

**SINGAPORE RETAIL REAL ESTATE HIGHLIGHTS
4Q 2007****Bright Start for 2008**

Consumer spending in Singapore recorded S\$33.1 billion (including motor vehicles) in 2007, representing a 3.8% increase year-on-year (yoy). Excluding motor vehicles, retail sales value was estimated at S\$22.5 billion, posting a decade high growth of 9.0% yoy. Between the months of November and December 2007, shoppers splurged S\$5.8 billion, attributable to an extravagant Christmas festive spending. Entering 1Q 2008, retail sales index (including motor vehicle) recorded a 1.5% increase from the previous year, while retail sales value increased 7.8% yoy to achieve S\$3.25 billion in January.

In the first quarter of 2008, strong consumer sentiments have not waned despite the uncertainties in the financial market, evident from events that have achieved their expected sales and visitors targets. These events included the recent Information Technology (IT) Show 2008 held at Suntec City, which drew 735,000 visitors and S\$54.5 million in sales as well as the NATAS Travel Fair that attracted more than 50,000 holiday seekers and brought in close to S\$50 million worth of travel deals. Other than the fairs and events that drew huge crowds, the official opening of Singapore Flyer in April to the public, the tallest observation wheel in the world is also envisaged to maintain Singapore's pole position as a key tourist spot in Asia.

Singapore's tourism sector expanded strongly in 2007 and is expected to enjoy further growth in the coming years. On the back of record visitor arrivals and tourist receipts in 2007, Singapore Tourism Board (STB) announced a target of 10.8 million visitor arrivals and S\$15.5 billion tourist receipts for 2008. The goal sets off on a laudable start with yet another record number of tourist arrivals for the first month of 2008. In January 2008, Singapore welcomed 883,000 foreign visitors, the highest ever number of visitors arrivals for the month, representing a 6.9% growth yoy.

More benchmarks figures for visitors arrivals are expected to be achieved with eagerly anticipated leisure and business events lined up for the next few months including the Singapore Arts Festival, F1 Inaugural night race, SITEX 2008, ITB Asia – The Trade Show for Asian Travel Market and BioMedical Asia. For example the Singapore Airshow at Changi Exhibition Centre held in February captivated an avid crowd of 90,000 with a huge exhibition and an airshow featuring the Black Knights of Republic of Singapore Air Force (RSAF), international fighter planes and the Airbus A380. The 6-day event eventually sealed S\$18.9 billion worth of deals. These events are anticipated to attract more tourist dollars for the retail sector, especially to retailers along the Orchard Road shopping belt.

Boosting the Singapore cruise business, a mega cruise ship terminal capable of hosting premium ocean liners such as Royal Caribbean Cruises' Rhapsody of The Seas, the largest cruise liner in Singapore, will be ready to serve more cruise passengers by 2010. The current Singapore Cruise Centre at Harbour Front welcomed 860,000 cruise passengers in 2007 and this figure is expected to grow by 14% to reach 980,000 in 2008. STB targets to achieve 1.6 million cruise passengers by 2015.

Stable Demand and Supply

Demand for retail space remained stable in 4Q 2007 despite an increase in occupancy rate. Islandwide stock decreased by about 170,000 square feet (sq ft), more than half of which is contributed by the revamp of some developments along the Singapore River while occupancy rate rose marginally in the Downtown Core and Outside Central Region. The fall in islandwide stock coupled with the slight increase in demand led to islandwide occupancy rate for retail space rising by half a percentage point from 92.3% in 3Q 2007 to reach 92.8% in 4Q 2007. Islandwide occupancy rate increased in 1Q 2008 to an estimated 93.6% as more retail space undergoes asset enhancement works.

For Singaporeans who relishes shopping, 2008 will be a year to rejoice with no less than four new malls coming onstream by the end of the year. Former Big Splash at East Coast Parkway, renowned for its red lobster logo and water slides, was reopened as Playground@Big Splash in 1Q 2008 after it had closed for renovations in 2006. In place of the iconic water theme park, the newly opened park now consists of more food and beverage outlets, along with children-friendly offerings and new recreational facilities. Further to the east, a leisure and entertainment complex with about 200,000 sq ft of net lettable area at Downtown East named E!hub, is expected to enthrall younger shoppers by the end of 2Q 2008 with its 25-meters high Ferris Wheel and Singapore's largest indoor family park named eXplorerkid.

Within the Central Region, ION Orchard and Orchard Central shopping mall are also due to be completed between end-2008 to early 2009 and would inject more buzz into the Orchard Road shopping belt. Still within the Central Region, Iluma, a 10-storey entertainment mall located in the Bugis area, would also open with a nine-hall 1,400-seat cinema, by end of 2008. Adding to the list, malls that will be completing their asset enhancement works by this year include Jurong Point, Northpoint and Sembawang shopping centre. Shop clusters such as the Choa Chu Kang Xchange, are also mushrooming in various MRT stations with high passenger traffic as well. Similar retail outlets in Tanjong Pagar and Boon Lay MRT stations are targeted to be ready for business in the next two quarters.

Hot Property - Medical Suites

The demand for medical suites has increased substantially since 2004, partly contributed by the rising demand for medical specialist services from locals and the rising number of medical tourists coming to Singapore. Singapore's reputation as a medical hub within the region had slowly grown in stature since its inception in 2003 by the Economic Development Board (EDB). Since 2002, more than 200,000 medical tourists have arrived in Singapore to seek medical treatment yearly and this figure is poised to increase 20% annually till 2012 where a targeted one million medical tourist is envisaged. According to STB, medical expenditure by tourists accounted for S\$763.3 million or approximately 9% of total tourist expenditure in 2006 and this figure is expected to hit S\$2.6 billion by the end of 2012.

Due to the imbalance of supply and demand, prices for medical suites have increased substantially over the last two years. For instance, prices for medical suites in Gleneagles had raised approximately 64% since 2004 to transact at nearly S\$4,400 psf in 4Q 2007 while those at Mount Elizabeth Medical Centre have increased by more than 138% during the same period to achieve a record price of S\$5,000 psf. Similarly, rentals for medical suites have increased considerably since 2006. Medical suites rentals in Mount Elizabeth Medical Centre have risen nearly 45% from 2006 to reach rentals of about S\$16.00 psf per month (pm) currently while Paragon medical suites rentals have risen in similar fashion to approximately S\$14.00 psf pm.

Rising Retail Rentals

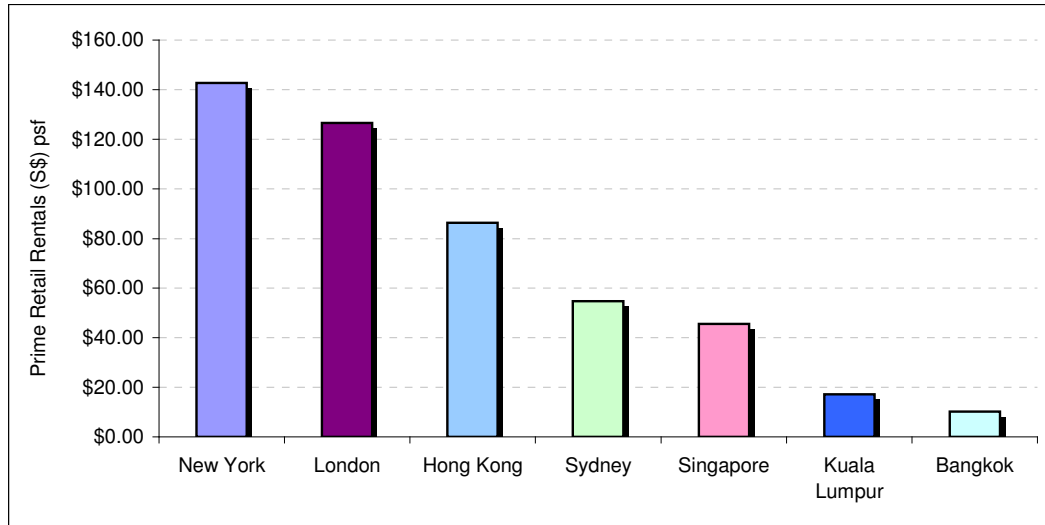
Retail rentals continued to scale upwards along Orchard Road shopping belt with malls located along the fringe of the prime shopping belt recording the highest increase while rentals for the rest of the island remained unchanged. Malls along the central Orchard Road shopping belt saw retail rentals in 1Q 2008 rising 5.3% quarter-on-quarter (qoq) to reach S\$47.85 psf per month (pm) while rentals of malls located at the fringe raised 7.0% qoq to achieve S\$23.90 psf pm.

The continuing increase in retail rentals witnessed along the prime shopping belt over the past three quarters is largely attributable to the strong demand by both local and foreign retailers who seek choice retail space. Government initiatives to promote tourism and to improve the retail scene further allure retailers to establish their presence in Singapore's prime retail area and to tap on prominent upcoming events for the next few quarters. With an inflexible supply of retail space along the Orchard Road shopping belt till 4Q 2008, rentals for the prime-shopping belt is likely to rise further for the next 2 quarters.

Retailers have recently expressed concerns over rising retail rentals that were increasing their operations costs and squeezing profit margins. Comparatively though, Singapore retail rentals

were considerably lower than other popular retail destinations around the globe. A comparison of 6 countries including Bangkok, Hong Kong, Malaysia, New York, Sydney and Singapore showed that local prime retail rentals as at end of 2007, were lower than the matured retail markets of Hong Kong, London, Sydney and New York which had achieved a high of S\$142.80 psf pm. Though such prime retail rentals are commonly associated with street shops while enclosed shopping malls usually yield lower rentals in these countries, it does provide an indication that growth in Singapore's prime retail rentals are still currently sustainable and bearable.

Chart 3: Comparison of Singapore's Retail Rentals with Popular Retail Destination as at 4Q 2007



Source: Knight Frank Research

Positive Outlook for Retail Sector

Islandwide occupancy rates are likely to improve slightly in 2Q 2008 resulting from strong demand from retailers and limited supply. As more shopping malls are expected to expand or undergo aesthetic makeovers, retailers are likely to have even less quality retail space from which to choose. Couple with the coming annual Great Singapore Sale (GSS) from May – July 2008, retailers would be eager to be ready in time for the event. Average islandwide occupancy rates are therefore expected to achieve between 93.0% and 94.0% for the rest of 2008, recording a high point for the retail sector.

Prime retail rentals are expected to increase further in the next quarter where landlords continue to capitalise on the scant quality retail space available, before majority of retail space enters the market in the later part of 2008 and early 2009. The rising retail rentals are likely to ease temporary when new retail spaces becomes available by the end of 2008. Islandwide prime retail rentals are revised to appreciate by 10% – 15% for the entire 2008.

Current Rentals of Prime Shopping Centre Space

Locality	Average Prime Monthly Gross Rental (psf) ¹
Orchard (Central)	\$47.85
Orchard (Fringe)	\$23.90
Marina Centre, City Hall, Bugis	\$30.20
City Fringe	\$24.10
Suburban	\$29.00

¹ Based on pre-defined portfolio of properties; refers to prime shop space of between 400 and 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