



# The Knowledge Report

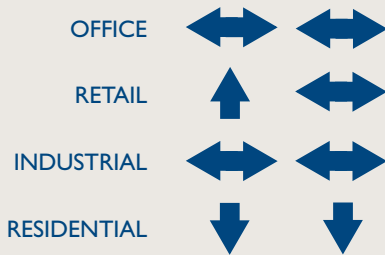
MARKET OVERVIEW | OCTOBER | 2008



## MARKET INDICATORS

3Q 2008

PRIME RENTS  
PRIME CAPITAL VALUES



## Property Market Overview

### ECONOMY

Weighed down by the ongoing financial crisis, Singapore's economic growth slowed further in 3Q 2008. According to the advance estimates provided by the Ministry of Trade and Industry (MTI), Singapore's economic growth contracted by 0.5% on a Year-on-Year (YoY) basis in 3Q 2008, down from an already weak 2.3% expansion in 2Q 2008.

The slowdown in growth was experienced across all sectors, with the manufacturing sector the worst hit. Manufacturing output recorded an estimated double-digit contraction of 11.5% in 3Q 2008, following a 4.9% contraction in the preceding quarter.

Tight resources in the construction industry resulted in delays in the completion of projects, thus contributing to a significant plunge in the construction sector's growth rate to an estimated 7.8% in 3Q 2008 from 19.8% in 2Q 2008.

The services producing industries were estimated to have grown by 6.1% in 3Q 2008, slower than last quarter's 7.0%.

### ECONOMIC INDICATORS

#### YEAR-ON-YEAR GROWTH IN GROSS DOMESTIC PRODUCT (GDP)

	3Q 2007	4Q 2007	2007	1Q 2008	2Q 2008	3Q 2008*
Overall GDP	9.5%	5.4%	7.7%	7.0%	2.3%	-0.5%
Goods Producing Industries:						
Manufacturing	11.0%	0.2%	5.8%	13.1%	-4.9%	-11.5%
Construction	20.1%	24.3%	20.3%	16.9%	19.8%	7.8%
Services Producing Industries	8.5%	7.7%	8.1%	7.7%	7.0%	6.1%

\*Advance Estimate

Source: Ministry of Trade and Industry

The deterioration in external economic conditions is expected to accelerate in the coming months due to the worsening financial crisis. The MTI has, therefore, revised downwards the 2008 economic growth forecast for Singapore to around 3.0% from an earlier estimate of between 4.0% and 5.0%.



**INVESTMENT SALES**

*The Singapore property investment sales market remained spooked by the US sub-prime mortgage led financial crisis ... total accumulated investment sales value for 3Q 2008 plunged to its lowest level since 3Q 2004.*

**INVESTMENT SALES**

The Singapore property investment sales market remained spooked by the US sub-prime mortgage led financial crisis. Mounting financial risks amid a worsening credit squeeze and escalating construction costs heightened investors' cautious mood, resulting in total accumulated investment sales value for 3Q 2008 plunging to its lowest level since 3Q 2004.

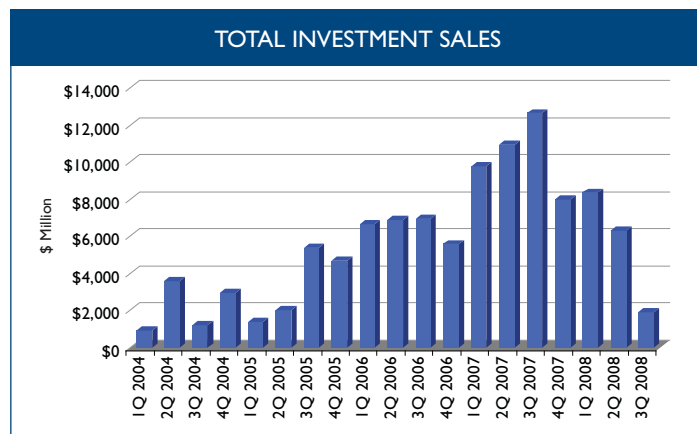
At just \$1.88 billion, the amount of investment sales garnered in 3Q 2008 was a significant variation on the \$6.31 billion and \$8.37 billion gathered in 2Q 2008 and 1Q 2008, respectively, and represented just a fraction of the \$12.66 billion amassed at the peak of the market a year ago in 3Q 2007.

The plunge in investment sales value was witnessed across all key property sectors, with the steepest seen in the industrial market. Only some \$188.02 million worth of industrial properties changed hands in 3Q 2008, 91.1% lower than the \$2.12 billion garnered in 2Q 2008. However, excluding the \$1.71 billion

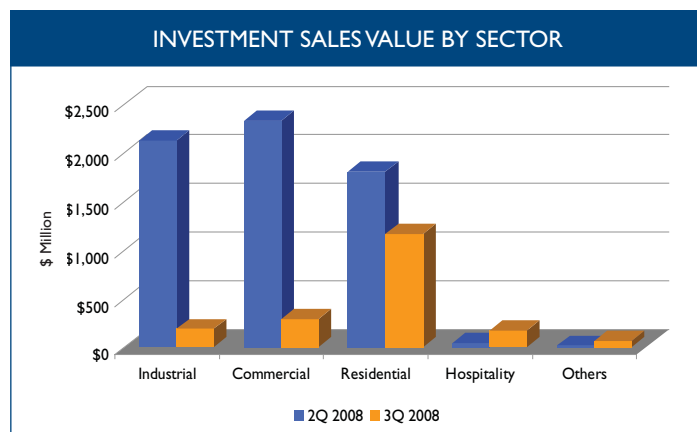
worth of properties divested collectively by JTC Corporation to Mapletree Investments Pte Ltd last quarter, the slide in industrial investment sales value was more moderate, at 54.3%.

Following a close second after the industrial sector in terms of percentage decline in investment sales value in 3Q 2008 was the commercial sector, which accumulated just \$293.71 million worth of sales, representing a drastic 87.4% dive from the preceding quarter's \$2.32 billion. The residential sector, which was the first to bear the brunt of weak investment sentiment when the US sub-prime mortgage crisis first became an international concern in mid-2007, saw a relatively milder quarterly decline of 35.5% in total investment sales value, from \$1.81 billion in 2Q 2008 to \$1.16 billion in 3Q 2008.

Significantly, institutional players, who were the key drivers of investment sales in the last four quarters, were visibly absent in 3Q 2008. Only one deal worth \$42.0 million was attributed to such players in 3Q 2008. This was the acquisition of a healthcare logistics and distribution centre on Tuas View Lane by First



Source: Colliers International Singapore Research



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## INVESTMENT SALES

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INVESTMENT SALES					
INVESTMENT SALES IN 3Q 2008					
Property Sector	Private Investment Deals (\$ million)			Public Investment Deals (\$ million)	Grand Total Sales (\$ million)
	Non-Institutional	Institutional	Subtotal		
Industrial	\$132.41	\$42.00	\$174.41	\$13.61	\$188.02
Commercial	\$293.71	\$0.00	\$293.71	\$0.00	\$293.71
Residential	\$867.71	\$0.00	\$867.71	\$296.63	\$1,164.34
Hospitality	\$100.00	\$0.00	\$100.00	\$73.30	\$173.30
Mixed	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Others	\$23.58	\$0.00	\$23.58	\$38.09	\$61.67
<b>TOTAL</b>	<b>\$1,417.40</b>	<b>\$42.00</b>	<b>\$1,459.40</b>	<b>\$421.63</b>	<b>\$1,881.03</b>

Source: Colliers International Singapore Research

Reit, representing its first foray into the logistics segment. The \$42.0 million in investment sales by institutional players in 3Q 2008 was a far cry from the \$4.9 billion amassed from the sale of 27 properties in 3Q 2007. While banks' tight credit lending and the weak equity market may have crippled the acquisition ability of some institutions, particularly for big-ticket deals, others are staying on the sidelines to wait for opportunistic purchases.

The absence of institutional players in 3Q 2008 played a key role in the 74.1% decline seen in total private sector investment sales from \$5.63 billion in the previous quarter to just \$1.46 billion in the current quarter. The largest private sector deal in the quarter was the sale of the 88-unit Somerset Orchard serviced apartments located along Orchard Road by The Ascott Group to OG Pte Ltd for \$100 million. Somerset Orchard is located on the 6th to 10th storeys of Orchard Point, a commercial development with a four-storey retail podium and an adjoining five-storey car park. It is understood that The Ascott Group will continue to manage the serviced apartments for 15 years, with an option to renew the contract for another 10 years.

Other significant deals in the private sector include the Eng Wah Organisation's sale of four properties - Jubilee Entertainment Complex at Ang Mo Kio, Toa Payoh Entertainment Centre at Toa Payoh, Empress Theatre at Clementi and the 16th storey of Orchard Towers - to EW.G Pte Ltd for a total price of \$99.48 million; the sale of 16 apartment units on Belmont Road by Lum Chang Holdings to a number of parties at \$64.7 million, or an average of \$1,600 per

sq ft to \$1,700 per sq ft; as well as Ho Bee Investment's sale of the Frontech Centre (located on Jalan Kilang Barat near Bukit Merah) to AG Frontech Private Limited for a consideration of \$30.0 million.

The public sector also experienced a decline in investment sales in 3Q 2008, albeit at the comparatively moderate rate of 38.2%. Investment sales in the public sector were contributed solely by public land sales, which totaled \$421.63 million in the September 2008 quarter. Major sales in the quarter included that of a Design, Build and Sell Scheme (DBSS) public housing site at Lorong 1A, Toa Payoh to the joint venture between Hoi Hup Realty Pte Ltd, Sunway Developments Pte Ltd and Hoi Hup JV Development Pte Ltd at a price of \$198.82 million, or \$160 per sq ft per plot ratio.

Other notable public land sales in terms of sale value included a non-landed residential site on New Upper Changi Road/Tanah Merah Kechil Avenue, which was awarded to TID Pte Ltd for \$84.0 million (\$282 per sq ft per plot ratio) and a hotel site on Balestier Road that was awarded to HH Properties Pte Ltd, a joint venture between Hiap Hoe Ltd and Superbowl Holdings, for \$73.30 million (\$172 per sq ft per plot ratio).

In response to weakened sentiment in the property development market, the Government left the development charge (DC) rates, which are payable for approved intensification or change to higher land usage by the Government, mostly unchanged or made just minor upward adjustments of less than

**INVESTMENT SALES**

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**OFFICE**

*The office sector may have finally peaked in 3Q 2008 on the back of easing demand amid the abatement of firms' expansion plans and the availability of alternative business locations/premises.*

0.4% on average in the latest semi-annual DC rate revision. For the first time since March 2005, the average DC rates for the non-landed residential use group was adjusted downward, by an average of 6%.

Looking ahead, with the sub-prime mortgage crisis and credit crunch propagating to the downfall of several US financial powerhouses, such as Bear Sterns, Lehman Brothers, Merrill Lynch, American International Group, Wachovia and Washington Mutual, and causing massive upheavals on Wall Street, Singapore's property investment sales market looks set to remain sluggish in the quarters ahead. Activities are likely to revolve around smallish deals and, possibly, distressed properties.

The lack of availability of financing in an increasingly tight credit market will cripple big ticket deals exceeding \$500 million. Instead, properties priced below \$200 million are more likely to make their way into the coming quarters' list of successful investment deals. This is because potential buyers with funds today include sovereign wealth funds, private equity funds, oil-rich investors and a few very high net-worth individuals. This group of potential buyers is more inclined to engage in smaller transactions.

Furthermore, following its divestment of \$1.71 billion of industrial properties to Mapletree Investments Pte Ltd in April, JTC announced its intention to sell more of its ready-built facilities via tenders this financial year ending March 2009 to encourage active private sector participation. However, sales in the pipeline will be on a smaller scale compared to those divested earlier and will comprise small factories to allow JTC to focus on bigger industrial developments that are too large and risky for the private sector. This will reinforce the dominance of smaller deals in the upcoming list of successful investment deals.

Distressed properties could also start to rear their ugly heads once again after months of hibernation. This is because the embattled financial sector and its resultant drag on world economies, including Singapore's, could strain the financial position of some companies and investors. The current tight credit market will limit financing options and increases their vulnerability to bankruptcy.

Nevertheless, the current cautious sentiment driven by external factors is expected to abate in due time and, as a global city, Singapore will remain an investment destination for international real estate investors.

**OFFICE**

The office sector may have finally peaked in 3Q 2008 on the back of easing demand amid the abatement of firms' expansion plans and the availability of alternative business locations/premises.

In 3Q 2008, the deepening of the credit crisis in the global financial markets saw the relentless expansion of businesses in 2007 giving way to a cautious reassessment of headcounts. Many have either shelved or scaled down expansion plans. Some are even mulling over potential downsizing. For example, HSBC Bank recently announced that it would cut some 1,100 jobs worldwide.

Coupled with the gradual completion of retrofitting works at disused State properties and transitional office sites, easing demand for office space led to the occupancy rate of islandwide Grade A office space edging down for the second consecutive quarter in 3Q 2008, by a marginal 0.6 percentage points to 97.1% from 97.7% in 2Q 2008. Of all the office micro-markets, Grade A office space in Orchard Road saw the steepest decline in occupancy rates of 1.9 percentage points from 96.7% in 2Q 2008 to 94.8% in 3Q 2008. In the Raffles Place micro-market, occupancy rates of Grade A office space eased by a slight 0.6 percentage points from 98.3% in 2Q 2008 to 97.7% in 3Q 2008.

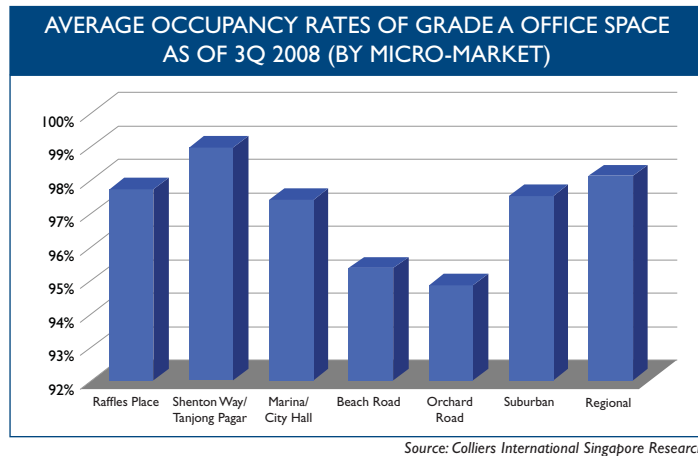
Waning demand for office space and declining occupancy rates have seen landlords adopting a less rigid stance in lease negotiations in 3Q 2008. In contrast to 2007, when landlords tend to hold out for higher rentals, they are now more prepared to lower asking rents in order to retain tenants or secure new ones.

This was particularly evident in the Shenton Way micro-market, resulting in the average monthly gross rents of Grade A office space recording a marginal decline of 0.3% for the first time in 16 quarters to \$12.96 per sq ft per month in 3Q 2008. The slide in asking

**OFFICE**

Overall, the average monthly gross rents of both Grade A and Grade B office space in the Central Business District (CBD) recorded an almost negligible quarterly growth of 0.1% in 3Q 2008, signalling that office rents may have peaked.

*While the deepening financial crisis had dampened demand for the existing stock of office space, the market for pre-commitments of space in yet-to-be-completed office buildings appeared to be relatively unaffected.*



Source: Colliers International Singapore Research

**OFFICE**

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rents had probably helped to boost the micro-market's occupancy rates during the quarter at a time when the average occupancy rates of other micro-markets are trending south. Grade A office space in the Shenton Way micro-market enjoyed a 0.6 percentage point climb in occupancy rate to 99% in 3Q 2008, up from 98.40% in 2Q 2008. Some tenants who renewed their leases or took up more space in the Shenton Way micro-market in 3Q 2008 included BHP Billiton and JPMorgan Chase & Co, both at Capital Tower on Robinson Road.

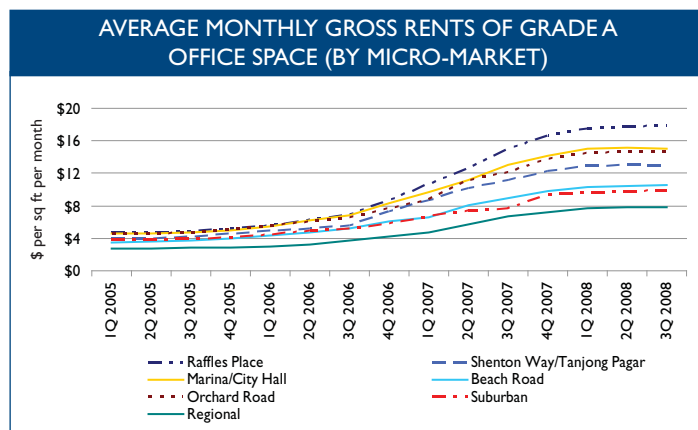
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In the Raffles Place micro-market, the average monthly gross rents of Grade A office space edged up a marginal 0.4% in 3Q 2008 to \$17.89 per sq ft from last quarter's \$17.82 per sq ft. The average monthly gross rents of Grade B office space in the micro-market were,

however, unchanged from last quarter's level of \$11.88 per sq ft.

The lacklustre investment environment, coupled with rental growth hitting the brake, also hampered growth in capital values of office space. In Raffles Place, Grade A office space is estimated to be worth some \$2,814 per sq ft as of 3Q 2008, unchanged since 1Q 2008. The capital values of lower grade office space outside the prime financial district may have started to trend south, judging from the sale price achieved for NTUC Income Beach Junction. The 999-year leasehold property was sold for \$21.5 million, or \$1,132 per sq ft, based on net lettable area in August, some 15% lower than the sale price of \$1,324 per sq ft achieved for the 999-year leasehold 33 Middle Road in the same micro-market just three months earlier.

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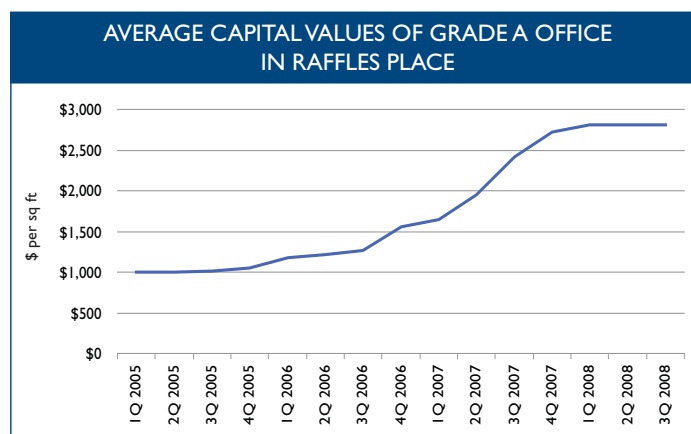
OFFICE RENTAL RATES				
AVERAGE MONTHLY GROSS RENTS OF OFFICE SPACE				
	Average Monthly Gross Rents (\$ per sq ft /month)		Quarter-on-Quarter Change	
	2Q 2008	3Q 2008	2Q 2008	3Q 2008
<b>Grade A</b>				
Raffles Place	\$17.82	\$17.89	1.7%	0.4%
Shenton Way/Tanjong Pagar	\$13.00	\$12.96	0.6%	-0.3%
Marina/City Hall	\$15.18	\$15.08	1.2%	-0.7%
Orchard Road	\$14.68	\$14.68	1.2%	0.0%
Beach Road	\$10.39	\$10.50	0.8%	1.1%
Regional	\$7.83	\$7.83	1.0%	0.0%
Suburban	\$9.82	\$9.99	1.3%	1.7%
<b>Grade B</b>				
Raffles Place	\$11.88	\$11.88	1.1%	0.0%
Shenton Way/Tanjong Pagar	\$10.92	\$10.92	0.8%	0.0%
Orchard Road	\$11.91	\$11.91	1.4%	0.0%
Beach Road	\$7.19	\$7.19	1.1%	0.0%
Regional	\$7.25	\$7.25	0.4%	0.0%
Suburban	\$6.53	\$6.53	0.0%	0.0%

Source: Colliers International Singapore Research

In 3Q 2008, BHP Billiton and the Macquarie Group were reported to have signed 10-year leases for 142,000 sq ft and 78,000 sq ft of space, respectively, in the yet-to-be-completed Marina Bay Financial Centre (MBFC) Tower II. Murex Southeast Asia also pre-committed to about 25,000 sq ft in MBFC Tower II for six years. According to Keppel Land, which is part of the joint venture developing MBFC, monthly rents in MBFC are in the region of \$16 per sq ft. Another yet-to-be completed building, Ocean Financial Centre in Raffles Place, is also understood to have seen pre-commitments of space in the range of \$18 per sq ft per month.

The continued pre-commitments of space in yet-to-be-completed office developments are a testament of companies' optimism about the mid-to-long-term prospects for Singapore's economy and financial industry. In fact, a report by the Boston Consulting Group highlights that Singapore is rapidly emerging as a new banking hub for the wealthy, challenging the traditional banking hubs like Switzerland. The same report also pointed out that Singapore has the world's highest concentration of millionaire households, at 10.6%. This augurs well for the wealth management industry.

Dr Marc Faber, renowned for his astute



Source: Colliers International Singapore Research

**OFFICE**

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**OFFICE**

*Notwithstanding the positive mid-term prospects seen for the Singapore's office property market, a correction is foreseen for the sector in the coming quarters.*

*Office rents, which have likely peaked in 3Q 2008, are forecast to trend down over the next six to nine months, by between 3% and 5% per quarter.*

**RETAIL**

*Amid a more challenging economic environment, ... retailers faced a double whammy of rising operating costs and weaker consumer spending.*

predictions of stock market crashes and other financial disasters, is confident that Singapore will survive the current economic turmoil and that long-term growth for the Republic remains favourable. The opening up of the legal services sector to foreign competition in August will benefit the economy in the mid-to-long term, while contributing to demand for office space as the sector grows.

Notwithstanding the positive mid-term prospects seen for the Singapore's office property market, a correction is foreseen for the sector in the coming quarters. The collapse of the US' fourth-largest investment bank, Lehman Brothers; the extension of a US\$85-billion lifeline by the Federal Reserve to one of the world's largest insurers, American International Group; and the takeover of Merrill Lynch by the Bank of America, all of which happened within a short span of a week in the month of September 2008, have dampened sentiments.

Firms, including financial institutions, are expected to continue to scale back or shelve their immediate expansion plans for the time being. A survey by Manpower, an employment services firm, highlighted that the job market is expected to soften in the last three months of 2008 as the economy slows. Hence, immediate demand for the existing stock of office space is expected to continue to wane.

The supply crunch, as such, is set to ease, especially in the light of likely delays in the redevelopment of office properties due primarily to the current high construction costs, as well as the large impending supply coming on stream from 2010 amidst slowing demand. Some of the redevelopment works that will be, or can be expected to be, delayed include the Afro-

Asia Building, the International Building, Marina House and Robinson Towers.

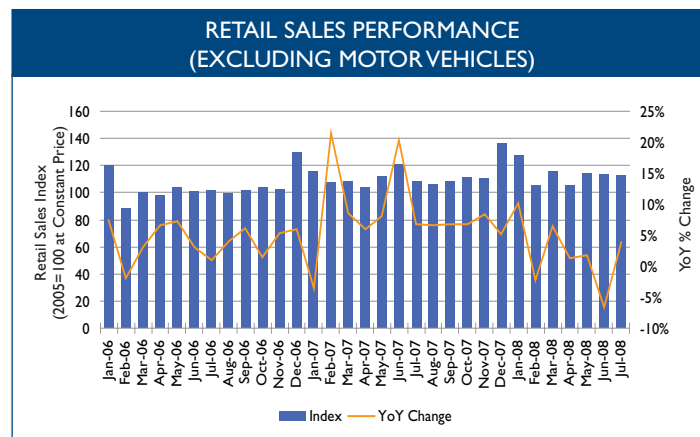
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**RETAIL**

Amid a more challenging economic environment, the upbeat consumer sentiment at the beginning of the year has since been shaken by inflationary pressures, volatile stock markets, the deepening financial turmoil and dim economic prospects. Retailers thus faced a double whammy of rising operating costs and weaker consumer spending.

While latest indicators for July point to a 3.9% YoY rebound in retail sales (excluding motor vehicles) following June's 6.6% YoY contraction, July's retail sales were down 0.2% from June. On average, retail sales in the first seven months of the year grew at a significantly slower pace of 2.1% YoY compared to the 9.1% growth recorded for the corresponding period in 2007. While retailers raced to capitalise on the Formula 1 (F1) SingTel Singapore Grand Prix in September, any positive impact on sales arising from this event remains to be seen.

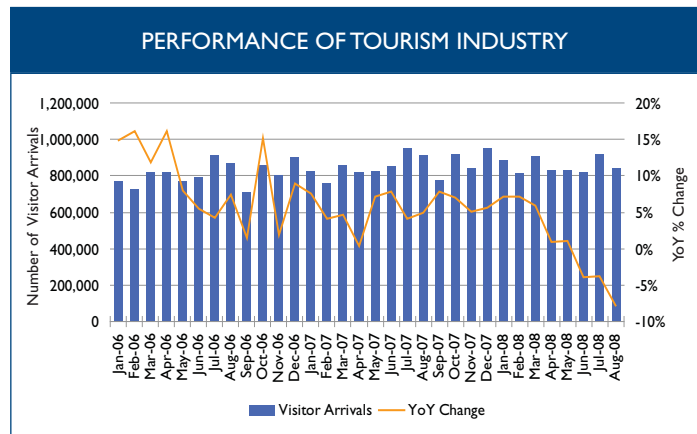
Luxury retailers, who were previously unfazed by the less favourable operating environment, are also showing signs of strains. In July, Belbon, the local agent for luxury brands Jean Paul Gaultier and Kenzo, was locked out of its two outlets in Paragon Shopping Centre on Orchard Road after chalking up huge rental arrears. However, the majority remained



Source: Department of Statistics/Colliers International Singapore Research

**RETAIL**

*On average, retail sales in the first seven months of the year grew at a significantly slower pace of 2.1% YoY compared to the 9.1% growth recorded for the corresponding period in 2007.*



Source: Department of Statistics/Colliers International Singapore Research

**RETAIL**

Visitor arrivals fell for three consecutive months, down 3.9%, 3.8% and 7.7% YoY in June, July and August, respectively.

confident of Singapore's medium-to-long-term retail outlook, judging by the number of luxury brands that had already committed to space in the upcoming high-end malls.

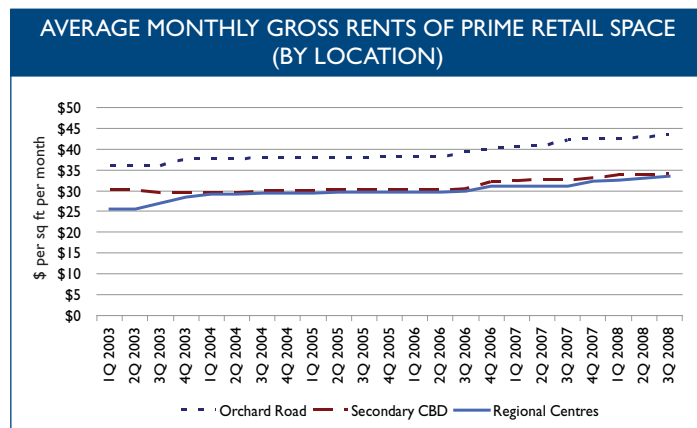
The tourism sector, which is a key driver of retail sales, particularly in the prime Orchard Road shopping area, has also been hit by a spate of fuel hikes, rising inflation, and a reduction in corporate travels and budgets in the region. Reflecting the lacklustre performance, visitor arrivals fell for three consecutive months, down 3.9%, 3.8% and 7.7% YoY in June, July and August, respectively. While the F1 event will have boosted September's visitor numbers, total visitor arrivals are likely to fall short of the full-year target of 10.8 million.

Against this backdrop of cautious consumer sentiment, tenants showed greater resistance to further rental upsides. Consequently, rentals saw only moderate increases in 3Q 2008. On Orchard Road, average gross rentals of prime retail space rose 1.2% QoQ to \$43.38 per sq ft per month. Over the same period, rentals of similar quality space in the regional centres

inched up 0.8% to \$33.38 per sq ft per month, while those in the secondary CBD areas edged up by 0.4% to an average of \$33.88 per sq ft per month.

Tenants are also taking longer to commit to leases, given the abundant supply in the pipeline. According to Colliers International's research, over 3 million sq ft of net lettable retail space are expected to enter the market in 2009. Major projects include ION Orchard (663,000 sq ft), Orchard Central (250,000 sq ft) and 313@Somerset (294,000 sq ft) in the Orchard area, Marina Bay Shoppes (800,000 sq ft) in the upcoming Marina Bay Sands Integrated Resort and City Square Mall (450,000 sq ft) in Little India. However, the target completion date of some projects may be deferred to 2010 in view of the tight supply of construction labour and materials.

In the wake of this new supply, existing mall owners continued to press forward with their asset enhancement and repositioning projects in order to stay competitive. For example, City Developments Limited (CDL) announced



Source: Colliers International Singapore Research

**RETAIL**

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**RETAIL**

*Going forward, ... consumer spending is likely to remain subdued given the poor economic outlook and less rosy foreign visitor numbers. Any rental growth is, therefore, expected to be minimal in the last quarter of the year.*

**INDUSTRIAL**

*Singapore's industrial property market was subdued in 3Q 2008, following two consecutive quarters of weak manufacturing output and export performances.*

*Weakening manufacturing sector performance started to translate into softening demand for factory space by industrialists in 3Q 2008.*

a \$16-million facelift for Palais Renaissance on Orchard Road, while Tekka Mall will be repositioned as an Information Technology (IT), lifestyle and F&B (food and beverage) hub called The Verge in Little India. Other recently refurbished and relaunched projects during the third quarter include Friven & Co. @ Tanglin in the Orchard Road district, as well as the reopening of One Fullerton (part of The Fullerton Heritage development on the Marina Bay waterfront) and Cuppage Terrace in the Somerset area.

Meanwhile, consumers can look forward to a wider variety of dining options. In line with changes in lifestyle and greater affluence, families are dining out more often and malls are allocating a larger proportion of space for F&B outlets, which, if successful, will serve as a crowd-puller, thereby benefitting other retailers in the mall. For example, on Orchard Road, The Heeren has converted its top floor into an F&B cluster called "Altitude Dining", with seven outlets, namely Thai Express, Dai Ka Jie, Waraku Japanese Casual Dining, Pasta de Waraku, Fish & Co., NYDC and Jack's Place. Over at Little India, City Square Mall, which is slated to open in late 2009, will devote 25% of its total net lettable area to F&B, while Orchard Central will have four storeys, or close to 35% of its net lettable retail space, dedicated to eateries. The proportion allocated to F&B was lower previously, at about 10% to 20%.

As competition in the dining scene heats up, landlords launched new F&B concepts, with many opting for a Japanese theme due to the popularity of this cuisine. For instance, Jurong Point, which is located in Jurong West, launched a new Osaka-themed food street – Shokutsu 10 Osaka – in July. Earlier in the year, the marche-styled Shokudo – a Japanese food bazaar – opened at Raffles City in the City Hall area. The upcoming Tampines 1 in the East will have a Japanese food hall as an anchor tenant, offering 10 counters of Japanese food. City Square Mall, which is slated to open in late 2009, will have three food courts, including a Japanese-themed food court called ishi mura. Over at Orchard Central, "The Med" in the basement will feature an entirely Mediterranean theme.

Going forward, while the year-end festivities, traditionally a peak season for the retail sector, may provide some reprieve for retailers, consumer spending is likely to remain subdued

given the poor economic outlook and less rosy foreign visitor numbers. Any rental growth is, therefore, expected to be minimal in the last quarter of the year. As such, rentals are projected to increase by up to 5% for the whole of 2008.

Notwithstanding the short-term challenges, the medium-to-long-term outlook for the retail sector remains positive. The completion of the \$40-million rejuvenation of Orchard Road early next year, together with the entry of new malls and new retailers, will up the ante on Singapore's positioning as one of Asia's premier shopping destinations. At the same time, the tourism industry will benefit from the opening of two integrated resorts, and the growing MICE (meetings, incentives, conventions and exhibitions) and medical tourism sectors, as well as the line-up of prominent sports events, including the F1 and the 2010 Youth Olympics. These developments will support the continued growth and evolution of Singapore's retail scene over the coming years.

**INDUSTRIAL**

Singapore's industrial property market was subdued in 3Q 2008, following two consecutive quarters of weak manufacturing output and export performances.

The three-month moving average year-on-year (3MMA YoY) growth in output by the manufacturing sector has been declining since March 2008 and slipped into negative territory in June 2008. Manufacturing output growth worsened in July and August 2008. With the exception of the transport engineering cluster, which showed positive growth of 6.0% and 0.1% in July and August, respectively, all other industry clusters either slipped into or remained in negative output growth.

Similarly, the 3MMA YoY growth in non-oil domestic exports (NODX) started to decline in May 2008. The heavily trade-dependent Singapore economy saw its August 3MMA YoY growth in NODX fall sharply by 10%, worse than the 8.9% slide in July, as global demand for its exports fell due to the slowing US and EU economies.

Weakening manufacturing sector performance started to translate into softening demand for factory space by industrialists in 3Q 2008. In

**INDUSTRIAL**

*On the other hand, the slowdown in export growth has yet to translate into softening demand for warehouse space.*

*Hit by the double whammy of weaker demand from both industrialists and office users, demand for industrial space will likely see continued softening in the coming quarters.*

*Limited upside potential is foreseen for rents and capital values of industrial properties over the next three months.*

addition, the segment is also experiencing an easing of spillover demand from the office sector as firms grow increasingly receptive of alternative business space location and premises, such as retrofitted State properties and transitional office space amidst slowing demand on the back of the jitters caused by the financial meltdown. According to the Urban Redevelopment Authority's Real Estate Information System, leasing transactions for factory space in July and August stood at 462, 35.7% lower than the 718 transactions seen in the first two months of 2Q 2008. Consequently, the average monthly gross rents for ground and upper floor factory space remained unchanged from last quarter's levels of \$2.47 per sq ft per month and \$1.81 per sq ft per month respectively.

On the other hand, the slowdown in export growth has yet to translate into softening demand for warehouse space. As such, the average gross rents of prime ground and upper floor warehouse space managed to hold firm at last quarter's level of \$2.45 per sq ft per month and \$1.76 per sq ft per month, respectively, amidst limited completions.

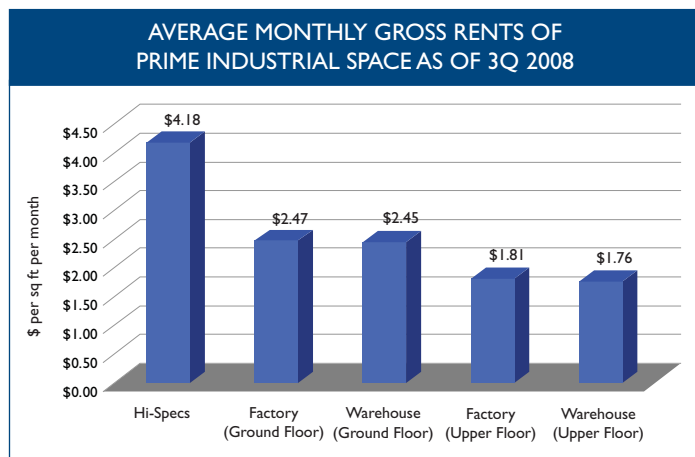
After climbing 21.5% in 1H 2008, average monthly gross rents of hi-specs space took a breather in 3Q 2008 and stayed flat at \$4.18 per sq ft. The hi-specs market saw some pre-commitments in Icon @ IBP at Jurong East and Cintech IV and The Kendall, both in Science Park, all of which will be completed in 2009. A company is known to have leased more than 10,000 sq ft of space for around \$4.50 per sq ft per month in Icon @ IBP, while Quintiles Transnational will take up 80,000 sq ft at Cintech IV. Mitsui Chemicals will increase its current research and development facility

at The Institute of Chemical and Engineering Sciences, a research institute of A\*STAR located on Jurong Island, by five times to 12,917 sq ft when it relocates to The Kendall at the end of 2009.

Similar to leasing transactions, data from SISV Realink shows that sales of strata industrial space slowed appreciably by 22%, from 493 transactions in 2Q 2008 to approximately 385 in 3Q 2008. Notwithstanding the lower sales volume, transacted prices of strata industrial space hovered at last quarter's level. Hence, the average capital values of prime freehold factory space is estimated to have remained at \$548 per sq ft and \$437 per sq ft for ground and upper floor space, respectively, while those for prime freehold ground floor and upper floor warehouse space were at \$521 per sq ft and \$392 per sq ft, respectively.

The manufacturing sector is expected to remain weak in the coming quarters as global demand for goods continues to slow on the back of slowing economies around the world. At the same time, office users are still reeling from the shocks in the global financial markets and will continue to act cautiously with regard to business space requirements. This will curtail spillover demand from the office sector. Hit by the double whammy of weaker demand from both industrialists and office users, demand for industrial space will likely see continued softening in the coming quarters. Hence, limited upside potential is foreseen for rents and capital values of industrial properties over the next three months.

Despite the immediate-term gloom, developers appeared confident in the mid-term prospects of Singapore's industrial property market, as seen



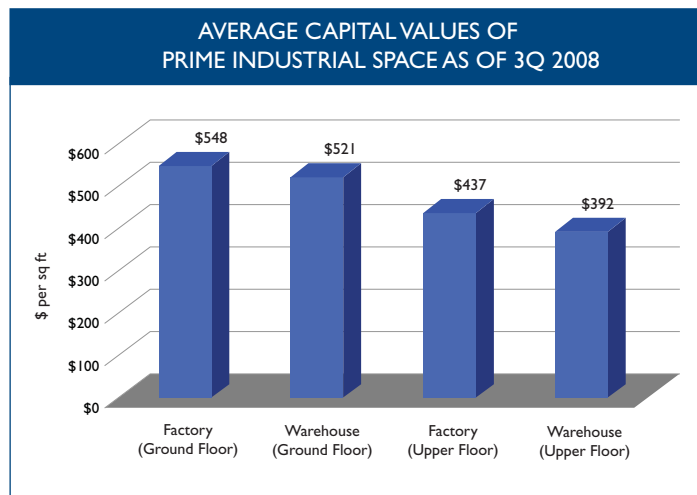
Source: Colliers International Singapore Research

**INDUSTRIAL**

*The average monthly gross rents for ground and upper floor factory space remained unchanged from last quarter's levels of \$2.47 per sq ft per month and \$1.81 per sq ft per month respectively.*

## INDUSTRIAL

While the immediate outlook for the industrial sector may be tainted by the ills of the financial sector, the mid-term prospects look favourable, as evidenced by developers' and industrialists' continued investment commitments.



Source: Colliers International Singapore Research

## INDUSTRIAL

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in their continued commitment to developing industrial space solutions for industrialists through the purchase of industrial sites from both the Confirmed and Reserve List under the Government Land Sales (GLS) programme.

In fact, the industrial sector was one of the two property sectors (the other being hotels) to have seen sites triggered for tender from the GLS Reserve List in 3Q 2008. Two industrial sites located on Kallang Pudding Road and Ubi Avenue 4 were triggered for sale in August 2008 on successful application by two developers. The tender for both sites was launched in early September and, when the tender closed for the Ubi Avenue 4 site in late September, two bids were received, with the top bid of \$85 per sq ft per plot ratio coming in just a shade lower than the \$89 per sq ft per plot ratio paid for a nearby site on Ubi Avenue 4/Ubi Road 2 in April 2008.

Separately, third-party logistics providers and multinational manufacturing corporations also displayed continued confidence in Singapore's mid-term prospects as they continued to pour investment into the city-state or make growth plans.

For example, Numonyx B.V., one of the world's leading non-volatile memory solutions providers, has set up a goods distribution hub in Bedok North to serve as a one-stop global logistics base for the distribution of finished goods to their customers worldwide. TNT's new \$15-million logistics facility expansion on Changi South Lane is aimed at strengthening TNT's network coverage, connectivity

and infrastructure to establish a leadership position in Southeast Asia, while global supply chain management group Panalpina World Transport's new 121,385 sq ft logistics complex at Changi International LogisPark will serve as a hub for its Southeast Asia and Asia Pacific operations.

GlaxoSmithKline, on the other hand, will collaborate with the Economic Development Board on a new 10-year roadmap to identify growth opportunities and develop innovative healthcare solutions for the region

Hence, while the immediate outlook for the industrial sector may be tainted by the ills of the financial sector, the mid-term prospects look favourable, as evidenced by developers' and industrialists' continued investment commitments.

## RESIDENTIAL

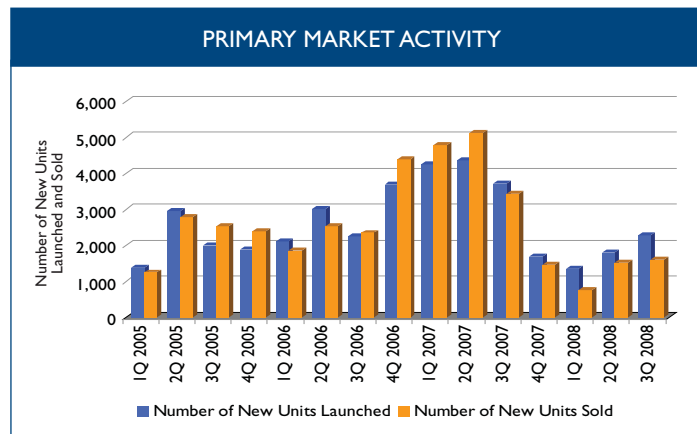
The private residential market opened the quarter on a relatively upbeat mode but resumed its subdued mood soon after.

Riding on June's encouraging take-up, developers stepped up launches in July ahead of the lunar seventh month in August, typically a lull period for the home market as the Chinese regard it as an inauspicious period for property purchases. However, launch volume dipped to just 194 units in August, the lowest monthly volume seen since such data became officially available. Launch volume rebounded in September, but remained low compared to July's volume. Nevertheless, boosted by July's high launch volume, the entire 3Q 2008 saw

**RESIDENTIAL**

Reflecting the subdued buyer sentiment as the world collectively enters into a period of slow growth due primarily to the US financial meltdown, sales lagged behind launches.

With developers' sales failing to keep pace with launches, developers' stock of unsold units is accumulating rapidly.



Source: URA/Colliers International Singapore Research

**RESIDENTIAL**

Boosted by July's high launch volume, the entire 3Q 2008 saw developers' launch volume coming in at 2,284 units, 25.9% higher than last quarter's 1,814 units.

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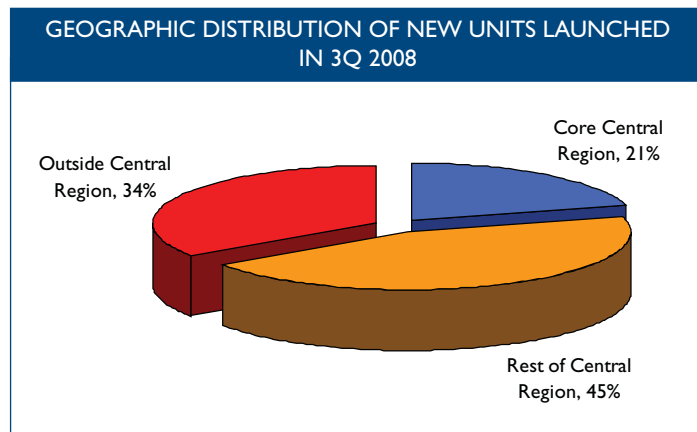
Developers' launch continued to be dominated by mid-tier units located in the rest of central region (RCR). They accounted for 45% of all units launched in the quarter, up slightly from last quarter's 44%. The 1,028 mid-tier units launched in 3Q 2008 was also some 28% more than last quarter's 801 units launched. Prominent projects launched at the mid-tier level include the 360-unit Concourse Skyline at Beach Road, the 383-unit Silversea at Amber Road, the 212-unit Beacon Heights at St. Michael's/Mar Thoma Road, the 180-unit The Peak @ Balmeg at Balmeg Hill, the 176-unit Tresalveo at Marymount Terrace, the 110-unit Woodsville 28 at Woodsville Close, and the 46-unit Urban Lofts at Rangoon Road.

Mass-market units located within the outside central region (OCR) accounted for slightly over a third or 34% of all units launched in the quarter, relatively unchanged from last quarter's 33% contribution rate. The launch

of the 724-unit The Livia at Pasir Ris Drive boosted the quarter's mass-market launch volume to 785 units, some 32% higher than last quarter's 594 units.

Launch activity for high-end and luxury developments within the core central region (CCR), however, remained lackluster as developers generally prefer to hold out till the market rebounds and can support higher launch prices. Only 471 high-end and luxury units were launched in the quarter, 12% higher than last quarter's volume of 419 units. Significant projects launched or opened for private previews in this segment include the 176-unit Belle Vue Residences at Oxley Walk, the 56-unit The Hamilton Scotts at Scotts Road, the 91-unit Martin No 38 at Martin Road, the 186-unit The Wharf Residence at Tong Watt Road and the 235-unit VIVA at Thomson Road/Suffolk Walk.

Reflecting the subdued buyer sentiment as the world collectively enters into a period of slow growth due primarily to the US financial meltdown, sales lagged behind launches. Of



Source: URA/Colliers International Singapore Research

**RESIDENTIAL**

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**RESIDENTIAL**

*International investors are largely expected to remain cautious and shy away from property investments. Coupled with waning support from the leasing market, prices of Singapore's high-end and luxury homes will continue to slide in the coming quarters.*

the 2,284 new units launched by developers in 3Q 2008, only an estimated 1,147 units were sold, reflecting a sales take-up rate of 50%, lower than last quarter's 61%. Including the 456 units purchased in 3Q 2008 from projects launched in the earlier quarters, the total number of new units sold by developers rose moderately by 5.1% to 1,603 units from 1,525 units in the previous quarter. In comparison, the number of new units launched by developers rose a substantial 25.9% in the quarter. With developers' sales failing to keep pace with launches, developers' stock of unsold units is accumulating rapidly.

Despite the generally weak sales market, several projects managed to rise above the challenging environment to chalk up impressive take-up rates. These are mostly projects with strong locational attributes and/or well-conceived with unique themes or strong differentiating factors and launched at realistic pricing.

For example, the 724-unit 99-year leasehold Livia at Pasir Ris Drive, targeted at the mass-market, was previewed in July at a relatively attractive average price of \$650 per sq ft. Coupled with the development's location which is just minutes away from the Pasir Ris Mass Rapid Transit (MRT) station, the Livia saw 92% or 330 units out of the 360 launched units being snapped up by home buyers within the quarter.

At the mid-tier level, all the 46 units in the freehold Urban Lofts at Rangoon Road were taken up within two hours of preview at an average launch price of \$1,000 per sq ft. Sales were also brisk at the 360-unit 99-year leasehold Concourse Skyline along Beach Road. To be redeveloped from The Concourse building, 68% out of the 100 units launched were sold at a median price of \$1,592 per sq ft. Other new mid-tier projects which saw good demand during the quarter include the 212-unit Beacon Heights at St Michael's/Mar Thoma Road (sold 69% out of 150 units launched) and 176-unit Tresalveo at Marymount Terrace (sold 68% out of 60 units launched).

In the high-end and luxury category, all the 33 units released for sale at an average price of \$2,130 per sq ft at the 91-unit freehold Martin No 38 on Martin Road found buyers within the quarter.

The weak private home sales market continued to put pressure on prices in 3Q 2008. The URA's advanced estimate showed that island-wide prices of non-landed properties fell for the first time in four years, by 1.8% in 3Q 2008. Mid-tier homes in RCR led the slide in private home prices with a 2.1% decline, following marginal growth of 0.7% in the preceding quarter.

Non-landed high-end and luxury homes in CCR whose prices recorded a marginal 0.1% slide in 2Q 2008 saw their prices declining by a faster 2.1% in 3Q 2008. According to Colliers International's research, the average capital value of luxury apartments stood at \$2,963 per sq ft as of 3Q 2008, 2.8% lower than last quarter's \$3,049 per sq ft. Cumulatively, the average capital value of luxury apartments is estimated to have fallen by a total of 6.6% from \$3,174 per sq ft in December 2007.

The mass-market segment was the only segment which saw its prices continuing to inch up, albeit by a nominal 0.1%, according to URA's advanced estimate.

Rentals, too, lost ground in 3Q 2008. Based on Colliers International's research, the average monthly gross rents of luxury apartments eased by 1.4%, from \$6.73 per sq ft in 2Q 2008 to \$6.63 per sq ft as of end-September 2008. For the first nine months of this year, the average monthly gross rents of luxury apartments had weakened by 4.3% from \$6.93 per sq ft per month in December 2007.

Moving forward, with the initial turbulence in the US financial market working up into a massive storm and resulting in numerous super powerhouses either collapsing, requiring bailouts or being merged, the growth in Singapore's foreign population, particularly the expatriates, could slow down in the coming quarters. Coupled with rising supply on the back of the gradual completion of redeveloped projects, rentals of homes across the island, particularly those in prime locations, will come under further pressure and continue to edge down.

On the sales front, spooked by the financial storm that has seen hundreds of billions of dollars around the world lost in the mortgage and securities markets, international investors

RESIDENTIAL PROJECT LAUNCHES					
MAJOR PROJECTS LAUNCHED IN 3Q 2008					
Development	Location	Tenure	Developer	Estimated Average Launch Price (\$ per sq ft) / (\$ per unit)	Total Number of Units in Development
Non-landed					
Beacon Heights	St. Michael's Road/Mar Thoma Road	999-yr	Kim Eng Group	\$850	212
Belle Vue Residences	Oxley Walk	Freehold	Wing Tai Holdings	\$2,000	176
Concourse Skyline (Phase I)	Beach Road	99-yr	Hong Fok Land Ltd	\$1,580	360
D'Chateau @ Shelford	Shelford Road	Freehold	East Coast Properties Pte Ltd	\$1,400	31
D'Pavilion	Upper Serangoon Road	Freehold	MCL Land Ltd	\$900	50
The Hamilton Scotts	Scotts Road	Freehold	Hayden Properties/KOP Capital/ Emirates Tarian Capital	\$3,800	56
Livia	Pasir Ris Drive 1 (Parcel 1)	99-yr	Hong Realty Pte Ltd	\$650	724
Martin No 38 (Phase I)	Martin Road	Freehold	SC Global Developments Ltd	\$2,130	91
Mulberry Tree	Moulmein Road	Freehold	Bravo Building Construction Pte Ltd	\$1,400	32
Naturalis	Lorong M Telok Kurau/Still Road	Freehold	Abacus Development Pte Ltd	\$850	43
Signature @ Lewis	Lewis Road	Freehold	Hiap Hoe Development Pte Ltd	\$1,760	32
Silversea	Amber Road	99-yr	Far East Organization	\$1,700	383
Studios @ Marne	Marne Road	Freehold	Vyco Pte Ltd	\$1,100	46
The Peak @ Balmeg	Balmeg Hill	Freehold	MCL Land Ltd	\$993	180
The Wharf Residence	Tong Watt Road	999-yr	CapitaLand Residential	\$1,700	186
Tresalveo	Marymount Terrace	Freehold	Soon Lian Realty Pte Ltd	\$950	176
Urban Lofts	Rangoon Road	Freehold	Ascender Capital Pte Ltd	\$1,000	46
Woodsville 28	Woodsville Close	99-yr	Frasers Centrepoint Homes	\$880	110
VIVA	Thomson Road/Suffolk Walk	Freehold	Allgreen Properties Ltd	\$1,550	235
Landed					
Ventura Heights	Jalan Lim Tai See	Freehold	ACT Nobel	\$3.4 - \$4.5 mil	40
Beau Vista	Jalan Kembangan	Freehold	Novelty Group	\$1.52 - \$1.67 mil	6
Bellaville	Siak Kew Avenue	Freehold	Fong Tat Holding Co Pte Ltd	\$1.8 - \$2.8 mil	10
Chepstow Ville	Chepstow Close	999-yr	Wenul Development Pte Ltd	\$600	9
Lynwood Eight	Lynwood Grove	Freehold	Wenul Land Pte Ltd	\$3.4 - \$3.8 mil	10
Sovereign @ Simon	Simon Place	999-yr	Fragrance Homes	\$1.39 - \$1.73 mil	23
The Greenwood (Phase 5)	Greenwood Avenue	103-yr	Far East Organization	\$2.98 - \$3.5 mil	54

Source: Colliers International Singapore Research

are largely expected to remain cautious and shy away from property investments. Coupled with waning support from the leasing market, prices of Singapore's high-end and luxury homes will continue to slide in the coming quarters. Nevertheless, as there remains a pool of international investors who would look to invest in Singapore due to its political stability

and promising mid- to long-term economic prospects, some reasonably priced, well-located and well-conceived developments/launches in this market segment may still find buyers although a longer lead time could be expected.

For the mid-tier and mass-market segments, there remains a sizeable pool of domestic

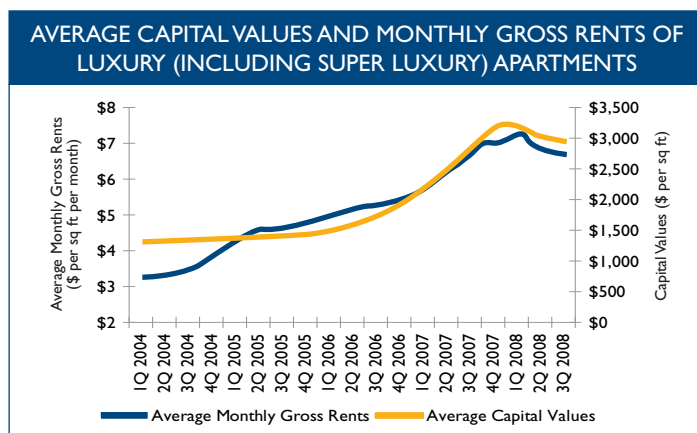
**RESIDENTIAL**

While a sizeable pool of ready buyers exists for mid-tier and mass-market homes, they are cautious given the looming gloom on the economic front, and are adopting a wait-and-see attitude ... prices of mid-tier homes are expected to continue to slip whilst those of mass-market homes may start to lose ground ...

RESIDENTIAL PRICE MOVEMENT				
QUARTER-ON-QUARTER CHANGE IN PRICE INDICES OF NON-LANDED PROPERTIES				
Period	Overall	Core Central Region	Rest of Central Region	Outside Central Region
		All	All	All
1Q 2007	4.8%	5.5%	3.7%	2.0%
2Q 2007	8.3%	7.9%	8.1%	7.2%
3Q 2007	8.3%	8.3%	7.9%	7.9%
4Q 2007	6.8%	7.5%	7.7%	7.0%
1Q 2008	4.2%	4.4%	3.9%	4.8%
2Q 2008	0.2%	-0.1%	0.7%	0.9%
3Q 2008*	-1.8%	-2.0%	-2.1%	0.1%

\*Flash Estimate

Source: URA/Colliers International Singapore Research



Source: Colliers International Singapore Research

**RESIDENTIAL**

For the first nine months of this year, the average capital values and monthly gross rents of luxury apartments had weakened by 6.6% and 4.3% respectively.

purchasers looking for value-for-money and well-located (particularly in close proximity to MRT stations) homes, including landed properties. For one, the robust public housing resale market will raise the ability for more public home dwellers to upgrade to private properties. In addition, there still exists a group of collective sale home owners with handsome gains who have yet to find suitable long-term replacement homes. Some of them who have opted to reside in public flats are waiting for an opportune time to re-enter into the private home market and are keeping a vigilant watch on private home price movements.

Nevertheless, domestic buyers' sentiment and confidence will take a beating following MTI's preliminary estimate on 3Q 2008's economic performance which put Singapore as the first in Asia to enter into a technical recession due to the US financial meltdown. As businesses tighten their belts under the strains of rapidly slowing domestic and global economies,

Singapore's unemployment rate is widely expected to trend up in the coming quarters and wage revisions are likely to lag behind inflation rate or may even stay stagnant.

Hence, while a sizeable pool of ready buyers exists for mid-tier and mass-market homes, they are cautious given the looming gloom on the economic front, and are adopting a wait-and-see attitude. The expected slow sales market will likely result in the prices of mid-tier homes continuing to slip whilst those of mass-market homes may start to lose ground after staying resilient for the past quarters.

**Notes:**

293 OFFICES IN 61 COUNTRIES ON SIX CONTINENTS

USA 99  
Canada 19  
Latin America 18  
Asia Pacific 62  
EMEA 95

US\$2 billion in annual revenue

868 million square feet under management

11,000 Professionals

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