Research

Real Estate Highlights

Singapore • 3rd Quarter Jul - Sep 2006

Contents

Executive Summary

- Prices and demand for high-end residential properties continued to outperform the rest of the market, leading to a price increase of 2% to 6% qoq in the high-end market. In contrast, performance of the HDB resale market missed expectations but the overall fundamentals in the HDB market remains healthy.

- Supply of new retail space in the prime shopping areas remains scarce. Average island-wide retail property rentals could increase 5% to 9% for the whole of 2006. In an effort to obtain higher rentals in new shopping centres, developers are building smaller shop units.

- The office property rentals increase strongly across all micro markets. Banks and financial institutions continue to be the key drivers for demand of office space. Between now and 2010, new office space in the CBD will be limited and could result in further upwards pressure on rentals.

- Continual business expansion and soaring office rentals benefited the industrial market, especially the demand for high-specification factories and business parks. Higher occupancy rates raised rentals for industrial space although their capital values remained stable.

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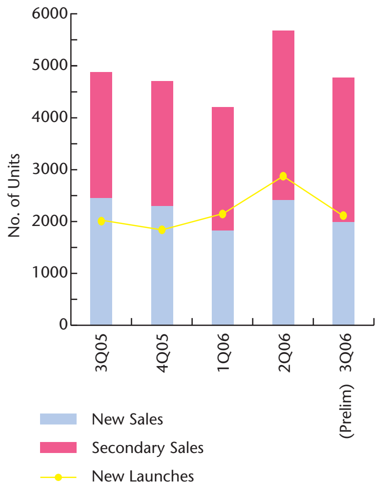
Singapore Residential Property Highlights

Private Residential Sector

Chart 1

Private Home Launches & Sales Trends



Source: URA / KF Research

"Total number of new launches in 3Q 2006 could match that in 1Q 2006"

Patchy Project Launch Activities

At the start of the third quarter, some developers rushed to launch their projects to tap onto the new wave of home-buying momentum before the Hungry Ghost Festival sets in. Three major developments – The Clift, The Oceanfront @ Sentosa Cove and Orchard Scotts – managed to steal the limelight with their previews and official launches although boutique developments in the Central and East region, such as The Bale, Butterworth 33 and Balmoral Hills, make up the bulk of developments that were swiftly introduced to the market.

Launch activities slowed in August to mid-September with the start of the Hungry Ghost Festival, which lasted two months for this year. Developers were cautious with their timing of launches, preferring to first test the market by conducting private previews. Even prime advertisement spaces in the weekend newspapers that used to be taken up by new development launches have been overtaken by mobile phones ads. As such, the total number of new launches in 3Q 2006 could fall by about 30% quarter-on-quarter (qoq) to 2,100 units, matching the number of new units launched in 1Q 2006.

Demand for New High-End Properties Outperforms

Although the younger buyers are generally less superstitious about buying properties during Hungry Ghost Festival, the traditional belief still has an impact on the property sales volume in 3Q 2006. On the whole, the number of developer's sales in 3Q 2006 is estimated to fall 20% qoq to about 2,000 units. However, this still surpasses the 1Q 2006's primary market sale level of 1,858 homes due to the active sales in developments launched in 2Q 2006, such as Southbank, The Beacon, Newton One and St Regis Residence. New launches like The Oceanfront @ Sentosa Cove and The Clift also saw strong buying interest in the primary market.

One notable phenomenon is that although developer's sales in the mass and mid-end market dropped, the number of developer's sales in the high-end market soared by about 20% qoq, indicating the strong demand for properties in the high-end segment. The support from foreign buyers in this segment, who tend to be less influenced by local cultures, may be one reason for this continued robust demand for new high-end properties in 3Q 2006.

Resale Volume Fell While Sub-sale Volume Surged

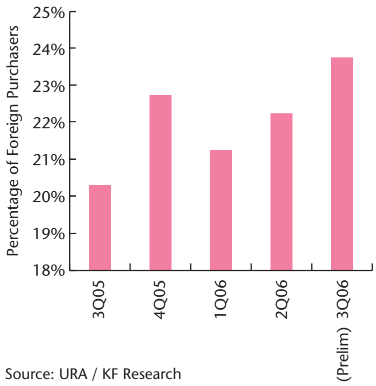
Similarly, sales in the secondary market recorded a fall of about 13% qoq to 2,700 units in 3Q 2006. This may be a sign that the collective sales frenzy is cooling down. The developers that had replenished their land bank with new development sites are now more selective with their new en bloc purchase.

Conversely, there was a rise in the number of sub-sales in 3Q 2006 contributed from developments such as The Sail @ Marina Bay, The Oceanfront @ Sentosa Cove and the soon-to-be completed The Imperial, Icon and Twin Regency. Once more, the sub-sales transactions were focused in high-end developments with the number of sub-sales volume in high-end developments almost doubled that in 2Q 2006 and quadrupled that in the same period last year.

Some Possible Major Launches in next 6 months

Projects	Tenure	Developer	Location	Units
Developments from Government Land Sales				
Condominium (un-named)	99-yr	NTUC Choice Homes	Tanah Merah Kechil	556
Condominium (un-named)	99-yr	NTUC Choice Homes	Yew Tee Close	139
Marina Bay Residences	99-yr	BFC Development	Marina Boulevard	428
One-North Residences	99-yr	UOL / Kheng Leong / Low Keng Huat	One North Gateway	405
The Coast	99-yr	Ho Bee Group	Sentosa Cove	256
The Metropolitan	99-yr	CapitaLand & Lippo Group	Tiong Bahru Rd / Alexandra Rd	380
Developments from Private Land Sales				
Botanika	FH	Tuan Sing Holdings	Holland Road	34
Buckley 18	FH	Hong Leong Holdings	Buckley Road	49
Condominium (un-named)	FH	MCL Land	Farrer Drive	132
Condominium (un-named)	FH	Lippo Group	Kim Seng Road	237
Condominium (un-named)	FH	Koh Brothers / Heeton Holdings	Leonie Road	53
Condominium (un-named)	FH	UOL	Minbu Road	180
Condominium (un-named)	FH	MCL Land	St Patrick's Road	129
Condominium (un-named)	99-yr	Fraser Centrepoints	West Coast Park	230
Cairnhill Residences	FH	Allgreen Properties	Carinhill Circle	97
Grand Duchess at St Patrick	FH	UIC	St Patrick's Road	121
One Devonshire	FH	Allgreen Properties	Devonshire Road / Killiney Road	191
One St Michael's	FH	Fraser Centrepoints	Kim Seng Road	131
Parry Gardens	999-yr	OUB Centre	Poh Huat Rd	120
The Blossoms @ Woodleigh	FH	Allgreen Properties	Woodleigh Close	240
The Inspira	FH	Tiong Aik	Arnasalam Chetty Road	120
The Pharos @ Waterfront	FH	City Developments Ltd	Jiak Kim Street	175
The Regency	FH	UOL	Chay Yan Street	158
The View @ Meyer	FH	GuocoLand	Meyer Road	45
Urbanedge @ Holland	FH	Wee Hur Investments	Ford Avenue	31
Developments from the Conversion of Office Buildings Sites in the CBD				
One Shenton	99-yr	City Developments Ltd	Shenton Way	341
The Clift	99-yr	Far East Organization	McCallum Street	312
Lumiere	99-yr	BS Capital	Mistra Road	167

Chart 2
Proportion of Foreign Purchasers in Singapore



Source: URA / KF Research

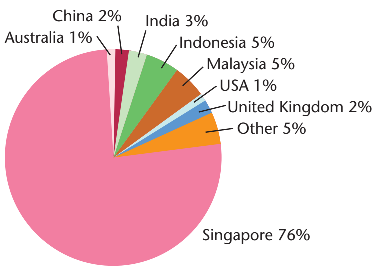
"Proportion of foreign homebuyers in 3Q 2006 rose to 24% from 22% in 2Q 2006"

Foreigners are More Resilient to Hungry Ghost Festival

Some foreign homebuyers do not appear to adhere to the superstition surrounding the Hungry Ghost Festival. Although the number of foreign buyers declined in 3Q 2006, the number of Singaporean buyers fell even more. As a result, the proportion of foreign homebuyers in 3Q 2006 rose to 24% from 22% in the preceding quarter. The Indians and Indonesians were the more resilient groups of foreign purchasers as their market share climbed by 1 percentage point. Interest from some European nationalities such as the Germans and Italians also remained relatively strong.

In 3Q 2006, the proportion of foreigners purchasing high-end properties with a price tag of $5 million and above rose, making up 5% of the total units purchased. The largest group of foreign purchasers in the high-end segment is still dominated by Indonesians while interest from the Indian nationals is growing.

Chart 3
Estimated Breakdown of Nationality of Purchasers in 3Q 2006



Source: URA / KF Research

Prices and Rentals of High-end Properties Continue to Grow

Given the continued strong sales of high-end properties and the potential reduction of existing residential stock in prime areas due to the en bloc sales of aging properties for redevelopment, average prices of high-end properties increased by another 2% to 6% qoq in 3Q 2006. Correspondingly, rentals for such properties also rose by 1% to 5% qoq. The increasing number of foreign tenants also contribute to the rising rentals.

"Average prices of high-end properties increased by another 2% to 6% qoq"

The situation in the mass market is less bright but still positive. Prices of new mass-market properties climbed by about 1% to 4% qoq while those transacted in the secondary market largely remained flat.

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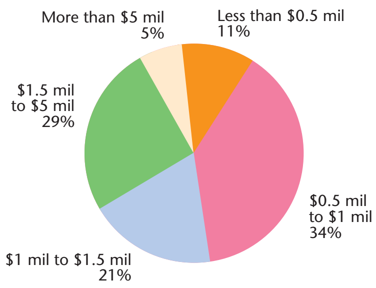
Chart 4

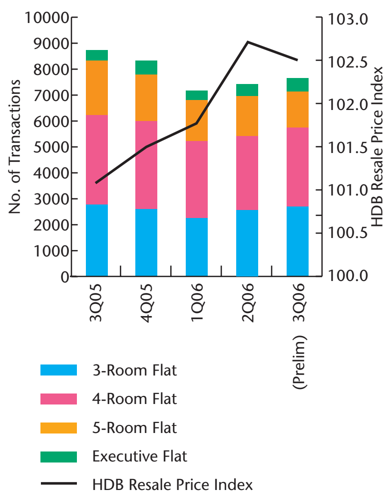
Estimated Breakdown of Foreign Purchasers (PRs & Non-PRs) in each Property Price Range in 3Q 2006



Source: URA / KF Research

Chart 5

HDB Resale Transaction Volume and Price Index



Source: Housing & Development Board / KF Research

"Current stock of unsold HDB flats also decrease to about 6,000 units"

Public Housing Sector

After growing by its fastest pace in 2Q 2006 since the market recovered from April 2005's implementation of anti-cash-back measures, HDB resale prices started to consolidate in 3Q 2006, edging down by 0.2% qoq. However, the overall fundamentals in the HDB market remains healthy with long-term unemployment rates at its lowest in 5 years.

The current stock of unsold HDB flats also decrease to about 6,000 units, compared to 9,000 a year ago. Most of the existing stocks are located in Jurong West and Sengkang and they are usually the bigger types of flats. The trimming of the oversupply is achieved by more market-responsive measures such as the Build-To-Order scheme. Given the brighter demand for public housing, HDB also announced its intention of stepping up its building programme, offering more new housing units through the built-to order system.

In 3Q 2006, indications that the property market is firming up can be seen from the increasing number of HDB resale transactions. On average, HDB resale transactions rose 3% qoq. The 3 and 4-room flats recorded the largest growth in transaction volume of close to 4% as compared to the previous quarter. Correspondingly, average valuations of the 4-room flats in 3Q 2006 also climbed by about 1% qoq, after a marginal increase of 0.2% in 2Q 2006. However, the price growth in the 3 and 5-room flats are still below expectations.

Outlook for Public Housing Sector

The first HDB Design, Build and Sell Scheme (DBSS) development, The Premiere @ Tampines, is slated for sale by ballot from 7 October to 18 October. It had reportedly received 5,000 registrations of interest before its official launch. Two-, four- and five-room units that are to be sold in a ready-to-move-in condition cost between $138,000 and $450,000. Although the units are priced at levels above average HDB valuations in the area, there was still a long queue outside the showflat on its first day of launch. In the fourth quarter, it would be interesting to monitor the take-up rate of The Premiere @ Tampines against the sales performance of The Pinnacle @ Duxton which was more than two times oversubscribed.

Shortly after the storm created by the 'cashback scheme' has subsided, the HDB resale market has to brace themselves for the rise of another 'under the table' scheme called the 'cash-down scheme'. The scheme is reportedly being practiced by some defiant sellers of HDB flat who are currently suffering from negative equity because they had purchased their flats at high prices during the boom years. To prevent the return of all the sale proceeds from the flat to their Central Provident Fund (CPF) accounts, they would under-declare the sale prices of their flats. This scheme could disrupt fair market pricing again. However their current impact on the market remains largely muted because of the small number of participants in such scheme, as well as the disincentives to the buyers of the subject properties because the lower declared prices of the flats would result in a lower loan quantum that can be obtained from the bank. However, as more HDB dwellers start to upgrade to private properties in face of the imminent property price increases in the private mass market segment, the number of HDB flat sellers under-declaring their sales prices to attain the required cash downpayment for their new condominiums may rise.

Given the increased competition from The Premiere @ Tampines and the new HDB flats that will be released by HDB through the walk-in selections and built-to-order systems, resale flat buyers remain price sensitive. Hence, for the whole of 2006, average HDB resale prices are expected to record a marginal rise of 1% to 3%.

"Overall full year price and rental growth of about 6% to 9% and 5% to 8% respectively"

Outlook for Private Residential Property Sector

The positive sentiment in the economy and labour market should positively influence the real estate market. According to the Manpower Ministry's second quarter labour market report, long-term unemployment rate in Singapore was at its lowest in 5 years while the number of private sector job openings reaches a new peak since September 2000. At the same time, the occasional news on the two Integrated Resorts would also contribute to stimulate foreign demand in the high-end market.

Residential project marketing activities increased in the weeks after the Hungry Ghost Festival. Having moderated their property launches in the third quarter, developers would be lining up their residential projects for launch in the coming months. Some of these projects such as Ardmore II, The Pharos @ Waterfront and Ho Bee's The Coast at Sentosa Cove could be launch at record prices, resulting in an overall full year price growth of about 6% to 9%. The full year rental growth for 2006 is also expected to reach a new peak of 5% to 8%.

Rental and Capital Value for Properties in 3Q 2006

Chart 6

HDB Resale Valuation

Source: Housing & Development Board / KF Research

Table 1

Rentals of New Private Residential (Apartment/Condominium) Units[1] as at 3Q 2006

Locality	Monthly Rent ($psf)
D. 9, 10 & 11 - Luxury	$3.85 - $4.55
D. 9, 10 & 11 - Others	$2.45 - $3.05
Other Areas - East Coast	$1.65 - $2.20
Other Areas - West	$1.15 - $1.75
Other Areas - Upp. Bt Timah	$0.95 - $1.40
Other Areas - Thomson, Toa Payoh, Bishan	$1.35 - $1.60
Other Areas - Yio Chu Kang, Yishun	$0.85 - $1.10

[1] New Private Residential Units refer to projects that are less than 5 years old.

Table 2

Capital Values of New Private Residential (Apartment/Condominium) Units[1] as at 3Q 2006

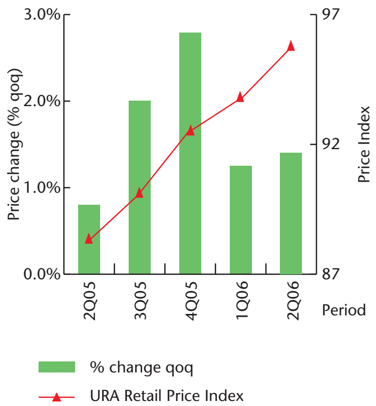
Locality	Capital Value ($psf)
Luxury Condo (FH)	$1,500 - $1,750
D. 9, 10 & 11 (other FH condo)	$900 - $970
East Coast (FH)	$640 - $680
East Coast (99-yr)	$485 - $560
West (FH)	$535 - $580
West (99-yr)	$395 - $450
Upp. Bt Timah (FH)	$435 - $500
Thomson, Toa Payoh, Bishan (FH)	$560 - $580
Thomson, Toa Payoh, Bishan (99-yr)	$440 - $460
Yio Chu Kang, Yishun (99-yr)	$385 - $400

[1] New Private Residential Units refer to projects that are less than 5 years old.

[2] FH & 99-yr refers to Freehold & 99-year leasehold properties respectively.

Singapore Retail Property Highlights

Chart 1
Retail Price Index



Source: URA / KF Research

Market Indicators

Retail sales for June and July 2006 increased by 10.6% and 7.6% year-on-year (yoy) respectively with most sectors registering higher turnover. Retailers were kept busy with the two-month Great Singapore Sale (GSS) that ended on 23 July. There is cause for retailers to cheer as shoppers' spending had increased in this GSS. MasterCard cardholders reportedly spent 26% more over the first 4 weeks of the sale as compared to the same period last year. Total retail sales for the first half of 2006 amounted to $15.3 billion. Bolstered by favourable economic conditions, consumer sentiment is expected to remain upbeat for the remainder of the year. According to the latest MasterIndex of retail sales forecast, retail sales for the second half of 2006 are expected to grow 8.6% yoy to $16 billion.

Singapore's tourism sector received a huge boost in July 2006 when monthly tourist arrivals reached a record high of 913,000. The best ever figure was achieved due to the GSS as well as school holidays in China and Europe. The tourism industry is poised to meet Singapore Tourism Board's target of 9.4 million arrivals for 2006 given the expected rise in visitor arrivals due to the International Monetary Fund and World Bank meetings in September.

Supply and Demand

Demand and supply for retail space remained stable in 3Q 2006 with no completed shopping malls. In 2Q 2006, average vacancy rate remained largely unchanged at 7.6% and 3.2% for island-wide retail space and prime Orchard Road shopping district respectively.

"The retail sector will have a new major player in 4Q 2006 when Vivocity commences business."

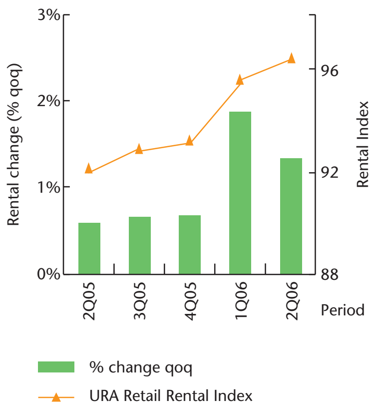
The retail sector will have a new major player in the forth quarter of 2006 when Vivocity, touted the largest shopping mall in Singapore, commences business. Sprawling over a retail landscape of 1.57 million sq ft at the Harbourfront precinct, Vivocity will add about 5% shop space into the existing stock.

HarbourFront - A New Retail and Entertainment Precinct

"Shopping, leisure and entertainment at the HarbourFront area are set to spring into life."

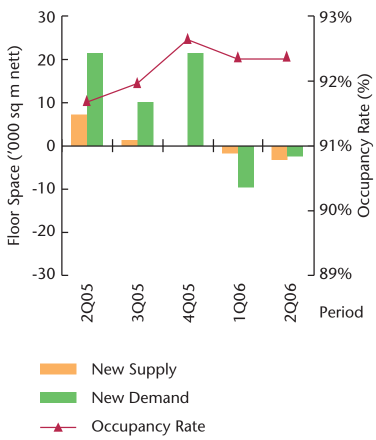
Shopping, leisure and entertainment at the HarbourFront area are set to spring into life. Opening on 7 October 2006, Singapore's largest shopping mall, Vivocity could add sparkle to the precinct. The mega mall, which consists of a hypermarket and over 90 shops and F&B outlets, is 40% larger than Suntec City Mall, presently the biggest shopping mall in Singapore. Vivocity is set to be the dominant shopping mall in the southwestern part of Singapore, which currently lacks a shopping centre of this size. It also aims to offer new retail and lifestyle experiences to shoppers. Anchor tenants such as Golden Village, Dairy Farm International and CK Tangs will create fresh new concepts not seen elsewhere in Singapore. Golden Village will open a 15-screen multiplex, the largest in Singapore. Vivocity will also be the venue where all Golden Village's movie previews and premieres would be held. In addition, Dairy Farm intends to highlight healthy living with its new natural food concept store in Vivocity. As Vivocity is not located within the traditional shopping areas or the regional centres, it will require creative concepts and active marketing to maintain its position as an iconic mall that offers something different.

Chart 2
Retail Rental Trends



Source: URA / KF Research

Chart 3
Demand & Supply of Retail Space (Private & Public Sectors)



Source: URA / KF Research

The next major launch in the HarbourFront area will be the opening of St James Power Station, slated to be the next big player in the local nightlife scene after Ministry of Sound, which was opened last December. Spreading over 60,000 sq ft, it will house a wide range of lively nightlife entertainment outlets targeted at providing nocturnal entertainment and activities to the young and hip. More importantly, it is strategically situated in the Harbourfront precinct and can expect to benefit from the spillover of shoppers from Vivocity as well as the tourists from Sentosa and the upcoming Integrated Resort.

Orchard Road Seeing Sheaves of Large Developments

Aiming to become the "Paris of South-east Asia", the Orchard Road shopping area continued to see a flurry of activities in the third quarter of 2006. The Somerset Central site, possibly the last choice plot in the area was sold to Australia's Lend Lease Group whose winning bid of $617.2 million ($1,455 psf/gpr) set a record unit land price for a Government Land Sale site. The transacted price was 34% higher than what Far East Organization paid in January 2006 for the former Glutton's Square site (now known as Orchard Central), which was located about 50 metres from Somerset Central. As expected, the Somerset Central site was hotly contested by five developers with Lend Lease outbidding Far East Organization by a mere 1.1%.

To facilitate the piling works at the Orchard Turn site, the bustling passageway from Orchard MRT station to Wisma Atria was shut down on 30 September. The passageway commanded one of the highest retail space rentals in Singapore, which could be above $60 psf per month, as it enjoys a high pedestrian traffic flow between the train station and two major malls, Wisma Atria and Ngee Ann City. An alternative sheltered pedestrian walkway will be constructed before the passageway is sealed off. Macquarie Pacific Star, manager of Wisma Atria also planned measures such as installation of new escalators alongside the entrance to the new Gap flagship store at level one to maintain the shopper traffic level in the basement.

Another prime shopping development that is also currently undergoing construction is the former Glutton Square site at Somerset, along Orchard Road. Far East Organization has decided to rename the site to Orchard Central. Upon completion, Orchard Central will be the tallest shopping mall in Singapore with ten storeys and two basements. Together with Somerset Central and Specialists' Shopping Centre, Orchard Central will add vibrancy and excitement to the Orchard Road shopping belt. The potential competition that would result from these new developments could push the owners of existing malls in the Orchard Road area to come up with new concepts or to revamp their shopping centres.

New Retail Trends

A trend that is emerging in new shopping centres is that the size of shop units, not just the anchor tenants, is getting smaller. Only a few years ago, shop units that occupied lettable areas of 300 sq ft to 400 sq ft were considered small. Currently, shopping malls such as Square 2, Suntec City and Icon Village at Tanjong Pagar are leasing out new shop units with lettable areas of about 100 sq ft. Besides being more rent-lucrative, as smaller shops could yield higher rental rates, a larger number of small shops, if all are filled up, could add more variety into the mall.

"Emerging trend in new shopping centres is that the size of shop units is getting smaller."

Late-night shopping, which occurred only during the GSS and before Christmas, could become more common. Starting from 28 July, the Singapore Tourism Board launched a 4-month pilot project known as "Friday Late Night Shopping" which saw shopping malls opening till midnight on the last Friday of each month. This may become a permanent feature if the response is good. Retailers such as Tangs, Wisma Atria and Cineleisure were among the participating retailers. Sales during the late-night period have reportedly been brisk. Late-night shopping is a welcome move for the retail scene as it increases the weekend shopping hours.

The wave of enbloc sale fever in the residential real estate sector began to spread its effect to the retail property sector. Collective sales of shopping malls are on the cards as owners of Ming Arcade were alleged to be close to agreeing terms in what would be Singapore's first collective sale of a shopping centre. Ming Arcade is a seven-storeys, three basement shopping mall, housing 88 shop units with a total retail space of 34,951 sq ft. It remains to be seen whether other strata titled commercial buildings in Orchard Road area such as Far East Plaza, Far East Shopping Centre and Delphi Orchard may follow suit. Upper Serangoon Shopping Centre was next to jump on the bandwagon. The 164-unit shopping mall is also gearing up for a collective sale. The retail scene is however unlikely to witness a wave of collective sales of retail malls with strata titles, because firstly, the number of such malls is limited. Secondly it is very difficult to get the different shop owners to agree.

Retail REIT slated for Further Growth

As the availability of investment-grade shopping malls decreases, CapitalMall Trust (CMT) plans to expand by buying three malls from a related party. It recently announced plans to inject three suburban malls into its portfolio next year. The malls are currently owned by CapitaRetail Singapore, a private fund set up by CMT's parent CapitaLand and in which CMT has a stake. The three malls are Lot 1, Bukit Panjang Plaza and Rivervale Mall, which CapitaRetail Singapore bought in 2003 at $243.8 million, $161.3 million and $65.2 million respectively. CMT has the right of first refusal to buy the three malls from CapitaRetail Singapore. CMT, which is already the largest REIT (Real Estate Investment Trust) by market capitalization, will grow from $4.3 billion in asset value to about $4.9 billion if these suburban malls were injected into its portfolio.

Prices and Rentals

"Supply of new retail space in the prime shopping areas remains scare."

Despite the opening of Vivocity, supply of new retail space in the prime shopping areas remains scarce. In 3Q 2006, shop space rental appreciation in the Marina Centre locality moved up by 2.5% qoq to $27.80 psf per month for prime space. Malls such as Suntec City and Marina Square contributed to the upward rental pressure. The Orchard Road area remained a magnet for shoppers and retailers as prime retail space rentals rose by 1.8% qoq to reach $38.80 psf per month. Vivocity and the completed extension of Velocity at Novena Square were the main reasons why rentals at the fringe area increased by about 5.9% qoq to $21.90 psf per month.

Current Rentals of Prime Shopping Centre Space

Locality	Average Prime Monthly Gross Rental ($ psf)[1]
Orchard (Central)	$38.80
Orchard (Fringe)	$20.30
Marina Centre, City Hall, Bugis	$27.80
City Fringe	$21.90
Suburban	$27.00

1 Based on pre-defined portfolio of properties; Refers to prime shop space of between 400 - 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: KF Research

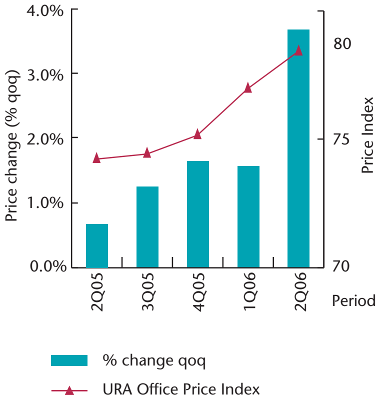
"For the entire 2006, average islandwide retail property rentals are poised to increase by 5% to 9%"

Outlook

The retail sector still presents a very robust picture. In addition to Vivocity, other developments that are slated for opening in the 4Q 2006 include Square 2 as well as extensions on Velocity @ Novena Square and Centrepoint Shopping Centre. In time for the festive period, these new shopping venues will provide Christmas shoppers with additional venues when shopping for gifts. For the entire 2006, average island-wide retail property rentals are poised to increase by 5% to 9%, while overall capital values of retail space could rise by between 4% and 8% yoy.

Singapore Office Market Highlights

Chart 1
Office Price Index



Source: URA / KF Research

Office Market Review

In 3Q 2006, the office sector produced a striking performance as rentals across all micro markets experienced an upsurge. The preceding quarter was a period worth celebrating as both average price and rental of office space surged to a level not seen since 2H 2001. The official URA office rental index for 2Q 2006 was particularly remarkable, posting a year-on-year (yoy) growth of 19%, the strongest since 1996. Including 3Q 2006, the office sector has now seen ten quarters of incessant growth.

The main driver of the demand for office space is the robust growth of the Singapore economy, which increased by 9.4% (yoy) for the entire 1H 2006 and followed by a sturdy 7.1% yoy expansion in 3Q 2006. Business receipts for the financial and insurance sector, traditionally the backbone of office demand, remained strong with a 17.5% yoy growth in 2Q 2006.

"Average price and rental of office space surged to a level not seen since 2H 2001"

"In the midst of favourable office demand fundamentals, office supply continued to be in a lull"

Demand and Supply

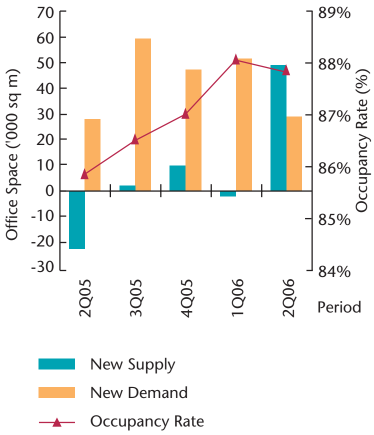
Financial institutions continued to be the key drivers for demand of office space in 3Q 2006. Following in the footsteps of Merrill Lynch, Barclays Capital, UBS Bank, Credit Suisse and Deutsche Bank, Royal Bank of Scotland became the latest foreign bank to base its global operations centre in Singapore. The global operations centre, slated for opening in 1Q 2007 will be housed over two floors at One George Street. Currently, the bank occupies four floors at the Singapore Land Tower.

The completion of One Raffles Quay South Tower in 2Q 2006 helped ease the tight supply office situation in the Central Business District (CBD) slightly. However much of the space was pre-committed even before the building was completed. A total of around 506,000 sq ft of new office space was added into the islandwide stock, which exceeded the overall nett new demand of office space of about 260,000 sq ft. As a result islandwide office occupancy rate eased marginally from 88.0% to 87.7%.

However, the occupancy rate of Grade A office space in 3Q 2006 reached 96.8%, one of the highest point in the past 6 years. This was due to strong take-up coupled with a limited supply of vacant Grade A office space. To meet the demands of Asia's unprecedented rapid growth in wealth management, financial institutions were setting up offices or expanding their office space to capitalize on Singapore's position as a global financial hub.

Chart 2

Demand & Supply Of Office Space (Private & Public Sectors)



Source: URA / KF Research

Major Sales and Redevelopments in the CBD

In a move to divest non-core assets so as to concentrate on its main telecommunications business, SingTel has offered its aging office building in the CBD for sale by tender. No. 71 Robinson Road, formerly known as Crosby House, resides on a land area of 24,531 sq ft and has a gross floor area of 274,746 sq ft. Based on the approved plot ratio, the buyer can convert the building into a 51-storey residential apartment tower. This will join the handful of buildings such as Natwest Centre and Asia Chambers, which would be converted from office to residential use in response to the rising capital values of inner city homes. Alternatively, the investor can redevelop the site into a new office block to capitalize on the rising office rentals and demand for investment-grade office buildings in the CBD. The tender for No. 71 Robinson Road closed on 28 September 2006.

In July 2006, another landmark building in the CBD was sold when the Ascott Group purchased the Asia Insurance Building at Finlayson Green for $109.5 million from Asia Life Assurance Society. This translated to $730 psf of current Gross Floor Area. The proposed new development, known as Ascott Raffles Place will consist of serviced apartments to meet the future demand due to the expansion of the financial district. While the conversion of aging office buildings in the CBD results in a rejuvenation of the area, it will at the same time further exacerbate the office supply crunch.

Another noteworthy transaction in 3Q 2006 is the sale of an office building at 60 Robinson Road, now known as OUB Building by United Overseas Bank to CP Grace Capital for $42.9 million. CP Grace Capital is owned by Asia Equity Partners, which has been active in office transactions recently, having just sold the former Sinsov Building at 55 Market Street to Allco Commercial REIT in 2Q 2006.

The timing and method involving the disposal of City Developments Limited (CDL) office buildings remained uncertain. During the recent results briefing of its second quarter profits, CDL revealed that the company was still considering various options for its office portfolio. The office portfolio included office buildings such as City House, Fuji Xerox Towers and Plaza-By-The-Park. As office rents and values continued to ride on the up trend, CDL felt that it might not be the right time to divest its office buildings or spin off the assets via a real estate investment trust. It was understood that CDL received an offer for the portfolio that was originally intended to be sold to Suntec REIT. The price was more than $200 million above the $788 million that Suntec REIT offered. However, CDL did not accept the latest offer because it believed that commercial real estate values could experience further growth.

Table 1

Average Effective Monthly Rental

Location	Average Effective Monthly Gross Rental ($psf)
CBD (Grade A)	
Raffles Place	$6.90 - $7.40
Marina Centre/City Hall	$6.50 - $7.00
Shenton Way/ Robinson Road	$5.40 - $5.90
Orchard Road	$6.40 - $6.80
Non-CBD	
Beach Road/ Middle Road	$4.60 - $5.00
Suburban (North)	$4.70 - $5.20
Suburban (East)	$3.80 - $4.30
Suburban (West)	$3.60 - $3.90

Source: URA / KF Research

"Average Grade A office rentals increased by 17% qoq to $6.70 psf per month."

Prices and Rentals

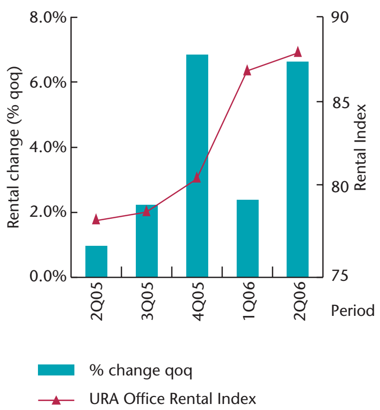
In the midst of favourable office demand fundamentals, office supply continued to be in a lull. As a result, rentals across most micro markets experienced a significant rise. In 3Q 2006, average Grade A office rentals increased by 17% qoq to $6.70 psf per month. Monthly rentals of Grade A office buildings in Raffles Place expanded by 18% qoq to $7.20 psf while rentals in the nearby Shenton Way and Robinson Road rose by 27% to $5.70 psf, the highest percentage increase among all micro markets. Rental performance in Suntec, Marina Centre and City Hall area was equally upbeat, moving up by 21% qoq to $6.70 psf. In Orchard Road area, rentals maintained the upward trend, increasing by 12% qoq to $6.60 psf.

"Strong demand for Grade A office buildings has filtered down to Grade B office buildings."

Strong demand for Grade A office buildings has filtered down to the Grade B office buildings. In 3Q 2006, Grade B office buildings became the next best alternative for some tenants as office space in Grade A buildings were increasingly being filled up. As a result, rentals of Grade B office space surged 26.4% qoq, which was more than the overall rental increase of Grade A buildings.

The persistently tight supply situation in the CBD area also resulted in higher office rentals in the suburban sectors. The North area, which normally led the pack, witnessed a rental increase of 11% qoq to $4.90 psf per month, while the West area saw rentals rise 13% qoq to $3.70 psf per month. Rentals in the East area, which usually remained stable, expanded the most in this quarter, by 18% qoq to $4.10 psf per month, due to strong take-up.

Chart 3
Office Rental Index



Source: URA / KF Research

Outlook

The demand for office space is expected to continue to increase as banks and financial institutions expand their operations in Singapore. Furthermore the successful hosting of the International Monetary Fund-World Bank meetings is expected to propel Singapore further up the league of global financial centers. As a result, financial institutions may relocate more of their operations here. For the entire 2006, demand of office space is projected to reach about 2 million sq ft islandwide.

New supply of prime office space in the next three years will be patchy. Although the North Tower of One Raffles Quay will be completed in 4Q 2006, office units in the building are almost fully pre-committed. The next major CBD office supply will come from the Marina Bay Financial Centre, where the first phase is slated for completion only in 2010. In between now and 2010, only a few major office developments will be completed, such as the proposed new 244,000 sq ft office building at HarbourFront area. But that is not likely to ease the tight supply situation in the CBD significantly.

"Office sector would be the best performing property segment in 2006"

As new office developments remain in a dearth, the office occupancy and rentals are poised for a continuation of healthy growth in 4Q 2006. Occupancy rates of Grade A buildings are expected to rise further to reach 97% to 98% in the CBD area. The tight office space situation will increase the pricing power of the office landlords. The projected rising rentals may push some office tenants to relocate to cheaper office space or even industrial space. For the entire 2006, rental appreciation in Grade A office sector would range between 30% and 40% while on an islandwide basis, average office rentals could increase by 17% to 22% yoy. This will make office sector the best performing property segment in 2006.

Singapore Industrial Property Highlights

Chart 1

Demand & Supply of Factory Space (Private & Public Sectors)

Source: URA / KF Research

Strong Manufacturing Performance

On the back of robust external demand, the Singapore economy expanded by a strong 9.4% year-on-year (yoy) in 1H 2006. Economic growth was mainly led by a healthy performance in the manufacturing sector. At the beginning of 3Q 2006, the July manufacturing output got off to a rosy start, achieving a 19.6% yoy growth. The good performance was driven by the biomedical manufacturing cluster, which surged forward by 52.6% yoy. Output level, excluding the stellar biomedical cluster performance, rose 13.5% yoy. Despite the gloom of weakening global electronics demand, the electronics cluster jumped by 11.1% yoy. This was mainly due to a 44.4% boost in the production of semiconductors while output in the other segments has begun to experience a contraction. With the cooling of the electronics sector, manufacturing output is expected to moderate in 4Q 2006.

Non-oil domestic exports (NODX) continued a volatile trend by dipping to an 8.4% yoy growth in July 2006 from a 16.9% gain in June. Both electronic and non-electronic domestic exports experienced slower growth. The decline is in line with the softening in global electronics demand as well as the cooling of US economy.

After surging to a 7-month high of 52.7 points in June, the Manufacturing Purchasing Managers' Index (PMI), a leading indicator of manufacturing performance, once again hovered along the 50-point borderline by dropping to 51 points in July. However, the PMI rebounded in August, reaching 52.3 points, which was followed by a decline to 51.7 points in September. While still positive, signs of a lull in external demand are already showing and the PMI is expected to ease in 4Q 2006.

Supply and Demand

"About 750,000 sq ft of industrial space is expected to be completed."

"Occupancy rates could rise to 90.7% due to robust demand."

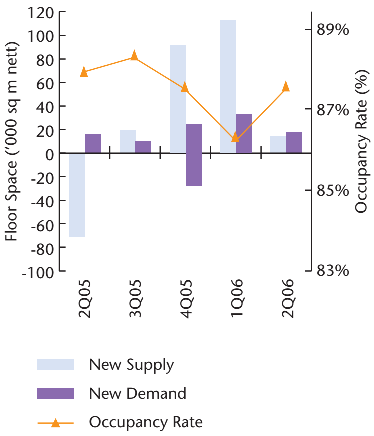
In 2Q 2006, the new factory space take-up of 2.57 million sq ft significantly exceeded new supply of 420,000 sq ft. As a result, average islandwide occupancy rate hit a four year high of 90.3%. The West region was the most active, contributing to almost half of the demand.

In 3Q 2006, about 750,000 sq ft of industrial space is expected to be completed. Average occupancy rates could rise to 90.7% due to robust demand.

Business expansion and new investments in a broad range of manufacturing sectors fueled demand for industrial space. In July, the world's leading manufacturer of silicon-on-insulator wafers, SOITEC announced plans to spend $711 million to set up a new production in Pasir Ris Wafer Fab Park. This will be SOITEC's first manufacturing facility outside of France. The electronics sector received further boost when Korea's Samsung and Germany's Siltronic entered into a joint venture to build a $1.6 billion wafer plant. All these are important additions and are expected to add to the sophistication of Singapore's semiconductor industry.

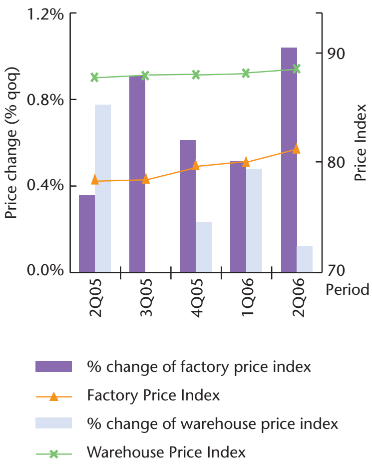
The petrochemical industry also obtained a big vote of confidence as Shell decided to construct another petrochemical cracker, estimated to worth around US$3 billion. The biomedical sciences sector also continued to see a flurry of activities in 3Q 2006 as California-based Codexis set up a $63 million biocatalyst research and development facility while global pharmaceutical giant Merck unveiled its $100 million expansion plan.

Chart 2
Demand & Supply of Warehouse Space (Private & Public Sectors)



Source: URA / KF Research

Chart 3
Factory & Warehouse Price Index



Source: URA / KF Research

Active Expansions of Industrial REITs in 3Q 2006

The active expansions of industrial REITs contributed to most of the acquisitions of industrial space in 3Q 2006. Best known for its development and management of high quality industrial parks, Ascendas, which also manages A-REIT, is considering plans to divest part of its assets in India via listing of another REIT in Singapore. It is noted that Ascendas has been buying stakes in business and industrial parks to cater to the growing demand for manufacturing facilities and office space in India, where the government forecasts an annual economic growth in excess of 8%. Ascendas also made its first acquisition in Nanjing, China with the purchase of an integrated cluster of four new high-tech office buildings and an adjacent amenity center. The property cluster is located within the Jiangsu Software Park and will cater to China's fast-expanding IT outsourcing and R&D industries.

Mapletree Logistics Trust Management, manager of Mapletree Logistics Trust (MLT) entered into agreements to purchase a $13 million warehouse at 138 Joo Seng Road as well as a $15.6 million warehouse-cum-office property at 8 Changi South Lane. Meanwhile, Mapletree Investments has clinched a $32 million warehouse development project in the Tianjin Airport International Logistics Zone. These facilities will be offered to MLT when completed and leased. MLT also announced plans to buy a warehouse-cum-office property in Malaysia for $5.6 million. All these acquisitions are in line with MLT's plans to diversify its tenant base and geographic reach.

Listed in July 2006 at an initial yield of 7.71%, Cambridge Industrial Trust (CIT) became the third industrial REIT in Singapore. It was boosted by good news in September 2006 when Mitsui & Co, a 20% stakeholder in the REIT announced plans to provide CIT with access to a pipeline of Mitsui Group and other Japanese assets located locally as well as in the region. Including the likes of Mitsui Chemicals and Mitsui OSK, there are 26 Mitsui group companies in Singapore. The Mitsui network will also open doors outside Singapore to areas such as China where Mitsui has a strong presence too. Although there remains a large existing pool of industrial assets that CIT can purchase locally, this pipeline of potential overseas assets will provide a broader range of growth opportunities.

Release of Government Industrial Land Sales Programme for 2H 2006

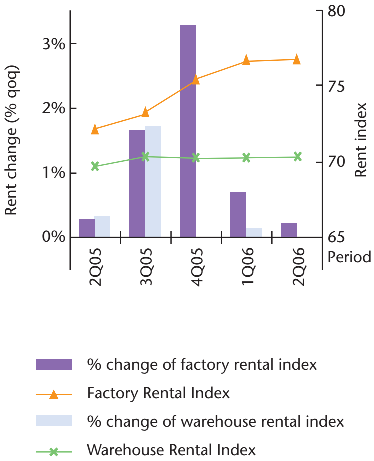
In July, the Ministry of Trade and Industry (MTI) announced the Government Industrial Land Sales Programme for the 2H 2006. In anticipation of rising demand, a total of three sites are placed on the confirmed list and another three sites on the reserve list. The three sites that are put on the confirmed list are located at Changi North St 1, Serangoon North Ave 4 and Woodlands Industrial Park E5. They could yield a total of 2.5 million sq ft of Gross Floor Area. The industrial sites that were placed on the reserve list were situated in Tampines, Tuas and at Sin Ming Lane. Besides offering a smaller number of sites as compared to 1H 2006, the sites on the confirmed list for 2H 2006 are also of a smaller size. The largest among them is Woodlands Industrial Park E5, which has a site area of 1.7 ha. This site is expected to attract substantial interest after a similar site at E2/E9 was strongly contested by eight bidders in June 2006.

Table 1.
Government Industrial Land Sales Programme for 2H 2006

S/N	Location	Site Area (ha)	GFA (ha)	Zoning	Tenure (years)
Confirmed List					
1	Changi North St 1	1.5	1.5	B2	30
2	Serangoon North Ave 4 (Sold)	0.9	1.26	B1	60
3	Woodlands Industrial Park E5	1.7	1.7	B2	30
Reserved List					
1	Tampines St 92/ Simei Ave	2.0	2.8	B2	30
2	Tuas Bay Drive/ Tuas South Ave 3	3.7	3.7	B2	60
3	Sin Ming Lane	5.1	12.75	B1	30

Source: KF Research

Chart 4
Factory & Warehouse Rental Index



Source: URA / KF Research

Serangoon North Ave 4 was subsequently tendered and sold to Orion-One Development who outbid two other bidders by offering $22.8 million ($28.99 psf/gpr) for the 314,575 sq ft site. Sim Lian Development bagged the 415,244.4 sq ft site at Ubi Ave 4/ Ubi Link for $40 million ($38.53 psf/gpr). Four bidders contested this site, which is deemed to be a strategic location in the eastern region of Singapore. Both sites were sold on 60-year leasehold tenure and zoned for Business 1 use.

Rentals Trend Upwards While Prices Remained Stable

In response to healthy demand for industrial space as a result of business expansions, industrial rentals rose in 3Q 2006. Average monthly rentals for upper floor industrial space in the Macpherson and Paya Lebar area expanded by 3.4% qoq to $1.23 psf. In particular, rentals in Paya Lebar 178 witnessed a surge of about 12% qoq mainly due to strong take-up. On the other hand, average rentals in Kaki Bukit nudged downwards by 0.9% qoq to $1.07 psf.

The spillover effect of the tight office supply situation and rising office rentals continued to have a positive impact in the demand for high-specification factory buildings and business parks. Some office tenants who do not need to be situated in the Central Business District (CBD), are relocating to such industrial space, where rentals could be half to one-third of CBD office space. Average monthly rentals for high specification factory space grew by 6.2% qoq to $2.05 psf while business park space witnessed a 6.9% qoq increase to reach $2.49 psf.

"Rising office rentals have a positive impact in the demand for high-specification factory buildings and business parks."

Islandwide capital values generally remained stable for conventional industrial space although a price spike was seen for landed industrial buildings at Tuas industrial area. A landed industrial building was sold via the mortgagee sale for about $27 million ($77 psf of GFA), which is much higher than the usual $50 psf of GFA. Demand stemmed from the marine industry as well as the oil and gas industries. As compared to a year ago, owners who put up their factories for sale are now receiving more offers.

Table 2.
Current Rentals and Capital Values of Sample Factory/Warehouse (Upper Floors) & Business Park Space

Type		Average Monthly Gross Rental ($psf)	Average Capital Value ($psf)
Conventional Industrial Space			
Locality	Macpherson/Paya Lebar	$1.23	$200 psf - $320 psf
	Kaki Bukit	$1.07	$120 psf - $180 psf (60 yr leasehold)
	Admiralty	$0.98	$110 psf - $125 psf (60 yr leasehold)
High Tech		$2.05	NA
Business Park		$2.49	NA

Source: KF Research

"Leasing demand for industrial space is likely to remain healthy due to continual business expansions and healthy expectations."

Outlook

Manufacturing performance in 4Q 2006 is expected to experience a slower growth due to patchy electronics demand and an anticipated slowdown in the US economy but will nonetheless remain strong. Leasing demand for industrial space is likely to remain healthy due to continual business expansions and healthy expectations. For the entire 2006, rentals of conventional industrial space is projected to expand upwards by 10% to 15% while high tech industrial space rentals will possibly see an increment of about 15% to 20%.

Knight Frank

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