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SINGAPORE

Office Briefing

- **Supply in CBD remains tight with pockets of space taken up quickly**
- **URA temporarily disallows conversion of office to residential use in the central area**
- **URA releases its first transitional office**
- **Standard Chartered takes one third of MBFC Phase 1**
- **Grade 'A' office tenants pay two to three times more upon renewal**
- **Investment-scale office transactions reach record price of S$2,669 per sq.ft.**

As the Singapore government continues to successfully shift the city state further up the value-added chain, it should come as no surprise that costs are following suit. Singapore was ranked 34th in the Worldwide Quality of Life survey conducted by Mercer Human Resource Consulting and 1st in Asia in the same survey. It is now one of Asia's premier fund and private wealth management centres, on a par with other global financial hubs.

The Singapore Grade 'A' office market is currently experiencing strong demand and rapidly contracting vacancy. Increasing rents and a shortage of prime office space have sparked concerns that Singapore's attraction for businesses may be eroding. However, its strategic location as a regional hub and the government's pro-business policies continue to attract financial institutions and MNCs and many companies are looking to expand their Singapore operations.

As a result, pockets of available space in the CBD were taken up quickly over the second quarter at premium rates. Smaller tenants who did not have rights of renewal in their leases were faced with the possibility of moving further away from the CBD, as existing larger tenants needing expansion space were given first refusal by landlords. Rising rents and tight availability are also prompting more tenants to reconfigure their space more efficiently.

The tight supply situation has prompted the Urban Redevelopment Authority (URA) to temporarily disallow conversion of offices to residential use in the central area until 31 December 2009. Applications for conversion of three sites, namely UIC Building, Marina House and San Centre, have been rejected. These buildings, which have an estimated existing total net lettable area (NLA) of 556,000 sq.ft., will help to slow the shrinking vacancy rate in the CBD. Some prime office space may also be released at One Raffles Quay after the merger of Barclays and ABN.

It was also announced that the Government will make available sites for a total supply of 5.74 million sq.ft. of commercial space in H2/2007, comprising 3.8 million sq.ft. of space from the Government Land Sales (GLS) Programme and 1.9 million sq.ft. from other Government sources. At the same time, another 6.9 million sq.ft. of office space is expected to be completed between 2007 and 2010.

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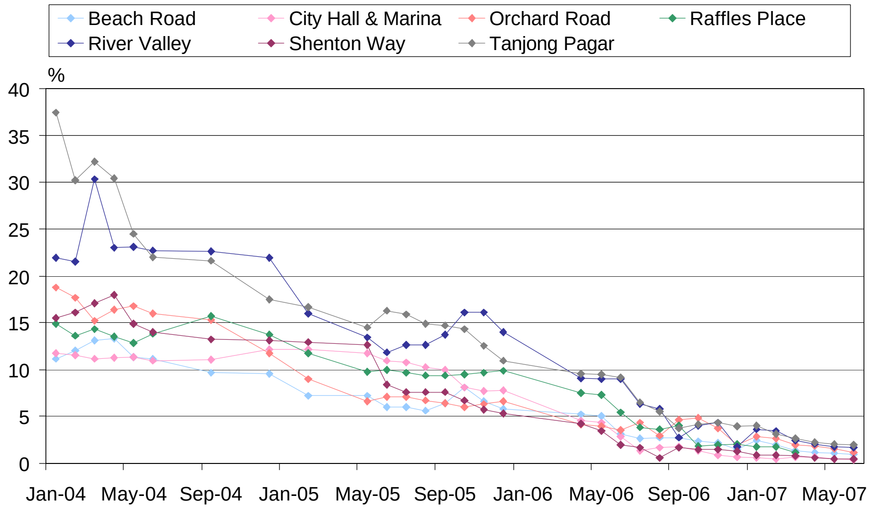
To further ease the tight supply situation, the URA has released its first transitional office site which can be built in the relatively short term. The site, which has a 10-year lease, can yield a maximum gross floor area of 168,627 sq.ft. A number of other sites for such transitional office developments have also been identified and will be released if the response is good.

To support Singapore's longer term growth as a global business centre, the government is also contemplating developing the Jurong and Paya Lebar areas as new business hubs, similar to the Tampines Regional Centre.

Vacancy Rates

Vacancy rates for Grade 'A' office buildings are at their lowest, falling from 2.8 per cent in Q1/2007 to 1.0 per cent in the second quarter. Many Grade 'A' office buildings in Raffles Place and City Hall/Marina area are now full, pushing vacancy rates to below 0.5 per cent. One Raffles Quay, One George Street and Samsung Hub for example, are all 100 per cent let.

Vacancy by Location, January 2004 - June 2007



Source: Savills Research & Consultancy

As supply tightens, newly completed buildings are being rapidly filled. One major leasing transaction was recently recorded by Standard Chartered Bank. In the largest pre-committed lease in the Grade 'A' office market over the quarter, the bank is taking up 507,289 sq.ft. of space or one third of Phase 1 MBFC. Including renovations and relocation costs, the rental deal is worth S$800 million over 12 years starting in 2010.

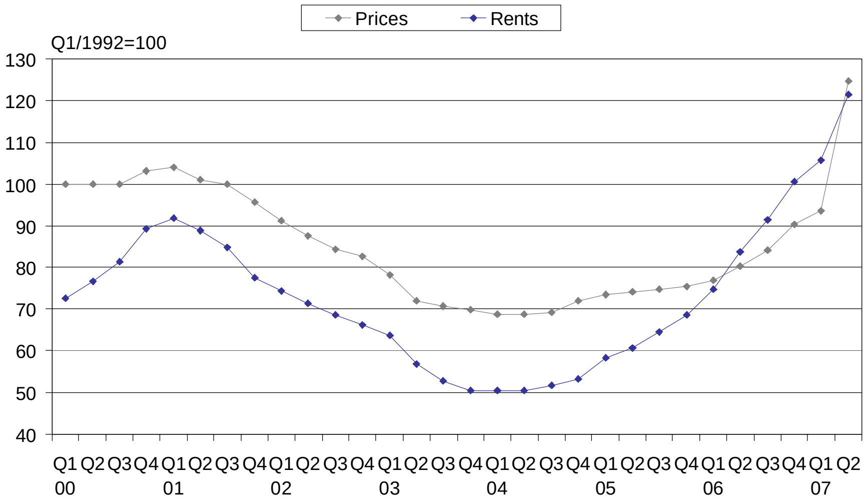
Rents and Capital Values

Average Grade 'A' office rents rose to S$9.3 per sq.ft. in Q2/2007 from S$8.1 per sq.ft. in the last quarter. Tenants whose leases are expiring are having to pay two to three times more to renew as many companies are currently paying historically low rents contracted in 2004 when the market was at its nadir.

Achievable rents at Raffles Place have risen to S$11.0 per sq.ft. on average, 58 per cent up from a year ago. Asking rents continued to rise with the highest, S$18.0 per sq.ft., commanded by One Raffles Quay before it was fully leased. Elsewhere, strong demand is also seen in the City Hall/Marina area pushing up rents close to S$10.5 per sq.ft. on average, with Centennial Towers asking as high as S$17.0 per sq.ft.

In the Shenton and Tanjong Pagar areas, although rents have increased by 30 to 50 per cent compared with a year ago, achievable rents stood at S$7.2 per sq.ft. on average in Q2/2007. Relatively more affordable choices can still be found in older buildings along Robinson Road and the Tanjong Pagar area, where asking rents in June 2007 were between S$7.0 and S$8.0 per sq.ft.

Rental & Price Indices, 2000 - Q2/2007



Source: Savills Research & Consultancy

Investor demand is high as the availability of office stock tightens. High rents, low vacancies and solid investment fundamentals have led to strong interest in both investment grade stock and buildings offering refurbishment and redevelopment opportunities. However, we observe that as capital values have continued to rise, Grade 'A' yields have tightened to between 3 and 4 per cent.

Investment activity in the office market remains high, with overseas funds dominating most of the acquisitions. In April, the former SIA Building was transacted at S$1,780 per sq.ft. of NLA. In May, Parakou Building went for S$2,013 per sq.ft., while the latest investment scale office transaction for 1 Finlayson Green reflected a unit price of S$2,669 per sq.ft. of NLA.

Major Private Commercial Investment Transactions in Q2/2007

Contract Date	Property Name	Tenure	Net Lettable Area (sq.ft.)	Price (S$)	Rate per NLA	Purchaser
Apr-07	UIC Building (21.2%)	LH 99	145,977	127,000,000	870	UIC
Apr-07	SIA Building	LH 99	295,533	525,000,000	1,776	SEB (a German Fund)
May-07	Parakou Building	Freehold	63,580	128,000,000	2,013	New Star Asset Management
Jun-07	1 Finlayson Green	Freehold	86,500	230,880,000	2,669	Devilica (property fund from UK)

Source: Savills Research & Consultancy

Consequently, the average capital value for Grade 'A' offices stood at S$2,000 per sq.ft., a 33 per cent increase from last quarter.

Outlook

The current shortage of Grade 'A' office space will continue to underpin rents. New completions of Grade A offices until the end of the year are expected only from VisionCrest in the Orchard area with a GFA of about 160,000 sq.ft. and the vacancy rate for Grade 'A' offices is expected to remain below 3 per cent until at least 2010. Landlords will continue to dominate the market, pushing rents up by another 20 to 30 per cent by the end of 2007. In the longer term, the 6.9 million sq.ft. of office space in the pipeline is expected to ease the supply crunch, thus rents should stabilise from 2009 onwards.

Businesses which do not need a CBD location will continue to look for more affordable alternatives in fringe or regional centres such as Tampines. Rents are expected to move up in those areas, and freeing up more space in the CBD. However, we do not expect such movements to succeed in mitigating the low vacancy rate, as expanding tenants will quickly absorb the vacated space.

Looking ahead, the investment market should remain firm given the limited amount of investment grade stock available. There will be fierce competition among investors, mainly from overseas, to purchase these properties in light of positive rental reversions. Hence, we are likely to see more office buildings change hands in the shorter term, pushing up capital values by a further 10 to 15 per cent by the end of the year.

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