SINGAPORE

Office Briefing

- **Demand remains strong from a growing number of finance and shipping companies**
- **Robust demand spills over to shophouses**
- **Government puts up 6 vacant properties for lease to ease supply crunch**
- **Vacancy rate drops to 2.8 per cent, the lowest level since 2000**
- **Investment sales of offices in the first 3 months reached S$2.1 billion**

Market Overview

Singapore's office market continues to perform very well in tandem with its strong economy. Demand has continued to outrun new supply over Q1/2007 as it has for the past six quarters, narrowing the choice of Grade 'A' buildings for tenants as vacancy rates fall further.

Demand for Grade 'A' office space again came predominately from the financial services sector. Some examples include the Swiss-based RMF Investment Management, Morgan Stanley and the Australia-based AMP Capital Investors. A strong performance by the maritime industry has also contributed to an increase in leasing enquiries. As a result, a total of more than 400,000 sq.ft. of Grade 'A' office space was taken up in the first 3 months of the year.

The robust demand for office space has also spilled over to shophouses, particularly those located in the CBD. These tenants are usually from smaller scale businesses wishing to stay in the CBD in the face of rising overheads. The increase in demand has caused their rents to more than double compared with a year ago.

Supply remains very tight. Well aware of the shortage of office space, the government has taken measures to alleviate the space crunch by releasing more commercial land for sale. The Urban Redevelopment Authority has launched 2 commercial sites, which are located in the CBD, for sale this year yielding a total gross floor area of 1.0 million sq.ft. The first site which is located along Beach Road can yield 632,000 sq.ft. of GFA for office use, while the other site on Anson Road can yield a GFA of 383,808 sq.ft.

The Singapore Land Authority has put up 6 vacant properties with tenures of three to nine years for lease. To be used as offices only, the total estimated GFA to be let out is about 462,847 sq.ft. of which 186,215 sq.ft. is located within the CBD.

In February 2007, the consortium - Cheung Kong Holdings, Keppel Land and Hongkong Land - behind the Marina Bay Financial Centre (MBFC) exercised their option to purchase the remaining portions of the BFC site (Phase 2) with a GFA of 2.1 million sq.ft. for S$883.8 million. To capitalize on the shortage, the consortium was reported to be reviewing its original plans to increase the office component and reduce the residential component.

singapore

Michael Ng
Managing Director
+65 6536 5022
mng@savills.com.sg

commercial - singapore

Simon Hill
Director, Asia Pacific
+65 6415 3628
shill@savills.com.sg

research & consultancy - singapore

Jessie Yeo
Director
+65 6415 7580
jyeo@savills.com.sg

research & consultancy - asia pacific

Simon Smith
Senior Director
+852 2842 4573
ssmith@savills.com.hk

address

Savills (Singapore) Pte Ltd.
2 Shenton Way
#17-01 SGX Centre 1
Singapore 068804
T: +65 6536 5022
F: +65 6538 5540

corporate website

savills.com

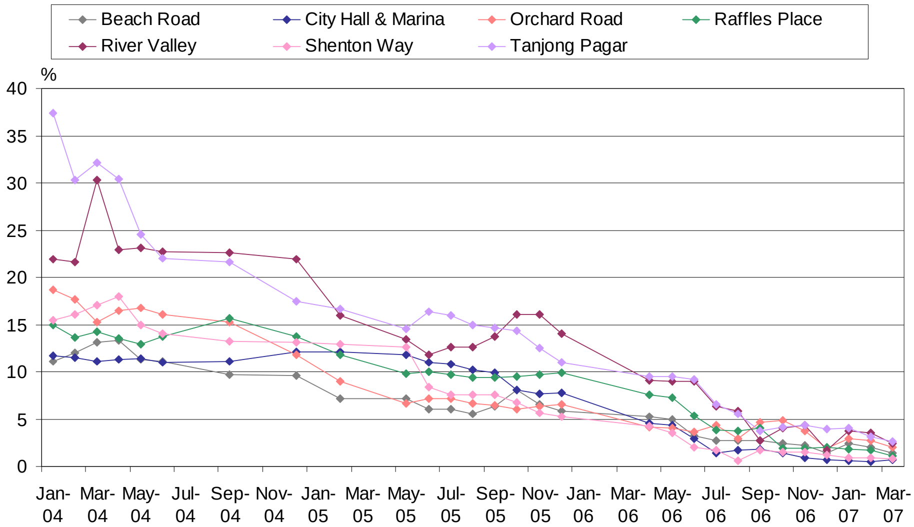
MICA(P) No. 276/10/2006
Company Reg. No. 198703410D

Vacancy Rate

The robust demand supported by the expansion of financial institutions and new companies establishing their presence in Singapore caused vacancy rates of Grade 'A' office space to drop from 3.3 per cent in Q4/2006 to 2.8 per cent in Q1/2007, the lowest since 2000.

Vacancy rates of Grade 'A' buildings in Raffles Place, Shenton Way and Tanjong Pagar have fallen to 1.2 per cent, 0.8 per cent and 2.7 per cent respectively. Grade 'A' office space is also depleting in River Valley, Orchard, Beach Road and Marina areas with vacancy rates at about 2 per cent.

Vacancy by Location, January 2004 - March 2007



Source: Savills Research & Consultancy

Rental and Capital Values

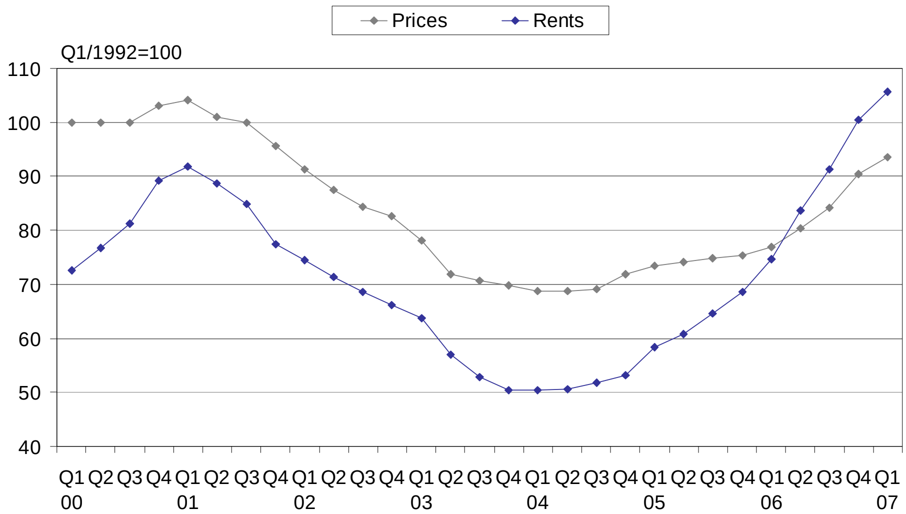
The shortage of Grade 'A' office space, coupled with a lack of new supply in the next few years is putting further upward pressure on office rents. Occupation costs are increasing as prime office rents continue to climb on the back of further compression in vacancy levels, albeit at a slower rate compared with the last 3 quarters. In Q1/2007 the average monthly rent for Grade 'A' offices increased by 5.2 per cent to S$8.1 per sq.ft, exceeding the 2000 peak by 6 per cent.

The tightening supply and surge in rental rates is being witnessed across all locations now, not just prime Raffles Place. In Q1/2007, Grade 'A' buildings in Raffles Place were transacting at S$9.4 per sq.ft. with asking rents at One Raffles Quay reaching a new record of S$18 per sq.ft. Outside CBD, locations such as Orchard Road, office space in Ngee Ann and Wisma Atria were asking between S$9 and S$10 per sq.ft, while United Square and Novena Square on the fringe of the CBD were asking between S$8 and S$9 per sq.ft.

With the hike in rents, more companies which are eligible to locate in high-tech buildings are moving out from CBD. While those who prefer to stay are streamlining their operations and moving their backroom operations to out-of-town locations.

With rising rents, capital values are also increasing at a steady rate. The average capital value for Grade 'A' offices stood at S$1,500 per sq.ft, a shade off the 2000 peak yet still 43 per cent below the previous peak in 1996. The sharp increase in capital value is attributed to the buoyant investment market supported mainly by equity funds. There is also an increasing number of local companies buying office space for owner occupation.

Rental & Price Indices, 2000 - Q1/2007



Source: Savills Research & Consultancy

Investment sales of offices in the first 3 months of 2007 reached S$2.1 billion, compared with the S$0.8 billion a quarter earlier. The sale of Temasek Tower to Macquarie Global Property Advisors Group for S$1.0 billion is one of the biggest deals of the past 12 months.

The other high profile deal was for Lippo Centre. Lippo Group tried to sell the building in October last year for S$290 million to a Macquarie-linked fund but the deal fell through. In January 2007, the group sold the building for S$348.5 million, 20 per cent higher, to a real estate fund jointly managed by Credit Suisse and CLSA Capital Partners.

Major Private Commercial Investment Transactions, Q1/2007

Contract Date	Property Name	Tenure	Net Lettable Area (sq.ft.)	Price (S$)	Rate per NLA	Purchaser
Jan-07	Lippo Centre	LH 99	299,727	348,500,000	1,163	Credit Suisse and CLSA
Jan-07	80 Robinson Road (Several storeys)	Freehold	68,964	72,880,000	1,057	Hong Leong Holdings
Feb-07	Samsung Hub - 16th to 21st storeys	LH 999	78,490	122,444,000	1,560	Private Equity funds
Feb-07	Samsung Hub - 1, 8 to 14th storeys	LH 999	97,037	134,300,000	1,384	Ho Bee Investment
Feb-07	Samsung Hub - 15th storey	LH 999	13,110	18,600,000	1,419	Chinese Chamber Realty
Feb-07	Robinson 112 (former HB Robinson)	Freehold	92,050	119,000,000	1,293	Credit Suisse
Feb-07	SGX Centre	LH 99	169,500	271,000,000	1,599	United Overseas Bank (UOB)
Mar-07	Temasek Tower	LH 99	673,718	1,040,000,000	1,544	Macquarie Global Property Advisors

Source: Savills Research & Consultancy

Outlook

Demand is expected to remain strong with limited new supply of Grade 'A' office space. Rents for prime office space are expected to rise further by 25 to 35 per cent to reach an average of S$10 to S$11 per sq.ft. by the end of 2007. Occupancy rates of Grade 'A' buildings in the CBD, which are already hovering above 95 per cent, will continue to tighten with more global financial institutions establishing and expanding their operations in Singapore.

With the tight supply and rising rental rates, capital values of Grade 'A' buildings are likely to increase by 20 to 25 per cent by the end of the year. In line with this, investment sales are expected to remain buoyant as more owners divest their non-core assets and more office buildings change hands between equity funds.

address

Savills (Singapore) Pte Ltd.
2 Shenton Way
#17-01 SGX Centre 1
Singapore 068804
T: +65 6536 5022
F: +65 6538 5540

corporate website

savills.com

ASIAN HEADQUARTERS

23/F Two Exchange Square, Central, Hong Kong
Tel: (852) 2842 4400 Fax: (852) 2868 4386
E-mail: rmckellar@savills.com.hk
Contact: Robert McKellar
savills.com

HONG KONG SAR

Savills (Hong Kong) Limited
23/F Two Exchange Square , Central, Hong Kong
Tel: (852) 2842 4534 Fax: (852) 2869 6738
E-mail: rlee@savills.com.hk
Contact: Raymond Lee
EA Co. Licence: C-002450

Savills Valuation and Professional Services Limited
28/F Two Exchange Square, Central, Hong Kong
Tel: (852) 2801 6100 Fax: (852) 2501 5810
E-mail: ccchan@savills.com.hk
Contact: Charles Chan
EA Co. Licence: C-023750

Savills Property Management Holdings Limited
805-13, 8/F Cityplaza One, 1111 King's Road, Taikoo Shing, Hong Kong
Tel: (852) 2534 1688 Fax: (852) 2851 1249
E-mail: kleung@savills.com.hk
Contact: Kendrew Leung
EA Co. Licence: C-002993

Savills Guardian (Holdings) Limited
7/F Cityplaza One, 1111 King's Road, Taikoo Shing, Hong Kong
Tel: (852) 2512 1838 Fax: (852) 2887 3698
E-mail: peterho@savillsguardian.com.hk
Contact: Peter Ho

CHINA

Savills - China
Contact: Randall Hall E-mail: rhall@savills-sh.com
Savills - Shanghai
Savills Property Services (Shanghai) Company Limited
20/F Shanghai Central Plaza, 381 Huaihai Middle Road
Shanghai 200020, China
Tel: (86) 21 6391 6688 Fax: (86) 21 6391 6699
Contact: Albert Lau E-mail: alau@savills-sh.com

Savills - Beijing
Savills Property Services (Beijing) Company Limited
2101 East Tower, Twin Towers, B-12 Jianguomenwai Avenue, Chaoyang
Beijing 100022, China
Tel: (86) 10 5925 2288 Fax: (86) 10 5925 2299
Property Management Contact: Billy Chau E-mail: bchau@savills-bj.com
Agency Contact: Kelly Morris E-mail: kmorris@savills-bj.com

Savills - Guangzhou
Savills Property Services (Guangzhou) Limited
Room 1209-1210 Jie Tai Plaza, 218-222 Zhong Shan Liu Road
Guangzhou 510180, China
Tel: (86) 20 8132 0107 Fax: (86) 20 8132 0105
Contact: Woody Lam E-mail: wlam@savills.com.hk

Savills - Shenzhen
Savills Property Services (Shenzhen) Limited
Unit A, 5/F, Anlian Plaza, 2222 Jintian Road, Futian District
Shenzhen 518026, China
Tel: (86) 755 8828 5707 Fax: (86) 755 8828 5676
Contact: Woody Lam E-mail: wlam@savills.com.hk

Savills - Hangzhou
Savills Property Services (Shanghai) Company Limited
Zhejiang Representative Office
701, 7/F Jiahua International Business Center, 15 Hangda Road
Hangzhou 310007, China
Tel: (86) 571 8765 2905 Fax: (86) 571 8765 2910
Contact: Peter Hang E-mail: phang@savills-hz.com

Savills - Chengdu
Savills Property Services (Chengdu) Limited
Rm 1806, Block A, Times Plaza, 2 Zongfu Road
Chengdu 610016, China
Tel: (86) 28 8672 1810 Fax: (86) 28 8672 1250
Contact: Eric Wo E-mail: ewo@savills-cd.com

Savills - Tianjin
Savills Property Services (Beijing) Company Limited
Units 2601-02, Office Tower, Centre Plaza, 188 Jiefang Road, Heping
Tianjin 300042, China
Tel: (86) 22 5829 3388 Fax: (86) 22 5829 3399
Contact: James Zhu E-mail: jzhu@savills-bj.com

Savills - Macao
Savills (Macau) Limited
Suite 1310, 13/F Macau Landmark, 555 Avenida da Amizade, Macao
Tel: (853) 2878 0623 Fax: (853) 2878 1805
Contact: Franco Liu E-mail: fliu@savills.com.mo

savills

ASIA

Savills - Singapore
Savills (Singapore) Pte Ltd.
2 Shenton Way, #17-01 SGX Centre 1
Singapore 068804
Tel: (65) 6415 3618 Fax: (65) 6538 5540
Contact: Michael Ng E-mail: mng@savills.com.sg

Savills - Japan
Savills Japan K.K.
Aoba Roppongi Building 3F, 3-16-33 Roppongi, Minato-ku
Tokyo 106-0032, Japan
Tel: (81) 3 5562 1700 Fax: (81) 3 5562 1705
Contact: Christian Mancini E-mail: cmancini@savills.co.jp

Savills - Taiwan
Savills (Taiwan) Limited
12-3 Exchange Square, No. 89 Sung Ren Road,
Xin-Yi District, Taipei, Taiwan
Tel: (886) 2 8789 5828 Fax: (886) 2 8789 5929
Contact: Cynthia Chu E-mail: cchu@savills.co.tw

Savills - Thailand
Savills (Thailand) Limited
28/F, 990 Rama IV Road, Bangkok 10500, Thailand
Tel: (66) 2 636 0300 Fax: (66) 2 636 0339
Agency Contact: Robert Collins E-mail: robertc@savills.co.th
Property Management Contact: Pipob Wongchurdkwan
E-mail: pipobw@savills.co.th

Savills - Korea
BHPK, KAA, Savills
11/F Seoul Finance Center, 84 Taepyungro-1-ga, Chung-ga
Seoul, Korea 100-768
Tel: (82) 2 2124 4114 Fax: (82) 2 2124 4166
Contact: Hokyu Lee E-mail: hklee@bhpk.com

Savills - Dubai
Asteco Property Management LLC (Associate)
P.O. Box 1714, Level 6, Capricorn Tower, Shk. Zayed Road
Dubai, United Arab Emirates
Tel: (971) 4 403 7700 Fax: (971) 4 403 7778
Contact: Andrew Chambers E-mail: andrewc@asteco.com

Savills - Philippines
Leechiu & Associates, Inc.
Unit 907, 88 Corporate Center, Sedeno cor. Valera St. Salcedo Village
1227 Makati City, Philippines
Tel: (63) 2 889 6571 Fax: (63) 2 889 2700
Contact: David Leechiu E-mail: dleechiu@lna.com.ph

Savills - Malaysia
Rahim & Co.
Level 17, Menara Uni.Asia, 1008 Jalan Sultan Ismail
50250 Kuala Lumpur, Malaysia
Tel: (60) 3 2691 9922 Fax: (60) 3 2691 0096
Contact: Robert Ang E-mail: robertang@rahim-co.com

AUSTRALIA

Savills - Australia
Savills (Aust) Pty Ltd.
Level 15, 120 Edward Street, Brisbane QLD 4000, Australia
Tel: (61) 7 3221 8355 Fax: (61) 7 3221 0870
Contact: Paul McLean E-mail: pmclean@savills.com.au
Offices in Adelaide, Gold Coast, Melbourne, Perth, Sydney and the Sunshine Coast

UNITED KINGDOM / EUROPE / SOUTH AFRICA

Savills - Europe
20 Grosvenor Hill, London W1K 3HQ, U.K.
Tel: (44) 207 499 8644 Fax: (44) 207 495 3773
Contact: Jeremy Helsby E-mail: jhelsby@savills.com
Offices throughout the United Kingdom, France, Germany, Greece, Italy, Netherlands, Poland, Spain and Sweden. Associate offices in Ireland, Portugal and South Africa.

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