to be an important component, more malls are also looking at the possibility of incorporating an IT Hub. Suntec Mall’s e-life@suntec, a 15,000 sq ft haven for digital gadgets started operations in late 2006. The digital zone replaced the space formerly occupied by Harvey Norman and Winter Time. There is a strong demand from IT vendors which are looking to cater to the needs of Singaporeans who are becoming more digital savvy, evident from the recent IT Show 2007 held in March which drew a record 700,000 visitors. An estimated total amount of $30 million was spent on digital products during the fair.

Retail sector welcomes a major player

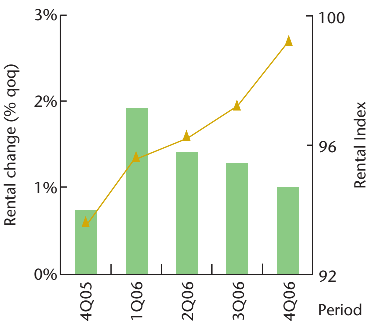
Emaar Properties, the Middle East’s largest property developer will make its foray into Singapore property market, pending its successful takeover of RSH Ltd. Emaar Properties is renowned for constructing the world’s largest shopping mall, The Dubai Mall. It is likely to participate actively in the local and regional retail scene and will provide healthy competition to existing players such as CapitaLand.

Investment Sale of Retail Properties

"The local private retail property investment market was relatively quiet in 1Q 2007."

The local private retail property investment market was relatively quiet in 1Q 2007 as most of the retail REITs were more active in making overseas acquisitions. The only major transaction was the signing of the put-and-call-option agreement by Frasers Centrepoint to acquire YewTee Point, a retail mall that is presently undergoing construction. The 117,100 sq ft mall is expected to be ready in December 2008 and will further strengthen Frasers Centrepoint’s position on the local suburban mall front. In a bid to diversify their portfolio geographically, Frasers Centrepoint also announced plans for further expansions into China and Vietnam.

Chart 3
Retail Rental Index



Source: URA / Knight Frank Research

Prices and Rentals

The Orchard Road shopping belt as well as the Marina Centre, City Hall and Bugis locality were not affected by the recent surge in new retail space. Renewals of leases were also not at significantly higher rental rates. As a result, rentals in those areas were stable. With the opening of a couple of malls such as Square 2 and The Central during year-end 2006 and the beginning of 2007, rentals of prime retail space in the city fringe edged slightly upwards by 0.4% to $22 psf. The suburban regions also witnessed a moderate increase in rentals. The completion of Ang Mo Kio Hub contributed to suburban retail rents rising by 1% qoq to reach $27.20 psf.

"2007 is not entirely a dull year though as shoppers can look forward to a couple of appealing shopping developments."

Outlook

While 2006 was an eventful year, 2007 will fit in as a period of transition before the retail sector gears up for the next wave of excitement in late 2008 with the opening of the Orchard Road malls. 2007 is not entirely a dull year though as shoppers can look forward to a couple of appealing shopping developments. Amongst them is Giant's warehouse retail outlet at Tampines, slated for opening in March. It is the last of the trio of developments launched under the Warehouse Retail Scheme. Lunch-time office shoppers in the Central Business District will also have reason to cheer as a subterranean mall located at Tanjong Pagar MRT station will try to match the success of Raffles Xchange. All eyes will also be on the reopening of Kallang Leisure Park in September 2007. Shoppers will be eager to see whether the redeveloped mall is a reminiscent of the popular youth hangout or emerge with a completely new concept.

Some of the new malls in Orchard Road area have begun to lease their shop units. There is room for further rental appreciation in 2Q 2007. For the entire 2007, prime retail rentals are projected to increase by 8% to 10% while island-wide rentals are expected to increase by 3% to 5%.

Current Rentals of Prime Shopping Centre Space

Locality	Average Prime Monthly Gross Rental ($ psf)[1]
Orchard (Central)	$38.80
Orchard (Fringe)	$20.30
Marina Centre, City Hall, Bugis	$27.80
City Fringe	$22.00
Suburban	$27.20

1 Based on pre-defined portfolio of properties; Refers to prime shop space of between 400 - 800 sf typically located on ground level with good frontage; Any yields implied refer only to such prime space and may not be reflective of the entire shopping centre

Source: Knight Frank Research

Singapore Office Market Highlights 1Q 2007

Office Market Review

"2006 was a phenomenal headline year for the office sector as both prices and rentals soared."

The Singapore economy started the year on a good note. Based on preliminary figures, it achieved a 6% year-on-year (yoy) increase in 1Q 2007. The healthy growth followed a robust 7.9% yoy growth in 2006, which was higher than the 6.4% economic expansion experienced in 2005. The Ministry of Trade and Industry is forecasting full year economic growth for 2007 to vary from 4.5% to 6.5%. In line with the government's forecast, the median estimate from private economists and analysts was a 5.4% growth.

2006 was a phenomenal headline year for the office sector as both prices and rentals soared. Official statistics from URA showed that average islandwide capital values for the whole of 2006 rose by 17% yoy while average rentals enjoyed a 32% yoy upsurge.

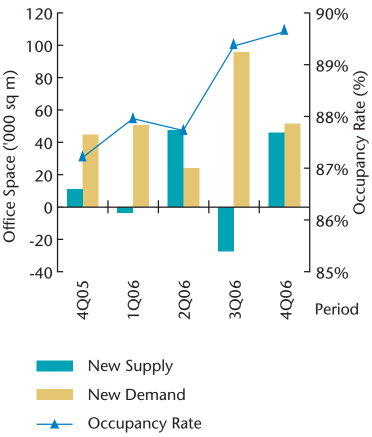
Demand-Supply Mismatch

"Islandwide occupancy rate for office space rose to a ten-year high of 89.7%."

Continuing on the trend from the past 2 years, demand for office space in 2006 drastically outpaced new supply. Despite new supply slightly increasing to 689,000 sq ft in 2006, net demand for office space for the entire year stood at 2.4 mil sq ft, the highest since 2000. As such, islandwide occupancy rate for office space rose to a ten-year high of 89.7%.

Singapore is fast becoming Asia's largest foreign exchange hub, prompting major banks such as Credit Suisse and Barclays Capital to relocate their regional trading operations to Singapore. Luxembourg clearing bank Clearstream, one of the only two international central securities depositories also set up an office in Singapore to capitalise on the hike in volume of international securities settlement. In general, prime office space continued to be highly sought-after by financial institutions. Occupancy for prime office space in 1Q 2007 reached 98.6%, a marginal increase of 0.2% from the previous quarter of 98.4%.

Chart 1
Demand & Supply Of Office Space (Private & Public Sectors)



Source: URA / Knight Frank Research

Supply of office space remained tight, especially in the Central Business District (CBD). Conversion of buildings to residential uses and the redevelopment of existing aging office blocks such as Ocean Building and Overseas Union House further exacerbated the office supply crunch.

Unlike the Government Land Sales Programme for 1H 2007 that is more geared to meet the demand for office space in the medium and long term, the government also attempted to provide some relief to the tight office supply market by announcing several measures in 1Q 2007. The government has urged its agencies to consider the option of relocating out of CBD. This could free up some office space to meet the growing demand. Already the Economic Development Board is understood to consider a move to Fusionopolis from its current location at Raffles City Tower when the lease ends in 2009. Other government agencies that are currently housed in the CBD include the Monetary Authority of Singapore (MAS) in MAS Building at Shenton Way, the Ministry of Manpower at Havelock Road, the Singapore Land Authority at Temasek Tower, the Urban Redevelopment Authority and the Ministry of National Development at Maxwell Road. Some of these office space which are at fairly attractive locations will appeal to financial institutions should they be available for lease.

The Urban Redevelopment Authority is also exploring the option of providing vacant land to build transient offices with short tenures. Basic office accommodation can be quickly constructed in less than a year.

The Singapore Land Authority has also for the first time, announced that six vacant state properties not earmarked for immediate development will be dedicated solely for office use. Three of them are located in the CBD which include the 145,430 sq ft former police headquarters and the 7,513 sq ft former CID training centre at 195 and 18 Pearls' Hill Terrace respectively as well as the 47,254 sq ft former River Valley Primary School at 341 River Valley Road. The other three properties are the 47,017 sq ft former Corrupt Practices Investigation Bureau building at 150 Cantonment Road, the 11,055 sq ft former CAAS building at 1801 Upper Changi Road North and the 218,884 sq ft former ITE Pasir Panjang at 991 Alexandra Road. Three of these sites, namely the former police headquarters, former River Valley Primary School and former CAAS building have been put up for open tender in 1Q 2007. However, the introduction of such properties is regarded as a stop-gap measure and may only appeal to companies who do not need complicated building facilities. This is because some of these vacant state properties are more than 20 years old and were not designed to meet modern office needs of financial institutions.

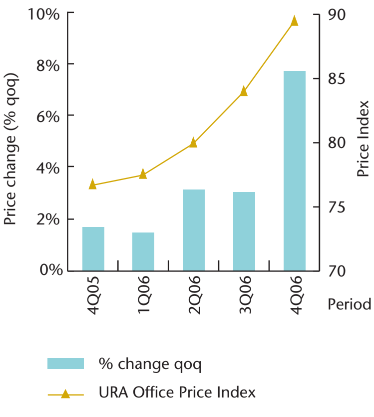
Investment Sales of Office Developments

"On average, capital values of transacted office buildings rose by 40% to 45% from mid-2006 to 1Q 2007."

Exuberance was seen in the office investment market in 1Q 2007. In view of rising rentals and the persistently acute office supply crunch in the CBD, the consortium comprising Hongkong Land, Keppel Land and Cheung Kong Holdings which bought the first phase of the Marina Bay Financial Centre (MBFC) has exercised the option to purchase the rest of the site at $907.67 mil ($435 psf/gpr). The successful bid for the first phase was then $381 psf/gpr.

Other government land sales in 1Q 2007 include the award of the commercial site at the junction of New Bridge and North Canal roads to Kim Eng Properties Pte Ltd. The well-located site, which is one of the key gateways into the CBD attracted strong interest with a total of 11 bids and was sold for $44 mil ($758 psf/gpr).

Chart 2
Office Price Index



Source: URA / Knight Frank Research

Sites put up for tender in 1Q 2007 include Anson Road/ Enggor Street with a gross floor area (GFA) of 383,810 sq ft. The site can be built up to a maximum of 50 storeys and is strategically located within Tanjong Pagar, beside the residential project Icon and facing the existing stretch of office blocks; Anson Centre, Springleaf Tower and Temasek Tower. Intense bidding is expected for this choice site. The URA also released the Beach Road site which is on the confirmed list for tender. The site which is home to the former Non-Commissioned Officers Club is well located beside the Suntec International Convention and Exhibition Centre and has a maximum GFA of 376,295 sq ft of which 40% must be set aside for office use. This site is also expected to generate substantial interest with potential bids projected to be around $950 million to $1.1 billion.

Private investment sales of office buildings were similarly on a high. On average, capital values of transacted office buildings rose by 40% to 45% from mid-2006 to 1Q 2007. Wing Tai sold its Vision Crest's office block and House of Tan Yeok Nee next door to German fund manager Union Investment Real Estate AG for $260 million ($1,555 psf/NLA) while CapitaLand carried out its divestment exercise by selling its stake in Samsung Hub to Ho Bee for $134.3 million ($1,384 psf/NLA). OCBC also sold its six floors at Samsung Hub for $125 million ($1,589 psf/NLA) to an overseas fund. On the other hand, Macquarie Global Property Advisors (MGPA) continued its acquisition spree by buying Temasek Tower from CapitaLand for about $1 billion ($1,550 psf/NLA) which one of the largest office transaction in Singapore. Another local bank UOB was equally active, forking out $271 million ($1,599 psf/NLA) for SGX Centre. The $1,599 psf of NLA achieved for this transaction is a 10-year high for Grade A office space in the CBD.

"Rentals for Grade A office buildings in the CBD experienced another significant rise in 1Q 2007."

Relentless Climbing Up of Office Rentals

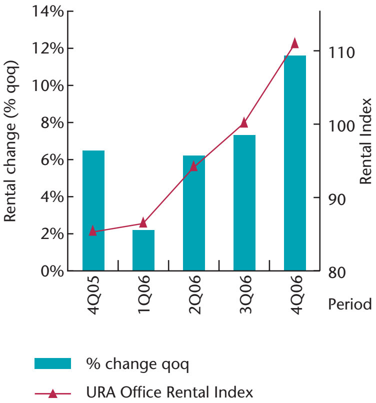
With surging demand for prime office space emanating from financial institutions which is not always met by the current tight office supply, rentals for Grade A office buildings in the CBD experienced another significant rise in 1Q 2007. Office landlords are renewing leases at higher values, which contributed to the escalation of office rentals.

The biggest increase in 1Q 2007 was a 37% qoq jump in Suntec, Marina Centre and City Hall area. Grade A office rentals in this micro-market has been relatively under-priced as compared to the Raffles Place area and is now commanding an average monthly rental of $10.90 psf. The Raffles Place area saw average rentals rising 20% qoq to $10.90 psf, with Republic Plaza in particular achieving rental rates of $13 psf. Rental performance of Grade A office buildings in other micro markets were similarly upbeat. Average monthly rentals in Shenton Way and Robinson Road area rose by 19% qoq to $7.90 psf while those in Orchard Road area increased by 9% qoq to reach $8 psf. Average Grade A office rentals maintained a chronically strong upward trend, charging ahead by another 21% qoq to $9.80 psf.

As vacant prime office space in Grade A office buildings became increasingly scarce, strong demand for well located office space has filtered down to Grade B office buildings, the next best alternative, within the CBD. As a result, average rentals of Grade B office space jumped 24% qoq to $8.30 psf in 1Q 2007.

Office rentals in the suburban regions experienced mixed fortunes. The West area that witnessed the highest rental appreciation among the suburban sectors during 4Q 2006 remained largely unchanged in 1Q 2007. The North and East areas however saw rentals move up by 16% qoq and 25% qoq respectively to reach $6.10 psf and $5.30 psf.

Chart 3
Office Rental Index



Source: URA / Knight Frank Research

"Given the current imbalance between office supply and demand, the office property market is anticipated to remain bullish."

Outlook

Although a slight moderation has been forecasted for the economy in 2007, the first quarter advance GDP estimate indicated that the rosy economic performance might continue. Based on advance estimates, the Singapore economy expanded 6% yoy in 1Q 2007. Analysts are now projecting the full-year growth to come in at the top end of the official government forecast, which is between 4.5% and 6.5%. Given the current imbalance between office supply and demand, the office property market is anticipated to remain bullish.

Besides the spillover demand to high-specification industrial space and the office premises in suburban regional centers, the soaring office rental situation in the CBD has also resulted in an increasing number of prospective tenants to consider the option of purchase rather than lease.

About 1 million sq ft of office space will be added to the existing stock in 2007. This includes the SIF Building at Robinson Road, The Central, VisionCrest and the newly refurbished 135 Cecil Street (former LKN Building). Bolstered by favourable economic conditions, demand for office space will remain buoyant and coupled with insufficient new office supply, the office market is poised for a sustained period of rising rentals. Rental revisions by office landlords will be at a torrid pace. For the entire 2007, rental appreciation in prime Grade A office sector is projected to be around 50% to 60% while on an islandwide basis, average office rentals will rise by 20% to 30%.

Table 1:
Average Effective Monthly Rental

Location	Average Effective Monthly Gross Rental ($psf)
CBD (Grade A)	
Raffles Place	$10.60 - $11.10
Marina Centre / City Hall	$10.50 - $11.40
Shenton Way / Robinson Road	$7.70 - $8.20
Orchard Road	$7.80 - $8.30
Non-CBD	
Beach Road / Middle Road	$7.00 - $7.50
Suburban (North)	$5.90 - $6.40
Suburban (East)	$5.00 - $5.50
Suburban (West)	$4.10 - $4.60

Source: Knight Frank Research

Table 2:
Office Investment Sales in 1Q 2007

Property Name	Location	Tenure	Sale Price (including DC/DP)	Unit Price ($ psf of GFA)	Unit Price ($ psf of NLA)
Private Investment Sales					
Vision Crest's office block and House of Tan Yeok Nee	Penang Road/ Clemenceau Ave	FH	$260,000,000	N.A.	$1,555
1st, 8th & 14th floor of Samsung Hub	Church Street	999-yr	$134,300,000	N.A.	$1,384
15th Floor of Samsung Hub	Church Street	999-yr	$18,600,000	N.A.	$1,419
16th to 21st floors of Samsung Hub	Church Street	999-yr	$125,000,000	N.A.	$1,589
SGX Centre	Shenton Way	99-yr	$271,000,000	N.A.	$1,599
Temasek Tower	Shenton Way	99-yr	$1,039,000,000	N.A.	$1,550
Satnam House	High Street	999-yr	$35,300,000	$627	N.A.
UIC Building	Shenton Way	99-yr	$782,000,000	$870	N.A.
Government Land Sales					
Comm Site at New Bridge Road / North Canal Road	New Bridge Road / North Canal Road	99-yr	$44,000,000	$758	N.A.
Business and Financial Centre site (Phase 2)	Marina Bay	99-yr	$907,670,000	$425	N.A.

Source: Knight Frank Research

Note

NLA: Net Lettable Area

GFA: Gross Floor Area

DC: Development Charge

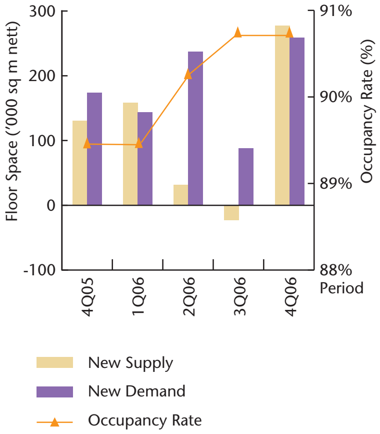
DP: Differential Premium

FH: Freehold

Singapore Industrial Real Estate Highlights

Manufacturing Performance Continues to be Robust

Chart 1
Demand & Supply of Factory Space (Private & Public Sectors)



Source: URA / Knight Frank Research

Singapore's manufacturing performance continued to remain buoyant. At the beginning of 1Q 2007, the January industrial output got off to a rosy start, achieving a 16.1% year-on-year (yoy) growth. All manufacturing clusters showed positive growth with the transport engineering and biomedical manufacturing clusters in particular producing robust results. The transport engineering cluster was the best performing, surging up by 45.2% yoy. Biomedical manufacturing output jumped up by 24.1% due to the increased production of pharmaceuticals and medical technology products. Despite the shutdown of many plants during the Chinese New Year period, manufacturing output driven by transport engineering and general manufacturing industries clusters continued to be strong, rising by 0.1% yoy in February 2007.

Non-oil domestic exports (NODX) continued a volatile trend by dipping to a 6.6% yoy growth in February 2007, following a 11.1% gain in January. The decline was partly due to two additional Chinese New Year holidays in February 2007 as compared to February 2006. Growth was mainly contributed by non-electronics domestic exports as electronic shipments remained weak.

After hitting a high of 54.6 points in November 2006, the Manufacturing Purchasing Managers' Index (PMI) embarked on a downward trend in 2007, declining to 52.6 points and 51.5 points in January and February respectively. While still in the expansionary territory, the manufacturing sector is showing signs of softening as external demand begins to lull.

Supply and Demand

A glut of industrial space, amounted to 2.8 million sq ft emerged in 4Q 2006. New demand similarly reached a high of 2.6 million sq ft. As a result, islandwide occupancy rate remained stable at 90.7%. The West region was the most active, contributing to 40% of the new demand.

In 1Q 2007, approximately 850,000 sq ft of industrial space is expected to be completed. Average occupancy rate could rise marginally up to 90.8%.

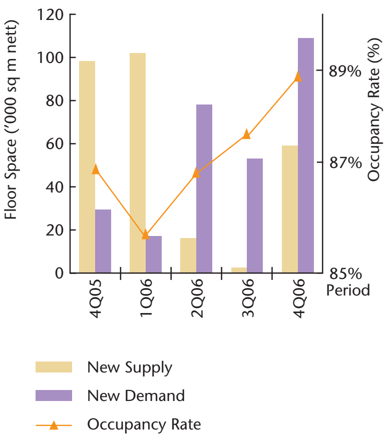
"Business expansions and new investments in a wide spectrum of manufacturing sectors continued to fuel the demand for industrial space."

Business expansions and new investments in a wide spectrum of manufacturing sectors continued to fuel the demand for industrial space. As demand for contract logistics, air and sea freight and road transport in Asia looks set to rise significantly over the next few years, Singapore would be an ideal location for companies to set up their regional logistics hub and distribution centres. In February 2007, Japanese logistics firm Nippon Express opened a $40 million warehouse and office complex with a floor area of about 310,000 sq ft at the Airport Logistics Park which will benefit from the increased logistics activity in the region.

The petrochemical industry also received a big vote for confidence as initiatives to position Singapore as an energy hub for the future was mentioned during Budget 2007. The billion-dollar Liquefied Natural Gas terminal which will supply a third of Singapore's gas demand will be ready by 2012. JTC is also proceeding with the second phase of the Jurong Rock Cavern on Jurong Island that will be used for underground oil storage.

Active Expansions of Industrial REITs in 1Q 2007

Chart 2
Demand & Supply of Warehouse Space (Private & Public Sectors)



Source: URA / Knight Frank Research

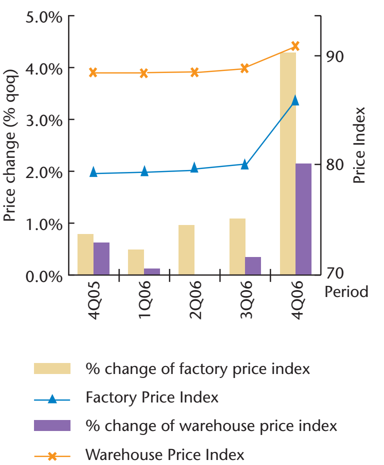
Industrial REITs started the year on a high, making a series of acquisitions. A-REIT purchased five industrial properties worth $63 million from Flextronics. The properties are Flextronics Changi, Flextronics Kallang, Flextronics Woodlands Loop and Flextronics Woodlands Terrace, which comprises two buildings. A-REIT also entered into a put-and-call agreement to acquire 27 International Business Park for $18.6 million from Primefield Co Pte Ltd.

Mapletree Logistics Trust (MLT) was equally active, acquiring five logistics facilities in Japan from Itochu Corp for $358 million. Four of the properties are located in the Greater Tokyo area and the fifth is in the Kyoto (Kansai) area. All five properties are freehold and have a total GFA of 1.1 mil sq ft. The acquisition is poised to ride on the rising demand for quality logistics space in Japan and will further expand MLT's presence in the region.

MacarthurCook Industrial REIT (MI-REIT) is set to become the fourth industrial REIT in Singapore after lodging its preliminary prospectus with the Monetary Authority of Singapore on 21 March 2007. The initial portfolio of MI-REIT includes 12 industrial properties worth $316.2 million, all located in Singapore. The properties have a total net lettable area of 2.1 million sq ft. Other than Singapore, MI-REIT will also pursue acquisition opportunities in China, Hong Kong, Malaysia, Japan and India in the future.

Release of Government Industrial Land Sales Programme for 1H 2007

Chart 3
Factory & Warehouse Price Index



Source: URA / Knight Frank Research

Government land sale activities were lively in 1Q 2007. A 181,092 sq ft of industrial site at Woodlands Industrial Park E5 was awarded to Oon Koon Cheng for $5.12 million ($28 psf/gpr) on 26 Jan 2007. The 30-year leasehold site attracted a total of 4 bids. Another 60-year leasehold site at L2 Serangoon North Avenue 4 with a gross floor area of 142,527 sq ft was hotly contested by 9 bidders. It was eventually sold to First KNG Pte Ltd for $8.7 million ($85 psf/gpr). Generating a similar high interest was a 395,229 sq ft, 60-year leasehold industrial site at Tuas Bay Drive/ Tuas South Avenue 3. PTC Express Pte Ltd emerged the highest among 9 bidders with a price of $9.1 million ($23 psf/gpr) on 2 Feb 2007. A 30-year leasehold, 216,591 sq ft industrial site at L1 Enterprise Road attracted a total of 8 bidders and was subsequently awarded to CTE Properties Pte Ltd for $11.4 million ($38 psf/gpr).

In January 2007, the Ministry of Trade and Industry (MTI) released the Government Industrial Land Sales Programme for 1H 2007. In anticipation of rising demand, a total of two sites were placed on the confirmed list and another four sites on the reserve list. The 2 sites that are placed on the confirmed list are located at Tampines and Kaki Bukit which can yield a total 387,500 sq ft of industrial gross floor area. Both sites are well located and can expect to fetch more than $30 psf/gpr. The industrial sites that were placed on the reserve list were situated in Tuas, Yishun, Commonwealth and Sin Ming Lane. The largest among them is Sin Ming Lane which has a site area of 552,399 sq ft and is zoned for Business 1 use. It is located within the Sin Ming Industrial Estate and close to Ang Mo Kio Industrial Park. The site has been placed on the reserve list since 2H 2006.

Table 1.

Government Industrial Land Sales Programme for 1H 2007

S/N	Location	Site Area (ha)	GFA (ha)	Zoning	Tenure (years)
Confirmed List					
1	Tampines St 92 / Simei Ave	2.0	2.8	B2	30
2	Kaki Bukit Road 3	1.3	0.8	B1	30
Reserved List					
1	Pioneer Road / Tuas Ave 11	2.2	3.1	B2	30
2	Sin Ming Lane	5.1	12.75	B1	30
3	Yishun Ave 6 (Parcel 1)	1.5	3.75	B1	60
4	Commonwealth Drive/Commonwealth Lane	1.1	2.75	B1	30

Source: Ministry of Trade and Industry/ Knight Frank Research

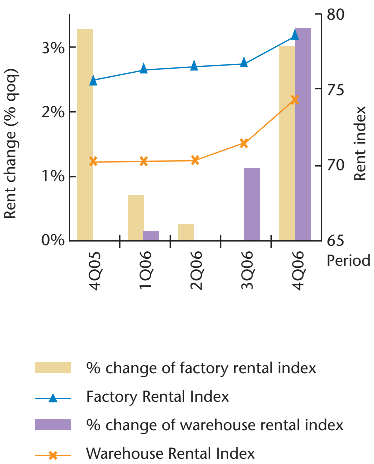
Industrial Rentals trend upwards in 1Q 2007

In response to healthy demand for industrial space as a result of business expansions, industrial rentals rose in 1Q 2007. Renewals of industrial leases were also done at higher rental rates. Average monthly rentals for upper floor industrial space in the Macpherson and Paya Lebar area gave a good showing by rising 6.4% qoq to reach $1.33 psf. Average rentals in Kaki Bukit area also increased by 1.8% to $1.11 psf. The highest upward movement is seen in Admiralty area where average rentals moved upwards by 9.2% qoq to $1.07 psf.

High-specification factory buildings and business parks continued to benefit from the spillover effects of tight office supply and soaring office rentals. Office tenants who are unable to find suitable office space in the Central Business District (CBD) or are not willingly to renew their leases at significantly higher rentals have relocated to such industrial space. As such, average monthly rentals for high specification factory space grew by 3.3% qoq to $2.16 psf while business park space witnessed a 7.1% qoq increase to reach $2.71 psf.

Chart 4

Factory & Warehouse Rental Index



Source: URA / Knight Frank Research

"Average rentals of factory space are projected to rise by another 12% to 17% in 2007 while capital values are likely to increase by 10% to 15% for the entire 2007."

Outlook

According to URA statistics, about 15.8 million sq ft of factory space is expected to be completed in 2007, of which 88% belongs to the private sector.

Although manufacturing performance in 1H 2007 is likely to experience a drag as global electronics demand weakens, local leasing demand for industrial space will remain healthy due to continued business expansions. Business expansions also led to companies seeking bigger premises to house their expanded operations. Average rentals of factory space are projected to rise by another 12% to 17% in 2007. Capital values are likely to increase by 10% to 15% for the entire 2007, with Macpherson and Paya Lebar areas poised to register the strongest growth.

Rentals for high spec factory space and business park space, which are much lower than office rentals will provide reasons for office tenants who do not need to be situated in the CBD to relocate to such industrial space. The spillover effect has been apparent in 2006 and is likely to persist in 2007. High-specification factory space is expected to experience a rental appreciation of 15% to 20% for the entire 2007 while business park space will rise by 17% to 23%.

Table 2.
Current Rentals and Capital Values of Sample Factory/Warehouse (Upper Floors) & Business Park Space

Type		Average Monthly Gross Rental ($psf)	Average Capital Value ($psf)
Conventional Industrial Space			
Locality	Macpherson/Paya Lebar	$1.33	$200 psf - $320 psf
	Kaki Bukit	$1.11	$130 psf - $200 psf (60 yr leasehold)
	Admiralty	$1.07	$110 psf - $125 psf (60 yr leasehold)
High Tech		$2.16	NA
Business Park		$2.71	NA

Source: Knight Frank Research

Research

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