



JAN-MAR 2009/1ST QUARTER
REAL ESTATE
HIGHLIGHTS

Knight Frank

HIGHLIGHTS

- The private residential market showed encouraging results for 1Q 2009, although this was only in the form of improved launch and sales activity. Similarly, the public housing sector seemed to be holding steady, especially in terms of prices of resale flats.
- Despite the festive season, retail sales volume remained weak in 1Q 2009. Islandwide occupancy fell 0.4 percentage-points to reach 93.4%. Prime rentals for suburban malls performed better in 1Q 2009, improving by 1.1% qoq.
- The Singapore office property market suffered drastic declines in 1Q 2009, with rents of offices in prime locations falling more significantly. Rents of Grade A offices in Raffles Place dropped 28.9% qoq, while rents of offices in Suburban places corrected downwards by 15.3% qoq in 1Q 2009.
- The industrial property market further deteriorated in 1Q 2009, in terms of occupancy and rents. This was due to a drastic contraction in demand for manufacturing exports, which caused industrialists to be increasingly cautious in business costs.

RESIDENTIAL PROPERTY MARKET

The private residential market showed encouraging results for 1Q 2009, although this was only in the form of improved launch and sales activity. Similarly, the public housing sector seemed to be holding steady, especially in terms of prices of resale flats.

Private Residential Sector

Launch and Sale Activity

The private residential market showed encouraging results for 1Q 2009, although this was only in the form of improved launch and sales activity. There were 2,108 private residential units launched in 1Q 2009, almost tripling the units launched in 4Q 2008 and was about 1.6 times of what was released in 1Q 2008.

More than half, or 63.4%, of these units launched were from Outside Central Region, while only 100 units from the Core Central Region were launched in the quarter.

The 100 units launched in the prime Core Central Region was the lowest figure since data was made available in July 2007, and reflects developers are pervasively cautious in releasing high-end private residential units. These include Madison Residences which have not been launched and whose

construction has been announced to be deferred. However, the larger number of launches in the mass market reflected a polarized situation where homebuying interest improved as such developments become increasingly affordable after suitable re-pricing has been effected.

Sales were even encouraging for the mass market where the take-up for 1Q 2009 was almost that of what was achieved in the entire 2008. However, secondary market activity waned, as homeowners choose to hold than to sell in such a climate where prices are weak. As such, the proportion of secondary sales islandwide accounted for 25.4% of all sales, the smallest proportion since data was made available in 2003.

Similarly, speculative activity continued to decline when the proportion of all sub-sales fell from 16.1% in 4Q 2008 to 9.0% in 1Q 2009. It was the Rest of Central Region that saw the steepest decline of 12.8 percentage-points in terms of the proportion of sub-sales; falling from 24.9% in 4Q 2008 to 12.1% in 1Q 2009.

New completions and projects nearing TOP are often popular choices in the sub-sale market as they are readily available for immediate occupation. There are a number of new completions in 1Q 2009 which are centrally located and may be increasingly attractive by homebuyers wishing to purchase from the sub-sale market for immediate occupation. These include City Square Residences, The Suites @ Central and RiverGate.



Some Possible Major Launches in the Next 6 Months					
Projects	Tenure	District	Developer	Location	Units
Ascentia Sky	99	03	WingTai Asia / United Engineers	Alexandra Road	348
Unnamed	FH	09	Heeton Holdings	Grange Road	28
One Devonshire	FH	10	Allgreen Properties	Devonshire Road	174
Ferrell Residences	FH	10	Ferrell Asset Management	Bukit Timah Road	34
The Trizon	FH	10	Singapore Land	Ridgewood Close	247
Nathan Residences*	FH	10	Tat Aik Property	Nathan Road	91
Unnamed	99	12	NTUC Choice Homes	Toa Payoh Lorong 2/3	571
Unnamed	99	12	TID	Tanah Merah Kechil	293
Unnamed	99	13	Frasers Centrepont Homes	Woodleigh Close	300
Meier Suites	FH	15	SB Development	Margate Road	55
The Gale	FH	17	Tripartite Developers	Flora Road	329
Oasis @ Elias	99	18	CEL Development	Elias Road	367
The Cascadia	FH	21	Allgreen Properties	Bukit Timah Road	536
Unnamed	FH	21	Premier Land Development	Toh Tuck Road	129
Meadows @ Peirce	FH	26	UOL	Tagore Ave / Upper Thomson Rd	426

Note: *Projects on preview

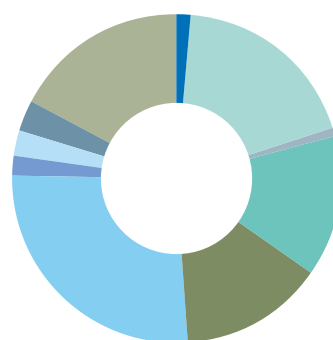
Mellowed Foreign Interest

Foreign interest in Singapore's private residential property market persisted to decline in 1Q 2009. The proportion of all private residential properties purchased by foreigners decreased from 20.0% in 4Q 2008 to only 15.5% in 1Q 2009. Of the 495 transactions made by foreigners, more than half (64.2%) of these were by those who held Singapore PR status.

Malaysians accounted for the majority, or about a quarter, of homes purchased by foreigners. Of note, the proportion of buyers from Indonesia eased the most while the proportion of buyers from China climbed in 1Q 2009. This was largely because Indonesians are generally interested in buying high-end residential properties while Chinese citizens usually prefer homes in the suburban areas which are attractively priced.

In terms of price range, the number of transactions concluded by foreigners, and

Chart 1
Proportion of Foreign Homebuyers as at 1Q 09



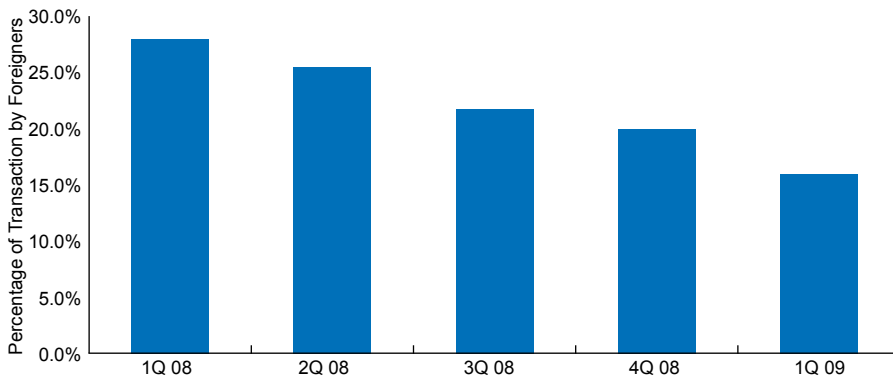
Australia	1.4%
China	18.7%
Hong Kong	0.8%
India	13.8%
Indonesia	14.2%
Malaysia	26.4%
Taiwan	2.0%
USA	2.4%
United Kingdom	3.0%
Others	17.2%

Source: Urban Redevelopment Authority, Knight Frank Research

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Chart 2

Percentage of Transactions by Foreigners as at 1Q 09



Source: Urban Redevelopment Authority, Knight Frank Research

which were above S\$1 million reduced in 1Q 2009. However, the number of more affordable (less than S\$1 million) homes purchased by foreigners has increased in 1Q 2009. Similarly, foreigner purchases accounted for only 22% of all private residential transactions in the traditional prime districts 9, 10 and 11 in 1Q 2009. This was 11.9 percentage-points lower than the 5-year average figure of 33.9%. While Indonesians still formed the highest proportion of transactions by foreigners in the prime districts in 1Q 09, this number was only half of what was achieved in 4Q 2008. These reflect foreign homebuying interest is severely affected by the current economic conditions.

Nonetheless, recent surveys have discovered that Singapore is still one of the top choices for foreigners. Based on a survey carried out by ECA International, it was reported that Singapore remains the best place for Asian expatriates to live. These will provide opportunities for some recovery in foreign interest for private residential properties in Singapore, especially foreigners who are seriously keen in buying properties for occupation.

Prices

According to the Urban Redevelopment Authority's (URA) quarterly statistics, overall prices in Singapore's private residential

property market have eased by 14.1% quarter-on-quarter (qoq) in 1Q 2009. This was more pronounced than the 13.8% qoq decrease based on flash estimates, an indication that the price corrections accelerated in the last three weeks of 1Q 2009. This was also the most significant deterioration in prices since 1990, and exceeded the last largest quarterly price fall of 13.2% qoq in 3Q 1998. Specifically, overall landed and non-landed properties witnessed a more notable fall this quarter, by 9.2% qoq and 15.2% qoq respectively.

For non-landed private residential properties, it was the mid-tier Rest of Central Region that recorded the sharpest fall of 17.0% qoq. This was followed by the prime Core Central Region and the mass Outside Central Region, where prices waned by 16.2% and 7.3% respectively.

Rentals

The private residential rental market experienced its third consecutive quarterly contraction, with rents falling by 8.5% qoq in 1Q 2009. In terms of the non-landed private residential market, it was the prime leasing market which saw the steepest fall of 10.3% qoq, followed by the mid-tier and mass-market segments where rents eased by 7.2% and 6.5% respectively. With this deterioration, islandwide rentals are 14.2% shy of the peak achieved in 2Q 2008.

While official statistics suggest that the rate of decline in rents increased in the quarter, Knight Frank's basket indicates that the rate of rental decline of non-landed residential properties have in fact eased across all sectors. Specifically, luxury and prime non-landed residential properties witnessed a quarterly decline of approximately between -5.0% and -10.0%. However, as upscale luxury residential properties are usually more exclusive and have unparalleled offerings, the fall was more contained compared to the majority of homes in prime residential districts. Additionally, owners of luxury residential properties usually have stronger financial strength and are less inclined to lower rents to match the expectations of tenants.

On a positive note, other prime developments in the Central Area experienced a marginal climb of 0.6% qoq this quarter, partly as tenants become increasingly cautious and are less inclined to pay rental premiums to occupy prime units. However, as such tenants are still looking out for residential properties which are centrally located, residential properties in the Central Area have become increasingly attractive as a better alternative.

The private residential leasing market in 1Q 2009 can be seen as a case where the private residential properties in the prime areas (District 9, 10 and 11 and East Coast) have pronounced rental declines compared to other areas. This was due to significant rental escalations achieved in the past, especially in 2007. In addition, investors of prime residential properties did not seem to benefit from a projected supply crunch of prime homes, where numerous prime developments were expected to be demolished for redevelopment in 2008-2009 after collectively sold in 2007. Instead, some developers are now delaying construction plans by leasing out the units in developments which were bought through collective sales. Together with tenants who are becoming increasingly cautious, these accelerated the rental decline of residential properties in the prime areas.



By the same token, the prime East Coast area, a much sought after lifestyle area which enjoyed significant rental hikes in 2007, also experienced a significant 9.2% qoq rental decline in 1Q 2009. With a generally stable rental growth in 2006 and 2007, rents of non-landed private residential properties in the suburban areas thus fell lesser in 1Q 2009, by 0.5% and -8.0% qoq.

Due to the economic uncertainty, demand for smaller sized HDB flats climbed, with three room flats staging the highest increase in resale applications (11.4% qoq). Conversely, the number of resale applications for 5-room and Executive flats dropped by single-digit percentages. With the economic climate encouraging frugality and suburban private residential homes attractively re-priced, it is expected that demand for larger flats would face continued pressure.

The public housing leasing market also eased, with subletting approvals reducing from 3,685 units in 4Q 2008 to 3,525 units in 1Q 2009. As rents of all flat types held steady in 4Q 2008 (except 2-room flats which increased by 10% qoq), the onset of 2009 resulted in a decline in overall rentals for 4-room flats and above while the smaller 2-room and 3-room flat types maintained their previous level of rent.

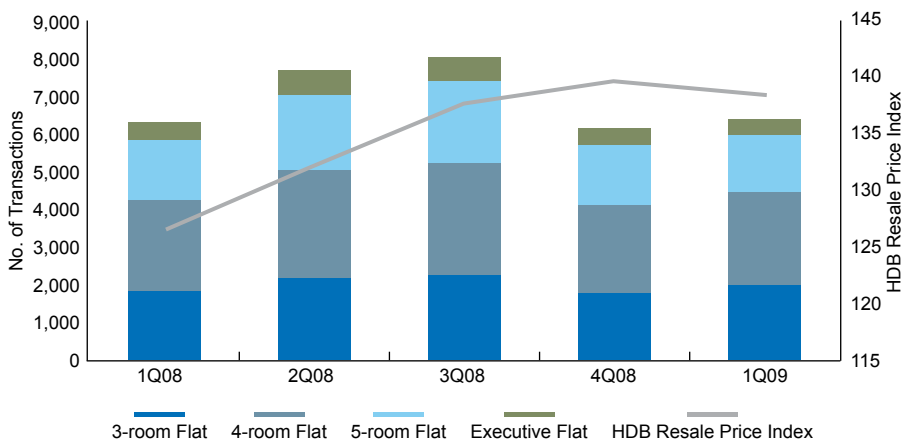
Public Housing Sector

Holding Steady

The public housing sector seemed to be holding, especially in terms of prices of resale flats. According to the Housing Development Board (HDB), resale prices declined by a marginal 0.8% qoq, its first quarterly decline since 3Q 2006. Notwithstanding this, resale prices are still hovering at healthy levels, at about 2% above the 1996 peak and 0.8% shy of the most recent peak in 4Q 2008. While official statistics suggests resale prices held relatively steady in 1Q 2009 and still serves as an affordable option, circumstances could alter as soon as the economic situation influences overall homebuying sentiments.

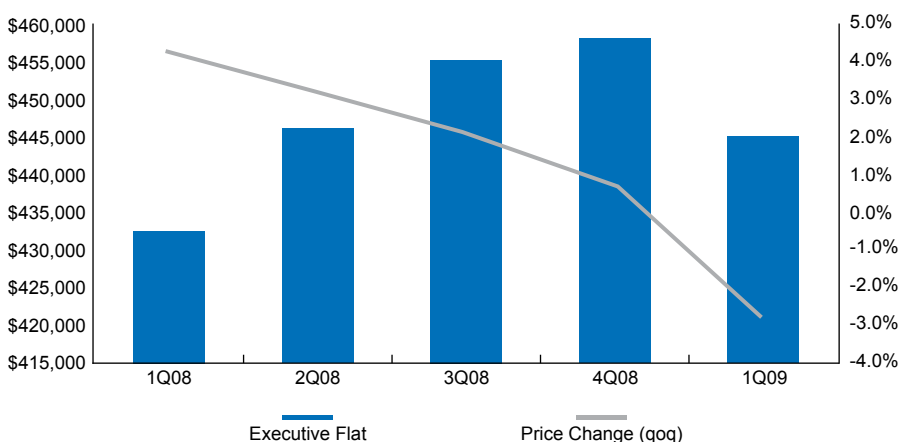
Average prices of the smaller flats declined by a smaller amount, ranging from 0.3% to 0.5%, while larger flats experienced a slightly higher price fall. Resale prices of 4-room flats dropped 0.5% qoq while that of Executive flats fell 2.8% qoq. Nevertheless, it is unlikely that the decrease in HDB resale prices would severely affect upgraders' demand for private residential properties, as the rate of price fall of HDB resale flats is significantly smaller than that of private homes. Some HDB flats owners will be encouraged to upgrade to private residential properties even if resale prices of HDB flats fell, as the gains to be enjoyed from a fall in private residential properties is much higher.

Chart 3
HDB Resale Transaction Volume and Price Index



Source: Housing Development Board, Knight Frank Research

Chart 4
Median Resale Prices of Executive Flat



Source: Housing Development Board, Knight Frank Research

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Outlook for Private Residential Property Sector

Going forward, it is anticipated that private home prices and rents will contract sharply in the first half of 2009, but the rate of decline will decelerate consequently. In regard to sale volume, it is unlikely that the low sale volume in the primary market experienced in 2008 would be repeated this year. Based on the encouraging home sale volume achieved by developers in the first quarter of 2009, the total primary market sale level this year is projected to range between 6,500 and 8,000, about 50% to 90% higher than that in the previous year.

Outlook for Public Residential Property Sector

The year 2009 may be one where prices of HDB resale flats can show some marginal corrections, after enjoying encouraging performance in 2008 despite the then ailing economic conditions. However, the corrections, if any, are unlikely to be drastic, and 2009 can be seen as a year where prices of resale flats are relatively stable. The fall in prices are unlikely to be significant, as existing flat owners are in no hurry to sell in this current economy, which encourages frugality. There will be some flat owners who are encouraged to upgrade to private residential homes if prices of private homes are reflecting more significant downward corrections, but this will be a carefully evaluated decision, underpinned by affordability.

Table 1
Rentals of Selected Private Residential (Apartment/Condominium) Units as at 1Q 2009

Locality	Monthly Rent (psf)
Districts 9, 10 and 11 (Luxury)	S\$ 4.50 – S\$ 4.80
Districts 9, 10 and 11 (Others)	S\$ 3.40 – S\$ 4.20
East Coast	S\$ 2.30 – S\$ 3.00
West	S\$ 2.10 – S\$ 2.70
Upper Bukit Timah	S\$ 1.70 – S\$ 2.30
Thomson, Toa Payoh, Bishan	S\$ 2.20 – S\$ 2.60
Yio Chu Kang, Yishun	S\$ 1.80 – S\$ 2.30

Source: Knight Frank Research

Table 2
Capital Values of Selected Private Residential (Apartment/Condominium) Units as at 1Q 2009

Locality	Capital Value (psf)	
	Freehold	99-year Leasehold
Districts 9, 10 and 11 (Luxury)	S\$ 1,810 – S\$1,820	-
Districts 9, 10 and 11 (Others)	S\$ 1,330 – S\$1,460	S\$1,130 – S\$ 1,200
East Coast	S\$ 810 – S\$ 870	S\$ 710 – S\$ 910
West	S\$ 800 – S\$ 810	S\$ 600 – S\$ 620
Upper Bukit Timah	S\$ 510 – S\$ 630	S\$ 540 – S\$ 620
Thomson, Toa Payoh, Bishan	S\$ 470 – S\$ 490	S\$ 560 – S\$ 660
Yio Chu Kang, Yishun	-	S\$ 480 – S\$ 560

Source: Knight Frank Research



RETAIL PROPERTY MARKET

Despite the festive season, retail sales volume remained weak in 1Q 2009.

Islandwide occupancy fell 0.4 percentage-points to reach 93.4%. Prime rentals for suburban malls performed better in 1Q 2009, improving by 1.1% qoq.

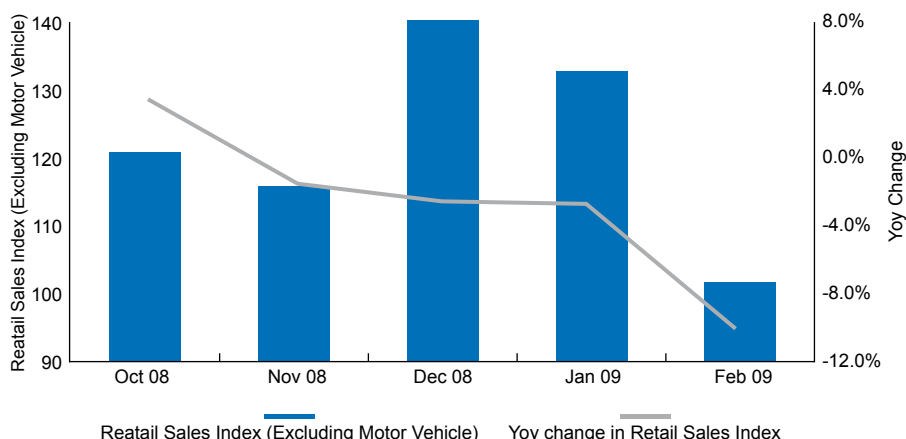
contracted 10.2% y-o-y in February. These reflected significant weakening in consumer sentiments, as the year-end festive season and Lunar New Year usually encourages shoppers to spend. February's slide in retail sales was seen in most categories, especially food & beverages and wearing apparels.

Visitor arrivals declined for the 10th consecutive month as visitorship fell 13.2% yoy for the month of March. Faced with a persistent contraction, Singapore Tourism Board (STB) announced through its Tourism Industry Conference in February, a S\$90 million initiative aimed to boost visitorship to Singapore. STB also announced its targets to achieve between 9 and 9.5 million in visitor arrivals and S\$12 to S\$12.5 billion in tourism receipts for 2009. However, efforts by STB may be hampered if the H1N1 influenza outbreak further strains the global travel industry.

Declining Retail Sales

As consumers cut back on discretionary spending, retail sales continued to show discouraging results. This can be seen from the retail sales index, which measures the short-term performance of retail industries based on the sales records of retail establishments. Of note, nominal retail sales index (excluding motor vehicles) slipped by 2.7% year-on-year (y-o-y) in January while it

Chart 1
Retail Sales Index at Current Price
(Excluding Motor Vehicle)



Source: Singapore Department of Statistics

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Stable Demand

Demand for retail space in 1Q 2009 remained largely unchanged, expanding by a mere 11,000 sq ft, while new supply totaled 172,000 sq ft. As a result, occupancy rate dipped by 0.4 percentage-point to 93.4%. Occupancy rates for all areas fell except for the Fringe Area where occupancy inched up by 0.5 percentage-point to reach 92.6%. On the other hand, the prime Orchard Area saw occupancy dip to a low of 95.3% in 1Q 2009, from 96.7% in 4Q 2008. This was partly due to new supply outstripping new demand in the prime Orchard Road area. Nonetheless, occupancy was still healthy in 1Q 2009, at well above 90%.

minimal presence in suburban malls such as Topshop and Springfield, and boasts popular overseas retailers such as Uniqlo. With nearly 300,000 residents residing within 3-km of Tampines MRT station, the mall is expected to complement Tampines Mall and Century Square shopping centres in terms of trade mix and positioning and is envisaged to add further vibrancy to the region.

Iluma, Singapore's first entertainment centre in the Bugis area, was unveiled in March to the public. In all, 60% of the 190,000 sq ft mall will be devoted for art and entertainment uses, which include themed restaurants, a cineplex, a cyber gaming hub and a dance club. The mall plans to target the hip and trendy and retailers such as 77th Street, Pasta de Waruku and Style Evolution to attract the youths. A proposed bridge, linking Iluma to Bugis Junction, is currently under construction and is expected to be ready by end-2009.

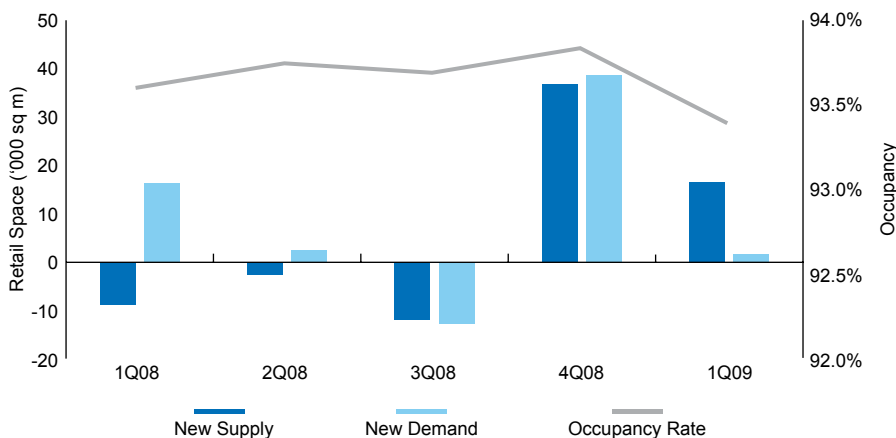
Suburban Malls Rentals Up

As retailers push back their expansion plans, leasing activities have slowed down considerably in 1Q 2009. Islandwide prime retail rentals dipped 2.6% quarter-on-quarter (qoq) with malls along Orchard fringe clocking the largest fall. Suburban malls however buckled the trend with rentals improving by 1.1% qoq.

Attributable to subdued consumer sentiments, declining visitor arrivals and a larger retail supply, prime retail rentals along prime Orchard Road declined 3.9% qoq to reach \$45.30 per square foot while malls located along the fringe of Orchard Road slipped 5.9% qoq. Malls around Marina, City Hall and Bugis also saw prime retail rentals fall by 2.0% qoq. Suburban malls were the only exception that saw a slight increase of 1.1% qoq in prime retail rentals as many retailers still enjoy brisk sales.

Chart 2

Islandwide Demand and Supply



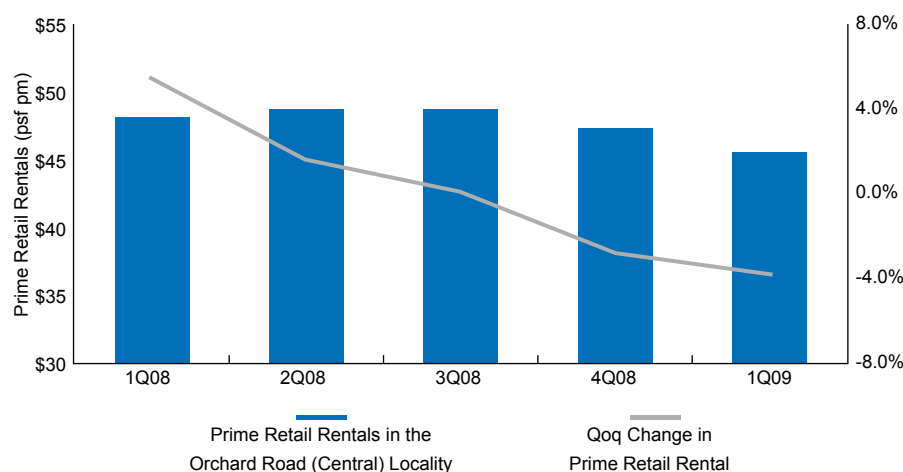
Source: Urban Redevelopment Authority, Knight Frank Research

New Malls – Refreshing Concepts

New supply came in the form of new shopping malls including Tampines 1, Iluma and City Vibe, which were opened this quarter. Tampines 1, managed by AsiaMalls, aims to distinguish itself from its nearby competitors by positioning itself at the forefront of cutting edge lifestyle and targeting trendy shoppers who seek new perspectives. The mall houses brands with



Chart 3
Prime Retail Rentals in the Orchard Road (Central) Locality



Source: Knight Frank Research

Table 1 Current Rentals of Prime Shopping Centre Space	
Locality	Average Prime Monthly Gross Rental ¹ (psf)
Orchard (Central)	S\$ 45.30
Orchard (Fringe)	S\$ 21.60
Marina Centre, City Hall, Bugis	S\$ 29.40
City Fringe	S\$ 22.60
Suburban	S\$ 29.40

¹ Based on pre-defined portfolio of properties; refers to prime shop space of between 400 and 800 sf typically located on ground level with good frontage; any yields implied refer only to such prime space and may not be reflective of the entire shopping centre

Source: Knight Frank Research

Outlook

Due to declining sales, retailers who were bullish a year ago have now placed their expansion plans on hold. With new supply coming on-stream, retailers who are seeking to lease new premises are increasingly selective.

As retail rents declined in 1Q 2009, the asking rents of some major landlords were behind the curve. Retailers who are still seeking new premises are offering rents lower than what most landlords expect. In addition, retailers are not in a hurry to execute expansion plans unless well-located retail spaces are available at attractive rents. Meanwhile, managers of quality malls are still striving for optimal rents and remained concerned about the choicest tenant mix to maintain the mall's positioning. As a result, the number of leasing deals may decrease due to the mismatch in expectations.

Some existing retailers are also suffering from drastic falls in sales revenue and are asking landlords for some form of assistance, such as rental reduction or rental rebates to reduce operating cost. As the leasing market is expected to be more competitive due to the 3.1 million sq ft of new retail space that would be completed this year, some landlords are expected to be more understanding and would be increasingly active to work with retailers to derive the optimal solutions for both. As the retail property market would continue to face challenges in the coming months, the islandwide average prime retail rentals are likely to fall between 5% and 10% for the whole of 2009.

OFFICE PROPERTY MARKET

The Singapore office property market suffered drastic rental declines in 1Q 2009, with rents of offices in prime locations falling more significantly. Rents of Grade A offices in Raffles Place dropped 28.9% qoq, while rents of offices in Suburban places corrected downwards by 15.3% qoq in 1Q 2009.

–9% and –6%, this severely impinges on the performance of the Singapore's office property market.

Particularly, the financial and business services sectors, the primary demand drivers for office space in the Central Business District (CBD), have staged poor recent performance with negative growth. Given this is expected to worsen, there will be limited opportunities for a recovery in the office property market and the only hope for a recovery will come from a turnaround in the Singapore's economy, which depends on a sustained recovery in the US economy.

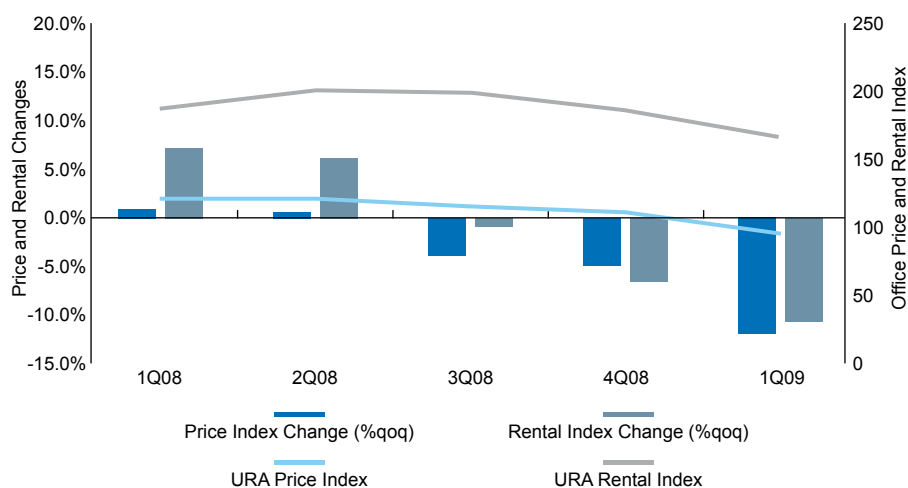
Economic Performance

As grim economic conditions look set to stay, the decline in office rentals in Singapore's property market is facing downward pressure in 2009. With the Ministry of Trade and Industry's (MTI) revision of Singapore's GDP growth in 2009 to set in at between

Demand and Supply

New demand for office space in 1Q 2009 continued to decline, after experiencing the first fall in 4Q 2008. Before 4Q 2008, it was predominantly positive in each of the quarters since 2004. New demand

Chart 1
Prices and Rentals



Source: Urban Redevelopment Authority, Knight Frank Research



contracted 323,000 sq ft for 1Q 2009, with new demand for office space in the Downtown Core contracting the most, of about 344,400 sq ft. However, new demand of office space in the rest of the microzones were seemingly more encouraging, in that it only fell by 64,580 sq ft in Orchard and only 86,110 sq ft in Outside Central Region. Again, new demand for office space in the Fringe Area was positive, reflecting the attractiveness of offices in the Fringe Area which are mostly well-located and near major transport nodes.

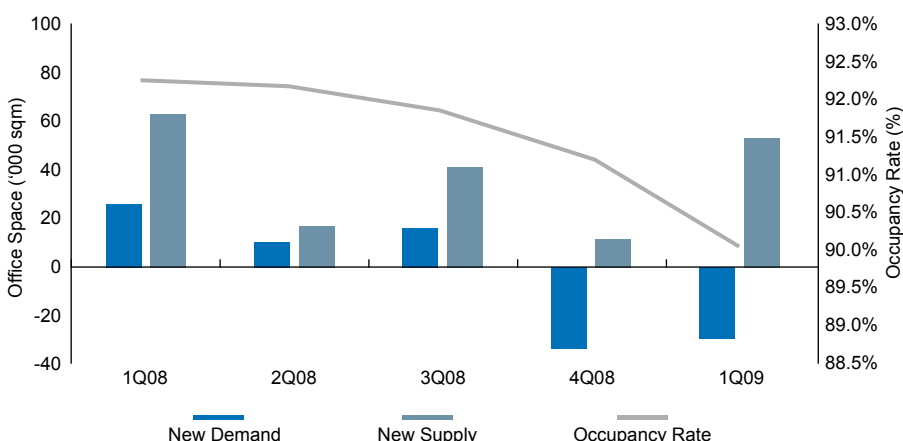
Besides a drop in new demand, the leasing situation for offices in 1Q 2009 was further exacerbated by a surge in new supply. New supply of office space increased by 505,900 sq ft, way above the quarterly average of 355,210 sq ft of new office supply in 2008. Interestingly, it was the Fringe Area which had the largest new supply for 1Q 2009 but new demand continued to be positive in the Fringe Area. These further support the leasing interest for such office space, as lower-cost alternatives for businesses which do not require a CBD location.

Inevitably, the surge in new supply and a weakened new demand has resulted in falling occupancy for office space. Islandwide occupancy of office space fell by 1.2 percentage-points, to 90.0%, signaling a possibility for office occupancy to drop below 90% if the weak economic conditions persist. This is likely to happen from 2Q 2009, if there is still no clear signs of an economic recovery. In addition, in actuality, it will also require some time for businesses to improve when an economic recovery is in place. The effect of the financial turmoil can also be seen from a 1.3 percentage-point fall for occupancy of office space in Downtown Core, to 91.1%. The falls in occupancy could be partly due to business closures, as well as an increase in shadow space, as businesses rapidly downsized in 1Q 2009.

The office property market will be subjected to further pressure in the months ahead,

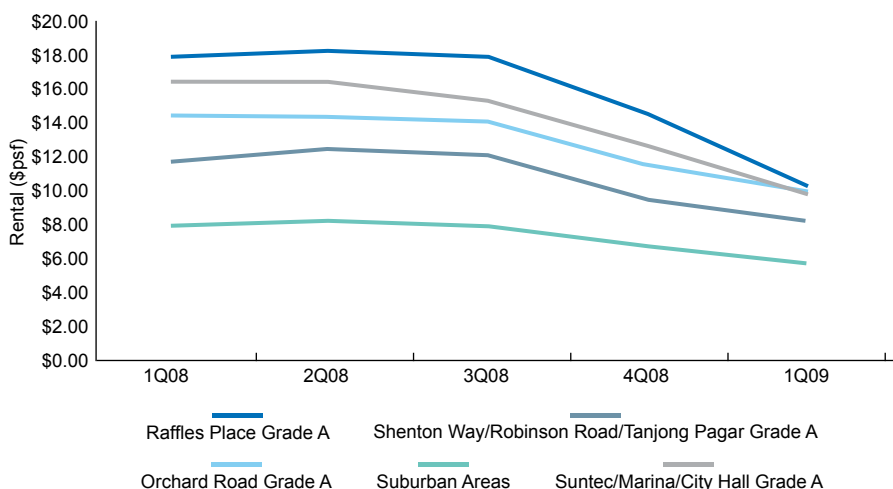
looking at the significant upcoming supply. About 2.8 million sq ft of office space scheduled for completion in 2009 are already under construction, including Mapletree Anson at Anson Road and an office development at Tampines Grande. These will affect growths in the occupancy of office space, unless the economy stages an encouraging recovery.

Chart 2
New Supply, New Demand and Occupancy Levels Islandwide
(Private and Public Sectors)



Source: Urban Redevelopment Authority, Knight Frank Research

Chart 3
Average Office Rentals



Source: Source: Urban Redevelopment Authority, Knight Frank Research

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Rents

Rents of office space across all micro regions experienced a double-digit percentage fall, with rents of offices in Raffles Place suffering the most significant decline of 14.1% to 28.9% qoq in 1Q 2009. Similarly, average rents of Grade A offices throughout the island dipped by 24.0% qoq, to stand at \$9.48 psf per month. However, this was similar to the levels in 1Q 2007, where rents of quality office space were fast accelerating.

On the other hand, the rental decline of offices in micro zones outside the CBD was milder, ranging from 12.1% to 16.9% qoq. Meanwhile Grade B office rents in Singapore eased by 18.4% qoq in 1Q 2009, averaging \$7.88 psf per month.

It was noted that the rents of different grades of office space declined relatively evenly for the Orchard area and non-CBD areas, while the contrast was more evident in the CBD. As such, rents of Raffles Place Grade A offices fell by a considerable 28.9% qoq, while rents of Grade B offices in the locality dropped by about 18.5% qoq.

Although official URA statistics have indicated that rents are some 16.5% beneath the most recent high in 2Q 2008, they are still well above that in 1996 and 2001. Across regions, rents dropped the most for office space in the Central Area, by 11.0% qoq in 1Q 2009, compared to the 5.5% qoq reduction in the Fringe Area. The significant fall for rents of prime office space is further caused by tenants who saw the opportunity to resist high rentals, as there is increasing perception that rents of prime office space are fast declining and will fall further. Tenants are hoping for more competitive rents, in addition to lease incentives, which landlords are already giving as part of lease packaging.

Table 1
Effective Monthly Rentals in 1Q 2009

Location	Average Effective Monthly Gross Rental (psf)
CBD (Grade A)	
Raffles Place	S\$ 9.40 – S\$ 10.90
Marina Centre / City Hall	S\$ 9.00 – S\$ 10.30
Shenton Way / Robinson Road	S\$ 7.30 – S\$ 8.80
Orchard Road	S\$ 9.20 – S\$ 10.30
Non-CBD	
Beach Road / Middle Road	S\$ 6.40 – S\$ 7.50
Suburban (North)	S\$ 5.80 – S\$ 6.50
Suburban (East)	S\$ 4.40 – S\$ 5.30
Suburban (West)	S\$ 5.10 – S\$ 6.00

Source: Knight Frank Research

Outlook

The office property market suffered the most significant rental decline in 1Q 2009, since the first correction two quarters ago. Notwithstanding the recent Asian stock market rally, the possibility of a turnaround in the performance of the office property market remains obscure, as this will have to hinge on a firm recovery in the Singapore economy and the employment market in the financial and business sector.

The potential surge in supply will also create further downward pressure for office rents. The sharp increase in office rentals in 2006 and 2007 were due to a tight supply environment, along with buoyant economic growth. Hence the presence of such a future supply surge will reverse the situation.

Additionally, shadow office space, involving office space companies sublet by businesses that are consolidating, can create further downward pressure for office rents. Although companies will have to account for the shortfall of rents when they sublet, this will still be a recommendable option for businesses, which are forced to further consolidate. Nonetheless, the spate of business consolidations should slow, as most companies have already completed some rounds of business consolidations, leading to a leaner operating structure.

As such, office rents are likely to see steep declines in 1H 2009, followed by gentler falls towards the end of 2009. Rents of Grade A office space could drop by 40% to 50% for the whole of 2009, with rents of prime office space falling as part of rental adjustments for the escalations in 2007.



INDUSTRIAL PROPERTY MARKET

The industrial property market further deteriorated in 1Q 2009, in terms of occupancy and rents. This was due to a drastic contraction in demand for manufacturing exports, which caused industrialists to be increasingly cautious in business costs.

Performance of Manufacturing Sector

Global economic circumstances have changed dramatically especially since 2H 2008, with widespread reduction in spending, tighter credit conditions and deleveraging in the financial sector substantially affecting worldwide trade and investment flows. As the advent of 2009 met with a flagging global economic environment, the world was indeed one in its synchronicity southwards.

Singapore is no exception as it is an open economy that has historically been reliant on external trade. This synchronised economic downturn adversely affected demand for Singapore's exports across all key export destinations. As such, the manufacturing sector, which contributed about 20% (based on current market prices) to Singapore's Gross Domestic Product (GDP) in 2008, weakened by 4.1% for the entire 2008 compared to the 5.9% expansion in 2007. This was the sector's first decline since 2001, when it shrank by 11.6%. Continuing its descent from the end of 2008, the Index of Industrial Production (Chart 1) portrayed a steep slide in the opening months of 2009.

On a seasonally adjusted month-on-month basis, manufacturing output dipped at a less alarming pace, with reductions of 4.4% and 2.5% in January and February 2009 respectively. However, the three-month moving average year-on-year (yoy) index for February 2009 deteriorated by 21.9% vis-à-vis the same period in 2008.

Indeed, diminishing demand led to a plunge in global industrial activities. The JPMorgan Global Manufacturing Purchasing Managers' Index (PMI) posted 37.2 in March 2009, significantly below the no-change level of 50.0, and worldwide manufacturing output fell for the tenth consecutive month, reflecting weak demand and less new orders.

Correspondingly, Singapore's non-oil export figures have been sluggish since mid-2008. Non-oil domestic exports (NODX) contracted by 17% yoy in March 2009, following the 35% yoy and 24% yoy decreases in January and February 2009 respectively. Nevertheless, the seasonally adjusted month-on-month basis showed some respite from the overall sharp fall in 2H 2008, by climbing 1.6% and 11% in February and March 2009 respectively.

By the same token, although the JPMorgan Global Manufacturing PMI remained under 50.0 in 1Q 2009, this PMI indicated an increase in March 2009 for the third month in a row. Singapore's PMI was also below the level of 50.0 in 1Q 2009, signifying that the manufacturing economy was generally declining, with the reading at 47.1 in March 2009. However, this constituted a rise of 2.1 points over the previous month and slight growth on the whole over this quarter.

JAN-MAR 2009/1ST QUARTER REAL ESTATE HIGHLIGHTS

The indices for new orders, new export orders, production, employment and order backlog all improved in March 2009 over February, albeit at readings of less than 50.0. The indices for inventory and stocks of finished goods for March 2009 even ascended into expansionary territory when readings of 52.3 and 51.8 were posted respectively. Nonetheless, this could suggest stocks piling up as a result of soft demand.

Stabilizing economic activity seems to be on the cards. One indication that activity could be slowly picking up is the Baltic Dry Index (BDI), which generally reflected slight improvements in 1Q 2009. The BDI tracks the cost to ship raw materials around the world (a precursor of economic output) and is considered a leading indicator for international trade. It offers a glimpse at global raw material demand and hence a peek into future economic production. This is because the BDI typically rises as demand for raw materials increases, which, in turn, implies that global trade and economies are growing, and vice versa.

While such glimmers of hope may be heartening, fingers remain crossed that export demand and the manufacturing sector will reverse the current slump by end-2009. The preceding data are still below levels consistent with an outright turnaround and it would require a few more months before any firm and lasting uptrends can be concluded.

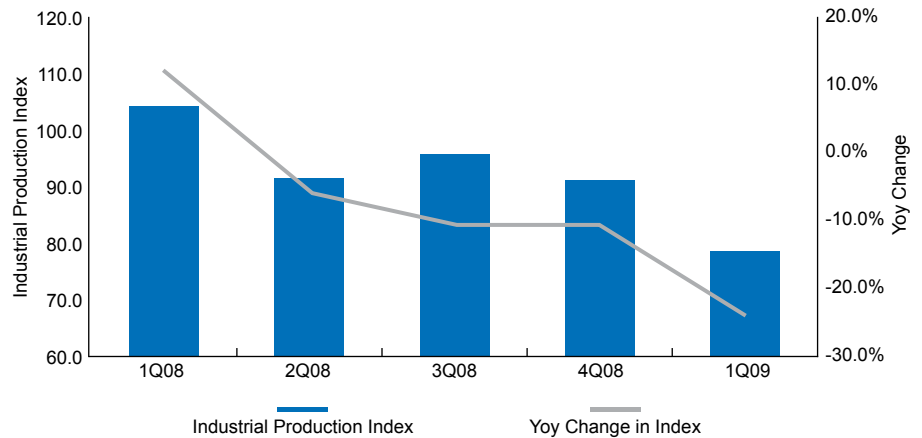
Demand and Supply

Occupancy of factory space fell 0.4 percentage-point in 1Q 2009, to 93%.

This was largely due to a drastic fall in new demand, from 3.02 million sq ft in 4Q 2008 to 430,560 sq ft in 1Q 2009. Meanwhile, there was a significant 1.1 mil sq ft fall of new supply in 1Q 2009.

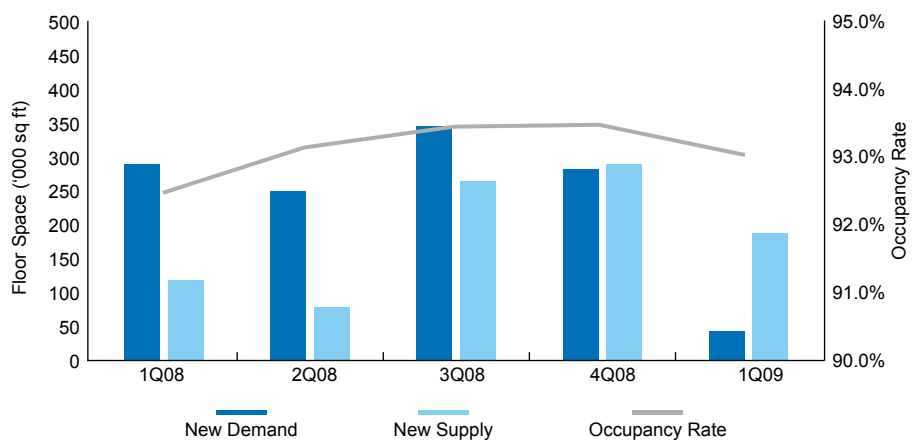
The occupancy of multiple-user factories dropped more than that of single-user factory space in 1Q 2009. Occupancy of multiple-user factory space dropped by 0.9 percentage-point while occupancy of single-user factory space fell by only 0.1 percentage-point. This was partly driven by closures of smaller manufacturing firms, causing more

Chart 1
Singapore's Index of Industrial Production



Source: Economic Development Board

Chart 2
Demand and Supply of Factory Space
(Private and Public Sector)



Source: Urban Redevelopment Authority, Knight Frank Research

vacant pockets of multiple-user factory space to be available for lease. Meanwhile, manufacturing giants, which are typically the occupiers of single-user factories, are able to hold better although many have downsized operations during the quarter.

The occupancy of business parks, including high-tech and science parks, dropped by a significant 3.5 percentage-points. This was due to some business closures as well as consolidation in business functions. Business parks have been a popular location, especially for businesses which expanded in 2006 and 2007 and require space to house

additional functions, such as back-offices. However, the spate of business consolidation in 1Q 2009 had resulted in some of these business park space to be invalid as the business units are rationalized. Nonetheless, the occupancy of business parks is still healthy in 1Q 2009, standing at 90.3%.

However, occupancy of warehouse in 1Q 2009 remained similar to that in 4Q 2008, reflecting only a 0.2 percentage-point decline. Besides largely unaffected by business consolidations, this was also partly backed by limited new supply, with only three major new warehouse projects completed in the quarter.



Industrial Rents and Capital Values

Rents of conventional industrial space slid 4.7% qoq in 1Q 2009, 0.6 percentage-point more than the fall in 4Q 2008. The drop was most significant in Macpherson/Paya Lebar (12.8% qoq drop), followed by Kaki Bukit (1.5% qoq drop), while rents in Ang Mo Kio and Admiralty remained similar to 4Q 2008. This was partly because rents of industrial spaces in the latter areas were generally lower and was able to hold better after falling in 4Q 2008. This differential brought rents of conventional industrial space in the different microzones to converge. The convergence reflected that locations are becoming less key for industrialists, who are currently more concerned about business sustainability.

Although prices of industrial space generally did not escalate as much as rents in 2008 and was not expected to show drastic falls in 1Q 2009, the lack of investor interest has resulted in the capital values of conventional industrial space to fall by an average of 6.5% qoq. These brought prices of conventional industrial properties to average about \$217 psf.

Rents of high-tech industrial space and business park space also continued to decline in 1Q 2009. However, the fall was more drastic for high-tech factory space, of about 5.1% qoq, compared to just a 2.1% qoq drop in the rents of business park space. This led rents of high-tech factory space to average \$3.70 psf per month, while that of business park space averages \$4.20 psf per month in 1Q 2009.

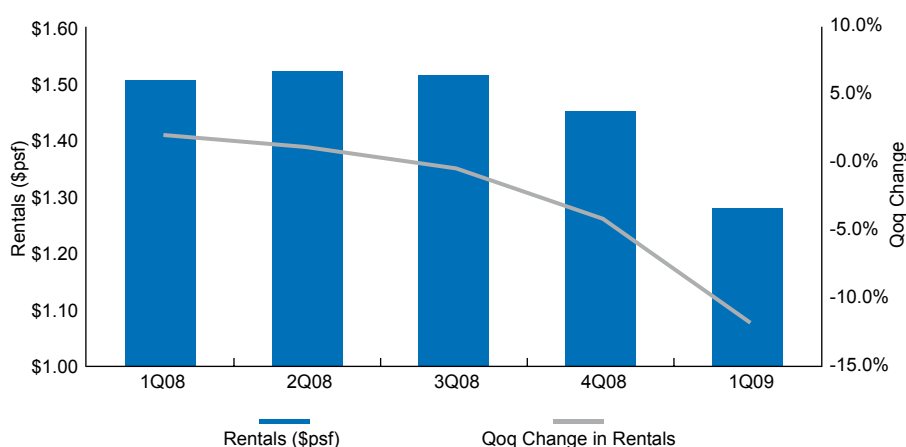
The fall was more distinct in the rents of high tech factory space as performance of the manufacturing sector was particularly poor. On the other hand, business parks are still considered attractive alternatives to conventional office space. Although there may be notable drops in office rents and this may have discouraged relocations from office to business parks, this has yet to prompt tenants in business parks to return to office buildings, due to the current mandate to save any business costs including occupancy and relocation costs.

Table 1
Rents and Capital Values of Sample Factory/Warehouse (Upper Floors) and Business Park Space in 1Q 2009

Locality	Average Monthly Gross Rental (psf)	Average Capital Value (psf)
Conventional Industrial Space		
MacPherson / Paya Lebar	S\$ 1.57 – S\$ 1.83	S\$ 190 – S\$ 335
Kaki Bukit	S\$ 1.23 – S\$ 1.47	S\$ 125 – S\$ 345 (60-year leasehold)
Admiralty	S\$ 1.05 – S\$ 1.35	S\$ 120 – S\$ 280 (60-year leasehold)
High-tech Factory Space		
Islandwide	S\$ 3.50 – S\$ 3.85	N.A.
Business Park Space		
Islandwide	S\$ 4.00 – S\$ 4.45	N.A.

Source: Knight Frank Research

Chart 3
Factory Space Rentals



Source: Knight Frank Research

Outlook

Beyond 1Q 2009, rents of industrial premises will continue to fall although the pace should moderate. A continued fall is inevitable due to a foreseeable prolonged weakening in the performance of the manufacturing sector, but a gradual fall should be in place as occupancy costs become increasingly attractive for industrialists.

For the entire 2009, rents and prices of industrial properties may each fall by 12% to 20% yoy. The fall should be more significant

for rents of business parks than conventional factories. There may also be some tenants of business parks who will be encouraged to return to conventional office buildings if the rents of office buildings drop even further, making it more attractive to occupy office buildings, which are generally more conveniently located. However, this may not be widespread as relocation costs still override most business concerns in this economy and the choice for business park tenants to occupy office buildings will be a thoroughly evaluated decision.

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