

# Real Estate Highlights

Singapore • 4th Quarter Oct - Dec 2006

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## Executive Summary

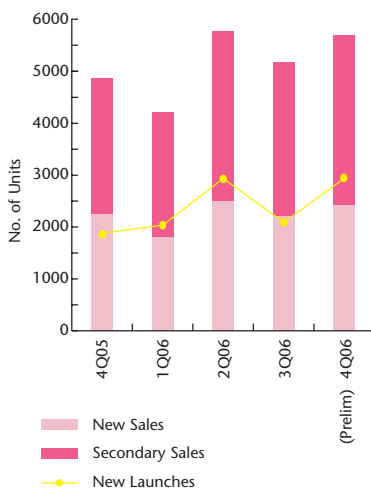
- The private residential property market recorded an all-time high number of new launches and sales volume in 2006. On the contrary, the HDB resale market remained largely flat due to uncertainties in the market.
- The retail sector posted a rosy report card in 2006, achieving rental appreciation of 4% to 9% for prime retail areas. There was a quantum leap in supply with the completion of Vivocity and the warehouse retail outlets. While HarbourFront became a bustling retail and entertainment precinct, the Orchard Road shopping area witnessed a construction boom.
- The office market rally gathered steam in 2006. Grade A office buildings turned in a 60% rental appreciation for the entire year. Owners of aging CBD office buildings are facing a choice of either keeping their buildings for office rentals or to convert them to other uses such as apartments or serviced residences.
- The industrial sector saw strong demand as a result of business expansions. Industrial rentals and capital values improved in 2006. The spillover effects of rising office rentals continued to have a positive effect in the demand for high-specification factory buildings and business parks.
- Robust investors' confidence that the Singapore property market is on a steady growth path and the expected Midas touch of the two Integrated Resorts, powered real estate investment sales into record high. Total investment sales in 2006 ballooned to \$24.46 billion.
- The total number of properties put up for auction for the whole of 2006 contracted by about 25%, largely due to a drop in mortgagee's sale. Despite this, the number and value of properties sold at auction soared.

## Singapore Residential Property Highlights

### Private Residential Sector

#### New Wave of Project Launches to Ride on Positive Market Sentiments

Chart 1  
Private Home Launches & Sales Trends



Source: URA / KF Research

**"For the whole of 2006, the number of new launches reached a new peak of close to 10,300 units."**

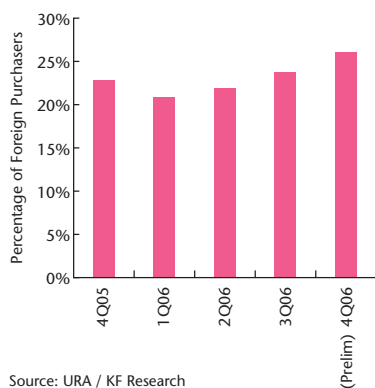
Launch activities in the private residential property market started to heat up in 4Q 2006 as developers tried to ride on the positive buying momentum in the high-end property segment with more launches and to test the other segments with soft-launches, as well as to beef-up their sales performance before the year-end. An estimated 3,000 housing units were launched in 4Q 2006 as compared to 2,257 units that were launched in the previous quarter. For the whole of 2006, the number of new launches reached a new peak of close to 10,300 units. The only other year where the total number of new launches exceeded 10,000 units was in the record boom year of 1996.

#### Some Possible Major Launches in 2007

Projects	Tenure	District	Developer	Location	Units
<b>Developments from Government Land Sales</b>					
One North Residences	99-yr	5	Kheng Leong / UOL	One North	425
(unnamed)	99-yr	11	Fraser Centrepoints	Sinaran Drive	400
(unnamed)	99-yr	16	NTUC Choice Homes	Tanah Merah Kechil	556
Yew Tee Residences	99-yr	23	NTUC Choice Homes	Yew Tee Close	139
<b>Developments from the Conversion of Office Buildings/Sites in the CBD</b>					
One Shenton	99-yr	1	City Developments	Shenton Way	341
The Clift	99-yr	1	Far East Organization	McCallum Street	312
<b>Developments from Private Land Sales</b>					
Reflections by Keppel Bay	99-yr	1	Keppel Land	Telok Blangah	1160
Clementi Woods Park	99-yr	5	Fraser Centrepoints	West Coast Road	240
One Devonshire	FH	9	Allgreen Properties	Devonshire Rd/Killiney Rd	190
Scotts Square	FH	9	Wheelock Properties	Scotts Road	338
The Trillium	FH	9	Lippo Group	Kim Seng Road	231
Lumos	FH	9	Koh Brothers/Heeton Holdings	Leonie Road	53
(unnamed)	FH	10	MCL Land	St Patrick's Road	129
Pavillion II	FH	11	UOL	Minbu Road	180
Sky @ Eleven	FH	11	SPH	Thomson Road	273
Viva	FH	11	Allgreen Properties	Suffolk Way/Thomson Rd	290
Blossoms @ Woodleigh	FH	13	Allgreen Properties	Woodleigh Close	240
The View @ Meyer	FH	15	GuocoLand	Meyer Road	45
Parry Gardens	999-yr	19	OUB Centre	Poh Huat Road	120

## Strong Sales in Primary Market Driven by Overwhelming Demand for Selected Projects

Chart 2  
**Proportion of Foreign Purchasers in Singapore**



Source: URA / KF Research

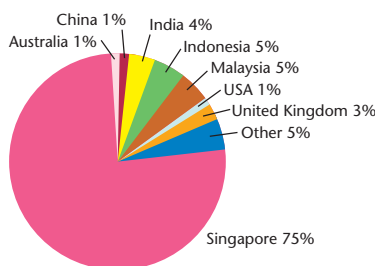
There was buoyant demand for new homes in 2006. On the whole, about 9,500 units were estimated to have been sold in the primary market, 6% more than the 8,955 new homes sold last year. The strong sales volume in 2006 can be attributed to better sentiments in the property market, large inflow of liquidity seeking investments, especially in the high-end segment and the overwhelming demand for selected new projects that were either iconic or were located near the Integrated Resorts. In particular, there were a record number of projects that were sold out relatively quickly in 4Q 2006, which was symptomatic of an exuberant market. They include The Ford @ Holland Road, Grand Duchess at St Patrick's, Marina Bay Residences and Sixth Avenue Residences. Speculators were also active in the market as some of the apartments in the sold-out projects were quickly offered for sale in the secondary market at as high as 33% above the initial purchase price.

However, buyers who were purchasing homes for their own use remained selective. Sales performances in some yet-to-be-completed projects, particularly in the mass-market segment such as Kovan Melody and The Quartz were relatively slower. Hence, there is still some room for a broad-based recovery.

## Record Performance in the Secondary Market

Take-up for private residential properties in the secondary market was even more astounding. The total number of residential units changed hands in the secondary market for the whole of 2006 ran into uncharted territory of close to 11,000 units, as compared to 7,582 units in the same period last year and 10,332 units in 1999's market peak.

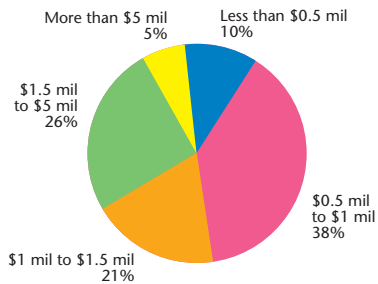
Chart 3  
**Estimated Breakdown of Nationality of Purchasers in 4Q 2006**



Source: URA / KF Research

However, given that the collective sales frenzy has marginally moderated in 4Q 2006, resale volume in the quarter continues to trend downwards by about 10% quarter-on-quarter (qoq). Conversely in 4Q 2006, the number of sub-sales, which is treated as an indicator for the level of speculation, recorded another rise of about 8% qoq. The increase in sub-sales volume can be attributed not only to the rise in sub-sale activities in the high-end market but also some mass-market projects such as The Centris and The Lakeshore. Nonetheless, there is little sign of broad-based excessive speculation in the property market as the level of sub-sales still makes up less than 10% of the total sales in the fourth quarter, as well as in the whole of 2006. By comparison, in the five months leading up to the introduction of the May 1996 anti-speculation curbs and during the previous 1999 property boom, sub-sales made up 27.6% and 10.5% of total home sales respectively.

Chart 4  
**Estimated Breakdown of Foreign Purchasers (PRs & Non-PRs) in each Property Price Range in 4Q 2006**



Source: URA / KF Research

**"The presence of foreign homebuyers in Singapore was exceptionally strong throughout 2006."**

**"For the whole of 2006, the price index rose 10.0%."**

## Proportion of Foreign Homebuyers at All-Time High

The presence of foreign homebuyers in Singapore was exceptionally strong throughout 2006, maintaining an average market share of 23% over the four quarters in 2006. In particular, the proportion of foreign homebuyers in Singapore reached an all-time high in 4Q 2006, making up almost 26% of the total homebuyers in the market, as compared to 23.5% in the preceding quarter. Before the market recovery in 2005, foreign homebuyers made up less than 20% of all homebuyers in Singapore. Some reasons for the increased participation of foreign homebuyers in Singapore include the following:

1. The hype for residential projects near the Integrated Resorts (IRs)
2. More Permanent Residents (PRs) purchasing homes in Singapore
3. Schemes introduced by the government such as the Global Investor Programme administered by the Economic Development Board (EDB) that allow foreigners to invest up to 50% of the minimum investment sum in private residential properties to qualify for PR status
4. Relaxation on foreign ownership rules such as the ability to purchase apartments in non-condominium developments of less than 6 levels without the need to obtain prior approval
5. Fast track approval process for the purchase of landed homes

## Capital Values of 99-Year Leasehold Properties in Prime Districts Outperform

In 4Q 2006, private residential property prices rose 3.7% qoq as compared to the 2.7% increase in the previous quarter. For the whole of 2006, the price index rose 10.0%, the highest annual growth level seen in eight years.

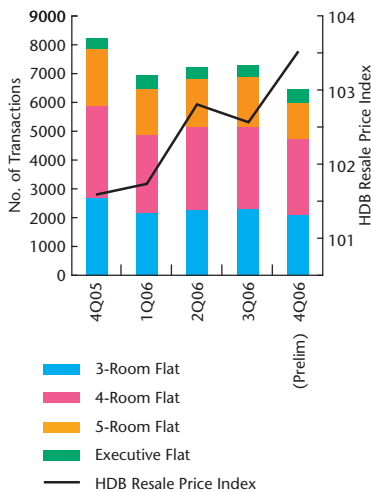
Prices of private residential properties in the prime areas of District 1, 4, 9, 10 and 11 continue to grow strongly in 4Q 2006. In particular, the unit prices of certain 99-year leasehold properties in these areas have outperformed the unit prices of some luxury freehold condominiums. This is because the strong demand for certain 99-year leasehold projects near the Integrated Resorts, such as The Oceanfront @ Sentosa Cove and Marina Bay Residences managed to attract investors' interest. For example, some penthouse units at Marina Bay Residences reportedly chalked up sales prices of up to \$3,450 psf, exceeding the record prices set by St Regis Residences as the condo with the most expensive apartment unit.

## Rental Growth Extended to More Areas

For the whole of 2006, islandwide rentals were estimated to have grown by 10% to 15%. This was most evident for luxury residential properties in District 9, 10 and 11 as they recorded high rental growths of 13% yoy in 2006. The rental escalation was caused by the rise in demand resulting from an increase in the number of expatriate tenants coupled with the fall in the stock of prime property for lease as some of these properties were sold collectively for redevelopment. More significantly, rentals for residential properties in the suburban areas are beginning to show signs of recovery especially in the Eastern Region, Yio Chu Kang and Yishun, as they have remained dormant in the last few quarters. The rental hike was witnessed by the higher rentals achieved for lease renewals in these areas.

## Public Housing Sector: A Flat Performance

Chart 5  
HDB Resale Transaction Volume and Price Index



Source: Housing & Development Board / KF Research

The price growth in the HDB resale market was more subtle as compared to the private residential market. In 4Q 2006, average HDB resale flat prices increased by 0.9% qoq or 1.9% year-on-year (yoy), indicating that prices of resale flats are still trying to find a steady growth path. But the silver lining is that average prices have started to increase after a contraction of 0.2% in 3Q 2006.

In 4Q 2006, HDB's pilot Design, Build and Sell Scheme (DBSS) residential development with Sim Lian Group called The Premiere @ Tampines was met with overwhelming response when its 616 units were almost five times oversubscribed. This compares well with the 1,848-unit Pinnacle @ Duxton, which were two-and-a-half times oversubscribed.

However, the strong demand for The Premiere @ Tampines did not have much positive spillover effect on the HDB resale market. On the contrary, the DBSS flats may have absorbed some resale and upgrader demand. On the whole, the total number of resale application fell 12% qoq, led by the drop in transaction volume of the 3, 4 and 5-room flats. The lower resale volume may be attributed to a few factors, such as the weaker purchasing power of some HDB flat owners and the uncertainty in market following the unexpected dip in HDB resale prices in 3Q 2006. Moreover, the increase in supply resulting from the move by HDB to conduct more walk-in selection exercise which competes with flats in the resale market could be another factor for the less buoyant resale market. HDB's decision to develop more DBSS projects after witnessing healthy response for units in The Premiere @ Tampines have also gave potential buyers reason to delay their purchasing decision in hope of being able to buy a new DBSS home that may be able to meet their aspirations to upgrade.

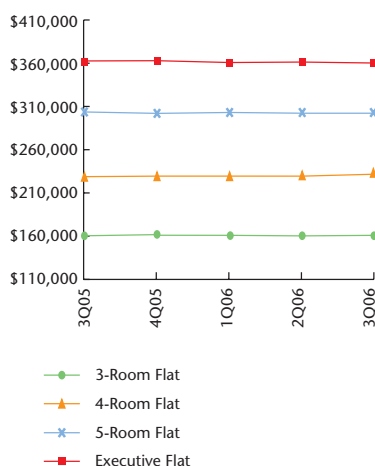
"HDB resale market could experience another year of modest price growth of about 3% to 6% in 2007"

### Outlook for Public Housing Sector

Going forward, performance in the HDB resale market is still largely dependent on the economic outlook, market sentiments and employment conditions of Singaporeans and PRs. The strong economic expansion in 2006 resulted in an all-time high number of jobs created. However, this did not translate to robust wage growth. Furthermore the CPF policy changes have reduced the ability of some HDB owners to upgrade to larger flats or private properties. The expected slower economic growth, GST rate hike and lower CPF withdrawal limit in 2007 could also negatively impact the purchasing power of HDB dwellers and put a cap on price expansion. Hence, the HDB resale market could experience another year of modest price growth of about 3% to 6% in 2007. Nonetheless, given other positive elements in the market such as the proposed hike in employers' CPF contribution rates and expected bonus from the Budget 2007, activity in the HDB resale market is expected to experience marginally more upside than downside.

A new loan rule that requires HDB flat buyers to prove that they have the means to finance a property before being able to commit to a purchase will kick in from January 1, 2007. This prudent measure would initially reduce the sale volume marginally. But in the long run, its effect should be neutral.

Chart 6  
HDB Resale Valuation



Source: Housing & Development Board / KF Research

**"Overall property prices are expected to increase by another 7% to 10% by the end of 2007."**

### Outlook for Private Residential Property Sector

Although the prices of certain high-end properties have surpassed the levels set in market peak of 1996, the overall average price is still about 28% below 1996's peak level. Therefore there is still some room for the prices in the mid-segment and mass market to expand. However the rate of increase is likely to be more moderate in some parts of the high-end segment where record prices have been set. Nonetheless, the impending inflationary impact from the rise in goods and services tax (GST) and construction costs, coupled with continued strong demand for private residential properties from both local and foreign homebuyers are expected to drive up overall property prices by another 7% to 10% by the end of 2007.

A slew of new projects, especially in property hot spots of District 1, 4, 9, 10 and 11, are expected to be ready for launch in 2007. Noteworthy launches in 2007 includes Scotts Square by Wheelock Properties, Orchard Turn Residences by CapitaLand and Sun Hung Kai Properties and Reflections at Keppel Bay by Keppel Land. The mid-tier private residential market in 2007 could also attract some limelight as more projects in this segment, such as the Singapore Press Holdings' freehold development at Thomson Road, called 'Sky @ Eleven' are launched. The price performance in the mass-market would still largely depend on the health of the HDB resale market.

In 2007, the strong inflow of foreign expatriates and the reduction in stock caused by the recent collective sales activities are expected to continue to lift rentals in the high-end market. Nonetheless, with the scheduled completion of several large projects in 2007, an estimated 7,000 to 7,500 units are expected to enter the rental market to help ease the supply crunch, thereby moderating the magnitude of growth in the rental market.

### Rental and Capital Value for Properties in 4Q 2006

Table 1

#### Rentals of New Private Residential (Apartment/Condominium) Units<sup>1</sup> as at 4Q 2006

Locality	Monthly Rent (\$psf)
D. 9, 10 & 11 - Luxury	\$3.85 - \$4.70
D. 9, 10 & 11 - Others	\$2.55 - \$3.25
Other Areas - East Coast	\$1.95 - \$2.45
Other Areas - West	\$1.25 - \$1.85
Other Areas - Upp. Bt Timah	\$1.10 - \$1.60
Other Areas - Thomson, Toa Payoh, Bishan	\$1.40 - \$1.95
Other Areas - Yio Chu Kang, Yishun	\$0.95 - \$1.35

<sup>1</sup> 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<sup>1</sup> as at 4Q 2006

Locality	Capital Value (\$psf)
Luxury Condo (FH)	\$1,600 - \$1,900
D. 9, 10 & 11 (other FH condo)	\$950 - \$1,050
East Coast (FH)	\$650 - \$740
East Coast (99-yr)	\$460 - \$650
West (FH)	\$490 - \$580
West (99-yr)	\$410 - \$500
Upp. Bt Timah (FH)	\$435 - \$510
Thomson, Toa Payoh, Bishan (FH)	\$550 - \$600
Thomson, Toa Payoh, Bishan (99-yr)	\$420 - \$460
Yio Chu Kang, Yishun (99-yr)	\$350 - \$430

<sup>1</sup> New Private Residential Units refer to projects that are less than 5 years old.

<sup>2</sup> FH & 99-yr refers to Freehold & 99-year leasehold properties respectively.

# Singapore Retail Property Highlights

## Market Indicators: More Festive Cheer for the Retail Industry

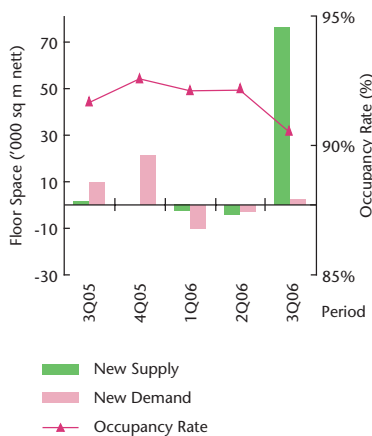
**"Retailers' cash registers were kept ringing."**

2006 was a relatively good year for the retail industry. Retail sales in October 2006 rose 4.6% year-on-year (yoy) and are expected to be brisk for November and December 2006. Since late October, shopping malls were decked out with elaborate Christmas-themed decorations, on top of packing their shelves with all kinds of products to compete for the consumer dollar. Besides the need-to-spend mood during the festive season, other factors such as the robust economic growth, record-breaking stock market performance, the expected GST hike and higher year-end bonuses have kept retailers' cash registers ringing. Most retailers have reported better sales over the same period as compared to last year. The strong Christmas sales will further boost the retail sales figure for 2006.

Singapore's tourism sector took a huge step forward in 2006. The award of the development of the Marina Bay Integrated Resort (IR) to Las Vegas Sands and the Sentosa IR to the consortium of Genting International and Star Cruises are major efforts in transforming the tourism industry. In November 2006, Singapore welcomed 800,000 visitors, a record high for the month of November. Excluding the December figure, total tourist arrivals have reached 8.8 million, which is well poised to meet Singapore Tourism Board's target of 9.4 million arrivals for 2006.

## Supply and Demand: More New Supply

Chart 1  
**Demand & Supply of Retail Space (Private & Public Sectors)**



Source: URA / KF Research

Supply of retail space, which has remained fairly stable over recent years, saw a boom in 3Q 2006 with the completion of Vivocity, the largest shopping mall in Singapore. As such, island-wide vacancy rate for retail space increased slightly from 7.6% to 9.7%. However this is a short-term phenomenon because once most of the shops in Vivocity are opened, the vacancy rate will return to about 7.5%.

In 4Q 2006, retail space was further boosted by the completion of a couple of shopping malls, all in time to join in the Christmas cheer. Connectz, the 30,140 sq ft extension to United Square and Velocity @ Novena Square opened in November 2006. Connectz caters to the needs of children with shops selling educational toys as well as apparels for infants to juniors while Velocity @ Novena Square has a sports-themed concept. Tampines Ikea, the first retail warehouse outlet also opened in November 2006. In the festive month of December, the Phase 1 of Ang Mo Kio Mall, the new wing at Centrepoint Shopping Centre and another retail warehouse outlet, the Courts Megastore began operations. These new developments yielded a total retail space of about 920,000 sq ft, with the bulk coming from the retail warehouse outlets.

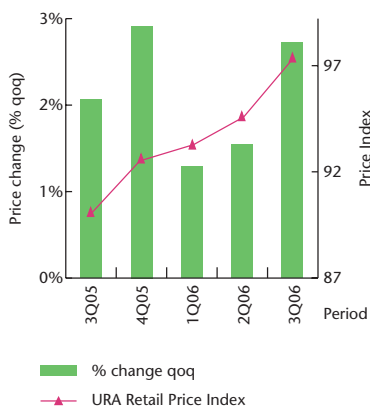
## More Happenings at HarbourFront & Orchard Road

The HarbourFront area is slated to be transformed from the sleepy former World Trade Centre to a more exciting venue. The opening of Vivocity has already drawn in massive number of visitors. Together with the launch of St James Power Station which houses clubs and F&B outlets for nocturnal activities and the expected opening of the Sentosa IR in 2010, the HarbourFront precinct is set to become a bustling area filled with shopping, leisure and nightlife entertainment.

The Orchard Road shopping area is still the main shopping destination in Singapore. It continued to see a series of activities in its bid to become the "Paris of South-east Asia" as well as to stay relevant in the face of competition. Three commercial land parcels were sold by the Government as part of the effort to renew the Orchard Road shopping belt. Following the purchase of the Orchard Turn site by Capitaland and Sun Hung Kai in December 2005 for \$1.38 billion (\$1,020 psf ppr), the Orchard Central site was sold to Far East Organization in January 2006 for \$421.1 million (\$1,085 psf ppr) while Australia's Lend Lease Group bought Somerset Central site, the third choice plot along Orchard Road for \$617.2 million (\$1,455 psf ppr) in August 2006. The fact that all the 3 sites were hotly contested by developers are testimonials of how the Orchard Road shopping belt continues to be viewed as the main prime shopping district in Singapore.

### Retail Trends in 2006: Smaller Shops and Mega Retail Warehouses

Chart 2  
Retail Price Index



Source: URA / KF Research

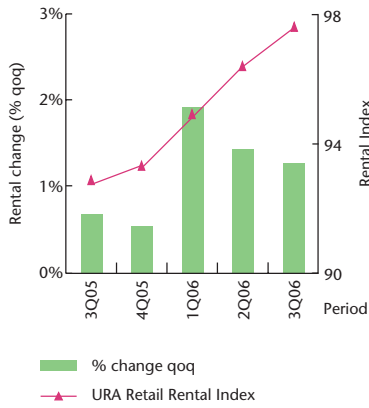
The typical shopping malls tend to have a few major anchor tenants such as supermarkets and cineplexes to attract shoppers on the basis of price and variety, generating returns through volume rather than margin. A few new shopping malls are moving away from this one-size-fits-all model where concepts are buffet-styled and trade mixes are based on cookie-cutter formula. Velocity @ Novena Square, banking on a sport-theme concept has a gym and sports apparel stores while upcoming malls such as The Central and Square 2 have contemporary Japanese and Korean shopping concept respectively. These are examples of malls that have their own distinct image and specific target consumer group.

Another trend that is emerging in new malls is that the size of shop units is getting smaller. Shop units that occupied lettable areas of 300 sq ft used to be 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 while new developments in the Orchard Road shopping area are going to offer leases with lettable areas of 50 sq ft to 60 sq ft for shop units. The rationale for smaller shop units is that they yield higher rentals per sq ft (square foot) and can potentially provide more variety but tenants will have to increase their sale volume per sq ft of space. This would increase the pressure on tenants and could result in higher changes of tenants. It remains to be seen whether tenants are in favour of small shop units.

While F&B outlets continue to be a growing component of the retail market, evident from the increase in proportion of F&B in the retail mix of malls that underwent revamps in 2006, a new trend that is evolving in the malls is the inclusion of an IT Hub or an Information Technology retail space. There is a strong demand from IT vendors who are looking for retail space to cater to the needs of Singaporeans who are becoming more IT savvy. For example, Suntec Mall has a digital hub with 82 shop units. This would result in increased competition for established IT malls such as Funan IT Mall and Sim Lim Square.

The government has plans to extend the Economic Development Board's Warehouse Retail Scheme from Tampines to other locations such as Jurong, Woodlands and Sembawang. The Warehouse Retail Scheme allows industrial land to be developed into retail and warehousing space. Ikea, Courts and Dairy Farm's Giant are pioneers of this scheme. Both Ikea and Courts have commenced business in 4Q 2006, which saw eager Singaporean shoppers making a beeline for these developments.

Chart 3  
**Retail Rental Trends**



Source: URA / KF Research

**"For the entire 2007, prime retail rentals are expected to increase 5% to 10% while average island-wide retail rentals are projected to increase by 3% to 5%."**

## Prices and Rentals: Growth in 2006

Following the completion of Vivocity, there was a quantum leap in retail supply for 2006. Supply in other micro markets however continued to remain largely unchanged. Although rentals were relatively stable in 4Q 2006, rental growth for the entire year gained further traction. The highest upward rental movement was seen in Marina Centre, City Hall and Bugis area after malls such as Marina Square underwent major renovation. Rental appreciation of these areas for the entire year was 8.9%. Rental growth in the fringe area supported by Vivocity witnessed a 8.6% yoy increase. The Orchard Road shopping belt, which saw a construction boom in 2006 achieved a decent rise of 4.4% yoy. Rental increase in the suburban malls was considerably subtle, edging up by 2.4% yoy.

## Outlook

The outlook of the retail sector remains rosy. There will be a moderate supply of retail space in 2007, with the bulk arriving during the beginning of the year. The Phase 2 of Ang Mo Kio Mall, Square 2 and The Central will be completed in 1Q 2007 and including other developments such as Dairy Farm's Giant warehouse retail outlet and the redevelopment of Kallang Leisure Park, total potential retail supply for 2007 will be about 800,000 sq ft, approximately 50% of the new supply in 2006.

The new malls in the Orchard Road area, which are still under construction and slated for completion from 2009 onwards, may begin to pre-lease their shop units as early as mid 2007. Rental growth will continue to be fairly broad-based. For the entire 2007, prime retail rentals are expected to increase 5% to 10% while average island-wide retail rentals are projected to increase by 3% to 5%.

## Current Rentals of Prime Shopping Centre Space

Locality	Average Prime Monthly Gross Rental (\$ psf) <sup>1</sup>
Orchard (Central)	\$38.80
Orchard (Fringe)	\$20.30
Marina Centre, City Hall, Bugis	\$27.80
City Fringe	\$21.90
Suburban	\$27.00

<sup>1</sup> 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

# Singapore Office Market Highlights 4Q 2006

## Office Market Review

**"The banking and finance sector remains a key demand driver for office space."**

The Singapore economy achieved an impressive growth of 7.7% year-on-year (yoy) in 2006 based on advance estimates. A strong GDP growth was attained during the first three quarters of 2006, which moderated to 5.9% yoy in 4Q 2006. The banking and finance sector remains a key demand driver for office space and business outlook for this sector remains sanguine.

In line with favourable economic conditions, office price and rentals continue to increase unabated. Official statistics from URA indicated that average capital values in 3Q 2006 rose by 10% yoy while average islandwide rentals, led by a 26% yoy upsurge in Central Area, powered up by 25% yoy. This is the highest annual rate of growth since the property market boom of 1996. The remarkable rental growth continued in the fourth quarter, making the office market the best performing property sector in 2006.

## Demand Outpaced Supply

**"Islandwide demand of office space by end of 2006 is projected to hit 2.15 million sq ft, substantially higher than the 10-year average of 1.31 million sq ft."**

The first three quarters of 2006 saw demand for office space reach 1.84 million sq ft, on course to better last year's total demand of 1.96 million sq ft. As such, islandwide occupancy rate for office space as at 3Q 2006 improved to 89.5%, the highest since 2001. Islandwide demand of office space by end of 2006 is projected to hit 2.15 million sq ft, substantially higher than the 10-year average of 1.31 million sq ft.

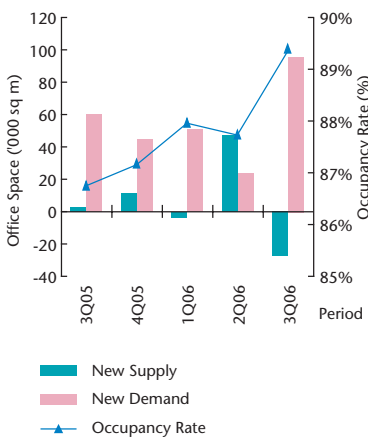
Financial institutions continued to be key demand drivers for office space. 2006 has seen the likes of foreign investment banks such as Merrill Lynch, Barclays Capital, UBS Bank, Credit Suisse, Deutsche Bank and Royal Bank of Scotland snapping up office space with large floor plates, either for expansion or relocation of their global operations to Singapore. In particular, Merrill Lynch has announced plans to occupy an entire office building at HarbourFront, which amounts to about 200,000 sq ft.

Occupancy rate for Grade A office space in 4Q 2006 reached 98.4%, an increase of 1.6% from the previous quarter. The completion of One Raffles Quay North Tower in 4Q 2006 contributed about 756,000 sq ft of gross office space. Together with the South Tower that was completed in 2Q 2006, a total of 1.3 million sq ft of prime office space was injected into the stock of Central Business District (CBD). Such Grade A office space did little to lessen the tight supply situation as both towers were 100% pre-leased before completion. Other major office buildings that were completed in 2006 include the Parakou Building, which was completed in April.

## New Lease of Life given to Aging Office Buildings

Although the strong rental support for CBD office space is expected to last for another 2 to 3 years, owners of aging CBD office buildings are facing a choice of either keeping their buildings for office rentals or to convert them to other uses, such as apartments or serviced residences. If they choose the former, they could reap the growing office rentals but would face the expected strong competition from the Marina Bay Financial Centre that is due to complete in 2010. If they choose to redevelop their property into a residential apartment for sale, they could profit from the current strong investors' demand for CBD residential space but would forego the rising office rental income.

Chart 1  
**Demand & Supply Of Office Space (Private & Public Sectors)**



Source: URA / KF Research

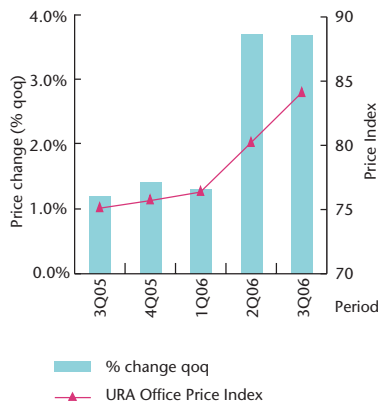
**"Owners of aging CBD office buildings are facing a choice of either keeping their buildings for office rentals or to convert them to other uses, such as apartments or serviced residences."**

Such conversion of office buildings has contributed to the shrinkage of office space in the CBD. Aging office buildings such as 1 Shenton Way, Natwest Centre, HMC Building, Asia Chambers would be redeveloped into residential blocks. The Clift in McCallum Street, which used to be the Natwest Centre, was already on sale while City Developments Limited will launch its One Shenton project in January 2007. Whether inner city living in the CBD will eventually take off remains to be seen as neighbourhood amenities are not as developed as established housing areas. This has not deterred investors and some speculators from rushing to such launches. An example is the launch of the Marina Bay Residences, which is the residential component of the Marina Bay Financial Centre (MBFC). It was completely sold out within a few days and reportedly at record prices. The strong sellout will increase the optimism of developers who are considering the option of converting aging office buildings into residential developments.

Other conversion of office space during the year includes the sale of Asia Insurance Building at Finlayson Green to Ascott Group for \$109.5 million. The new development will consist of serviced apartments to meet the expected increased demand from expatriates. At the same time, it will further exacerbate the office supply crunch in the CBD area.

The Straits Trading Building and Ocean Building are also likely to be torn down for redevelopment into new office blocks. The new office buildings will rejuvenate the area and contribute to the future supply of office space but in the short term during the redevelopment period, the tight office property stock in the CBD will further be compressed.

Chart 2  
**Office Price Index**



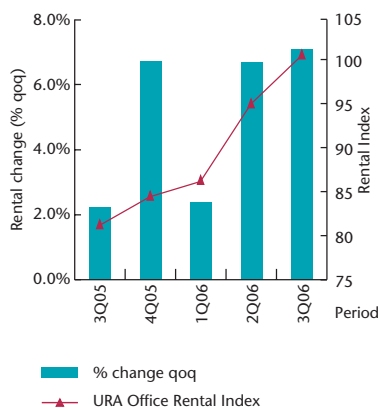
Source: URA / KF Research

**Investment Sales of Office Developments**

In October 2006, UOL Group sold Central Plaza, an office block located above the Tiong Bahru MRT station to Asian Retail Mall for \$175 million. The 20-storey office block has a net lettable area (NLA) of about 190,000 sq ft. Asian Retail Mall has earlier bought the adjacent Tiong Bahru Plaza in 2002 from UOL and is likely to benefit from the synergies obtained via the ownership of both commercial buildings.

Singtel also sold off its 71 Robinson Road building (formerly known as Crosby House) to a joint venture between Lehman Brothers and the Asian arm of Japan's Kajima Corp for \$164 million (\$928 psf/GPR) in October 2006. The site can be redeveloped into a 35-storey office building to capitalise on rising office rentals or a 52-storey residential building to ride on the current wave of inner city living.

Chart 3  
**Office Rental Index**



Source: URA / KF Research

**More Sites for Office Development released under Government Land Sales Program**

In December 2006, the Ministry of National Development announced the Government Land Sales Programme for 1H 2007 where more sites for office use have been put on both the confirmed and reserve lists. Six sites for possible office development have been released for 1H 2007 as compared to only one site in the previous period. This is seen as an attempt by the government to ensure that there is a sufficient supply of office space in two to three years' time. In particular, the choice site at Central Boulevard/ Shenton Way is likely to attract a lot of interest given its prime location in the intersection between Raffles Place and Marina Bay. Although classified as a white site, the eventual development could have office space or hotel or retail uses.

**"The Government Land Sales Programme for 1H 2007 has more sites for potential office use ."**

The other sites on the confirmed list are the commercial sites at Beach Road/Middle Road (former NCO Club) and Tampines Grande. Originally scheduled to launch in December 2006, the Beach Road/Middle Road commercial site has been rescheduled for launch in March 2007. The development is likely to be used for convention or hotel uses with an office and retail component. Tampines Grande which was on the reserve list for 2H 2006 was moved to the confirmed list. The site is situated in the Tampines regional financial centre that already houses the back-end offices of many financial institutions.

Sites on the reserve list that could generate office space include two at Anson Road and one above Outram Park MRT Station.

Table 1.

**Government Land Sales Programme for 1H 2007**

S/N	Location	Site Area (ha)	Gross Plot Ratio	GFA (ha)
<b>Confirmed List</b>				
1	Beach Road/Middle Road	3.5	4.2	14.7
2	Tampines Grande	0.8	4.2	3.4
3	Central Boulevard/ Shenton Way (White site)	1.03	10	10.3
<b>Reserved List</b>				
1	Anson Road	0.26	9.24	2.4
2	Anson Road/ Enggor Street	0.35	9.66	3.4
3	Outram Road/ Eu Tong Sen Street (White site)	2.48	5.6	13.9

Source: Urban Redevelopment Authority/ KF Research

**"The choice site at Central Boulevard/ Shenton Way is likely to attract a lot of interest given its prime location in the intersection between Raffles Place and Marina Bay."**

### Raffles Place Grade A Office Space – Big Growth Winner in 2006

Average office rentals surged upwards in 2006 and were back to the peak level of 2001 but remained some 20% below the mid-1990s boom. Avowed preference for Grade A office space continued as average monthly rentals for average Grade A office buildings in 4Q 2006 achieved a robust increase of 22% qoq and 60% yoy to reach \$8.10 psf. In particular, Grade A office space in Raffles Place area emerged as the big growth winners, posting a high quarterly increase of 27% to hit \$9.10 psf per month. Rental appreciation for the entire year was a whopping 67%. The nearby Shenton Way and Robinson Road area was highly sought after as well, with a 18% qoq and 64% yoy expansion to reach \$6.70 psf per month. Average monthly rentals of Grade A office space in Suntec, Marina Centre and City Hall area maintained the upward trend, rising by 20% qoq and 55% yoy to \$8 psf. The Orchard Road shopping belt continued to command high monthly rentals, moving up by 11% qoq and 32% yoy to \$7.30 psf.

**"Grade A office space in Raffles Place area emerged as the big growth winners"**

In 2006, average monthly rentals for Grade B office buildings posted a rosy report card too and certain areas have seen a higher increase than Grade A office buildings as they begin from a lower base and still have available spaces. Average monthly rentals of Grade B office buildings witnessed a quarterly increase of 19% and an annual surge of 56% to reach \$6.70 psf.

Office rentals in the suburban areas benefited from the spillover effect of the tight supply situation in the CBD. The West area saw rentals trend upwards 16% qoq and 39% yoy due to strong demand for office space in the HarbourFront precinct. The North and East area were equally upbeat with an increase of 28% and 22% respectively for the whole of 2006.

**"The tight office supply situation is unlikely to be alleviated in the short term."**

**"Rentals are expected to continue to appreciate in 2007, though not at the escalated pace of 4Q 2006."**

### Outlook

In 2007, demand for office space is projected to remain buoyant and will continue to come from financial institutions and business services.

The six sites listed on the GLS programme that have potential for office development implies that the situation of limited office space has not gone unnoticed. However as it normally takes two to three years for office buildings to be erected, the tight supply situation is unlikely to be alleviated in the short term. Furthermore if not planned properly, they may coincide with the launch of the mega office development, the Marina Bay Financial Centre which is slated for completion by end 2009.

A total GFA of about 765,000 sq ft of new office space will be completed in 2007, which includes The Central, VisionCrest and A&A (Addition and Alteration) of LKN Building at Cecil Street. Office space remains tight and the office sector is poised for a sustained hike in rental appreciation. Tenants that cannot afford the high rentals of Grade A office buildings may have to shift in part or whole to Grade B or suburban office buildings or to industrial business parks.

Average islandwide occupancy for the whole of 2007 is projected to reach 91% to 93% while the ebbs and flows in Grade A office market could see occupancy level fluctuating between 95% to 99%. This is because when tenants cannot find space for expansions within the same building, they will either move out in part or whole, thus reducing the occupancy rate. However as prime office space remains limited, the space will quickly be occupied again.

Rentals are expected to continue to appreciate in 2007, though not at the escalated pace of 4Q 2006. For the entire 2007, scramble for Grade A office space will persist with rental appreciation projected to range between 15% to 25% while suburban areas are likely to witness a rise of 10% to 20% yoy.

Table 2:  
**Average Effective Monthly Rental**

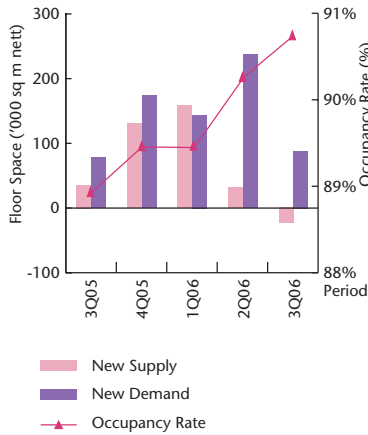
Location	Average Effective Monthly Gross Rental (\$psf)
<b>CBD (Grade A)</b>	
Raffles Place	\$8.80 - \$9.50
Marina Centre / City Hall	\$7.80 - \$8.30
Shenton Way / Robinson Road	\$6.40 - \$6.90
Orchard Road	\$7.10 - \$7.60
<b>Non-CBD</b>	
Beach Road / Middle Road	\$5.20 - \$5.60
Suburban (North)	\$5.10 - \$5.50
Suburban (East)	\$4.00 - \$4.40
Suburban (West)	\$4.10 - \$4.60

Source: KF Research

# Singapore Industrial Real Estate Highlights

## Strong Manufacturing Performance Continues

Chart 1  
Demand & Supply of Factory Space (Private & Public Sectors)



Source: URA / KF Research

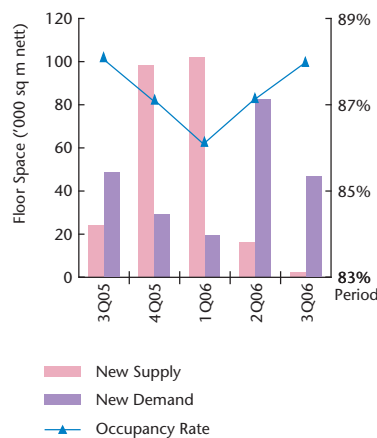
Singapore’s industrial output continued to expand, fuelling demand for industrial space. Manufacturing output increased 11% in the third quarter of 2006, a slight moderation from 13% in the previous quarter. In the first three quarters of 2006, all manufacturing clusters expanded with the transport engineering cluster in particular producing stellar performance. Signs of a weakening demand surfaced in October 2006 as contraction was seen in key manufacturing sectors such as electronics and chemicals. However, aided by the robust growth in the biomedical manufacturing and transport engineering clusters, manufacturing output edged upwards by 1.5% yoy. The transport engineering cluster was the fastest growing segment in October 2006 with a 22.1% yoy expansion. The biomedical manufacturing cluster also continued to perform well, surging up by 17.8% yoy with growth coming entirely from the pharmaceuticals segment.

Non-oil domestic exports (NODX) registered double-digit growth rates of 17% and 15% in the first and second quarter respectively but moderated to 6.3% in the third quarter. Trade data for November 2006 increased to 8.1% yoy from 3.8% in the preceding month. Electronic domestic exports continued to experience a decline while non-electronic exports grew by a robust 25% yoy due to a surge in pharmaceutical shipments.

The Manufacturing Purchasing Managers’ Index (PMI), a leading indicator of manufacturing output painted a different picture. The PMI expanded for eight consecutive months by reaching to 54.6 points in November 2006. The index for overall production output in particular hit a new high since August 2004 by rising to 57.9 points. The increased demand despite the cooling of the US economy and the softening in global electronics demand will ensure that manufacturing sector will remain in favourable conditions.

## Supply and Demand

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

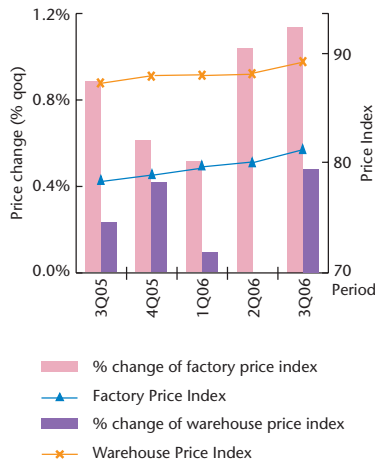


Source: URA / KF Research

For the first three quarters of 2006, total new demand for factory space amounted to 5 million sq ft which exceeded net new supply for factory space of 1.8 million sq ft. In 3Q 2006, demand for factory space slowed down with take-up reaching 936,460 sq ft. This is no cause for concern as demand has historically been lackluster in the third quarter. Supply slipped into negative territory, thus pushing up occupancy rates to 90.7%.

About 2 million sq ft of industrial space is projected to be completed in 4Q 2006. Average occupancy rate is expected to remain stable at 90.5%. Around 400,000 sq ft of industrial space was contributed by the two new blocks of buildings at Biopolis, located at One-North. The two new buildings, Immunos and Neuros will house research on immunology and neuroscience respectively. The success of Biopolis epitomises the fast pace of research development in Singapore. 4Q 2006 also witnessed the groundbreaking ceremony of Phase 2A of Fusionopolis, a centre for physical science and engineering research which is also located at One-North. Phase 2A of Fusionopolis will have about 1.1 million sq ft of gross floor area. All the space in Phase 2A has been committed and it is likely that a request for proposal to build Phase 2B will be launched early next year.

Chart 3  
**Factory & Warehouse Price Index**



Source: URA / KF Research

Due to the emergence of Asia as key consumers of biologics, Swiss contract drug manufacturer giant, Lonza has entered into a joint venture with Economic Development Board to set up a second plant which will cost US\$350 million. Once ready in 2011, the two plants will have a combined capacity of 160,000 litres. This will make Singapore one of the world's top manufacturing locations for biologics.

Foreign commitment in the manufacturing sector continued to take place in 4Q 2006. Due to Singapore's attractive tax incentives, strong base of companies supporting the semiconductor industry and availability of high-skilled labour, Intel-Micron announced plans to spend US\$3 billion to build a plant for making cutting-edge components used in iPods and other gadgets. This will be one of the largest investments in the electronics sector. The petrochem sector also received a big boost when Natural Fuel from Australia began constructing the world's largest plant for the production of biodiesel on Jurong Island.

### Industrial REITs were not as active in 4Q 2006

Most of the industrial REITs were relatively quiet on acquisition activities in 4Q 2006. Cambridge Industrial Trust, a REIT listed in July 2006 bought an industrial building at Ubi Road for \$18 million from Armorcoat International Pte Ltd in December 2006. The property has a land area of 4,600 sq m and a gross floor area of 9,000 sq m. A-REIT announced plans to develop a partial build-to-suit distribution facility at Changi LogisPark (North) with Zuellig Pharma, a marketing and distribution company for pharmaceutical products as its anchor tenant. The gross floor area for the project is 327,640 sq ft with net lettable floor area estimated at 308,050 sq ft.

Mapletree Logistics Trust (MLT) was relatively more active. It entered into sale-and-leaseback agreements to acquire a warehouse cum office property at 6 Marsiling Lane from Winstan & Co for \$18 million as well as an option to purchase another similar type of property at Woodlands Loop for \$10.3 million from Nobel Design Holdings. MLT has also signed a deal to buy Gyoda Distribution Centre for \$24.4 million, making this its first investment in Japan.

**"Other than JTC, Australian real estate company MacarthurCook will also make their foray into Singapore stock market with a possible listing of a REIT in the first half of 2007."**

Industrial REITs will have local investment opportunities to look forward to in 2007 as JTC Corporation is going to divest its 71 blocks of high-rise facilities and three multi-tenanted business park buildings (The Strategy and The Synergy at International Business Park and the Signature at Changi Business Park) via a combination of a REIT and trade sale. JTC believes that this will ensure competitiveness of the industrial property market as well as maintain price stability. The whole divestment exercise is expected to begin in 2Q 2007 and is likely to take at least one and a half year to complete. JTC's 800 workshops will not be divested and shall continue to be managed by JTC. Other than JTC, Australian real estate company MacarthurCook will also make their foray into Singapore stock market with a possible listing of a REIT in the first half of 2007.

**"There was a flurry of government Industrial Land Sales activities in 4Q 2006."**

**Spate of Government Industrial Land Sales Activities in 4Q 2006**

There was a flurry of government Industrial Land Sales activities in 4Q 2006. The three sites on the confirmed list were released for sale through tender. L14 Changi North St 1, a 1.5 ha site that was being offered on a 30-year lease and zoned for Business 2 use with a gross plot ratio (GPR) of 1.0 was subsequently awarded to Global Orion Properties Ltd on 1 Dec 2006. Global Orion Properties Ltd outbid 4 other bidders and clinched the site by paying \$4.3 million(\$27 psf/gpr). The other three bidders were Soilbuild Group Holdings, Eastpoint Development and Mapletree Investments.

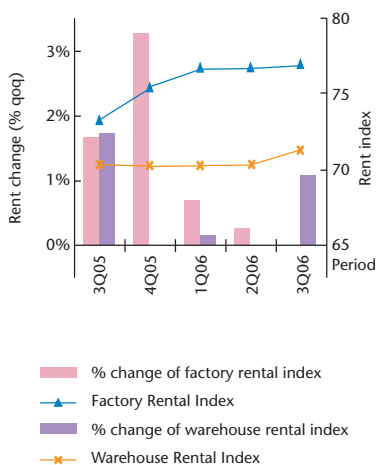
A 0.9 ha industrial site at L2 Serangoon North Ave 4 that is zoned for Business 1 use with a maximum permissible GPR of 1.4 was offered for sale on 18 Nov 2006 through a tender which will close on 28 Dec 2006. The 60-year leasehold site can house a development with a maximum gross floor area of 142,527 sq ft. This site is expected to generate substantial interest due to its small size. In 3Q 2006, a 314,575 sq ft site in the vicinity was awarded to Orion-One Development for \$22.8 million (\$29 psf/gpr).

The third site on the confirmed list is Woodlands Industrial Park E5 launched by the Urban Redevelopment Authority (URA). The 1.68 ha site is zoned for Business 2 use and has a maximum permissible GPR of 1.0 with a lease of 30 years. The tender closes on 23 Jan 2007. In June 2006, a 60 year leasehold site at Woodlands Industrial Park E2/E9 was hotly contested by 8 bidders. It was eventually sold to Evan Lim & Co Pte Ltd for \$5.9 million (\$35 psf/gpr).

Among the sites on the reserve list, a land parcel at Tuas Bay Drive/ Tuas South Ave 3 was put up for public tender in December 2006 after the URA received a \$5.1 million application bid for it.

**Industrial Rentals and Capital Values Improved in 2006**

Chart 4  
**Factory & Warehouse Rental Index**



Source: URA / KF Research

For the whole of 2006, industrial rentals have seen a steady increase as local businesses continue to expand. Average monthly rentals for upper floor industrial space in Macpherson and Paya Lebar area rose 1.6% qoq and 6.8% yoy to reach \$1.25 psf. In particular, rentals in Paya Lebar 178 surged by 13.5% in 4Q 2006 due to strong demand. Rentals over at Kaki Bukit area increased slightly by 1.9% qoq to \$1.09 psf and for the entire year, rental appreciation was 10%.

Business park space continued to command the highest rentals, followed by high-spec factory buildings. Robust demand from some office space users and biomedical research firms exerted upward pressure on rentals for business park space, moving up by 1.6% qoq to \$2.53 psf. For the entire 2006, rentals have increased by about 11% yoy. As prime office rentals continue to trend upwards due to persistently tight supply, some companies relocated their operations to high-spec factory space. As a result, average monthly rentals for high spec factory space grew by 2.0% qoq and 11% yoy to \$2.09 psf.

Islandwide capital values improved in 2006, especially for landed industrial properties which witnessed an increase of about 15%. Prices of freehold factory buildings which have relatively lower yield and more geared for long term investment purposes have not increased as much as other types of industrial properties and have potential for further capital appreciation.

**"Rentals and capital values of islandwide industrial space are expected to increase by another 5% to 10% in 2007."**

**Outlook**

The manufacturing sector is projected to moderate in 2007 but will nonetheless remain on an expansionary path. The global slowdown in the electronics segment, the traditional pillar of manufacturing has showed signs of ending. Global demand for chips is anticipated to pick up in the first half of 2007. In addition, projected strong demand for digital consumer electronics products and components from emerging markets such as China and India should provide the manufacturing sector with an additional source of support.

Demand for warehouse space is set to increase over the next few years. A study by Datamonitor shows that global spending on outsourced Third Party Logistics services across contract logistics, air and sea freight, and road transport is set to increase significantly over the next five years. By 2010, global expenditure on Third Party Logistics services is expected to increase 50% from 2005's US\$222 billion to US\$326 billion, with the biggest growth coming from the Asia-Pacific region. In the 2006 Budget, the Singapore Government has extended the waiver of imported GST for goods removed from zero-GST warehouses to all companies registered under the Major Exporter Scheme and the Approved Third Party Logistics Company Scheme.

Other initiatives such as the Government's negotiation for more Free Trade Agreements (FTAs) will also further improve Singapore's competitiveness in the logistics sector and lead to a rise in the logistics activity. Presently Singapore has FTAs with countries such as United States, Australia, Japan, Korea and India and is having ongoing negotiations with countries such as China, Canada and United Arab Emirates.

The strong global GDP growth in the next five years will help to increase the global spending on logistics. Coupled with the eastward shift in global manufacturing bases, trade and movement of goods in the Asia-Pacific region will be boosted. As such, demand for warehouse space will continue to rise.

The Government will continue to emphasise on the importance of developing new knowledge-based industries, coupled with the well established research infrastructure, strong financial support and a vibrant R&D climate, more leading pharmaceutical and biomedical companies will establish operations or expand their scope of research activities in Singapore. Demand for high spec factory space and business park space is thus likely to increase in 2007.

On the back of positive business sentiment and continued growth in the manufacturing, logistics and R&D sectors, demand for industrial space will continue to be healthy. Rentals and capital values of islandwide industrial space are expected to increase by another 5% to 10% in 2007.

Table 1.

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

Type	Average Monthly Gross Rental (\$psf)	Average Capital Value (\$psf)
<b>Conventional Industrial Space</b>		
Locality	Macpherson/Paya Lebar	\$1.25
	Kaki Bukit	\$1.09
	Admiralty	\$0.98
High Tech	\$2.09	NA
Business Park	\$2.53	NA

Source: KF Research

## Singapore Investment Sales Property Highlights Review 2006

### Overview: Top Sale Records Powered by Investors' Confidence

**"Robust investors' confidence that the Singapore property market is on a steady growth path and the expected Midas touch of the two Integrated Resorts, powered real estate investment sales into record high."**

Robust investors' confidence that the Singapore property market is on a steady growth path and the expected Midas touch of the two Integrated Resorts, powered real estate investment sales to record high. Total investment sales in 2006 ballooned to \$24.46 billion (excluding sales of Good Class Bungalows), which nearly doubled the previous historical record of \$13.5 billion achieved in 2005. While stellar performances were seen in almost every investment segment, residential collective sales, office and hotel sector were apparently the star performers with a string of record-breaking sales.

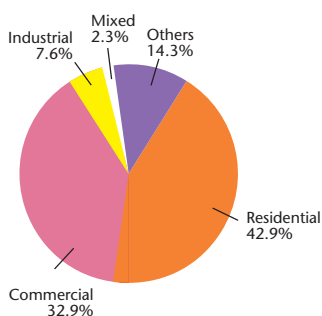
### Government Land Sales (GLS): The Cash Register keeps on Ringing

**"Including the \$807 million worth of land sales in Sentosa, total government land sales amounted to \$4.66 billion or 19.1% of total investment sales."**

In the public sector, the Government sold twenty land parcels in 2006, three more plots than the 17 parcels sold in 2005. Including the \$807 million worth of land sales in Sentosa, total government land sales amounted to \$4.66 billion or 19.1% of total investment sales. The most notable government land sales in 2006 were the sales of two Integrated Resort (IR) sites at Marina Bay and Sentosa. The two sites were awarded to Las Vegas Sands and Genting International for a pre-fixed land premium of \$1.2 billion and 605 million respectively.

The last two plots of major prime commercial sites in Orchard Road had no problem finding buyers in 2006. In August, Australia's Lend Lease group trumped the other four bidders in a hotly contested State tender to clinch the 99-year leasehold Somerset Central site for \$617.2 million. The bid works out to a record unit land price of \$1,455 per square foot per gross plot ratio (psf ppr), which is 34% more than what Far East Organization paid for the nearby former Glutton's Square site in January 2006. However, this unit land price record was soon overtaken by the sale of a commercial/hotel site at Collyer Quay. The 60-year leasehold site was sold at \$165.8 million (\$1,540 psf ppr) to Hong Kong's Sino Land, which is related to Far East Organization. The developer planned to build a luxury hotel with 120 rooms taking up almost half of the total gross floor area (GFA) with the rest of the space to be used for retail, F&B and entertainment purposes.

Chart 1  
**Types of Investment Sales  
in 2006**



Source: URA / KF Research

Also noteworthy were the sales of three hotel sites at Clemenceau Avenue/Unity Street, Mohamed Sultan Road/Nanson Road and Bencoolen Street. Tenders for the three sites drew strong bidding interest from local and overseas developers and the three sites were sold for \$55.5 million (\$466 psf ppr), \$45.8 million (\$518 psf ppr) and \$73 million (\$451 psf ppr) respectively. The bullish bids for the three hotel sites reflected investors' strong confidence in Singapore's hotel market and their belief that hotel room rates will increase significantly in the next few years partly due to the high number of visitors drawn by the two Integrated Resorts.

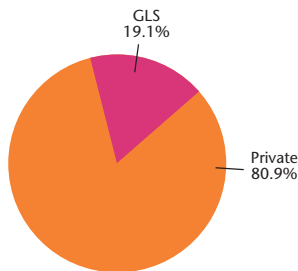
### Private Investment Sales: More than Double 2005's Volume

**"Total private investment sales in 2006 soared to \$19.8 billion, more than double the sales volume achieved in 2005."**

The private investment sales market went through a bustling year in 2006. Boosted by unprecedented number of collective sales and large-scale REITs-related acquisitions, total private investment sales in 2006 soared to \$19.8 billion, more than double the sales volume achieved in 2005.

**"The residential sector was in the lead among all the other property sectors, chalking up \$10.5 billion or 42.9% of the total investment sale proceeds."**

Chart 2  
Source of Investment Sales in 2006



Source: URA / KF Research

**"Big-ticket REITs acquisitions and buoyant office sales pushed up total commercial investment sales to \$8 billion, a big jump of 45% from last year's \$5.5 billion."**

## Residential Investment Sales: En bloc Sale Market got Hotter

The residential sector was in the lead among all the other property sectors, chalking up \$10.5 billion or 42.9% of the total investment sale proceeds. This was a huge increase of 182% year on year. The frenzy of collective sales has gained momentum in 2006. A total of 65 collective sales that transacted in 2006 had generated about \$8.2 billion proceeds amounting to 78.1% of residential investment sales.

Notable collective sale transactions in the year were the four record-breaking deals: Eng Lok Mansion, Habitat One, Pin Tjoe Court and Ardmore Point. In March, the freehold Eng Lok Mansion at Napier Road was sold en bloc for \$138 million or \$1,218 psf ppr. The deal broke the previous record for the highest unit land price paid for a residential site. Since then, the record was broken 3 times in 7 months by Habitat One, Pin Tjoe Court and Ardmore Point which were sold at unit land price of \$1,228, \$1,358 and \$1,369 psf ppr respectively. Other major en bloc transactions included the sale of Grange Tower to a joint venture between Chip Eng Seng and Citadel Investment Group for \$180 million (\$1,201 psf ppr). Futura was sold to City Developments Ltd for \$287.3 million (\$1,179 psf ppr) and Nassim Park was sold to a joint venture between UOL and Kheng Leong Co Pte Ltd for \$380 million (\$1,131 psf ppr inclusive of development charge).

The escalating record land prices reflected developers' optimistic sentiment about Singapore's luxury housing segment as well as the increasing scarcity of very prime sites. In addition, the rising expectation of the sellers and the rising prices of high-end homes also contributed to the land price acceleration. While the collective sales of 2006 were mostly in the prime district of 9 and 10, more en bloc transactions are expected to be seen in secondary prime locations such as the East Coast, Bukit Timah, Holland Road and Thomson Road areas if the robust demand in the high-end housing market were to spread to other areas and segments of the market.

## Commercial Investment Sales: Big Money chasing Big Buildings

2006 was a good year for the commercial property investment market. Big-ticket REITs acquisitions and buoyant office sales pushed up total commercial investment sales to \$8 billion, a big jump of 45% from last year's \$5.5 billion. REITs-related purchases amounted to \$4.23 billion or 52.7% of total commercial investment sales. A significant part of the REITs acquisitions was from the sales of properties by sponsors to new REITs upon their listings. Excluding new REITs listings, total commercial investment sales came to \$6.05 billion.

The largest commercial transaction in the year was the \$2.166 billion joint acquisition of Raffles City by CapitaCommercial Trust (CCT) and CapitaMall Trust (CMT). Some other notable commercial sales included Bedok Theatre and Changi Theatre which were sold to Frasers Centrepoint Ltd for \$40.8 million (\$440 psf ppr inclusive of DC), Paradize Centre which was acquired by a consortium led by Lend Lease Real Estate Investments Ltd for \$138 million (or \$768 psf of NLA) and Central Plaza to Asian Retail Mall Fund \$175 million (or \$917 psf of NLA).

**"2006 witnessed a string of office building acquisitions by REITs and property funds."**

On the back of expected strong growth in the financial sector and the continued strengthening of office rentals amid tight supply, institutional investors have regained their interest in prime office properties. 2006 witnessed a string of office building acquisitions by REITs and property funds. In April, K-Reit Asia was listed with an initial portfolio of three office properties valued at \$630.7 million. Suntec REIT expanded its office portfolio in December by acquiring 12,045 sq ft of strata office space in Suntec Tower 1 for \$16.3 million (or \$1,353 psf of NLA). Notably, five office buildings along Robinson Road changed hands in 2006 reflecting strong institutional interest in the locality. Among them, the most noteworthy one was the sale of SIA Building to a fund managed by CLSA Capital Partners for \$343.88 million (\$1,163 psf of NLA).

**"The industrial investment market continued to see buoyant sales activities though it got off to a slow start in the first half of 2006."**

The industrial investment market continued to see buoyant sales activities though it got off to a slow start in the first half of 2006. Total Industrial Investment sales amounted to \$1.87 billion or 7.6% of total investment sales. This represents an 8.1% increase over last year's \$1.74 billion. REITs-related acquisitions made up the bulk of the deals, contributing \$1.18 billion or 63.2% of total industrial investment sales. Cambridge Industrial Trust, which was listed in July, acquired 27 properties for a total of \$519 million for its IPO. A-REIT slowed down its pace of expansion in 2006. It acquired 7 properties for a total of \$182.7 million. Another industrial REIT, Mapletree Logistics Trust had bigger appetite bagging 15 properties in Singapore for a total of \$390.4 million. With another industrial REIT from MacarthurCook Ltd waiting in the pipeline to be listed in 2007, the competition for investment-grade industrial space is set to intensify. As a result, REITs managers may shift their attention to regional countries for new investment opportunities.

**"Overall, the real estate investment market will remain active in 2007 though total investment sales volume may not surpass the record achieved in 2006."**

### Outlook

While Singapore's economic growth is expected to slow down in 2007 with official preliminary forecast of 4% to 6%, we expect the property investment market to continue to enjoy robust sales momentum. However, the pace of sales in some sectors may slow down from their current neck-breaking speed. Although developers are expected to continue bagging attractive sites either through en bloc purchases or bidding in GLS tenders, the residential collective sales fever is expected to cool down as most developers have replenished their landbank in the past two years and prime development sites at choice locations are becoming scarcer. Investment interest in office and hotel assets will remain strong due to the expected upside in office rental and the expected spillover from the two Integrated Resorts. REITs and property funds would continue to play dominant role in commercial and industrial property investment market. Overall, the real estate investment market will remain active in 2007 though total investment sales volume may not surpass the record achieved in 2006.

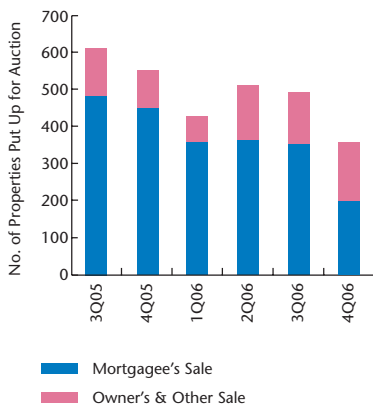
Table 1: Major Investment Sales in 2006

Development	Price (Inclusive of DC)	Unit Price		Tenure	Purchaser
		\$psf ppr	\$psf of NLA		
<b>Residential</b>					
Eng Lok Mansion	\$138,000,000	\$1,218	N.A	Freehold	Hasetrale Holdings
Habitat One	\$189,100,000	\$1,228	N.A	Freehold	Wheelock Properties Ltd
Nassim Park	\$388,000,000	\$1,135	N.A	Freehold	UOL & Kheng Leong Co Pte Ltd
Pin Tjoe Court	\$229,000,000	\$1,358	N.A	Freehold	Pontiac Land Group
Ardmore Point	\$232,000,000	\$1,369	N.A	Freehold	Wing Tai Holdings
<b>Commercial</b>					
Raffles City	\$2,166,000,000	N.A	N.A	99-yr	CCT & CMT
Central Plaza	\$175,000,000	N.A	\$917	99-yr	Asian Retail Mall Fund
Liang Court Mall	\$220,000,000	N.A	\$733	97-yr	Asian Retail Mall Fund II
Robinson Centre	\$145,000,000	N.A	\$1,115	99-yr	Appha Investment Partners Ltd
Paradize Centre	\$138,000,000	N.A	\$768	99-yr	a consortium led by Lend Lease
71 Robinson Road	\$255,300,000	\$929	N.A	99-yr	Lehman Brothers and Kajima Corp
Land parcel at Orchard Rd/Killiney Rd	\$421,100,000	\$1,085	N.A	99-yr	Far East Organization
Site at Orchard Rd/ Somerset Rd (Somerset Central)	\$617,200,000	\$1,455	N.A	99-yr	Lend Lease Group
<b>Others</b>					
<b>Marina IR Land Parcel</b>	<b>\$1,200,000,000</b>	<b>N.A</b>	<b>N.A</b>	<b>60-yr</b>	<b>Las Vegas Sands</b>
Sentosa IR Land Parcel	\$605,000,000	N.A	N.A	60-yr	Genting International
Land for Commercial / Hotel Development at Collyer Quay	\$165,800,000	\$1,540	N.A	60-yr	Sino Land

## Singapore Auction Property Highlights Auction Market Performance – 2H 2006

### Auction Volume bored-down by Drop in Mortgagee's Sale

Chart 1  
The Number of Properties Put Up for Auctions



Source: KF Auction / KF Research

The total number of properties put up for auction in 2H 2006 contracted by another 13% to 844 units as compared to 1H 2006's 970 units, largely due to a drop in the mortgagee's sale of close to 25%. The drop in mortgagee's sale is an indication of the better performance of the economy and the real estate market as the incidence of loan defaults decrease and mortgagors who are facing cashflow problems are able to dispose their properties in the open market before bank foreclosures. As a result, the total number of properties put up for auction for the whole of 2006 recorded a fall of about 25% over the same period in 2005.

### Marked Increase in the Amount of Landed Residential Properties Put Up for Auction

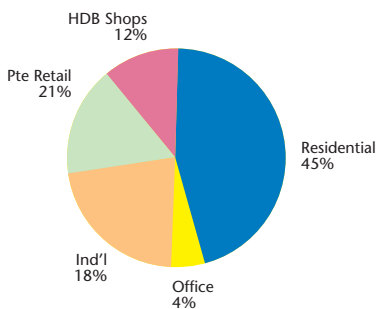
Residential properties continue to make up the bulk of properties put up for auction in 2H 2006. In particular, there was a marked increase in the number of landed residential properties put up for auction by both mortgagees and owners. In total, an estimated 176 landed residential properties were put up for sale in 2H 2006. This is almost 34% more than the 131 landed units put up for sale in 1H 2006. The large increase in the number of landed residential properties put up for auction can be attributed to the thriving high-end property market as well as the notable rise in the number of Good Class Bungalows (GCBs) and residential development sites entering the auction market. The auction of 12 bungalow land parcels in Sentosa Cove also helped boost auction volume in the landed residential property segment.

**"Total number of properties put up for auction for the whole of 2006 recorded a fall of about 25%"**

### Number and Value of Properties Sold at Auction Soared

Despite the drop in the number of properties put up for auction, the number and value of properties sold at auction soared. In 2H 2006, the number of properties sold at auction rose by about 24% while the total value of properties sold at auction almost doubled as compared to 1H 2006. The higher success rate registered in 2H 2006 implied that there was a better match between the seller's expected price and the buyer's offer price, especially in the residential and private retail space segments.

Chart 2  
Types of Properties Put Up for Auction in 2H 2006

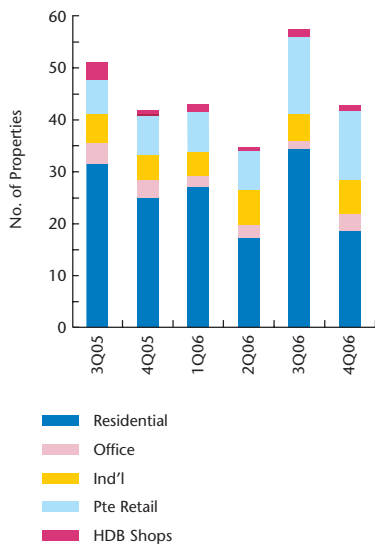


Source: KF Auction / KF Research

For the whole of 2006, about 174 properties were sold at auctions, up from the 163 units sold in 2005. The total sales value in 2006 was also at a high of close to \$320 million, a level not seen since the last market peak in 1999.

One reason for the higher sales value may be the increased investor's interest in apartments that are perceived to have collective sale potential. They are usually located in matured developments that are more than 10 years old, strategically situated in prime locations and are not built to their full development potential as allowed under the new planning regulations in Master Plan 2003. Some examples of such auction transactions include a unit in Tulip Garden which was transacted at S\$1.73 million, a high-end penthouse unit at Silver Tower in Cairnhill for S\$6.12 million, a S\$1.38 million studio apartment in The Beaumont and a Braddell Heights apartment. Generally, these properties were knockdown at a premium as compared to units that were recently transacted in the development, indicating that these buyers have priced-in an en bloc premium for these units.

Chart 3  
**The Number of Properties Sold at Auctions**



Source: KF Auction / KF Research

**"Despite the drop in the number of properties put up for auction, the number and value of properties sold at auction soared."**

Other significant activities that helped spike the auction sales values in 2H 2006 include the auction of 12 bungalow plots on Sentosa Cove which fetched a total of \$86.34 million and the auction of two adjoining sites in Sixth Avenue in a bid by the Inland Revenue Authority of Singapore (IRAS) to recover unpaid property tax.

### Resurgent Interest in Purpose-Built Factories

Additionally, there was a noticeable resurgent interest in purpose-built factories at auction in 2H 2006 as more owners seek to ride on the better sentiments in the industrial property market and the growing industrial REIT market. Examples of industrial properties sold at auction include the 6 Woodlands Loop factory for \$4.88 million, a \$3.2 million factory at 8 Changi North Street and 2 industrial properties in Genting Lane area which were sold at \$9.7 million and \$5.01 million respectively.

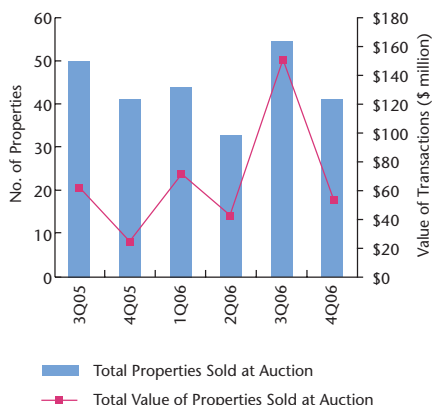
### Outlook

For 2007, the number of properties put up for auction by owner's sale is expected to further catch up with the number of mortgagee's sale as more property owners voluntarily put up their properties for sale by auction.

Also, the precedent case of the two adjoining sites in Sixth Avenue and two pre-war houses in Emerald Hill Road that were auctioned off in a bid by the Inland Revenue Authority of Singapore (IRAS) to recover unpaid property tax has created new excitement in the auction market. The advantages of an auction in providing exposure and being transparent in obtaining the best price for properties is further reinforced. Hence, more variety of properties is expected to be available in the auction market as vendors' confidence in the auction mode of sale improves.

Lastly, following the successful sale of highly sought after penthouses in Marina Bay Residences by closed tender, there is a possibility that developers can explore other modes of sale such as auction to obtain the best price for their properties.

Chart 4  
**Number and Value of Transactions Sealed Under the Hammer**



Source: KF Auction / KF Research

# Research

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