

SINGAPORE

Office Briefing

- Compared with the previous quarter, more enquiries for office space from local firms seen in Q4/2006
- Some tenants intend to move outside CBD when their leases expire in 2007
- Vacancy rate of Grade 'A' office space in City Hall area falls below 1 per cent
- Asking rents hit a high of S\$13.6 per sq.ft., a new record

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Market Commentary

In line with the previous quarter, available office space was snapped up over the last 3 months of 2006 and the amount of prime office space available in existing CBD buildings is now very limited. As a result, all full floors of the recently-completed office building at 96 Robinson Road (former SIF Building) were taken up. Companies seeking larger floor plates are looking at yet-to-complete office buildings outside the CBD. As a good example, Merrill Lynch have secured 200,000 sq.ft. of space in a new harbourfront office building way before its completion in Q3/2008.

Demand has not only come from expansion of the financial sector, however, and Q4/2006 saw more enquiries for office space from local firms. With positive business sentiment, some new start-ups are moving out of serviced offices to lease office space. At the same time, tenants affected by the redevelopment of existing office buildings such as GMG building are also seeking to relocate.

As demand for office space remains strong and rents continue to rise, some tenants in the CBD have expressed an intention to move out of the area when their leases are due for renewal in 2007. Average rents in the CBD have increased by more than 50 per cent since tenants signed leases 3 years ago and some companies are considering relocating to high tech industrial space as an alternative.

Demand and Supply

The Singapore office market witnessed a strong performance for the whole of 2006. Leasing activity was robust, backed by a surge in office demand underpinned by strong economic growth and positive business sentiment.

Strong leasing momentum continues to bring the vacancy rate down. In the Raffles Place area, the average vacancy rate of Grade 'A' offices dropped to 2.0 per cent in Q4/2006 from 4.0 per cent in the previous quarter.

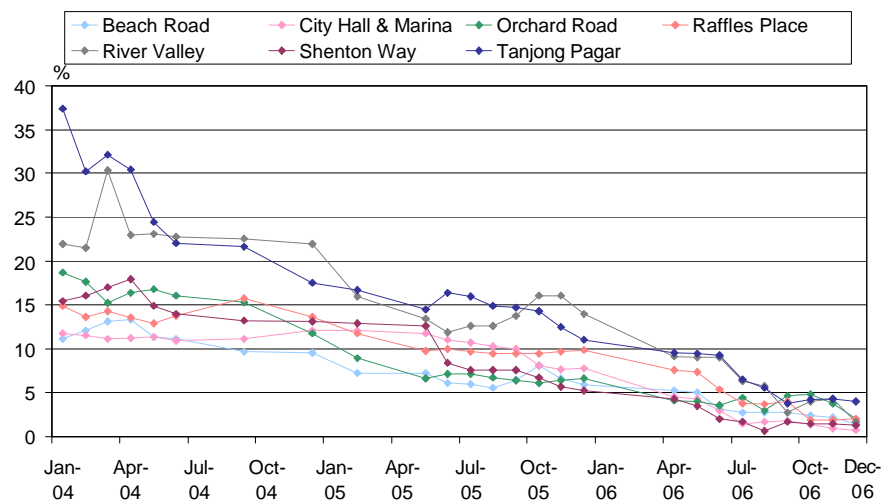
This tight supply situation also persisted in areas outside Raffles Place. For example, the Grade 'A' office vacancy rate in the City Hall area fell below 1 per cent. In the Orchard area, prime office space vacancy dropped by a full 2.6 percentage points, from 4.6 per cent in Q3/2006 to 2.0 per cent in Q4/2006 while average vacancy rates in the Beach Road, River Valley and Shenton areas all stood at below 2.0 per cent.

Companies requiring large floor plates are faced with limited options as vacancy rates continue to decline even in suburban areas such as Tampines and Novena.

In an effort to optimize the use of office space in the CBD, government offices in the area will be releasing space. For example, the Media Development Authority (MDA) will vacate about 43,000 sq.ft. in MICA Building on Hill Street and the Urban Redevelopment Authority (URA) located on Maxwell Road will be moving to Fusionpolis at One North within the next two years. The Public Utilities Board (PUB) has relinquished about 75,000 sq.ft. of space of Singapore Power Building on Somerset Road to occupy the Environment Building.

In addition, the government had also announced its land sales programme with 32 sites on the reserve list and 7 on the confirmed list for the first half of 2007. Of these, 9 sites on the reserve list and 4 sites on the confirmed list could be developed for office use. The 4 sites on the confirmed list - Beach Road/Middle Road, Shenton Way/Central Boulevard, Tampines Grande, Bellilios Road/Klang Lane - could yield a possible combined gross floor area of up to 2.4 million sq.ft.

Vacancy by Location, January 2004 - December 2006



Source: Savills Research & Consultancy

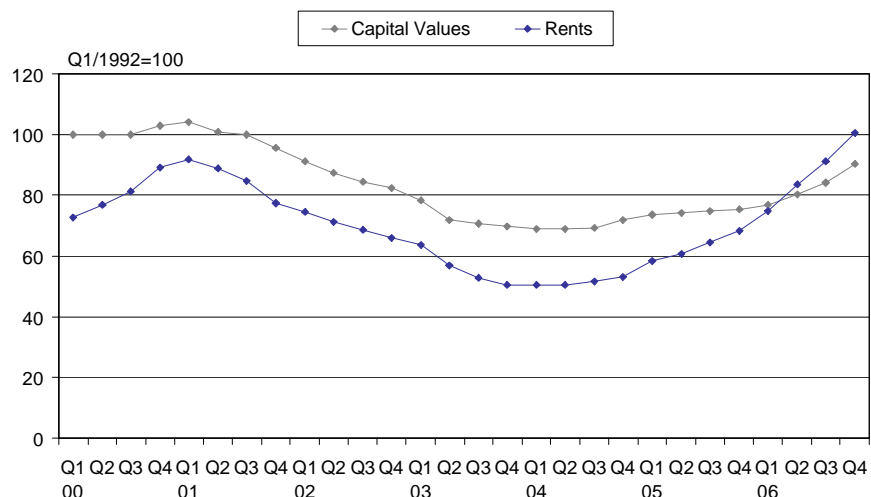
Rents and Prices

Rental growth in the office market continues unabated and asking rents in the CBD have exceeded those during the boom of 2001. 2006 ended with the average monthly rent at S\$7.7 per sq.ft., about 42.6 per cent higher than the previous year.

The Raffles Place area continues to lead the rest of the market. In Q4/2006, Republic Plaza achieved effective rents of S\$12.0 per sq.ft. while current asking rents have hit as high as S\$13.6 per sq.ft., a new record compared with the S\$12.0 per sq.ft. quoted by One Raffles Quay in the last quarter. Other buildings such as 6 Battery Road and Singapore Land Tower are asking rents of S\$13.0 per sq.ft. The average monthly asking rent of Grade 'A' office space in Raffle Place had increased to S\$8.7 per sq.ft. by the end of Q4/2006 from S\$7.8 per sq.ft. in Q3/2006.

The tight supply of Grade 'A' office space in City Hall has resulted in asking rents exceeding S\$10.0 per sq.ft. Centennial Tower, Millenia Tower and Raffles City Tower are quoting as high as S\$11.5, S\$11.5 and S\$10.0 per sq.ft. respectively.

Rental & Price Indices, 2000 - Q4/2006



Source: Savills Research & Consultancy

Capital values of prime office space in the CBD have risen significantly in 2006. At the end of December, the average capital value of prime office space stood at S\$1,450 per sq.ft., 19.8 per cent higher than December 2005.

On the investment front, institutional investors continue to be upbeat about the prospects for the Singapore office market. CapitaCommercial Trusts is on the lookout to acquire more office buildings in Singapore and a property fund managed by Credit Suisse is likely to be the buyer of Lippo Centre at 78 Shenton Way.

Robust momentum continued into the fourth quarter with a total of S\$652.4 million worth of office investment assets transacted. Compared with the S\$152.4 million in Q3/2006, investment activity levels have outperformed the preceding quarter by more than 4 times.

Major Private Commercial Investment Transactions in Q4/2006

Property	Date Sold	Price (S\$ mil)	Site area (sf)	Lettable Area (sf)	Price (S\$ psf)	Tenure (years)	Buyer
Central Plaza	Oct	175	NA	190,792	917	LH 99	Bakersfield
Crosby House	Oct	163.4	24,531	274,747 ¹	595	LH 99	Lehman Brothers & Kajima
Springleaf Tower (12 strata lots)	Nov	132.6	NA	108,100	1,227	LH 99	Macquarie Global Property Advisors
Dapenso Building	Dec	58.4	11,030	64,917	900	LH 99	Remarkable Investment Pte Ltd
GMG Building	Dec	48	5,549	52,074	922	Freehold	Robinson Land
Anson House	Dec	75	17,035	72,122	1,040	LH 99	GE Real Estate

Source: Savills Research & Consultancy

¹ Refers to the potential Lettable Area.

Outlook

In 2007, the Singapore economy is expected to expand at a healthy, albeit somewhat slower rate compared with 2006 and this will continue to underpin the demand for office space. However, new supply in 2007 is expected to be much lower than in 2006 and in the short to medium term, companies in the CBD may have to rationalise their use of office space and to streamline their operations.

Both rents and capital values are at relatively high levels compared with the previous peak in 2001. However, given limited new supply in 2007, new peaks are expected. In the next 3 to 6 months, we expect rental and capital values to rise by at least 5 per cent.

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